KYMENLAAKSO UNIVERSITY OF APPLIED SCIENCES
Master's Programme in International Business Management

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GETTING BETTER IN BEING THE BEST -
Increasing Service Awareness among the Russian Customers of a Case Company

Master's Thesis 2013

ABSTRACT

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TAIMISTO, HELENA: GETTING BETTER IN BEING THE BEST -
Increasing Service Awareness among the Russian Customers of a Case Company

Master’s Thesis	98 pages + 2 pages of appendices
Supervisor	Satu Peltola, Principal Lecturer
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Ever since Russian customers have gradually found their way in growing numbers to Alko Inc. specialized shops especially in South East and Southern Finland, an interest has risen about their real customer potential, thus leading to curiosity about what kind of customer service they might appreciate and whether the current service and product quality is enough to satisfy their needs.

The company management had already been active in answering the growing demand of practical tools for the help of its personnel by launching a series of lectures around the country about the Russian customs and traditions. The main purpose of this research work was to open the whole phenomenon in an attempt to understand who the Russian customers are and why they choose to buy from Alko and to recognize the possibilities to improve customer service in a way that lead to pleasant shopping experience for all the participants.

This thesis is a qualitative research and in order to produce information for the purposes of theoretical research, case study methods were used for data collection and analysis. The main conclusion is that there is still untapped potential among Russian tourists for Alko and therefore new ideas for developing customer service have been introduced as a consequence.

ACKNOWLEDGEMENTS

Firstly, I wish to thank two incredible women; Merja and Soili. Without your help this would never have realized – I'd be still struggling to graduate and not really believing in it. I remember saying, that at first this was about showing some people that I am more than they seem to think, but then it became about showing *me* that I really can.

Secondly, I wish to thank the open-minded, welcoming people at Alko Inc. It is a unique company, with a unique history, management, personal and customers - Finnish and foreign. I learnt a lot. Hopefully I was able to give some back.

Without the advice and encouragement of the instructors Satu Peltola and Soili Lehto-Kylmänen this thesis work would have lost its course. Interaction, whether in person or by email, condensed to a question: "Is this truly relevant?" in my head. I would write something, sit back and read the text and then read it again. It made the process slower but hopefully the result better. Have to admit, I did a lot of re-writing.

Also, I owe it to my family and friends. Without their support and, yes, pushing me to finish this, I'd be still writing and re-writing. Needless to say really, but my husband and son have been the real heroes and giving me space when writing, kicking my butt when feeling lazy and lifting my spirit when losing my confidence. In addition to this, my friend Anu was very kind to accommodate me during my trip to interview the Russians in Imatra and Lappeenranta.

Last, without the lesson that I learnt as a child from my Dad, I would not be the customer servant I am today: it was freezing cold every Christmas and there was always some farmer, whose waterline had frozen and burst, and my Dad would get up and spend the night repairing the damage. As a child I asked you then, why do you have to go, and you asked me back: "if I don't go now, that the farmer is in desperate need, then why would he come to buy from me, when he is not in such anguish?" You know, Dad, nothing I have learnt since from theory or in practice, has contradicted the lesson I learnt from you then.

Kotka, 1.11.2013

Helena Taimisto

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1 INTRODUCTION

Highly developed countries have gone through a major structural change in their economic activities: today about one third of their GDP[1] comes from non-agricultural and non-industrial sectors. After western society shifted first from agriculture to industrialization, the rise of service sector followed next. Now service sector is developing further; in Finland this means that service providers are trying to meet with the challenges and opportunities, provided by growing numbers of international, in particular Russian customers who are the majority of tourists coming to Finland.

Tutkimus ja Analysointikeskus TAK Oy, later referred to only as TAK Oy, has executed several studies on the rise of Russian tourism in Finland and especially South and South East Finland. According to the findings on e.g. TAK Rajatutkimus 2012 Väliraportti tammi-maaliskuu, carried out on behalf of several regional development companies and a EU-funded development project, during first trimester of year 2012, a rise of 21 % of total border crossings on South-East border stations was detected in comparison to related period in 2011. This means that in total 920 000 Russians arrived in Finland through border stations in South-East Finland. At the end of year 2012 the total number of Russians that came to Finland through these border stations went up to 4.1 million trips and almost 80 % of these visitors came to Finland with shopping in mind and about 30 % arrive exclusively to spend their holiday here.

1.1 RESEARCH SETTINGS

The basis for the Finland’s Tourism Strategy to 2020, drawn up by the Finnish Tourist Board together with influential participants to the strategy work, such as several Ministries, is that “the Finnish tourism trade will grow, be profitable and succeed in competing for international tourist flows” (2012:5). In order for this to happen, one particular aim is to boost growth of the sales of products and services in sectors, indirectly linked to the tourism trade. The report states that tourism is a key export industry.

As a consequence, some of the tourists have found their way also to the Alko Inc.’s specialized shops. The number and value of international visitors in Alko Inc. shops

[1] GDP = Gross Domestic Product

have gradually grown. For instance in the year 2011 the total value of Alko Inc. Tax-Free sales was 1.3 million euros, while last year it was already 2.3 million. Figure 1 below depicts the sharp rise of tax free sales especially after the economic slump in 2009, when after six years of positive growth, the flow of foreign tourists to Finland took a negative turn. Today tax free sales are estimated to keep growing and most of it is being done by the Russians.

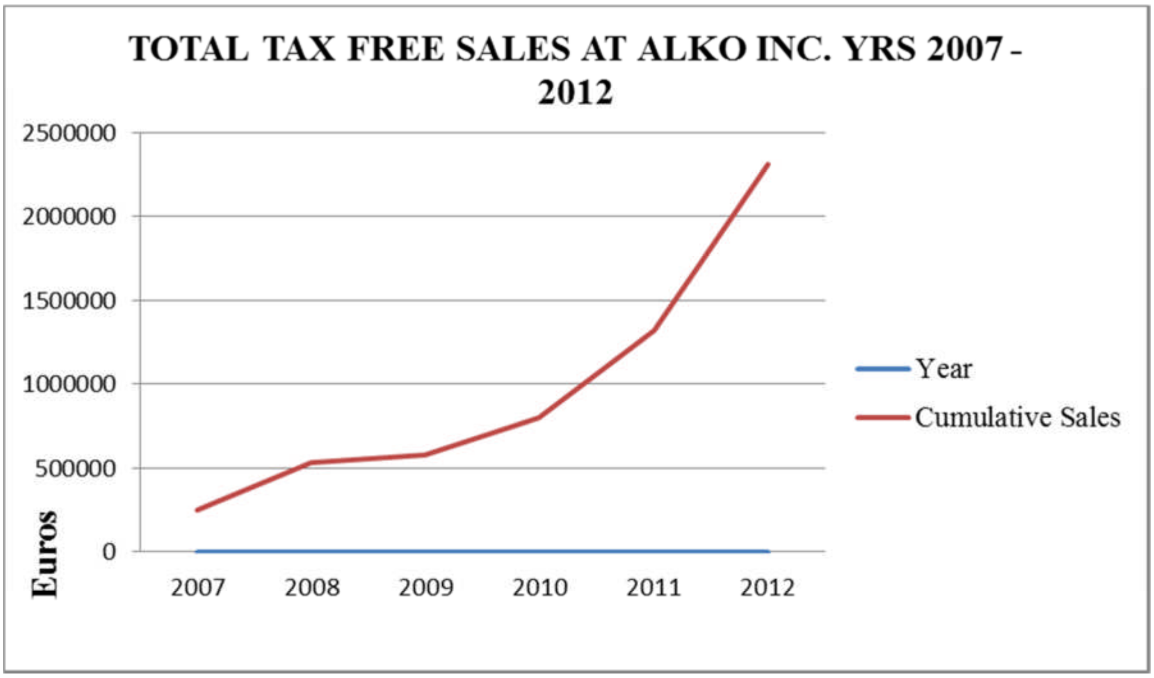

Figure1. Total tax free sales at Alko Inc. between 2007 – 2012. Source: compilation of yearly figures provided to Alko Inc. by Global Refund Finland Oy.

This positive development has not gone unnoticed by the company management at the headquarters and it has awakened curiousness towards the reasons, *why* Russians do their shopping in Finnish Alko Inc. specialized shops; is it perhaps a passing phenomenon, hence *how* to develop customer service in order to make Alko Inc. specialized shops a more permanent place to do their shopping even after the first visit. They have also listened carefully to the feedback from the field, stating that there is a need for practical measures that enable the shop personnel communicate better with their Russian customers.

The challenges that the personnel face are caused mostly by language barrier, even though many of the current customers can speak English. Another factor is also the cultural differences that are probably behind many confusing encounters and have caused a feeling of under-achievement among the well-trained, knowledgeable personnel. At the most extreme a Russian customer may behave arrogantly towards the personnel, but on the other end of the line are the customers that express their gratitude for the received service in ways that may even startle an unprepared customer servant.

Based on what kind of related studies on customer service and/or customer service of international customers in state alcohol monopolies has been, or rather has *not* been found using respectively intensive internet search, this thesis provides a new aspect to their activities by concentrating on customer service of foreign customers. In general, studies about state alcoholic monopolies seem to focus more on influences, caused by alcoholic beverages to health and the role of state monopolies in preventive and restraining activities, as well as whether or not state alcoholic monopolies should be reconstructed to be more open for free competition or be dismantled altogether. Since the majority of customers of Alko have been and continue to be Finnish nationals, there has been little interest for a more in-depth research of the customer service of international customers until lately.

1.1.1 RESEARCH PROBLEM

In the initial meeting with Maritta Iso-Aho, executive vice president, corporate relations, Kari Pennanen, executive vice president, customer services and Erika Stude, customer service manager, the share of annual alcohol sales to Russian customers was described to be as high as the annual sales of one Alko specialized shop. According to Alko internet pages, there are currently 350 Alko shops around Finland. Relatively the share of tax free sales may not be that significant, but with 32 shops in South Carelia and Kymenlaakso regions, where the majority of Russian tourists visit the Alko, this estimation starts to gain more importance, not forgetting that the share of sales to Russian customers is still estimated to grow. In addition to this, not every Russian customer buys tax free, so it is difficult to estimate the total sales to Russian customers. One explanation, given at the meeting, could be that some of the Russian customers are so well-off that they do not feel the need to use the possibility for tax free shopping. Another presumption was that the queues to the tax free refund points at the borders are so long, that it would take too much valuable time and effort on the way home. Many visits to the shops are being made while on holiday in Finland, hence the alcoholic drinks are also consumed here, and therefore tax free -shopping cannot be utilized.

The problem is that apart from very practical knowledge, gained mostly by experience only rather than strengthened by systematic customer research and training, the understanding and studying of Russian customers and their thinking has thus far been non-existing, granted that some steps forward have already been taken. This thesis is an attempt to deepen understanding, while appealing on behalf of developing a service concept for Russian and later other foreign customers that consists of practical customer oriented measures, targeted on making the shopping experience as convenient and pleasant as possible for the Russian customers, as well as shop personnel, and not forgetting the Finnish customers, either. By stepping on the forefront and maybe even setting a standard to customer service of Russian customers and developing a service concept that originates from the needs and wishes of the customer, the brand image could benefit as well. There is certain criticism or worry about the slowness in which Finnish companies other than those directly linked to tourism develop their services. This contradicts even with the general domestic opinion about the value of Russian customers to Finnish trade. Therefore a state monopoly could and should step in the front and set an example for those that are old-fashioned or slow in their thinking and limit their actions to the minimal.

1.1.2 AIM AND OBJECTIVE

The opportunity to do a thesis work for Alko Inc. about Russian customers coincided with the risen interest. Initially, the main purpose of this research work was only to determine and suggest practical measures for the use of both the shop personnel and Russian customers who are navigating their way round the shops. A secondary goal was to open the customers' opinions of service in Alko in order to seek to explain why the Russians choose to buy from Finnish Alko.

However, as the search for relevant research material advanced, it became clear that this approach alone was incomplete. A meeting with Hille Korhonen, the new managing director of Alko Inc., was a true learning curve, and it led to realization that before any corporate management will seriously consider changes that are in fact strategic in nature, thus leading to action on operational level, there has to be convincing evidence that these changes would add real value on the customer service and the status of Alko as an expertise service provider on the field of alcoholic beverages, thus far affecting on the overall shopping experience becoming a) more efficient and b) more a ‘must’ when in Finland. Therefore the main purpose of this thesis work is to provide the corporate management with information about the potential for the number of Russian customers and their purchases to grow besides attempting to identify who they are and what they appreciate.

So far the increase of Tax Free sales in Alko has been very intense but it may be assumed that at some point it is going to level. Based on an observation during the interviews with Russian customers, it is argued that those Russian customers, who might have real potential to become loyal customers, are not fully aware of the quality and variety of services Alko is able to offer them. This leads to a research question that is:

> *“How identifying buyer needs among Russian customers of Alko could contribute to enhancing service awareness, hence building customer retention and loyalty?”*

The background information and other material that is collected for this work conclude of

1) factors, contributing to the buyer behaviour of Russian customers, i.e. purchase decision process, psychological and sociocultural influences,
2) shopping occurrence in Alko Tax Free shops; reasons to buy from Alko, according to interviewed Russian customers and the experiences of shop personnel and management,
3) other background information, seen relevant, such as economic development, predictions of future development of customer flows, etc.

At present the results and findings of the Thesis work benefit mostly Alko Tax Free shops in South East and South Finland, which are the primary travelling destinations of Russian tourists. However, their consumption potential has initiated several ongoing marketing strategy building projects related to tourism and accommodation around Finland, which, once in full operation, will in turn benefit the sales of Alko shops on those areas. One of many examples is the Nordlett project; a plan to build an outlet village with the main purpose to attract Russian customers to Oulu (Kauppalehti 2012: 10-12).

1.1.3 THESIS STRUCTURE

From this forward, this thesis report continues with case company presentation, after which follows discussion of chosen research method. Theoretical literature review comprises customer relations management theory, followed by buyer behaviour and customer segmentation. As a conclusion for literature review, a recent trend in service strategies, service innovations, which emphasises studying the job that the product or service is being ‘hired’ for rather than concentrating only on segmenting, will be discussed. Together these theories form the theoretical framework for this thesis. Implications to customer service will be presented and discussed in more detail.

The emphasis of empirical part of the thesis is on Customer Service rather than marketing, even though it may be stated that one contributes to the other. It begins with introduction to Russia and its operational environment. After this Russians as consumers will be discussed with special attention to alcohol consumption and trends. This leads to an overview to Russian outbound travels and Finland as one of the most popular travelling destination for Russians, including future scenarios of Russian tourism in Finland. This forms a contextual framework for the actual subject, which, in brief, is a Russian customer at Alko and customer service. Last, as difficult as it is, also the future of Russian tourism to Finland will be addressed.

1.1.4 LIMITATIONS

The field research work is limited to the Alko Tax Free shops that have the biggest Tax Free sales: Mansikkala shop in Imatra, Sutela in Kotka and Prisma Leiri in Lappeenranta and flagship store Alko Arkadia in Helsinki. A constraint to the validity of the growth estimation is that unfortunately there are no exact figures available about purchases made by the Russians other than statistics of Tax Free sales, composed and provided Global Blue Finland Oy.

According to recent study by Österberg and Anttila (2013:1-2), the overall consumption of alcoholic drinks in Finland decreased in 2012 by 3 % and in consequence, the sales in Alko shops by 1.6 %. In discussions with the shop managers this tendency is visible and the sales of alcoholic drinks in South East Finland to Finnish customers have been predicted to decrease slowly. Therefore Russian customers bear a significant meaning to the sales of the shops, especially as their purchases compensate the decline of sales during months after Finnish holiday seasons e.g. in January and August. However, the lack of accurate numeral evidence of the total purchases may be a problem or it is an impulse for further study on creating tools, how to measure it.

1.2 ALKO INC.

The role of Alko Inc. in Finnish society may be described as somewhat conflicting: on one hand its primary target is to make as little as possible financial profit, since the aim of is to reduce the effects of alcohol consumption on consumers. On the other hand, however, it should also generate cash flow by sales and taxation for its sole owner, the State of Finland.

The primary clientele is Finnish customers. The company strategy defines that the aim of all activities is to maintain the social approval at a high level, with the vision being that Alko Inc. is responsible and service-oriented, best retailer in Finland. Therefore customer service is developed in a systematic manner in order to exceed the customer's individual service expectations, thus not forgetting about the basic task that is defined in the Alcohol Act. The customer satisfaction and the quality of customer service are measured by customer surveys, other customer feedback and internal auditing. The underlining rule of thumb is that every new service idea, etc. is being evaluated also from the point of view that it should not promote sales, hence inciting into abuse of alcohol.

According to the Annual Report 2011 the business activities are based on the Alcohol Act (1143/1994), the Decree on the Operation of the Alcohol Company (243/2000), and the Companies Act and Alko Inc.'s Articles of Association. In compliance with the law regarding Alko's task in society, the responsibility for the ownership, steering and supervision has been assigned to the Ministry of Social Affairs and Health, which adheres to the Ownership Steering Act (1368/2007) and cooperates with the Ownership Steering Department of the Prime Minister's Office. The structure of e.g. corporate governance can be found in the company's internet pages: www.alko.fi.

1.2.1 PAST, PRESENT AND FUTURE

In the chronicle about Alko Oy Häikiö (2007:17) describes three central events for Alko and the Finnish alcohol politics. The first was the Act about prohibition of alcohol that the new Finnish Parliament passed in 1907, according to which manufacturing, import, sales, delivery, storage or warehousing was permitted only in terms of medicinal, technical or scientific reasons. The law came into effect however only on 1919 until it was repealed and the new Act about alcohol and alcoholic beverages was passed, which led to Oy Alkoholiliike Ab being established. The first shops were opened on 5th April 1932 at precisely 10 a.m.

The second big turn in Alko’s history took place at the beginning of 1969 when the sales of medium beers was released to the grocery stores. New specialized shops for the sales of alcoholic beverages and restaurants were established to the country side and the age limit for the purchases of alcoholic drinks was lowered by three years. Häikiö (2007:17) describes this change more of being the single biggest social catastrophe of the Finnish new social history than a milestone of the liberation of Finnish nation, due to total consumption of alcoholic drinks rising by 124 % during the next six years, which Alko was not able to neither predict nor curb.

The last and latest significant development to the Finnish alcohol policy, states Häikiö (ibid: 17) was launched by Finland joining the European Economic Area (EEA) in 1994 and a year later to the European Union. At that time Alcohol Act repealed alcohol monopolies on production, import, export, and wholesale, leaving however the monopoly on off-premise retail sale of alcoholic beverages almost intact (Karlsson and Österberg, 2002:146).

It appears that Alko Inc. has stabilized its position as a monopoly in Finland even though the Federation of the Brewing and Soft Drinks Industry and some individuals are demanding strongly that the sales of higher-strength beers and wines should be transferred to grocery stores. A presentation that was compiled by the institute Pellervo Economic Research PTT 2013 claims that availability of higher-strength beer in grocery stores and kiosks would halve travellers’ private imports, create new jobs in food and drink industry, and eventually add significant increase in State tax revenue, not least by collecting more VAT and alcohol tax. This appears not; however, awaken any greater concern at Alko. At the moment a more interesting topic seem to be what the results from the Swedish equivalent to Alko Inc., Systembolaget's trial about on-line order and delivery system to individual customers turn out to be. Another change that would have a significant meaning to Alko, would be the release of information, such as prices, of alcoholic drinks over 22 per cent by volume, to be shown also on the Internet pages of Alko. This would require an amendment to the Alcohol Act, and as it happens, a revision to its Chapter 30, Paragraph 1a is under way. It was estimated by some that it could have come to force already during 2013, but now the work seem to continue further. Consequently, it would bear significance also to the outcome of this Thesis work.

1.2.2 BUSINESS PHILOSOPHY

The strategic change from traditional approach to the role of Alko in Finnish society towards the general business principles in specialized retail trade, e.g. in relation with the locations of the shops and working hours took place in the beginning of 1990s (Häikiö 2007:298-299). The integration process with the west and increasing public demand was seen jeopardizing the monopoly status of Alko and therefore a new approach albeit admittedly contradicting with contemporary alcoholic policy was needed. Besides cost efficiency, the integral strategic emphasis shifted on improving the level of all service with working hours seen as a central part of service. At that time (ibid: 345) Alko existed still as Oy Alko Ab combining monopolist functions with operations of free competition, but in 1995 also that changed.

By the time of new century (ibid: 417) the strategy was based on non-profit, mission and vision based corporate governance. The focal points of business strategy were customer satisfaction, monopolist status, impartiality, model of integral chain based activities, supply chain and knowledge management, and trained personnel. Also Internet was included in the strategy for the first time in corporate history.

The strategy was updated in 2011. According to the Alko Annual Report 2011, key elements include responsibility in operations, the development of customer service and further strengthening staff commitment and expertise. Since the update, the strategically important projects are defined in the portfolio that can be found in full from the report. From the point of view of this thesis work, however, those of them that related to this thesis are especially:

- creating a unique service experience and ensuring expertise, and
- the development of a multi-channel service network.

It can be concluded that the objectives of these projects are improving the overall customer satisfaction by enhancing the service experience while broadening the individual customer's awareness of services provided by Alko. In simplified language this means e.g. getting ready for the possibility to combine traditional forms of service with new.

2 RESEARCH METHODS

Hakala (2010:15) argues that the aim of the research is the A and Z of the whole research work. Once the subject of the research has been adequately defined it is the research question that gives the direction for choosing the methodical stance.

In the beginning it seemed that action research methodology was the kind of research strategy, able to produce a new approach for the task. Anttila (2006:439) states that when/in applying action research method the aim is to gain accurate information for a given situation and purpose instead of generalizable information, whereas Perry and Zuber-Skerrit (1992:197) conclude the three key aspects of action research as: a group of people at work together that are involved in the cycle of planning, acting, observing and reflecting on their work more deliberately and systematically than usual with an aim to produce a public report of that experience (such as a thesis). However, action research method would have required active participation in the organization as an employee or in the role of a consultant, which were not possible and therefore action research method had to be ruled out. Instead, this thesis is built on qualitative research strategy with the method being case study, namely an illustrative case study, as the aspiration is to gain, and thus far offer the readers a holistic view of the phenomenon.

2.1 QUALITATIVE RESEARCH

Marshall and Rossman (2011: 90-91) state that historically and traditionally quantitative models acquire dominance in research, and the usage of qualitative research may have to be justified, which can be accomplished by highlighting the strengths of qualitative research and describing its value in research that:

- seeks cultural description and ethnography
- elicits multiple constructed realities, studied holistically
- elicits tacit knowledge and subjective understandings and interpretations
- delves in depth into complexities and processes and on little known phenomena or innovative systems
- seeks to explore where and why policy and local knowledge and practice are at odds on informal and unstructured linkages and processes in organizations and on real, as opposed to stated, organizational goals
- cannot be done experimentally for practical or ethical reasons
- explores novel, ignored, or often marginalized populations for which relevant variables have yet to be identified.

Anttila (2006: 275) notes that it is needless to contradict qualitative and quantitative research approaches, since also qualitative phenomenon can be described using quantities and numbers. Further on, she explains that the researcher’s interest to the given subject has an effect on the end result of the research. The fact that a researcher usually chooses the approach based on his/her individual history and practical experiences, marks qualitative interpretative research. The idea of qualitative research is to interpret and create a model that explains the phenomenon under research. Still, as Marshall and Rossman (2011:92) demand, “a well-reasoned and convincing explanation for qualitative methods should include a concise but strong rationale that is firmly grounded in the conceptual framework and that justifies the specific data collections methods” and it should show how the chosen method applies to the research questions.

In practice, qualitative research needs to be started with an open mind, free of preconceptions and with genuine interest to the subject. In additions, some knowledge and understanding of the subject would be preferable in order for the researcher to be able to identify essential characteristics of the phenomenon right from the start (Anttila, 2006:276). Understanding the context, how the phenomenon is connected with its surroundings, is vital for later interpretations, whereas intention signifies in what respect something is being indicated or a phenomenon occurs. The basic assumption of a researcher is that the given information is accurate, and therefore it is important to collect material through multiple channels, consisting of e.g. interviews, observations, own notes, authentic documents (2006:277).

The aim in qualitative research is to find the kind of distinctiveness's that enable intellectualise the phenomenon in order to gain knowledge that bear also general significance, not just for the individual topic of research. The direction of qualitative research is from practical phenomenon and observations to general level. The starting point for conceptualizing the phenomenon is researcher's own previous knowledge (practical and professional experience, observations, recitations, etc.) although the researcher is ready to change or even reverse it if necessary and the research material justifies it. Understanding own premise liberates the researcher from committing to them to some extent, thus designating to return to them in order to produce new understanding as a result (ibid: 283). In short, the process is a hermeneutical circle: there are certain starting points and along the process the researcher returns to them for the sake of comprehension and realization.

The approach to the subject of this thesis was determined at the initial meeting in November 2012, which was to make a thesis that has practical outcomes. The phenomenon to be studied is the arrival of the Russian customers to the Finnish retail trade shops and how their appearances change the requirements for customer service in an individual company from the point of view of a) Russian customers, b) company personnel throughout organization and also c) other customers, even though they are discussed only in brief. The general significance lies in understanding the demographic, historic, psychological and sociological factors that disclose in behaviour, customs and life-style, and effect on e.g. how customer service is perceived and received.

During the process of qualitative research is necessary put emphasize on the necessity to limit the subject. On one hand the aim is in finding meaningful and distinct research problems, on the other – interpretative definition of the subject. By defining the research subject, a view about the core message that arises from the research material is being indicated, which the researcher exercising his/her interpretation, wishes to raise as the focal point of the research (Kari Kiviniemi 2010:73).

2.2 CASE STUDY

Richard K. Yin (2003:1) introduces case study stating, that "in general, case studies are the preferred strategy when "how" or "why" questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within real-life context".

The purpose of case study is to study intensively a certain, usually social, subject, e.g. individuals, groups, institutions and communes. The focal point of the study can be the historical factors, current position and situation, surrounding factors, internal or external influential factors. However, as there are usually many simultaneously influencing factors, the aim is to produce as comprehensive, detailed and precise description as possible (Anttila 2006:286).

Anttila (2006:286-287) concludes that the characteristics of a case study are first of all, its in-depth investigative nature of a certain social individual. Secondly, it aims at explaining a well-defined, concise subject with limited amount of material, where the constructions of variables have not been distinguished. Thirdly, case study is useful, when the aim is to find good background information. It is therefore often used in the process of preparing for further research on the same subject and using case study methods it is possible to find out detailed information about specific questions that have come out quantitatively in another context. According to Yin (2003:2), case study is used when the researcher believes that contextual conditions are essential to the phenomenon of study and therefore deliberately strives to cover them (ibid:13).

Saarela-Kinnunen and Eskola (2010:190) conclude that case study produces detailed, intensive information about the research subject. It does not, however, aim at representing generalization (Anttila 2006:287). The researcher and his subjects interact with each other and the researcher may influence on the course of the events despite trying not to interfere. According to Anttila (2006:288), the phases of case study are:

- Definition of targets of research. What is the aim? What characteristics, connections and processes will be researched?
- Making research plan. How the subjects to the research are chosen? What resource material is available? Which data collecting method will be used?
- Data collecting.
- Organizing the collected information into an integrated form that describes the subject well.
- Reporting the results and analysing their significance.

Data collecting is done using different methods and the purpose is usually to describe different appearances of a phenomenon but due to different methods of data collecting and analysing, case study cannot be considered only as one method for it. Case study does not limit the variety of methods; one can use both quantitative and qualitative methods, hence it is not a synonym for qualitative research (Saarela-Kinnunen and Eskola 2010:190).

2.3 DATA COLLECTION AND STRATEGY OF ANALYSIS

Data (evidence) for the case study may come from six different sources: documents, archival records, interviews, direct observation, participant-observation, and physical artefacts. All of the sources may be potentially relevant and for any source of data there are numerous methodological textbooks and articles for supplementing further detail. However, in addition to the sources of data, a case study should follow three principles that apply to each one of the sources and enhance the benefits. These principles include the use of 1) multiple sources of data that approach the same set of facts or findings, 2) a formal assembly of data, which is distinct from the final case report, that being a case study database, and 3) a chain of data, that shows direct links between the asked questions, collected data and drawn conclusions.

Data for a relevant case study has been collected from multiple sources, where no single source outweighs the other. The data for this thesis has been collected primarily from four sources; documentation e.g. statistics provided by Alko, literature, articles and studies, interviews with customers, shop personnel and other relevant parties, direct observations in the shops while doing interviews and participant-observations on to occasions by participating on training sessions, organized by a shopping centre in Kotka and Alko Oy in Kouvola. More detailed description of the data collection will be presented in the next chapter.

The general strategy for analysing the collected data will be *relying on theoretical propositions* that led to case study, which is in fact the most preferred strategy. Yin (2003:111-112) presumes that the original objectives and design of the case study were based on these propositions and in turn they reflected "research questions, reviews of the literature, and new hypotheses or propositions." The analytical technique will be aiming at building logic model stipulating a complex chain of events on an alternative configuration for an organizational level.

2.3.1 DATA COLLECTION IN PRACTICE

The documentation that was received for this work from Alko consists of e.g. yearly summaries of tax free sales that is provided to Alko by Global Refund between years 2007 - 2012 in excel-format. The original tables are confidential, as they show the tax free sales of each Alko Tax Free shop and therefore only total sales is presented. Other documents include of a summary of alcoholic drinks that appear to be most popular sales items among Russians clients, compiled by the regional manager of South East Finland, and written reports of grades and feedback from lecturer Virve Obolgogiani that Alko has used on several training sessions regarding Russians as customers. External documentation consists of newspaper and internet articles, several scientific articles and surveys, etc., also in Russian language. According to Yin (2003:87), documents should and need to be used even if they do not lack in bias. To avoid this, documents must not be regarded as literary recordings of actual events, but accept that in many cases they have been edited to serve some purpose. Still, they are useful in verifying information, such as names, titles and spelling, and furthermore provide specific details and corroborate information from other sources.

The second source of data was interviews or as Yin (ibid: 89) describes them, guided conversations with Russian customers and sales personnel in four different Alko shops

(Kotka: Prisma in Sutela, Imatra: Prisma in Mansikkala, Lappeenranta: Prisma in Leiri and Helsinki: Arkadia, Kamppi), as well as company management and other contacts, some of whom have almost an enviable working experience in Russia or cooperating with the Russians here in Finland. The interviews were focused or as they are also called, semi-structured interviews, pursuing a consistency while striving to conduct them in a conversational manner. The main purpose was to confirm findings that had already been established, but also to gain new information, relevant to the subject. The time frame varied from up to ten minutes with the Russian customer to even almost two hours with one of the shop managers. In general it must be stated that the Russian customers met the requests to be interviewed by some level of surprise, friendly interest or even amusement, perhaps because the interview was made in Russian. The total of 47 interviews were collected, some lasting only a little over minute, due to the customers being on their first ever visit in Alko, others longer - even almost 10 minutes, if the interviewees were willing to look into the topic from the aspect of his/her own service experiences e.g. in other countries. In the end, very few refused to be interviewed, even though it had been forewarned that it might happen more often than agreeing to the interviews.

Similar to the weaknesses that Yin states about interviews as a source for collecting data, Rosenblatt argues that interviews as a method of qualitative research are blurring the boundaries of facts and fiction and therefore the interviewer “must be a craftsperson, a consummate interviewer, a doubter, a systematic explorer, and a careful reporter in ways that are responsive to a community of researchers” (Handbook of Interview research: context & method, 2001:907). Due to little previous experience about interviewing, the presumption about Russians immediately engaging themselves into vivid pondering around the subject appeared to be a bit too optimistic, in reality they had to be steered along the way. For this reason, the reflexivity of the answers may have suffered and therefore they will be regarded mainly as sources of common themes that have significance to the research subject and validated by data from other sources.

Direct observations were conducted by discreetly observing what went on in the above mentioned Alko shops, while interviewing Russian customers. Yin (2003:92-93) calls this approach casual data collecting, which is useful in providing additional information about the subject that is being studied. The reliability of direct observations could be increased, were there multiple observers present; unfortunately though there were not enough resources to do so. Instead, two separate training sessions were attended to, the first focusing on Russian tourism, their customs and requirements, and the second on challenges and needs of developing customer service, aimed at Russian customers. In these sessions the level of participation was more than being an observer, i.e. Participant-Observer, due to taking part also in group works, which the lecturers held. Participant-Observations provide, according to Yin, some unusual opportunities for data collecting, most remarkable of which being the ability of the researcher to gain access to events or groups that normally would be inaccessible. Other benefit include viewing the phenomena through an 'insider's' to the case study eyes contrary to attempting to studying it only externally.

The first of two training sessions took place at Pasaati shopping center in Kotka and it was organized by Cursor Oy, Kotka-Hamina Regional Development Company. The second was arranged by Alko in its own regional office at Veturi shopping centre in Kouvola. The significance of these two sessions for this work cannot be overemphasized: the fact that they were organized by different organizations and given by two different lecturers gave a broader view on the matter and the comments, opinions and shared experiences of every sales people attending are invaluable.

3 LITERATURE REVIEW AND THEORETICAL FRAMEWORK

The aim of the literature review is to lay a basis for the empirical process and analysis of collected study material. The starting point for theoretical framework is a pretence that has been drawn from the Finland's Tourism Strategy to 2020 (2010:5), by which tourism is a key export industry within the country borders, and in order to tourism industry grow and prosper, a particular attention should be given also to the measures that boost the sales of products and services in trades that are indirectly linked to tourism. Another rationale for the chosen theories is strengthening the customer service of Alko in relation with Russian customers.

The foundation for the theoretical framework is the theories about how to manage customer relationships, and especially the work of Don Peppers and Martha Rogers 2011: Managing Customer Relationships. A Strategic Framework. The strategic focus is on customer services rather than marketing, while it is not possible to discuss one without the other when the ultimate purpose is to create a learning relationship with the Russian customers of Alko leading to service awareness and customer loyalty.

Within the context of customer relationship management, also customer segmentation together with psychological and cultural factors that influence on a buyer's decision making process will be discussed. Attention will be paid also to service innovations that according to latest research should precede services development. The purpose of the chosen theoretical framework is to study the presented approaches in order to learn to create a continuum that begins with strategic initiative, leading to operational action: from customer, seeking to purchase a product to understanding the influential factors and the buying process; to creating relationship with the customer, to service innovation and development, and again back to the customer to manage the relations as well as re-evaluate the customer base and also re-adjust services or create new ones. Simultaneously, attention to service management needs to be paid. Customer relationship management does not end at external customers; there are internal customers, i.e. all the different parts of the organization that need to be included in order for the customer service to succeed in practice. Creating customer awareness will be the last subject for literature review with separate section about customers' viewpoint in relation to what is named as alcotourism before proceeding to empirical part of the thesis.

3.1 CUSTOMER RELATIONSHIP MANAGAMENT

"No company can succeed without customers. If you don't have customers, you don't have a business. You have a hobby." (Peppers and Rogers, 2011:3)

This chapter will mainly be discussed based on the work of Peppers and Rogers 2011. According to Peppers and Rogers, an everyday goal of any company or corporation, whether non-profit or for-profit, is to get, keep and grow customers. Gaining competitive advantage by focusing on the customer requires applying new strategies, including utilizing new technologies, in order to grow value of the company by growing the value of customer base. The general idea of customer relationship management, later referred to only as CRM, is to gain information about an individual customer that can be used in designing a set of business practices that enable a learning relationship with the customer, thus creating each more value. The overall goal is then to increase the value of each customer in order to increase the value of the company. The way to do this is by accepting the reality that each customer wants to be treated differently. Furthermore, as Peppers and Rogers argue, this is simply a more efficient way of doing business. Respectively, the aim is to make “itself, its products and/or services so satisfying, convenient or valuable to the customer that she becomes more willing to devote her time and money to this enterprise than to any competitor” (ibid. 2011:8).

In order for CRM to succeed and bring value to the investment that has been made on it, the individual customer information need to be integrated in every function of a corporation from customer service to channel management. Peppers and Rogers also divide customer strategy into two parts: Operational and Analytical. Operational CRM consists of “software installations and the changes in process affecting the day-to-day operations of a firm— operation that will produce and deliver different treatments to different customers” whereas analytical CRM focuses on “the strategic planning needed to build customer value as well as the cultural, measurement, and organizational changes required implementing that strategy successfully” (ibid. 2011:9).

In this thesis both operational and analytical CRM go hand in hand. A true learning relationship with the Russian customers, producing “individual” customer service cannot be achieved without a conscious, i.e. strategic decision to allow and enable the efforts to grow the value of individual Russian customers or customer segments on an operational level. In practice this could mean for instance, that insisting on having signs only in official languages should be re-considered and if it becomes legislatively-wise possible, creating an on-line pre-order system on the internet, providing also valuable information about the customers, their expenditure, preferences, etc.

For the sake of an argument one might present a hypothesis that is: *the Russians only trust in their own judgement when they come to buy e.g. wine from a retail shop.* The questions that arise conclude of why and how do they decide what to buy, hence where do they look for advice or information and is it a question of trust in expertise in the shop.

According to Peppers and Rogers (2011:16), the pivotal purpose of managing customer relationships is to increase the value of the customer base and customer retention is elementary for it to succeed; the value of customer base can be increased by cross-selling (customers are encouraged to buy additional products or services), up-selling (getting them to buy products of premium product segment) or making purchasing more convenient to the customer, hence reducing the cost of serving its best customers e.g. by creating a possibility to buy via internet.

3.1.1 INTERACTION BETWEEN CUSTOMER AND MARKET DRIVEN STRATEGY

Defining the differences between customer and market oriented strategies, Peppers and Rogers (2011:15) state that they do not need to be antithetical, i.e. contradict each other. In fact, a company can focus on both getting new customers and growing value and keeping of the existing ones. Customer-strategy oriented companies need to interact with their customers in order to acquire knowledge that helps delivering customized product and/or service. Market-driven efforts can be strategically important and efficient in delivering customer needs, once customer-driven thinking is being used on top of it.

In contrast to what kind of changes in corporate strategy has been made at Alko over the years, albeit due to circumstances initiated by changes in the surrounding structure of society, a logical development from product-oriented to customer-oriented culture can be seen, as was established when the history of the corporation was viewed.

3.1.2 LEARNING FROM RELATIONSHIPS

Peppers and Rogers (2011:39) ascertain that there are three truths about customers. The first truth is that customers are scarce. This is explained by stating that there are successful companies without “products”, but successful companies without “customers” just do not exist. The second truth is that products, brands or services do not pay money for the companies. Customers do. The third and the last truth about customers is that they create revenue in two ways: ROI and ROC. ROI stands for the value that company creates for the money it uses and ROC (which Peppers and Rogers allege, is usually forgotten) for the value the company creates for the money its customers use.

Companies that acknowledge and go by these truths, want to understand their customers and remember what they need and meet those needs better than their competitors. This creates information that can be used in creating the customer a positive experience, thus engaging the customer into a learning relationship with the company where the products and services can be developed further to please the customer even better. Peppers and Rogers (2011:39-40) define that there is four stages in an inherently two-way relationship between a company, corporation or an organization with a customer:

1. It exists only if the brand (i.e. company behind the brand) is also aware of the customer's existence, not if only the customer is aware of the brand.
2. There is interaction between the company and the customer. By definition it can be in person, by phone, by web, etc. just as long as it adds to the total content of information that a company has about the customer (however, a foundation of trust need to be laid before a customer is willing to share her personal information with the company).
3. It is iterative, i.e. continuous by nature and therefore mutual history or context, which makes future contact or shopping experience more and more convenient, is being created in the process.
4. There is on-going benefit for both the company and its customer, convenience being one. A business relationship costs money, time or effort and therefore there has to be sufficient enough benefit to offset the cost.

All of the above contribute to the will and cost of both parties to recover from a mistake in expectancy of future benefits, if a mistake should occur. Nevertheless, none of the truths, acquired by a company, will ever produce a continuous relationship with a customer, if the following requirements are not met (2011:41-42):

1. Change in behaviour for both parties. If the company's behaviour does not reflect to customer's input with respect to the context, the customer may choose to change the company that provides the needed product and/or service, even if it requires from the customer to put up with some inconvenience doing so 'teaching' the new provider the same things that the current already knows.
2. Uniqueness. A relationship with an individual customer includes different interaction and history and therefore involves engaging in different behaviour toward different customers.
3. Trust. By definition it involves the customer to trust the company to act in her own interest. Peppers and Rogers aline trust with affection and satisfaction, and unless a

company is able to accommodate its own culture and behaviour with the requirements of sustaining and generating trust, it cannot use them profitably.

Still, some customers are worth more than the others and therefore their value needs to be assessed. Understanding the differences among customers in relation with the value they create at present or could create in the future, are essential in managing customer relationships.

3.1.3 CUSTOMER RELATIONS

There are two principal ways that the customers are different: one is their value to the company and the other is their needs from the company. Other differences exist as well; from demographics and psychographics to behaviours, transactional histories and attitudes. Still, these are only tools that pave the way to the principal differences (Peppers and Rogers, 2011:121). To be able to valuate customers, there is two concepts, that are related yet different: a) Actual value, equivalent to lifetime value – the value of a customer that is known or can be predicted about the future behaviour; and b) Potential value – the value of a customer as an asset, provided that a strategy is drawn, with which the customer's behaviour could be changed in some way.

For Alko, Russian customers are and will continue to be marginal customer group. The problem with the actual value or lifetime value[2] of a Russian customer to Alko is that the 'trajectory', as Peppers and Rogers call it or life cycle of the customer relationship may be short-lived due to the general denominator to their visit in Finland, tourism, whether it is a shopping or work-related trip or a holiday. Nonetheless, that is a common problem to all the industries directly or indirectly linked to tourism, and it means only that with carefully constructed measures there could be potential to prolong the relationships or at least produce new customers from preferably the same customer groups through positive feed-back via e.g. word-of-mouth.

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[2] Customer lifetime value (LTV):"The total gain expressed on a net present value basis that a business anticipates from having an enduring commercial relationship with a client over time. When a product or service has a high customer lifetime value, a business might be justified in spending more on marketing it. Also called lifetime proceeds." Source: http://www.businessdictionary.com/definition/

In their work about CRM, Rogers and Peppers introduce the thoughts of Turunc, a consultant in their company's European office. According to Turunc (2011:130), segmenting customers in relation to their value, needs and behavioural trends is a widely used marketing practice around the world. He criticizes the method of differentiating customers by their value stating, that relying on current actual value only, indicated by their transactional records or past behavioural patterns, the companies overlook the vast potential to generate more value in the future, when in fact success comes often by using both combined. In addition to this, there are cases when companies have inaccurately invested on customers that may be high in value now, but their future potential is low or even negative. Nevertheless, different customers do have different needs and values and finding them out a company can allocate resources more effectively also from customer service point of view.

3.2 CUSTOMER SEGMENTATION

Defining different customer segments is a result of assessing the different values that different customers have in order to place them correctly on e.g. customer value matrix and then customizing products and services so that the value of most profitable customer could be grown. One has to remember, though, that customers have very different wishes and needs. Grönroos (2009:422-423) reminds that an organization is very rarely able to satisfy all the needs of every potential customer in an equal manner. Therefore the goal should to divide the customers into homogeneous and divergent enough from each other groups, i.e. *segments*, after which the organization targets on one or a couple of them.

Storbacka (1997:3) discloses that there are two approaches to customer segmenting: retrospective, which is more of a strategic tool and prospective segmenting with operational outcomes. Using retrospective segmenting decisions regarding product and price positioning and discrimination become possible. It also enables systematic evaluation of the customer base in terms of risks and possibilities. Prospective segmenting adhere the service provider's ability to further strengthen the customer relationships and especially with a certain relationship or group of relationships. In practice, as Storbacka states, prospective segmenting analysis results in solutions as how to approach the customers, communicate with them and influence in their behaviour.

One approach to segmenting is to differentiate customers by their value, which according to Peppers and Rogers (2011:160) is rational in most cases, as building customer-relationship can be expensive. The challenge in conducting either retrospective or prospective segmenting of Russian customers at Alko based on their value is that as to date this is the first attempt to define any customer segments among them at all, not to mention that there is also no comprehensive data available about their total purchases, only figures of Tax Free -sales. Another approach to segmenting is to differentiate customers by their needs, i.e. to look at the things from their perspective. Peppers and Rogers (2011:160-161) state that the *how* customers want to buy is often as important as *why* they buy in the first place. Needs are therefore often a "combination of product, cross-buy product and services-opportunities, delivery channels, communication style and channels, invoicing methods, and so on".

The method for segmenting or rather a presentation of one segmentation model of Russian customers in this thesis was already described. Value proposition is a promise of delivered value and the customer's belief that it will be received. Grönroos (2009:65) presents three categories of values, perceived by the customer in a relationship between a service company and its customer, which were determined by Gwinner, Gremler and Bitner:

1. Reliability: decreasing uncertainty, trust in the service-provider, and sense of the service-provider's dependability.
2. Social benefits: company and the customer know each other, customer and personnel are in good relations.
3. Special treatment: additional services, special prices, prestige over other customers.

Regarding customer profit, Grönroos (2009:67) continues that apart perhaps on financing and insurance, on consumer markets in general it is very difficult to calculate the financial benefits to the consumer. When Russian customers buy tax free alcoholic beverages from Alko, the revenue on the purchase is relatively easy to calculate. However, one has to remember that not all buy Tax Free and their benefits are therefore the more qualitative than quantitative.

In order to see things from Russian customers’ perspective, it was necessary to find an alternative, albeit not conclusive method to define different characteristics of the until now un-analysed customer group. Therefore the earlier studies about Russian consumer segments will be referred to in comparison with the results of the field research of TAK Oy as well as other research material are being utilised in reflection to what was learned from the interviews with the customers and discussions with the people at Alko. This approach is not without flaws, but still justified as a means to an end. The resulting customer segments will be reviewed e.g. by their lifestyles, which effect on their buyer behaviour, i.e. attitudes, expenditure and readiness for targeted service measures. The aim is to study that while every Russian customer is worth good customer service, could there be also those, who are more interesting than the others for e.g. ‘acceptability-wise’, keeping in mind that the level of the social approval is so important for a state monopoly, selling alcoholic beverages, and their ability to spend on premium products, which is the direction that the management seems to be keen about.

3.2.1 IDENTIFY THY CUSTOMER

Customers of retail trade are usually individual consumers who buy products or services for personal consumption. Grönroos (2009:419) stresses that it is important to realize that a customer may be an individual or a group. Customer is almost inevitably a group of people when the service is being bought on behalf of a company. The purchase can be made by an individual but the service is used by a larger group of people. In Alko’s case, the customers may be both individual consumers and organizations. For this thesis, however, the emphasis is put on individual consumers, although there is evidence that among customers are also indirectly organizations, due to professional dealers who come to Finland especially to buy on behalf of companies (e.g. shops or restaurants) or a group of individuals.

Jobber and Lancaster (2009:80) list five questions that are essential in understanding the customer: Who is important in the process of making a buying decision, how do they buy, what are their choice criteria, where do they buy and when do they buy? Additionally, there are five more attributes that a person in decision-making process may adopt in trying to influence on the decision: initiator (person, who initiates the buying process), influencer, decider, buyer and user. They continue explaining that behavioural scientists regard the consumer decision-making process as a problem-solving or need-satisfaction process. The steps from needs, i.e. identifying a problem that needs to be solved by making a purchase to post-purchase evaluation are illustrated below in Figure 2. It has been compiled adopting information presented by Jobber and Lancaster (2009:81-85) and it includes a description of main features for each step.

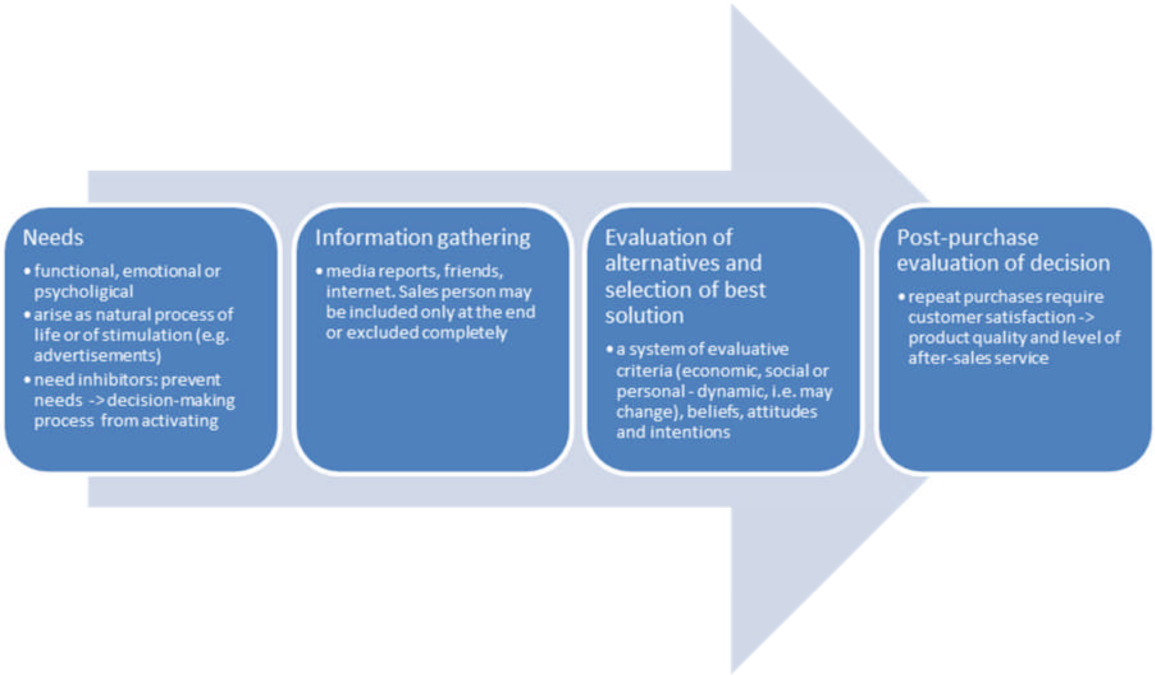

Figure 2. Consumer decision-making process by Jobber and Lancaster 2009.

There is also a criterion, on which the choice is based. It consists of features, as well as benefits that a customer considers while she is evaluating the products and services. The hoice criteria is usually economic (performance, reliability, price), social (status and need to belong to a certain group) or personal (relation of a product or service to e.g. self-image) and it can change due to change e.g. in income through the life-cycle of a family or an individual (2009:84-85).

The decision-making process is being influenced by several factors, such as buying situation, lifestyle, personal and social influences (2009:85). Regarding buying situation, Jobber and Lancaster use typing that has originally been presented by Howard and Sheth (1969): extensive and limited problem-solving and automatic response. Extreme problem-solving involves a high-degree of information search and thorough examination of alternative solutions. The customer is faced with it when the problem or a need is new and the product or service is expensive and uncertainty level is high. In this kind of situation a customer needs reassurance in the form of information about alternative solutions and benefits that confirm to the needs.

Limited problem-solving occurs when the customer already has some experience or information about the product and feels tempted to try another product or brand. It involves less information search and assessing alternatives; however it will be done in order to confirm that a right decision is being made. Automatic response is the level of purchase decision-making process that especially companies with large brand franchise aim to achieve by e.g. advertising.

A motivator to whether or not a customer conducts an extreme or limited problem-solving or automatic response is dependent on the level of involvement in the purchase. There is a high degree of perceived risk in a situation, where the purchase affects a person’s self-image. If the purchase has social (status) implications and a capacity to give a lot of pressure, the involvement is likely to be high. In response to this, if information and answers to in-depth question is provided, it may be rewarded with loyalty and repetitive purchases.

Relevant concepts to personal influences include, according to Jobber and Lancaster (year, page), personality, motivation, perception and learning. Personalities can be dominant, submissive, warm or hostile. In general, personal influences concern psychology of individuals, and although they may explain differences in purchasing, reliable personality measurement is extremely difficult. Motivation for purchases may be functional (for instance time saving) or depend on perception of the situation (e.g. shopping experience). Learning refers to how a person changes by experience, which can mean that a brand name imply quality and which salesperson to trust.

The most important social influence in purchase decision-making process include social class (based on the occupation of the head of the household or principal income earner), reference groups (a group of people that a person refers to consciously or unconsciously in terms of attitude or behaviour), culture (traditions, taboos, values and basic attitudes of the whole society that a person lives in) and family, which is also called the primary reference group and plays often a significant role in consumer buyer behaviour (2009:85-92). As for groups and culture, Moural et al. (2006:11) speculate discussing the role of individualism" that while all humans show some willingness to accept the mandates of the group, different cultural groups show willingness to different degrees".

3.3 SERVICE INNOVATION

The risk on relying only on CRM in knowing and understanding a customer is that in practice CRM is often seen as a database of customer value to the company and the side of the customer is forgotten. As a result, both external and internal (i.e. staff) customers are left without adequate and on-time information about the process, service quality suffers and some customers turn to other providers. In order to avoid this, the idea of service innovation is presented. By means of CRM, information flow is secured for the needs of service innovation that lead to service development, which in turn needs to be communicated to the Russian customers and vice versa, service innovation process produces a signal for relevant CRM measures to be launched in order to produce new and more detailed information about the customers.

A counter-argument to market segmenting and respectively to product and customer segmenting has been made by Clayton M. Christensen et al. by stating that marketing schemes that are made relying on segmenting are static (2007:38). They insist that product and customer segments are not proper indicators of customer behaviour because the sole motivator to a customer's actions is that they find a thing that needs to be done and therefore they "hire" a product or a service to get this thing done. Further on, Christensen et al. state that understanding how "the job is being done" simultaneously with a notion that customers choose the candidates from many different product categories, allow the companies to perceive the real market in which they compete, thus leading to one of the most important ways to limit both risk and expense of innovation (2007:46).

In services this requires a process that leads to service innovation. In order to understand it properly, the management of a company has at first to comprehend and distinguish between service innovation and service development. Bettencourt (2010:xix) defines the separation by stating that service innovation "is the process of devising a new or improved service concept that satisfies the customer's unmet needs. Service development, in contrast, occurs once a service concept has been defined. Service development refers to all the activities involved in bringing that concept to market".

In order to get to the point where service development can begin, as Bettencourt (2010:25) points out, the management of the company need to know, how customers define value. The products or services that the customers "hire" are being measured by how well the outcomes are achieved. Their opinion is influenced also by the experience in how they "consumed" the provided service. This leads to four possible approaches to service innovation: core service innovation, new service innovation, service delivery innovation and supplementary service innovation. Bettencourt continues describing how to reach the point where innovative service concepts can be defined. On the way to service strategy, built around the service concept, a company has to

1. select the innovation focus,
2. uncover and prioritize customer needs, and
3. develop a customer strategy.

A specific task, ending up in differentiated service delivery, both the customer and the type and scope of needs has to be defined along with interacting with the customers in order to reveal the opportunities for service innovation.

Chesbrough (2011) has taken service innovation somewhat further with his work about Open services innovation. He was inspired by the service concepts that logistics companies have compiled. In short, there is two points that could be added to that of Bettencourt's. The first is that Chesbrough (2011:17) encourages inviting customers to co-innovate, thus leading to rewarding service experiences that they have helped creating. Secondly, he recommends that the business should be turned into a platform that other companies could build on, hence profiting also from innovations, made by others. For Alko the latter could mean e.g. co-designing with the suppliers the cross-selling products to appeal on Russian customers as well. The benefit for the supplier might be a safe first encounter with Russian consumer markets and, if successfully met by the customers, increasing sales and cultivation of customer-supplier relationship with Alko.

3.4 SERVICE MANAGEMENT

Normann (2011:24) discussed the low status of service sector, admitting, that in many cases the opposite applies. For the management the status perceptions are problematic. It is difficult to recruit the most skilful and motivated people, create and maintain a [service] “culture” at the same time. Normann goes as far as to claim that service sector is among the most difficult and challenging to manage (2011:24-25).

Christian Grönroos states (2000:38) that while the service and product range that companies offer to their customers grow, also the scope of relationships expand. Traditionally sales and marketing have been in responsibility for the customer relationships and other departments have had only limited access to them, but as new members, e.g. product development or IT-department through customer service centres become involved, a new joint responsibility develops. This needs to be recognised and made visible throughout the entire organization (200:38). In every service organization, there are both internal and external service activities, in fact two types of customers: internal and external customers (Grönroos 2009:413-415). Besides supporting each other, internal services offer support also to external customer service. The perceived by external customers service and delivery quality is therefore highly dependent on the success of activities inside the organizations; therefore it is critical that every part of the organization understand and take responsibility on the quality of good service, which may be a difficult task to fulfil.

In general it seems that the shop management and staff are from the most part ready to except and in need of new measures for customer service of Russian customers. They see it as an improvement to the current situation. However, the challenge may lie in other parts of the organization: if a decision is made about e.g. internet pages in Russian language, compiling them strictly by the same formula as pages in Finnish or Swedish may end up being waste of time, effort and resources. In order to gain good results, both attitudinal and communication management is required. Grönroos (2009:449) concludes that in internal marketing, these two are connected with each other. This means that besides involving each internal customer to the process, proactive communication prepares them for the avoidable adjusting to differences during the process of developing customer service and shopping encounters.

How to make customers aware of the range and quality of various ways of customer service in order to build and enhance the external customer relationships will be dis cussed in the next chapter.

3.5 CUSTOMER SERVICE AWARENESS

The questions that are worth thorough thought during recent times of aggressive competition are: what is customer service awareness and how to get the customer aware of the services a company has to offer. In addition, well-designed and performed customer service can be the key to achieving high customer retention, earning valuable customer referrals, and amounting eventually in gained competitive edge over competitors.

According to Christian Grönroos (2000:26)”customers do not buy products or services but instead they buy benefits, gained by using products or services.” He continues that these benefits are offerings that consist of products, services, information, attentiveness and other factors. Put together these offerings are services, and the perceived value arises from the service that the customer feels that the offerings produce to him or her (2000:26). Grönroos states (2000:27) that customers are, in fact, on the look-out for solutions or packages that they could use in a way that produces them value and therefore companies should come up with solutions that consist of all the necessary components for producing value to the customer. In terms of customer service for a Russian customer who visit an Alko shop in South-East Finland for the first time, a service solution that adds value to the visit could consist of, besides the alcoholic drink, also easy access around the shop, attentive personnel, preferably with language skills, enough information on display in an easily absorbable fashion about rules and regulations so that there would not be humiliating public confrontations with the personnel, information about the products at least in English, etc.

As competition is becoming increasingly global, also the customers are getting more demanding and enlightened. A mere technical solution for a problem is not enough, the customers also want more convenience, less and smaller problems without too many extra costs. According to Grönroos (2000:37), companies are trying to increase their services in order to be able to offer more value for the customer, coercing also their competitors to concentrate on their services. Technical development, especially on IT, opens new possibilities. Internet is a very useful tool for creating new ways to interact, service and maintain an active relationship with the customer, thus increasing the value of the core services (2000:38).

However, even the best crafted service solution needs to be communicated to the customer in some way. A key role in this is played by the marketing department together with the sales personnel and other staff in the shops, who are in direct contact with customers in a way or another. Still, every department bears responsibility in customer service in every service-centred organization, as concluded in the previous chapter.

Philip Kotler et al. (2003:308) discusses Customer Interaction with the service delivery System, meaning that e.g. in hospitality and tourism business, the customer participates in the delivery of most hospitality and travel products. This view interacts well with Alko, albeit indirectly, as Alko Inc. is also a part of hospitality and tourism industry every time a Russian tourist decides to use its services and buy the alcoholic beverages from its shops. Kotler et al. continue by explaining that there is three phases to the customer’s involvement: joining, which occurs when the customer makes the initial inquiry contact – often enhanced through sampling; consumption, which takes place while the service is consumed; and detachment, in which the customer is through using the product and leaves (2003:308-310). For sure, understanding these phases and designing the service product accordingly will constitute to building customer service awareness.

When a company designs a new product – or a solution, i.e. service, for its customers, in line with the designing process, there needs to be already a plan about how to make the customer aware of it. According to Kotler et al. (2003:308) the information needs to be delivered in a professional way. For instance, the wonderful service-idea that one of the Alko’s staff had come up with about cards with recipes of different drinks, the cards in Russian would need to be on display both visibly to arouse the customer’s interest and designed in a way that they do not dispute Alko’s codes of conduct.

The customer consumes the product, or a service packages. Kotler et al. (2003:309) explain that the designers of the products need to understand how customers interact with the product. The staff, customers, physical facilities and other features, as well as layout and signage are also part of the product or the services; not forgetting that the customers will interact with each other during consumption phase. At Alko this can be seen in e.g. that Russian customers who come to shop alcoholic beverages at the end of their shopping spree in Finland have already consulted their friends for advice about the rules and regulations, best shops etc.. The staff has actually already noticed that Russian tourists tend to do their shopping at hours before or after the rush hours when most of the Finnish customers pay their visits in Alko shops. Kotler at al refer to this kind of context by saying that physical features like signage can be used "to make customers aware of the existence of supporting products" (2003:309).

According to Kotler et al. (2003:310), the detachment phase is when the customer is through using the product and departs. For a Russian tourist in Alko shop this is when he or she pays for the purchases; perhaps waits until the Tax Free receipt is filled in and the plastic bag sealed with necessary signalling tapes. An additional, yet pleasant if accepted by the customer, departure service could be, provided there was time, to pack the plastic bag for the customer.

Finally, Kotler et al. emphasise, "thinking through these three stages helps management to understand how the customer will interact with the service delivery system, resulting in a product designed to fit the needs of the customer" (2003:310).

3.5.1 CUSTOMERS' VIEWPOINT (AN OVERVIEW TO ALCOTOURISM)

As to date there is very little scientific research available on alcohol consumption and tourism. Alcotourism, a title, which according to Bell (2008:291), refers to the practices of travelling to drink, drinking on holiday, drinking to travel and drinking while travelling. While alcotourism is usually seen straightforwardly as a social problem, Bell is proposing in his work toward a research agenda on the subject that alcotourism is "a set of context-specific practices often integral to the experience of holidays" (2008:291). He aims at describing some of the different spaces of alcotourism thus shedding some light on the key ways that tourism and alcohol are joined in the drinking practices of tourists (2008:292).

To start with, Bell states that from the supply side, i.e. by tourism destination, deploying drinking culture and drinking places has become a strategic tool of place promoting, in which certain selected assets, e.g. natural amenities or cultural institutions are used in marketing campaigns. An elementary part in branding a location is the use of both spaces of hospitality and ‘culture’ of hospitality. The latter is the broad, yet abstract feeling of hospitality and being welcome. Bell continues (2008:293) that from the demand side the tourists are looking for new ways and places to be tourists, as well as new ways to trade on their tourism practices as markers of distinction. As a result of his research so far, he suggests that a way to understand tourist practices that connect to the consumption of alcohol, is to see it as a time-limited escape from everyday life, a chance to let go, be someone else and do something new - the tourists’ desire for limit experience is usually related with adventure tourism, but the ‘letting go’ can include also intoxication (2008:293).

Bell has distinguished some key manifestations and interpretations of alcotourism, which he captions as drinking places, drinking the other, drinking capital, party time and one for the road (2008:294-301):

- *Drinking places* is “a way of consuming place – whether while on holiday, by experiencing local drinking cultures and local beverages or back home through variants of what we might call ‘armchair alcotourism’ and ’bar-room tourism’ (the consumption of holiday drinks back home as a way of reconnecting to holiday destinations past)”.
- *Drinking the other*, which can be themed, an invented tradition and a new ritual in the performance of travelling, e.g. Irish bars, but nevertheless, consumption of local drinks and drinking cultures may extend beyond certain beverages to the performance of original drinking practices as a kind of alcoholic anthropology. A subset to this is the consumption of nostalgized drinks and practices.
- *Drinking capital* is related with practices and destinations that are linked to notions of connoisseurship and cultural capital acquisition and deployment, and as such – part of cultural capital, the possession of which may then be used to mark superior status to others.
- *Party time*, which is in fact at the moment a form of alcotourism that gets the most – and oftentimes negative – attention from the media, policymakers and academics in association with the inclusion of

binge drinking and extra burden to the consulate officials, when passports are lost, etc. during hen and stag nights or students' spring-breaks. The most infamous example of party tourism today is the island of Ibiza, the popularity of which is tied to the growth of youth-oriented package tourism and combining rave and club culture with travelling.

- *One for the road*, which is more narrowly calculative; acquisitive or economically-motivated alcotourism. These are quick turnaround shopping sprees, loading up on cut-rice alcohol; duty-frees as ways of ending a trip abroad – however, on-board purchasing is still a key ritual of 'coming home'. One for the road include drinking while travelling, i.e. 'en route', whereas dinking while on the move, another important set of alcotourism, is a site where freedom and regulation complexly mix.

There is hardly enough evidence to be analysed in terms of conclusive results using Bell's delineation. Nevertheless, the definitions of 'drinking places', 'party time' and 'one for the road' seem to fit with the conventions of Russian tourists in Finland. Buying specific Finnish alcoholic drinks such as "Marskin Ryyppy" for a souvenier enable 'armchair tourism' at home. Today Alko's shops are most often situated within the biggest shopping malls or supermarkets in order to service the needs of Finnish consumers and as such they also appeal to those who arrive on shopping tours to Finland. The Alko shops at the most popular places sell Tax Free, and if utilized, it reduces the prices of many beverages making them more worthwhile for economically-motivated tourists.

Linda Roberts and Beverley Sparks have studied the customers' viewpoint on factors that help to make the experience of visiting a wine and food region more enjoyable, and found that there is eight of such key enhancement factors (2006:49-54): authenticity of the experience, value for money, service interactions, the setting or surroundings, product offerings, information dissemination, personal growth and indulgence or lifestyle.

Roberts and Sparks (2006:49-50) state that the theme of authenticity incorporated a number of aspects, which may include the finer details of what can be seen and what is happening, in their research this meant things like a pleasing experience of talking to the winemaker. In summary, the experience needed to feel ‘real’ and yet also, to a certain extent, to be unique. From the food perspective, attention may be attracted by displays of unusual produce, particularly when the produce is related to the dishes served in the restaurant (2006:50).

Value for money involves, according to Roberts and Sparks (2006:50-51) getting a ‘good deal’ or feeling the experience was worth the cost contributed to enhancement of the overall experience. However, value for money did not mean that people wanted cheap products; rather it involved the feeling that they were getting value for the money they spent. A charge was considered to be more acceptable if there was something extra offered, such as a complimentary wine glass. Participants also assessed the price of wine at the cellar door against what the cost of the same wine would be in the local supermarket, but also taking into account the added experience of the winery visit.

Service interactions were found indicative of the level of customer service extended to tourists (2006:50). Personal interactions with the winemaker and winery staff and others on a social level had an important function in creating the total experience. Furthermore, first impressions of a winery reflecting responses to the initial contact person were important and, subsequently, if the service was good, this could be the determining factor for repeat visits. It was also evident that participants were looking for interesting or attractive settings as part of the overall experience: the setting attracted them to a region and enhanced their experiences, while the weather and the atmosphere could also help to create or enhance the setting (2006:51-52). The survey resulted also in the notion that wine tourists looked for a choice from a range of product offerings beyond the wine to local food produce, like cheeses, that could be purchased to take home (2006:52). In addition to wine and food, other products were sought and may be related to craft activities in the region like woodworking, painting and pottery.

The availability of adequate information about a region was an important enhancement factor for visitors. Three major sources of information were identified by wine tourists: (i) print media, including newspapers; (ii) visitor information centres; and (iii) ‘word of mouth’, through talking with winery staff and other visitors to wineries (2006:52-53). Still, a visit to a wine and food region was not just about wine, but also about learning experience: the region, eating and drinking in restaurants. In addition, getting to know the people were all part of the experience, just as interactions with the winemaker and staff, learning about the history of the winery, how the wine was made. Also matching wine and food all helped to build memories that could be revived later.

Finally, lifestyle and indulgence aspects of the visit in terms of a totally pleasing experience that takes them away from the hard work of the week and the stress of the city (2006:53-54). The indulgence aspect may range from simply making a day of it to staying in the region and enjoying the accommodation, wine and food or the overall experience with ‘almost that element of decadence’.

Although the research material that was collected during this thesis work is not enough to make any perceptive conclusions about Russians in relation to alcotourism, the findings of Bell, Roberts and Sparks provide an interesting viewpoint for reflecting the research material in terms of Russian tourists who do their shopping at Alko Finland. In addition, there could be interesting new perspectives to gain about how and why the Russians spend their holidays here in Finland from the aspects of hospitality and tourism industry, if future research was extended into this direction.

Having concluded the theoretical framework of this thesis work, the work now continues with empirical part, starting with introduction to Russia and its operational environment.

4 INTRODUCTION TO RUSSIA AND ITS OPERATIONAL ENVIRONMENT

In order to develop any kind of innovative and targeted customer service to a specific customer group, one has to at first develop an understanding of who the customers are and where they come from. Therefore from this chapter on the empirical part of the study will concentrate on making an overall presentation of the historical, economic and social influences in Alko Inc's Russian customers' lives prior to moving on to the empiric research work and finally to findings and conclusions that summarize the whole work that has been done.

4.2 OVERVIEW ON THE HISTORY OF RUSSIA

The beginning of Russia dates back to 9th century and the first centuries of existence coalesced around Novgorod and Kiev. The civilization was based on a fusion of Varangian, Slavic and Byzantine (Orthodox) cultures. From 13th century on until the unification of Russia under the Muscovite rule, Russia was governed by the Mongolians, under which time the state was under military régime and the foundation for e.g. postal and taxation administration was laid. However, until Peter the Great moved the Russian capital from Moscow to Saint Petersburg in the beginning of 18th century, Russia was for the most part isolated from Europe, impeding the influences of major cultural, judicial, philosophical and political trends of western thinking, which on the other hand permitted the formation of distinctive 'Russian' culture.

The last family that ruled Russia was the Romanovs and the most significant of them from the point of view of westernization, was Czar Peter the Great (1682 – 1725). Once he came to the throne he not only continued the Europeanization process in Russia, which had been started by his predecessors, but, according to Arto Luukkanen, he brought it to a whole new level (2009:116). He brought foreign specialists into the country and modernized the army and even left the country in order to learn. While on his field trip, he understood profoundly how fast West-Europe was developing and unless Russia was able to learn from the west, it would end up being dependent from its developed neighbours (2009:118). Today, the history of Russia is divided in times before and after Peter the Great. It should be acknowledged; however, that his many reforms benefitted only the upper layers of the Russian society – in greater scale the western cultural tide and ideologies arrived in Russia only later (2009:128).

After the revolution in 1917, which marked the end of imperial Russia and the beginning of the Soviet Union, the communists appreciated Peter the Great as one of the most significant leaders in the history of the country, calling him, according to Luukkanen (2009:116) the “crowned revolutionary”.

The Soviet era in general was marked by centralized governing of all aspects of society, including economy. After the World War II the world was divided into two great powers, the Soviet Union and the United States of America and as the most fundamental result of the Potsdam peace treaty in 1945, all of the so-called winner states were able to act on its territory as it pleased (2009:355).

The Soviet economy relied mostly on heavy industries, concentrating on armament. The division of the world into two ideologically different powers lead the Soviet Union gradually into a period of political stagnation and economic deterioration, which played an important role in the unravelling of the Soviet Union, starting in 1990. As one of its descendants, Russia has since struggled to find its own way to build democratic policies as a market-based economy.

Russian history is delineated by the will of those in power to expand the governance, whether the reasons were economic, political or other, which has prompted Russia to extent its territory geographically in a way that it occupies half the area of global north. Medvedev (2000:28) summarizes the geographic features of [post-Soviet] Russia that it is a country with

- “an irregular population density and ‘economic’ density
- richness and diversity of natural conditions and resources
- rather a severe climate in the bulk of the territory and, as a consequence, a high justifiable cost of living in the country
- a multinational population composition.”

With regard to the subject of this thesis work, a conscious decision was made to focus mainly onto the North-West region, which has played the most significant role also in the development of Finnish economy. This choice of focus can be grounded by the fact the most of the Russians that visit the shops of Alko come to Finland from the area that is currently known as Leningrad region (Leningradskaya oblast') and especially from the metropolis Saint Petersburg.

A famous poet Osip Mandelstam described the special meaning of Finland to the life and economy of St. Petersburg in his work Shum Vremeni (the Din of Time, published in Finland 1972, translation to English by HT): "the pre-revolutionary St. Petersburg breathed the air of Finland, drained fine Finnish sand through its fingers, rubbed its granite forehead against light Finnish snow and in raving fever listened to the tingling bells of sturdy Finnish Horses". By this he meant that besides Finnish servants, craftsmen and other workers, Finns took active part in the development of industry and trade in St. Petersburg, hence creating prosperity also in Finland. Finland continued benefitting from close location to Russia even during Soviet years – the trade only continued on bilateral terms until the collapse of the Soviet Union. Today, Finnish export still is highly dependent on Russia and the positive influence of the growing consuming power is welcomed also by Finnish tourism as well as retail trade sectors.

4.3 OPERATIONAL ENVIRONMENT OF RUSSIA AND ESPECIALLY NORTH-WEST REGION

According to the BOFIT[3] forecast 1/2013 for Russia, the economy grew 3.4 % on year 2012 and it is expected to stay on the same pace until it slows down a little in 2015, due to weakening oil prices. On the other hand, the revival of world economy and trade promote growth also in Russia. Private consumption is expected to grow briskly, albeit slowing down slightly. This is being fed by the increase of salaries in public sector. There is pressure to lift wages in private sector due to the need to increase productivity. In contrast to this, according to the study about the Russian outbound travel market (2009:13), the challenge for Russian policymakers is the high rate of inflation, which poses a threat unless it is reined by means of tighter monetary, fiscal and income policies. Still, the growth of economy promotes reduction in unemployment rates, thus leading to growth in household income, wages and pensions leading to growing consumption. According to the World Bank in Russia, since 2009 the con-

[3] The Bank of Finland Institute for Economies in Transition

sumption growth increased in all social groups reducing inequality (2012:18), i.e. the gap between the poorest and the richest part of the population.

In respect of monthly salaries, the World Bank in Russia (2010:8) counts, referring to the statistics of Rosstat, the Federal State Statistics of Russian Federation, that the average monthly wage was 703.2 USD in 2010, whereas in 2006 it had only been 392.5 USD. During the same period of time the number of employed had risen from 68.8 million people to 71.1 million, while the percentage of unemployed had dropped from 6.9 % to 6.6 %. However, it needs to be pointed out that during this period there were also the difficult years of economic slump (2008-2009), and at that time the level of unemployed rose to 7.8 and 8.2 percentages and the average monthly wages dropped from 692.1 USD to 593 USD. In comparison, the BOFIT statistics state that the average yearly wage was in Russia on 2006 312 USD and by 2010 already 520 USD, whereas the unemployment rate at analogous period was 6.8 % and 7.0 %[4].

4.3.1 NORTH-WEST REGION

Andrey G. Medvedev, author of Economic Geography of the Russian Federation: Business Profile of Russian Regions (2000) and Asta Niskanen, Financial Counsellor at Ministry of Finance and author of North-West Russia: economic development and international funding (2002), list in their works that the Russian Federation is divided administratively into constitutional subjects, which are very different by their status, economy and demographics, as well as designations. According to the internet-pages of the Embassy of the Russian Federation in Finland, the total of 83 constitutional subjects include 21 Republics, 9 Territories, 46 Regions, 2 Federal Cities (Moscow and St. Petersburg), 1 Autonomous Region and 4 Autonomous Areas. The relations between the federation and its subjects are not conclusively defined by the constitution, although there are federative agreements that form a framework for division of functions. In principle the subjects are independent but it does not always apply in practice (2002:12).

[4] http://www.suomenpankki.fi/bofit/seuranta/venajatilastot/Pages/default.aspx

The Russian Federation is divided also into seven federal districts. According to Medvedev, this division was established in order to improve the effectiveness of exercising the federative duties (2000:68). These districts are coping very differently and by any standards, the North-West Russia is doing relatively well in appraisals. The North-West economic zone (2000:88) consists of St. Petersburg, Leningrad, Novgorod and Pskov Regions and it is rich in resources. Niskanen states that large quantity of industrially deployable forests are there, as well as over billion tonnes oil, gigantic coal deposits, large pulp mills, metal factories and oil refinement plants (2002:15).

It seems that like in federal subjects, also within federal districts including North-West Russia, the results of economic development are spread unequally. Most of the foreign investments are concentrated in St. Petersburg and Leningrad area. Otherwise the development is fastest in areas, where natural resources and industry utilizing them are found.

In conclusion it can be said that despite the economic slump in 2008 – 2009, the economic development has been and will continue to be positive in Russia. This trend is highly dependent on raw material and especially oil prices. Demand of oil is estimated to grow, even if the financial crisis would continue longer-term slackening development of world economy. Due to this, the oil prices would grow, which in turn would affect positively in the development of Russian economy. According to the report about Russian outbound travel market (2009:14-15), the employment in industry and agriculture is going to fall but in return, the number of jobs in services, especially in public sector, is going to rise. As GDP per capita and real disposable income have been rising rapidly after 2004 (even though the distribution of income has become more unequal), the private consumption and the interest of those affluent enough to travel abroad has risen.

4.3.2 PAST, PRESENT AND FUTURE OF RUSSIAN MIDDLE CLASS (CONSUMER)

From the point of view of any retail trade organization that is in the business of consumer goods, a particularly interesting segment of Russian population is the middle class consumers. However; it needs to be stated that by definition the Russian middle class is a complicated phenomenon and there is a lot of debate over the concept as well as different approaches.

According to Salmenniemi (2012:4), in Soviet Union class was a political category inscribed by the state; the official assertion was that there existed only two classes, workers and peasants, and a ‘social stratum’ of intelligentsia, and the Soviet society was ‘classless’ that had abolished all antagonism between these classes. However, without questioning the official class formulation, studies were published by Soviet and later Russian sociologists about social structure of the society by e.g. occupation. Salmenniemi together with Harri Melin discuss the work of Leonid Gordon and Alla Nazimova (1986), who classified occupations into five categories (2012:26): agricultural, industrial, information, service, and managerial. In the 1980’s also the notion of nomenclature (nomenclatura) was employed by former Soviet sociologist Michael Wosslensky. Salmenniemi and Melin explain (2012:29) that nomenclature is rooted to the times after the October Revolution in 1917, and originally it was formed by communists who were in prominent positions in both public administration and the economic sphere, listed by the communist party, but over time it grew to consist of a whole network of different nomenclatures: republics, cities, ministries, scientific and cultural institutions, as well as factories. The nominations needed to be approved by the party and it granted many kinds of privileges to its members.

After the collapse of the Soviet Union, it was the leading members of this nomenclature that were able to amass themselves the majority ownerships of former state enterprises, and formed the oligarchy that is referred to as one customer segment in the Russian Outbound Travel Market report 2009. The collapse of Soviet Union liberated sociologists to begin analysing the emerging class structure in a transitional Russia. It has been marked by rapid stratification, growing inequalities and a restructuring of the labour market. According to Salmenniemi and Melin (Rethinking class in Russia 2012:30), “the key debates have dealt with the nature of the social structure, the criteria and size of the middle class, and whether social classes actually exist in Russia due to the weakness of the entrepreneurial sector and professional and class-based social organisations”. Salmenhaara and Melin (2012:35) refer in their work to e.g. Radaev 2008, and state that “most scholars agree that a middle class does exist, although some argue that the middle class represents an ideal or a normative model rather than a real social group”. Still, the middle class has been identified as a distinctive group depending on individuals’ or households’ positions. The most frequent criteria, based on which someone is categorized belonging to the middle class, include, according to

Salmenhaara and Melin (ibid: 35), educational level (secondary specialised education or higher), occupational or professional position, self-identification as middle class and material wealth (income and property).

Today, as it seems, a lot of interest towards the Russian middle class has been awakened after the big protests around Russia but especially in Moscow at the end of 2011 – beginning of 2012, which has longer roots but in the end were provoked by the conduct of 2011 parliamentary elections and later the presidential re-election of Vladimir Putin. In comparison with the Western view of middle class as the force behind technological and sociological changes in societies, (Nikolay) Petrov (of Carnegie Moscow Center) (2012:4) defines the whole term ‘Russian middle class’ intriguing:

> “Usually the middle class is considered to be relatively autonomous from the state and a frequent driver for change. In Russia, this is not the case because the majority of those who receive relatively high salaries are either state employees or workers of state companies. Over the last decade, however, several large Russian cities have seen significant growth in the post-industrial service economy. Those involved in services feel far more separated from the state.”

Other classifications of Russian middle class is, according to article on internet journal Expert South 2013 No 1 (240), which is based on the lecture of Valeriy Fedorov, general director of VCIOM, Russia Public Opinion Research Center, in Rostov-on-Don in 2012, that there is at least four different classifications for it. One is that it is no different than that in other industrialized countries, i.e. it is the driver of economic as well as social and political activity. The second is that while the middle class produces one third of GDP, it does not possess enough assets, savings or income to escape the effects of recessions. The third classification argues that there is no middle class yet in Russian society, only “pre-middle class”, i.e. people with higher education working in institutions, universities and other so-called intellectual professions with stable income and emerging professional independency, that is still in the process of becoming a Russian middle class after the collapse of the Soviet Union. The fourth states that indeed, there is a Russian middle class, but it cannot be compared with the other industrialized countries, because of its material backwardness from its western counterparts.

In this ‘jungle’ of different interpretations of Russian middle class, the one that VCIOM is using, according to Fedorov and which was in fact defined also in the work of Salmenhaara and Melin, seem most interesting from the point of view of this thesis work. It contains three characteristics: material position, professional status and self-identification.

Regarding the will of the Russian middle class to consume, Olga Gurova notes (Re-thinking class in Russia 2012:149), that in the past 20 years there has been a 'consumer revolution' in Russia, including a rupture of the boundaries between necessary consumption and over-consumption. In the Soviet Union the offerings of consumer goods were very limited due to planned economy and largely state-owned stores, while after the collapse in the 1990s the market economy stimulated the growth of retail, which resulted in overflow of consumer goods. Gurova has studied the formation of a middle class identity in St. Petersburg through the consumption of clothing and concluded her findings that the lifestyle of the middle class is characterised by hedonistic consumption, all the while moralising about the right to enjoy shopping analogously with such values as virtue and dignity (ibid:163).

The prognosis for social and economic development until year 2030 that was published on 25th March this year by the Ministry of Economic Development of the Russian Federation, according to which the share of Russian middle class continues to grow. In 2011 the share of middle class people was 22 % of whole population whereas by 2030 it is expected to be 48 %. The measures leading to decrease poverty in Russia would conclude of improving social security for families with children together with the level of workers' income provided that the strategies that are drawn based on the prognosis succeed.

However, by that time, Russia is trying to cope with the same socio-economic challenges as the rest of the industrialized countries (e.g. USA and the EU) with ageing population that place financial burden on working generation. Consequently, there is a significant need to develop measures that prolong the economic activity of ageing population, thus leading also to increase in the level of income and relatively, to their ability to consume (2013:89).

In principle there are many estimations and reports to choose from when the future of the Russian middle class is being looked at, but as this report has been made by the Russians themselves, it is particularly interesting. In general it concludes in the same finding as other reports: the distribution of income is very unequal (well-earning part of the population is situated in urban cities, while people at the peripheries struggle to cope) and the way to bridge the gap is to develop measures that reduce the share of the poor who are moving to the cities and their surroundings, making the density of population highest in urban areas.

5 RUSSIAN OUTBOUND TRAVELS

As stated earlier, the flow of Russian customers into Alko retail shops is stimulated by and highly dependent on Russian outbound travels. A fact to remember is that just a little over 20 years ago travelling outside of the Soviet Union was strictly restricted and even prohibited; holidays were mostly incentives and rewards for achievements at work or in communal activities and the destinations included of e.g. Crimean beaches, the Baltics and countries within eastern bloc. Therefore once the social situation stabilised after initial difficulties and economy started to grow, it emerged that there was great interest that had condensed over the years toward travelling outside of the borders of former Soviet countries. In 2012, Russia was already the 8th largest economy in the world in terms of GDP with growth rate, according to the estimations of e.g. the World Bank in Russia (2012:2) from 3.5 % to 4.0 % (provided that the price of oil remains on a high level) and in 2013 from 3.9 % to 4.2 %.

Translated to spending on travels abroad, for instance in 2007, Russia was the ninth most important tourist market (2009:28); in average the growth of expenditure on travel abroad has grown annually since 2002 – being on average 14.5 %, which precede global average. Furthermore, most of the spending was on retail goods. However, it is difficult to estimate the real spending power of Russian travellers, based on e.g. what one Russian spends abroad on average. TAK Oy has concluded in its border study Väliraportti 2012 that the wider segment of population, i.e. people with less money to spend, gain access to international travels, the more it holds the average down. Regarding overall travelling destinations (2009:31), Finland is placed well together with other neighbouring countries e.g. Poland and the Baltic States. In general it may be said that ease of access is something that specifies the performance of different travelling destinations, for instance Egypt did well for some time due to relatively cheap access to trips and visa-free travelling although political tensions have since curbed the growth.

There is many kind of statistical information about the outbound travels made by the Russians and the thing that categorizes them is that they should be interpreted with caution. For instance, Figure 3 below is one Russian statistical presentation, according to which the number of the Russians travelling to Finland in 2011 was 912.105 trips. In comparison in Figure 4 is displayed the results of a study made by Finnish TAK Oy in which the total number of Russians travelling to Finland in 2011 is over 3 million trips. A possible explanation to Russian numbers is that they consist only of holidays. This is supported by the figures in the Russian outbound travel market report, in which the fourth most popular Russian outbound holiday travel destination was Finland with 657.000 Russians choosing to spend their holiday there (2009:35). Another thing that the Russian statistics reveal is that Finland has been able to hold its fourth position with Turkey (turquoise), China (orange) and Egypt (green) in the lead.

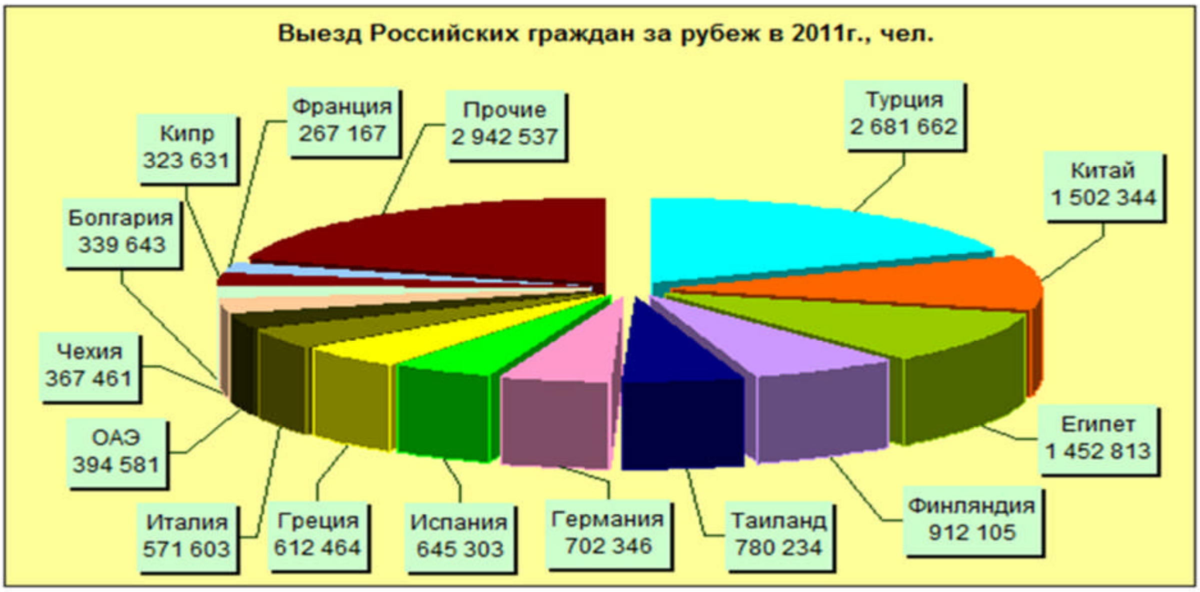

Figure 3. Russian outbound travels in 2011. Source: Tourest 2013.

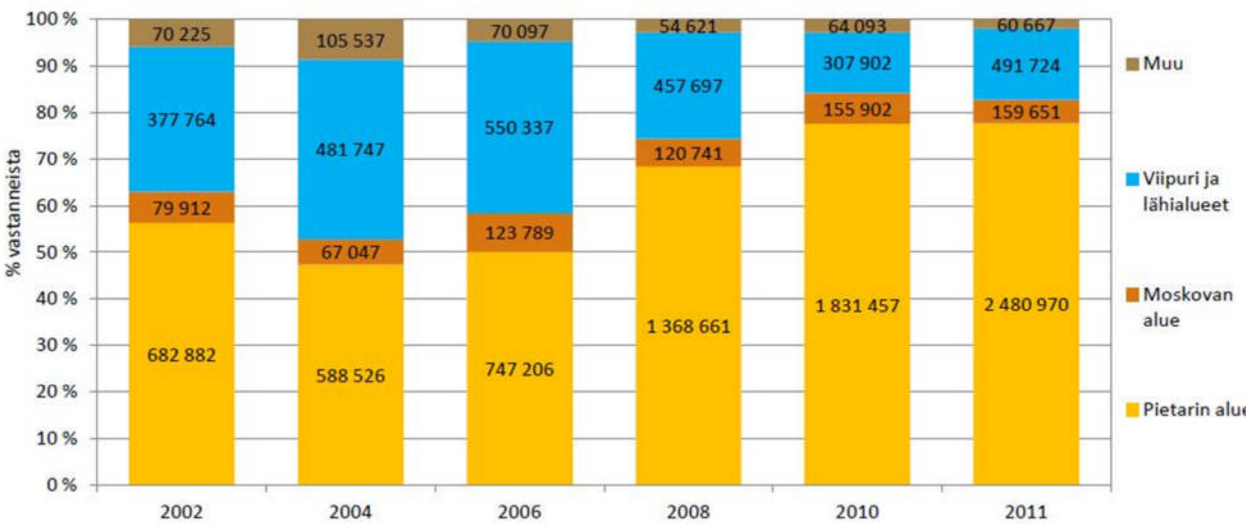

Figure 4. Distribution of Russian tourists according to residence. Source: Tutkimus- ja Analysointikeskus TAK Oy 2012.

The Finnish diagram shows also the distribution of Russian travellers by their residence. Majority of Russians that come to Finland are from St. Petersburg and its surroundings. However, the number includes all arrivals; it does not mean that approximately half of the population of the city of St. Petersburg visited Finland in 2011 – Tak Oy estimated this year (2013:32), that so far only about 40 % of its residents has been to Finland and with over 5 million inhabitants there is still a lot of potential for travelling to Finland grow.

TAK Rajatutkimus 2011 categorizes Russian tourists by their age and profession, revealing that approximately 64 % of Russians arriving to Finland were from the age group of 25 to 44 years (2011:7). Their number has slightly decreased from the 75 % in 2008, whereas some increase can be detected in age groups of 15 – 24 years and 45 – 64 years of age. The distribution of arriving Russian tourists by their profession shows that workers and clerical employees are among the vast majority (51 %), although their number shows slight decrease as well since 2008, at the time that Russians working in higher positions or entrepreneurs have grown their share among the total number of arrivals to total of 36 % (2011:8). TAK Rajatutkimus 2011 does not say it as such, but when these two groups of Russian tourists are studied together, they may also show something about Russian society in principal: the youth dominate as workers whereas leaders and decision-makers are generally speaking older – age is respected and seen as the contributing factor in wisdom.

The report about Russian Outbound Travel Market (2009:33) concludes that the travels can be divided in three categories by purposes, which are holiday, other leisure and business. Business trips can then be divided further into regular business trips, meetings, conferences and exhibitions and incentive travel, i.e. corporate sponsored leisure travel out of Russia (a form of reward or motivation for the beneficiaries of such trips, originally offered by foreign firms but becoming a trend also in Russian companies).

Russians travel also in order to do shopping, which the report about Russian Travel Market omits, probably because it can be included in all of the three categories that it presents, whereas the reports of TAK Oy lists shopping as one of the main reasons to come to Finland.

5.2 FINLAND AS DESTINATION

As the Russian outbound travel market report (2009:31) concludes, Finland is by far the most popular destination among all West European countries. This can be explained by the long common borderline between Finland and the Russian Federation. Dallen (2000:58) states that crossing a political border is a primary motivation for some people to travel: “frontier formalities and differences in landscape, language, and political systems add character to a trip”.

After the economic slump in 2009 a recovery in border-crossings, made by the Russians was detected and in 2011 the pace accelerated, growing by 33 % (TAK Rajatutkimus 2011:1). On its web-site the Finnish Tourist Board states that in 2012 a total of 5.8 million over-night stays, made by international visitors were registered and the first on the top four list were the Russians with their 26 % share. About 80 % of these visits are made by those living in St. Petersburg and its immediate surroundings. In comparison, the second biggest group was the Swedes with 9.3 % share.

As prices rise in Russia much faster than in Finland (TAK Oy 2012:1) Finland has become more and more alluring target for doing shopping, especially since there are several periods of retail sale in Finland. According to the statistics of autonomous organization “North-West strategic partnership”[5], the consumer prices rose in North-West region during June and July by 1.0 % and 1.3 % and again in September and October by 0.5 % and 0.4 %. Respectively at the same time in Finland the rise of consumer prices was 0.1 % (Statistics Finland, November 2012). The economic growth in Russia allows larger segments reach outbound travelling and due to its location and image as a safe destination, Finland is the most desirable target especially in the eyes of Russians who live in Saint Petersburg and in the immediate area of the border.

According to TAK Rajatutkimus 2011 (2011:1), Russians spent on average 281 euros each during their stay in Finland, of which 212 euros were spent on purchasing goods and the rest in services. Where available, Russians buy either Tax Free or on invoice, meaning that they buy without VAT (Value Added Tax), however Tax Free benefit is not the primary reason to come to Finland, as 94 % of all travellers claimed to have come here even if it did not exist. In any case, approximately 37 % of all purchases were made VAT included (2011:21).

6 RUSSIANS AS CONSUMERS

As the Russians are having more money to spend and the phenomenon of young ultra-rich Russians and their extravagant life-style has been noted by the brands that sell luxury goods, there is also those who cannot afford to spend money on fast cars, yachts or property abroad but who are able and more than willing to buy retail goods instead. The Russian outbound travel market report (2009:23) refers to Airport retail surveys by RFH Consumer insight, or Horizon as it is called now, by stating that the Russians are more brand aware shoppers than the Chinese; they have been found willing to pay a premium for things that they cannot find at home and are prepared to pay in order to get good quality products. Another feature that describes a Russian customer’s spending abroad, as was stated during the lecture at Kotka Pasaati, is that the Russians make a distinctive separation between everyday labour and fiesta, meaning that on holiday the budgeted funds may be well and happily overspent.

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[5] http://www.n-west.ru/. Стратегическое партнерство «Северо-Запад». Автономная некоммерческая организация «Стратегическое партнерство по экономическому и социальному развитию Северо-Западного федерального округа». North-West strategic partnership. Autonomous non-commercial organization promoting economic and social development of North-West federal district. (Transl. by HT.)

6.2 CONSUMER SEGMENTS AND SERVICE PERCEPTIONS

A common mistake that is often made is that Russian customers are one homogeneous group and their preferences and habits are more or less the same and therefore there is little need to customize services or the overall shopping experience in any way. The Russian Outbound Travel Market report (2009:24-25) cites a study, originally conducted by Moscow-based TMI Consulting in 2006, which according to its internet-site is a British consultancy specialising in market research, marketing and PR services, operating also in Russia and the CIS countries. Russian consumers have been divided into five different segments: rapidly emerging middle classes, ‘funky’ young professionals, the upper income group, the ‘golden youth’ and Russia’s ultra-rich. The division presents useful insights of Russian consumers; however it cannot be regarded as a scientifically validated research.

The vast majority of the first segment – rapidly emerging middle classes – live in urban environments, e.g. in cities like Yekaterinburg, Irkutsk, Kazan, as well as in Moscow and St. Petersburg, earning on average USD 800 – 1000 in a month. By European standards, however, this is not much yet, but as stated earlier in this thesis, as the economic situation in Russia is getting better, it will be reflected in the income level of the middle-class. Still, their disposable income is high (2009:24), as many do not need to pay rents due to inherited property on the break-up of the Soviet Union.

Saving money is important for the average middle-class consumer (2009:24), but a holiday abroad once every year is a ‘must’ as well as buying designer clothes, preferably while on holiday, as branded trade-marks are perceived to be cheaper abroad. External appearance is very important; it is thought to represent success.

The ‘funky’ young professionals are said to be employed mostly by multinationals or big Russian groups. They earn slightly more than the so-called middle class; up to USD 3500 per month. They are the ones who are likely to speak good English, as they have travelled widely and are western-focused. Their lifestyle is hedonistic – the prospects of marriage and children are postponed in order to have ‘good time’ before it. They are also extremely brand conspicuous, although they understand well the value of money, having worked very hard for it.

This consumer segment is the biggest internet-user group, but they have apprehensions toward buying on-line using credit cards; internet is for them mainly a source of information, such as prices etc.

About 1.5 million Russians can be counted belonging into the upper income group. These, slightly older than the young professionals, people are the most attractive of all the consumer segments, as they are the easiest to handle (2009:25). They are said to being rarely aggressive or ambitious because they have achieved what they wanted and are therefore content. They prefer to travel as couples or in small groups, might be married with children, who often stay home, while parents travel. Nonetheless, they are very family-oriented, often owning their homes and even a second home in Russia or abroad. For them, receiving good perceived value for money is important, as they have often many commitments for spending their money, e.g. regular sporting activities, supporting ageing parents, children in private schools, etc. These are the people who also value wellness, alternative medicine and drinking green tea (2009:25).

The golden youth are either the children of the ladder or the ultra-rich. They have usually been educated abroad and are talented in using connections to secure employment. As a result, they have substantial disposable income, thus far enhanced by the financial support that they receive from their parents. Their favourite food is sushi, but in case being schooled abroad, they also love all things Russian. They travel frequently, but are less likely to make long trips.

The Russian Outbound Travel market lists also the ultra-rich, who are mostly the so-called oligarchs, who were in the right place at the right time when the Soviet Union collapsed and are therefore now living on their investments, as one customer segment. It is however highly unlikely that this group would make their purchases at Alko, as they have most likely their own sources and distributors whose services they utilise to get the finest alcoholic drinks there is.

6.3 ALCOHOL CONSUMPTION AND RECENT CONSUMER TRENDS

When one thinks about the Russians and alcohol, one easily gets distracted with the stereotypical view of Russians as using excess amounts of vodka. This picture seem to be disturbing even the Russians own perception of themselves, as for instance a group of young adults that were interviewed for this thesis work were amazed by the fact that in Finland there is alcoholics, while in the discussions on the internet about alcohol in Finland a fairly common misconception was that prohibition still exists. It is healthy to remember that a lot of alcohol drinking in Russia happens during meals; hence it is a part of Russian cuisine, which has influenced greatly in the so-called western cuisine. Apart from some dishes, the biggest contribution was a method of serving meals (Schultze, Sydney. 2000:78): what many do or may not know is that by the late nineteenth century the Russian way of serving dishes one at a time, was adopted first by famous chefs in France and consequently, in the rest of the West.

6.3.1 CULTURAL-HISTORIC OVERVIEW

Drinking as a part of Russian popular culture has deep roots, dating back to at least the tenth century AD. Nestor's Chronicle[6] states that the tenth-century Russian prince Vladimir the Great rejected Islam as a state religion for the country because of its prohibition of alcohol. Stephen Lovell (2006:125) concludes that in the 19th century heavy drinking, often to oblivion, was one of the ways for a factory worker to spend their free time out of work. It could happen at any time, if the men had money in their pockets, but almost ritually after pay-days every fortnight. Many attempts has been made in order for the state to force its nationals into sobriety, but because alcohol sales have also been a source of revenue for the government since the first kabaks and taverns were set up by Ivan IV in 16th century, once the slimming effect on the vast pockets of state economy was realized, alcohol sales was once and again gradually liberated.

By the end of Imperial Russia, states Patricia Herlihy (2001:3): "Vodka and its use and abuse in Russian society generated a flood of printed material in the Russian press for three decades before its prohibition in 1914". It created a lot of discussion among various ordinary people, representatives of every political and professional views and it was generally related to being the most important source of everything that was wrong in the country and society then. Besides internal discussion over the matter, there was also existing concern and sensitivity to the opinion of the foreigners. "Tem-

[6] see: e.g. www.utoronto.ca/elul/English/218/PVL-selections.pdf

perance activists noted remarks made by foreigners in Russia concerning Russian drinking habits, many of whom concluded that the problem was more serious in Russia than in their homelands" (2001:5). Conscious of the image of the country and its nationals portrayed to the foreign inhabitants and visitors, temperance advocates tried to explain the roots of such behaviour by looking back in history, but centuries later, Russia was still getting drunk, the emperors setting an example themselves.

Many attempts were made in order to control alcohol use and sales in Russia but they ended usually with sales of vodka rising. According to Herlihy (2001:6-7), the idea of state monopoly of vodka was first presented by Alexander III, but it was not fully implemented until the reign of the last Czar, Nicholas II. It was de facto created by Minister of Finance Sergei Witte arguing, that it was the best way the government could ensure the quality and control the use of vodka, and the aim was not at making revenue. Vodka sales was restricted to government-run stores with no serving of food, but it only caused the people to buy beverages from the shops and then move on to the streets and drink them there or in small and cheap eateries, where it was not prohibited. Five years later, the reports showed increased consumption of vodka, which was quite the opposite from the intended goal, especially with the emergence of increased bootlegging.

As an answer to the growing critique of drowning the country in vodka, the state created the Guardianship of Public Sobriety, a bureaucratic organization that was founded for the purpose of educating the citizens about the hazards of alcohol abuse by spreading the awareness by means of public entertainment. The contradiction between the state selling vodka and trying to stop the public using it did go unnoticed neither by Russians, nor the foreigners. "In 1912, an American critic succinctly sketched the fiscal implications of the vodka monopoly: "The Russian government takes in 750.000.000 roubles, hands over 17.000.000 to distillers for premiums, and devotes 2.000.000 to what Count Tolstoi characterized 'as either blasphemy or a mere toy,'-a feigned temperance propaganda [the Guardianship]"" (2001:7).

The Soviet régime made also various attempts to restrain the alcohol consumption of its subordinates. According to Martin McKee (1999:825):

> "The first Bolshevik government reduced alcohol production (Sheregi, 1986) but by about 1921 consumption had returned to very high levels, in particular spirits distilled illicitly. By 1925, all the restrictions imposed after the revolution were rescinded, after which alcohol-related deaths exceeded their pre-war level, in some cities, such as Moscow, by as much as 15-fold. This decision, together with that to re-establish a state monopoly, was taken, quite explicitly, by Stalin, to raise money and thus avoid the necessity of seeking foreign investment capital. By the 1970s, receipts from alcohol again constituted a third of government revenues."

The last attempt was made by Michael Gorbachev in 1985, when he launched a massive anti-alcohol campaign and a partial prohibition. Initially it seemed to work and there was a small rise for example in life-expectancy rates but then the Soviet Union collapsed, thus ending the campaign and a rapid rise of alcohol consumption, fuelled by widespread illicit production followed. An interesting, yet descriptive feature about the Soviet times is that McKee and many others complain about how difficult it is to gain trustworthy, scientific information about alcohol and narcotics abuse during the secretive times of Soviet regime. The most reliable information has been gained from studies made by foreigners. McKee states that the consumption of samogon, illegally produced alcohol, was not reported and in general the sales figures of alcoholic drinks from state outlets were combined in an 'other foodstuffs' category (1999). Furthermore, the statistics that is available from the time before the 1980's is not reliable, because they show the total consumption being far less than even official production levels.

6.3.2 ALCOHOL CONSUMPTION IN MODERN DAY RUSSIA

An interesting point of view to alcohol in Russia is provided by J. Simpure and T. Pakkasvirta; according to their report compiled as a result of their joint presentation in Saint Petersburg in 1999, very little has changed in the alcohol consumption in Russia since Imperial Russia and the Soviet regime. Simpura and Pakkasvirta (1999) state that in international comparisons countries are often described by their favourite alcoholic drinks: beer, wine and vodka. While Russia is still portrayed as a vodka-country, Finland has shifted to being a beer-country.

In overall, alcohol attributes to many serious problems in Russia and has a straight linkage to low life expectancy at birth, which is at the moment under 65 years for men and approximately 75 years for women, as presented by Artyom Gil at Nordic Alcohol Monopoly Conference in Saint Petersburg in 2012. According to Gil's presentation, in 2008 the per capita consumption of pure ethanol was 18 litres (source: Rospotrebnadzor 2009), while in Finland it was 10.26 litres and 8.74 in the United States in the same year (source: World Health Organization). Gil states that there are specific features to alcohol consumption in Russia. One is binge-drinking, i.e. drinking big amounts of strong alcohol in a single session that leads to severe intoxication. Another is what could be said being similar to the ladder, the so-called "zapoj", which could be translated as "bender", i.e. continuous heavy drinking that lasts several days. On the other hand, statistics provide one-dimensional picture on alcohol use, as it is not always used evenly during the year, as also Gil states, but rather in variance with complete abstinence and periods of drinking sprees.

However, there is evidence that the structure of alcohol consumption is changing while the overall consumption of alcohol per capita remains high albeit the trend is descending, due to preventive actions launched by the state, e.g. new minimum prices and state regulation of alcoholic drinks, including beer (Country report 2012 of Alcoholic Drinks in Russia). In the picture 5 below is structure of alcohol consumption of males and females, as well as by age group.

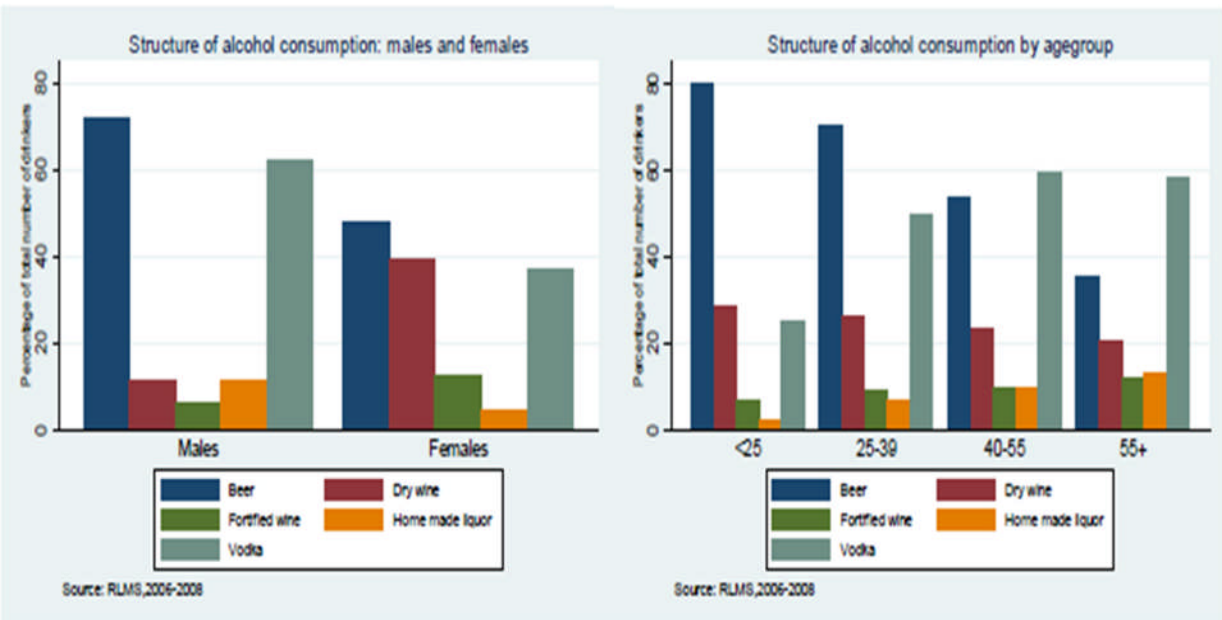

Figure 5. Structure of alcohol consumption by gender and age group (% of total number of drinkers). Source: Gil 2012.

Regarding consumption of men and women, there is one significant difference, which is the preference of dry wines among women. Otherwise both consume mostly vodka and beer. Age seems to effect on the amounts of consumed vodka and beer; it may be said that the Russians start their relationship with alcohol with vodka and with age shift to drinking more beer than strong alcohols.

Nevertheless, the Russian Federation is trying to combat with the mortal effects of excess use of alcohol by tightening the legislation. Latest changes took place in 2012, when time-limits also for beer and beer-based products, as well as a ban to sell them from non-stationary outlets and requirements of licences for transportation of ethanol, including denatured alcohol, and spirituous liquids of ethanol were introduced (Gil,2012).

6.3.3 CONSUMER TRENDS ON ALCOHOLIC BEVERAGES

While Russia can still be regarded as a vodka-country, the consumption of vodka is slowly decreasing, especially among the wealthier part of the population. In line with this, the attitudes towards being drunk on public is tightening as well; at least in the big cities like Moscow and St. Petersburg it is said to be out of fashion. According to Mikhail Loginov (Internet site Open Democracy Russia, 2012) reasons for this may be increasing car ownerships in large urban cities and revelation that alcohol coincides poorly with business career.

In general Russia appears to be consistent in being a strong brand culture. International Markets Bureau in Canada published a report on consumer trends in wine, beer and spirits in Russia stating (2012:5) that in Russia, spirits are often ordered by brand name rather than type. Regarding vodka, there are two main criteria for alcohol brands: price and perceived image, thus leading to the domination of local brands. Besides being cheaper, local brands are perceived healthier – they are mostly produced with local ingredients, and are thus believed to contain fewer preservatives. However, international brands are being bought more and more often as the income level rises.

Ilia Shapiro, founder of Russian Arsenal importing company, who was interviewed by Eleonora Scholes for Meininger's Wine Business International in 2012 about emerging Russian winemaking, agrees that Russia remains a vodka country and therefore the reputation of Russians buying only the very best wines is highly exaggerated. Another alcoholic drink that competes with wine is beer; in reality the Russians are among the world's highest beer-drinkers. Regarding taste of wines, it is claimed that the full-bodied fruity wines are making way to elegant wines. Brands dominate also in wines – according to Scholes, Russians prefer European wines with France, Spain and Italy in lead, as they are associated with sophistication, prestige and perceived cultural value. On the other hand they are also becoming increasingly interested in wines, originating in the Americas and Australasia, according to Canadian report (2012:4). Their price-to-quality ratio is comparing well to the European equivalent wines. The strongest sales were experienced in high quality [New World] wines. They allow the consumer to trade up, while maintaining affordability. What is interesting though, as Scholes states, Russians do not buy on price alone. Instead, they are more receptive on other promotional activities, e.g. featuring wines in catalogues, extended layout on wine shelves or palettes or in-situ tastings.

Russia has its own emerging winemaking, but apart from very few exceptions, it is still far behind the quality of foreign wine producers, who are also able to cater to premium market segments, as Russian consumers are increasingly associating high prices with high quality (2012:5).

Beer has been conquering markets from traditional ruler, vodka. One reason for beer's growing popularity is that up until the beginning of 2013 when the decree of the federal law restricting also beer as alcoholic product, signed off in 2011 by then President Medvedev (see: i.e.) came into effect, it was classified foodstuff and perceived by consumers as a sort of a soft drink – it has even been marketed as a healthier alternative to spirits (2012:6). Russians prefer domestic producers over foreign, but the definition of domestic is becoming arguable, ever since the merger of leading Russian beer producer Baltika with International Carlsberg group in 2008. There is significant growth in the premium beer segment and brewing companies are making plans to capitalize on it; light beers and beers, targeted at female consumers have been launched, as well as draught beer variety (2012:7). In Russia "live" beer is unfiltered, unpasteurised beer without preservatives or stabilisers. In the executive summary of Euromonitor country report about alcoholic drinks in Russia in 2012, the popularity of draught beer was regarded to being a result of the marketing policy of independent small breweries that are actively exploring this niche. The report states that the promotional strategy is based on the contrast in quality with mass segment beer. There are risks to draught beer drinkers, though, as the Euromonitor executive summary concludes, that "there are no technical regulations governing this type of beer and some manufacturers are easily improvising the production of draught beer due to the growing popularity of the segment".

Apart from the obvious, i.e. vodka, in Russia also domestic brandy and local specialty "nalivka" dominate the market (International Markets Bureau 2012:8). Imported brands lead sales in cognac, gin, tequila, whisky, rum and liqueur, whereas imported vodka and brandy brands can compete only in premium or super-premium products (2012:8).

7 RUSSIAN CUSTOMERS OF ALKO

In this chapter, the results of the interviews of the customers will be presented together with what was learned from discussions and other writings about Finnish Alko Inc. on the internet, especially browsing Russian web-sites using popular search engines at the moment, such as yandex.ru as well as google.ru and rambler.ru, and other sources. The findings will be reflected with the perceptions that the staff of Alko have about their customers in order to determine, how much their perceptions coincide with the results of the interviews with customers.

7.2 SERVICE PERCEPTIONS: AN OVERVIEW

The negative connotation of Soviet- or Russian-style customer service may be familiar to anyone, who has ever visited Russia and has had the chance to experience the Russian service culture at its worst. Even though things are changing especially in such metropolitan cities like St. Petersburg or Moscow, one is still more likely to receive customer service that is so often described as 'Soviet' style customer service. "In the Soviet era, consumers were almost powerless. There were shortages of most consumer goods, so customers had to accept whatever they could get. Shop clerks were notoriously rude and arrogant. If they didn't like someone's attitude, they could refuse to serve the customer -- even if the shopper had been waiting for hours in a queue. "The clerks in Soviet stores were like gods or czars," said Dmitri Yanin, a leader of the consumer confederation". (Quoted in York, Geoffrey 1998)

Nonetheless, things are changing: there is a significant difference in relation with the expectations and perceptions they have for the customer service, if the Russian customer comes from a city or a metropolis in comparison to those who come from the countryside. It was stated on one of the lectures, that many Russians coming to Finland may have friends and/or relatives here, hence the image has changed: Finland used to be the first experience of a foreign land, but today it feels as if one is at home. Besides, they find Finland as a safe travelling destination and as the quality of service is on an adequate level in relation to their service expectancy level, there is no need to be nervous about shopping – when necessary, assistance may be received moderately easy.

Reflecting to the presented overview about Russian consumer segments, it is the emerging middle-class and the 'funky' young professionals that are most likely the ones, who may require customer services and products with quite an aggressive 'give it to me at once' –attitude that was described during the lectures and discussions, while field-study for the thesis was conducted.

In their article (in Journal of Service Research) about cultural influences on service quality expectations, Donthy and Yoo (1998:181) discuss the customers of high uncertainty avoidance culture. Uncertainty avoidance is one of so-called Hofstede's dimensions, and in short it means that ambiguity causes anxiety. They argue that such customers "actively avoid uncertainty through planning and risk aversion - - they take time in evaluation and do not make quick decisions." As a result, they are likely to generate high service expectations. For them, tangibles (such as facilities) would represent visible evidence of service quality. In alcoholic drinks market, as well as in clothing, this explains the strong brand loyalty that emerges for instance in the way Russians use brand names when they order spirits rather than buying them by type.

What scholars call uncertainty avoidance could also be translated as pessimism, which e.g. Yale Richmond, a retired Cultural Officer of the United States' Foreing State labels as one of their cultural characteristics. He quotes one of the many Russian anecdotes, according to which, pessimists say “Things can’t be worst as they are now”, whereas optimists say, “Yes, they can”. Richmond then continues by comparing Russian pessimism with completely adverse American optimism (2008:35): “Americans expect things to go well, and they become annoyed when they do not. Russians expect things to go poorly and have learned to live with disappointments”.

Still, however it is called, if there is any concrete measures that follow as a result of this thesis, one should be the kind that reassure Russian customers that Alko is a specialized retail shop, where their presence and needs have been noticed and they are highly appreciated as clients, and as a consequence, an active two-way learning relationship will be established. In the next chapter, the results of the interviews will be discussed and analysed, while reviewing them in the light that has been learned about the consumer segments and their preferences of alcoholic drinks.

7.3 WHO AND WHY

The purpose of this chapter is to go deeper into the reasons why the Russians buy their alcoholic drinks from Alko and what the cultural and social context of the phenomenon might be, which in fact is a synopsis of the results of customer interviews together with what has been learnt from all the other background information.

In general the overall view, gained on the course of the thesis work is that even though alcohol presents a major threat to the well-being to Russia’s economy and Russians on an individual level, they do not arrive to Finland in order to buy alcohol with an aim to feed any disruptive habit. Therefore also the incidents that cause a high level of discomfort to the sales personnel at Alko shops present still a rather singular occurrence and the biggest issue may be that these incidents are difficult to solve in a satisfactory way due to the language gap. As such there still need to be developed measures that help and preferably prevent these situations, and one is educating the Russian customers. There are newspapers available at the Finnish border for the Russian visitors and instead of participating in an article about the growing purchases made by Russians in Alko shops, there really should also be articles about rules and regulations, including how one can go about at the shop – which is in fact the kind of information that also many of the Russian customers that were interviewed were missing.

7.3.1 RESULTS OF THE CUSTOMER INTERVIEWS

A lot of information about how to conduct an interview as one method of collecting data can be found both in theoretical literature and also on the internet. Probably every educational institution has its own sites, where rather specific instructions are given on how to conduct a good interview, starting from the questions to describing the best possible surroundings for an interview, ending up in advice for the external appearance of the interviewer.

However detailed the advice and recommendations are, in reality and especially for a first-timer it may still not be that simple; first of all, the questions that seem at the time the most relevant, having already started to familiarize oneself with the subject, may need to be re-constructed along the way, as after reflecting the daily results it may become obvious that the original setting of questions are either too complicated, time-consuming or abstract and they need to be sharpened or shortened in order to get more thorough insights in a rather a short time that people who are on holiday, etc. are willing to share with the interviewer.

Secondly, it is very difficult to estimate and try to minimize beforehand the level and effects of nervousness and self-criticism and how this influence especially on the first interviews. To add into this mixture the challenge of conducting the interviews in another language and the restless surroundings of a shopping-mall contrary to the tranquil settings of the instructions, the results could well have been poor. Also contrary to the instructions about as neutral composition (clothing and facial expressions) as possible, it seemed that open-minded and friendly appearance, even nervous and inexperienced at the beginning, was probably the main reason that made the Russian customers stop. However, the pre-assumption was that there would have been a lot of refusals, due to Russians positioning suspiciously to interviews in general, and special attention was given to e.g. clothing in order to look as little official as possible. In addition to this, none of the Russian customers refused from the interview being recorded, probably because the status as a student and the usage of the results were revealed straight away together with a promise to stay anonymous.

The reactions of the staff and shop management were similarly friendly although in some cases clearly wary to a degree, and their answers to chat-like interviews seemed genuine. Apart from two places, the personnel was also well-informed about the arrival of the interviewer but after the initial surprise, also in those places were the staff had no previous knowledge about the research, the re-orientation to the situation can be described as professional.

A total of 47 interviews were collected from the Russian customers. Among them were four families (one living in Finland), 8 confederate couples (two of them were all male and the rest women), two groups, 14 single shoppers (7 men out of which one truck-driver, and 7 women) and 19 couples. Two men, two couples and one group of young adults were in Finland for the first time, and among all of the interviewees were in Alko three confederate female couples, three female single shoppers, two men, 8 couples and the same group of young adults, who were also in Finland on their first visit, concluding that out of 47 collected interviews, 16 were collected from first-timers at Alko shop and all the rest were regular clients at Alko shops. The interviews were conducted in as neutral manner as possible for three hours between 9 am. and noon, which was told by the personnel of Alko to be the best time to meet Russians in the shops. Unfortunately none of those customers who buy the most expensive beverages were met, so the only source in relation with their preferences was the personnel and literature.

The results of the interviews were analysed in the light of the themes that interested the management of Alko Inc. They were especially interested in the customers’ opinions regarding: 1) assortment, 2) customer service and shopping experience, 3) location, 4) pre-order-possibility, and 5) internet-pages in Russian, and therefore also the questions were formulated around these themes. In practise this meant that the answers were written down and translated in Finnish and then read through once and again in order to try to find the most denominators for each question. Besides discussions with the Alko personnel and others, who have insight in this theme, the interviews were analysed also in context with what has been learned from other sources, such as literature and on the internet, especially if there was a particularly interesting answer, such as the perception that some interviewees had about Finnish alcoholism. The themes of interest were divided in four: assortment, location, internet, and customer service.

1. Assortment: range, quality and prices

There has been a lot of interviews of Russian customers in mass-media over the past years and therefore both the management, as well as the Alko staff had already a firm opinion that Russian customers buy alcoholic beverages from Alko specialized shops specifically due to wide assortment, including availability of famous brands and premium products, and especially confidence in the high quality of beverages, found at Alko shops. Therefore it came as a no surprise that the customers were very satisfied with assortment and quality. As a matter of fact satisfaction in wide range of available products and high level of trust in their quality in Finland, even if the same brand is already available in Russia, is concluded already in the many previous studies conducted by e.g. TAK Oy regarding Russian tourism in Finland.

Some of the respondents expressed their amaze about the variety of the assortment. Among the respondents were also those – quite many, in fact, who have been coming to Finland and Alko already 15 – 20 years; hence they were also able to reflect the past situation with the present level of assortment, service, etc. and the general opinion was that both the assortment and service has become wider and better. In general the choice of purchases agrees with the staffs' perceptions: older whiskeys, premium cognacs, vodkas, both straight and flavoured of famous brands, European red and white wines, and pricey champagnes. However, there were also those, who preferred the so called New World (e.g. Chilean and Argentinean) wines. A general perception among Alko's personnel was that Russians come into the shops already knowing exactly what they want and in most cases this was true. When asked about how they had decided what to buy, a common answer was either that a friend recommended or they had tried it for the first time on a holiday.

Another source of information is undoubtedly the internet. During and after the orientation phase to the subject the amount of question-answer –discussions and other informative sites about different alcoholic beverages that were found from yandex.ru was overwhelming. These sites can be really very detailed and show that for enthusiasts' price does not matter.

Opinions about the prices of Alko came as a surprise. In comparison to what was learned about the price-factor from the internet-sites (for instance, a site called fincot.ru states that prices in general are high in Scandinavia and due to monopolist status of Alko also alcohol is costly in Finland) and the studies of TAK Oy, it seems that after all, price is not such a big issue for those who prefer to purchase alcoholic beverages from Alko specialized shops, although admitting having done research about prices. The Russians were aware of the Tax Free –refund, but as also the staff had noticed, by far not everyone utilized the opportunity.

One explanation may be the wide variety in every price group, which may level the impact of price. Even though at the time of the interviews none of the participants admitted having bought bag-in-box wines, the staffs was able to tell that the Russians have indeed found bag-in-box wines, associating perhaps the size of the package with better gained value for the price of it. There were also many of those, who had been pleasantly surprised with the prices, but they came from the metropolises of St. Petersburg and Moscow and had come to purchase premium products, which can cost considerably more in Russia and in addition to this, entertaining friends at home and during holidays, there seem to exist willingness to invest on more expensive products. However, it needs to be added that the interviews were conducted during Russian holiday season so this may bear some consequence to the positive outcome and therefore a more lengthy research might shed a different light into this.

Alcoholic beverages were told to be also a welcomed souvenir for family (usually spouse) and friends. Finnish specialities had their friends among the interviewees: one lady insisted, holding two bottles of cloudberry liqueur, that she never leaves Finland without buying the liqueur, as it is her own special treat and an appreciated souvenir for her friends. The attitudes toward who drinks what kind of alcohol seemed patriarchal: both men and women, who were after a souvenir for their spouse, said that strong alcoholic drinks, whether vodka, cognac or whisky, was for men, whereas wines and liqueurs were for women. An exception was food: having meal both sexes admitted drinking wine.

Speaking about Russians who are on a shopping trip in Finland in comparison to those who are spending their holiday here, the shop managers had noticed a distinctive difference in spending. In general those on holiday buy more expensive drinks and their value is higher since they usually come to purchase drinks several times during their stay. To put this in context with what Sydney Schultze (2000) has written about Russian cuisine and one of the lecturers said about Finland being a ‘safe and familiar destination’, it may be concluded that the Russians, especially those who own or rent a cottage here, arrive in Finland bringing along their cuisine and traditions, which means that meals are enjoyed together with friends and the choice of alcoholic beverages adheres to the traditions at home.

2. Location and layout

Regarding location of the Alko shops, the same strategy that Alko has had since the beginning of 1990s with Finnish customers, seem to work on Russian customers as well. The key words are *convenience* and *efficiency* – Russian customers found it convenient that once they had completed doing groceries, etc., they can pop in to the Alko shop to buy their favourite alcoholic drinks, as well. The ability to find and pay ones favourite drink quickly applies especially to those, who are on a one-day shopping spree in Finland. The thing to understand about the Russian customers who arrive in Finland on an arranged shopping trip by bus, as was explained also on the lectures about Russian tourists as customers that the route is predestined and the time to spend on different locations is strictly limited and there is little tolerance to those who come back to the bus late, and therefore efficiency and easy access around the shop is well appreciated. Also Russians who are on their holiday, appreciate easy visits in Alko shops especially on their way home, and the reason is basically similar to those of one-day shoppers; everybody is trying to avoid long queues on the border.

An emerging theme alongside location was the layout of the shops and display of products, which awoke positive responses. In principle everyone found the layout, i.e. placement of the shelves and beverages on them, etc. simple and the atmosphere in shops pleasant (tranquil), but given the opportunity the Russians added that it took some time for them to understand the logic of the layout. Nonetheless, once they had visualized it, they were very happy with how tidy the general appearance of the shops was. One of the participants was in fact a wholesaler of alcoholic beverages in Russia, representing famous Russian brands, who had come to the shop with his wife in order to do a quick evaluation of the prices of Alko. In his opinion the layout and display of products was spectacular, and he estimated it effecting positively on sales.

3. Is there a need for an Alko Internet-site in Russian?

In the absence and despite of Alko’s own internet-site, which has recently been established also in Russian language, there is many related sites and portals, regarding information about Finland, as well as Alko, e.g. information portal Finnish.ru. When asked about Alko’s internet sites and a possible pre-order-possibility, only a couple participants admitted being aware them; however several mentioned using internet as a source of information.

Despite this rather disappointing outcome, in recent years the number of people who use the Internet as the main source of information is growing by the minute in Russia. According to Andrei Kolesnikov, director of Coordination Center for TLD RU/РФ, which is the current registry for domain.ru, already half of the Russians used the Internet at the end of last year and the number of those who have access to the Internet continues to grow. The growth has been rapid, since the above claim was made in a press-conference that was held on 19th December, 2012, and just a year earlier the figure was 24 %. The accessibility is being developed continuously; in 2011 the former Minister of Telecommunications and Mass Communications Igor Shchegolev stated in an interview on the web-site Modern Russia that by 2020 has been created “an environment for broadband infrastructure that will ensure high-speed satellite access to information networks and high-speed Internet access through community access centres and information points”.

The activities on the Internet consist of finding information, spending time on social networks and reading the news. Internet is being browsed mostly on the computer, but a growing number of Russians go online also via mobile device; a smart phone or a tablet.

Perhaps in relation with this, the Russian customers had a very specific opinion about the kind of information they assessed as meaningful from the point of view of Russian customers. Besides prices and product overviews, there should also be information about the rules and requirements that regulate purchasing alcoholic beverages in Finland. Some expressed their view that besides this, also the possible consequences for disobedience should be clearly indicated for the simple reason that the lack of rigorous regular inspections in Russia has led to general ignorance of rules and regulations and therefore especially those who arrive in Finland for the first time may assume that the same prevails in Finland and in Alko, as well. A positive step further has occurred, as the corporate management has already made the decision to establish web-site also in Russian simultaneously with the on-going re-construction of the site in Finnish, Swedish and English. Besides finishing the work, the challenge is also to make them widely available on Russian search-engines.

Regarding pre-ordering, almost all of the interviewees expressed their interest, whether from personal perspective or on behalf of those, who are coming to Finland in order to purchase a more substantial quantity of alcoholic beverages, expensive products or speciality products that are not necessarily found on the regular offering of shops. There is one group of customers among the Russian tourists, though, who would probably benefit the most from a pre-order system and that is dealers.

4. Customer service

The general perception of customer service in Alko was without exception positive. However, there was one recurrent theme about customer service: it was mostly associated with friendly atmosphere that was enhanced by smiling personnel, rather than experience on receiving assistance or consultation during e.g. decision making. In fact, most of the Russian customers were surprised to learn that the personnel participate in frequent training sessions, regarding novelties, etc. in order to gain new information and strengthen their existing expertise in customer service. Of course, there were a few exceptions to the rule and they were invariably frequent travellers.

The personnel of Alko shops was mostly under the impression that the Russians buy only what is familiar to them and do not require or want any individual customer service, thus in many cases having experienced the gratitude of Russian customers if a possibility to offer one’s expertise had risen. Nevertheless, when asked about the willingness to utilize consultation, the answers of the Russian customers divided: about half of the participants would have been ready to consult the personnel, and some mentioned that they are used to receiving consultation in Russia, and there was even one who told that in one shop the sales personnel, who have attended trainings in order to gain competence regarding alcoholic beverages, apparently carry some sort of distinctive badges, to make them easier approachable for customers. The other half preferred to trust own expertise and judgement. Still, those who had had courage to approach Alko personnel, described their experience as very successful, the personnel had been ready to go out of their way to help the customer, even if there really had not been any common spoken language. Regarding printed material, again opinions divided, albeit all agreed that especially price lists and paper sheets hanging on the edges of the shelves with the symbols describing properties and usage of the beverages would be helpful. The difference concerned language: for younger Russians English was enough to satisfy the need, others said that especially consultancy should be in Russian as well as printed material.

7.3.2 BUYING ALCOHOL FROM FINLAND AS A CULTURAL AND SOCIAL PHENOMENON

Patricia Herlihy (1991:133) opens the roots of Russian drinking rites and rituals by studying the writings of contemporary literature during the late nineteenth century Russia, noticing that they led people to drinking alcohol even when they did not so much want to. Herlihy states that in general in the countryside there were four times when the peasants could drink without strong criticism: on religious and secular holidays, at important family events, in extending hospitality, or in connection with a business transaction (1991:133), which seem to have allowed people to relate any occasion with alcohol. Further opportunity for drink was given by the annual draft of young men from the villages (1991:136) whereas during the military service vodka was used as a reward for good performance (1991:141). In cities, as Herlihy describes (1991:143), summertime drinking seemed heavier than in the countryside, since workers with regular wages did not have the same shortage of cash as peasants experienced before harvest. It seems that the consumption of alcohol was in contrast more moderate among the rich and stable urban bourgeoisie and so-called intelligentsia, as Herlihy concentrates her study on city workers and village peasants, but adds nevertheless that the upper classes did share “the peasants’ tendency to indulge excessively in alcohol on social occasions” (1991:144).

Sydney Schultze (2000:83) states that after communism some of the Russians started to revive old customs, related with holiday seasons and religion, suggesting thereby that during Soviet period these traditions would have faded away until the collapse when they started to emerge again. This suggestion can be contradicted, however e.g.

by a description in a travel essay of an American tourist visiting the Caucasus region during the last years of the Soviet Union (1991:17):

> “THE FIRST TOAST, Felix explained patiently to the infidel from Baltimore, is always to God. The second toast is always to St. George, patron saint of travelers - since somebody inevitably traveled to the table, if no farther than from the apartment across the hall. The third toast is to "the guilty party" - to the guest from afar or the person with the birthday or whoever is providing the occasion for festivity. After that, Felix said, it is freestyle. You can toast whomever or whatever you want. There are just three rules: (1) You must drain your glass every time. (2) You can't stop on an even-numbered toast unless somebody has died and you are at the wake, in which case you have to stop on an even number. (3) If you reach Toast No. 49, you start counting again from No. 1.

The above excerpt is one example that goes to show that traditional drinking rituals were not forgotten during Soviet times, when the religious celebrations and holidays were either re-named or replaced by ones, more suitable for post-imperial and communist ideology. In 1991, thanks to Secretary General Gorbachev and times of Glasnost, the political and social atmosphere was already that much liberated that especially in the presence of a foreigner they were happily and proudly presented. In relation with this, the findings made from the interviews and other research material indicate rather than only sampling ‘other’ cultures through alcohol, which was one of David Bell’s form of alcotourism (2008:297), the Russians do not give up their traditions and social habits on a holiday in Finland, but they hold on to them and the needs they satisfy by shopping alcoholic drinks from the shops of Alko have cultural and social background. On the other hand, which are the reasons for the popularity of such alcoholic beverages as mint- or (cloud-) berry-flavoured liquors and vodkas like ‘Marskin ryyppy’ then: the ones that David Bell discusses, like sampling the ‘other’ culture through alcohol or sticking to ones’ own culture, as according to Schultze (2000:85) there is a wide variety of flavoured vodkas in Russia.

Besides the cultural and social linkage to drinking traditions, another reason to buy alcoholic drinks from Finland is that there seems to be deep distrust in domestic production and the ability of Russian authorities to reduce production and sales of counterfeit alcoholic drinks and to enforce accurate quality control. This has, in fact a strong relation with the lack of trust in Russian authorities – political and other - in general. One of the central obstacles in the development of Russian society is the lack of trust. It can be explained in many ways, e.g. by the times of political turmoil after the Soviet Union collapsed, during which in simplified terms each period of economic and political reforms where followed by change in political elite and return to stagnation. When Vladimir Putin first came to power in 1999, it meant yet another return in Russia's history to the old times i.e. securocracy, which according to Arto Luukkainen (2009:449) meant on one hand the supervision and control of the good sides of the old regime and on the other, an aspiration to reform the country and launch vital to Russia modernization processes – but under the supervision from the above. Other reasons of distrust relate to everyday life in Russia; due to e.g. low wages in relation with the costs of living make the authorities susceptible to corruption. Belousova et al. state (2011:7): "It is likely that corruption significantly influences economic decisions by both households and companies. For example, a majority of Russians seem to treat law enforcement officials with apprehension, which has an obvious effect on willingness to obey laws and on contract enforcement".

Consequently, the distrust to domestic offerings of alcoholic beverages originates from the history of Russian alcohol culture, as every attempt of the governance to ensure quality control increased bootlegging (see chapter 6.2.1). Moreover, despite government attempts to uproot the problem of counterfeit products in Russia, it still exists, including fake international brands, which is widely discussed also in the Russian media and on the internet. A simple search using words "counterfeit alcoholic brands" at the search portal yandex.ru produces several links to sites that give, for example, instructions on how to separate a counterfeit product from an original. One such site, an internet magazine, which is named "Stop Fake", claims that even as many as 40.000 deaths per year have direct linkage to alcohol and especially ill-quality counterfeit alcohol – industrially manufactured or home-distilled. The source of the number is not provided, but these kinds of discussion reveal the depth of the distrust.

7.3.3 IMPLICATIONS TO THE CUSTOMER SERVICE AT ALKO

In marketing and sales the customer service plays the central role, as in customer service the strategies are put into practice. The customer flow from Russia to Finland is gradually increasing, with or without visa-free travelling, but despite the accelerating rate during the last years the overall sales of Alko to Russian shoppers remain still on a relatively moderate level in comparison to the total value of sales to Russian tourists in general. So far the aim of this thesis has been at deepening the understanding of Russian customers and their motivations to purchase alcoholic drinks from Finland and now it is time to look at, what concrete measures could be done in order to get the existing and future customers to return again and again to the shops of Alko – and/or based on their own experience, recommending the shops to those who are yet to come to Finland.

There are already customers, who have been purchasing alcoholic drinks from Alko for years and may even prefer to do their shopping in specific Alko shops. Even though there is distrust in domestic offerings, the quality is rising and also the international brands that set up their branch offices and production sites in Russia will inevitably increase the trust. How the customer service could be developed further in this unique in Alko's history situation?

In line with the discussion in this thesis about social and cultural motivations to buy from Alko due to good reputation of the brand regarding quality control and reliability of customer service, this is something that should be further concentrated on also from the point of view of challenging situations in customer service in practise and the effect on the perception of customer service at Alko that handling these situation will have. During the lecture at Alko's premises in Kouvola, some of the personnel complained about the difficulty to deal with situations, where there is either a drunken Russian, who refuses to understand that (it appeared that they were usually men) he could and would not be sold alcoholic drinks to, due to his state of intoxication, or a minor according to attempting to buy alcohol and if not successful, an adult comes in instead and clearly buys the drinks for the minor who tried and failed a moment ago – a situation, where the salesperson is obliged to refuse to sell the beverages. These situations are difficult to handle in general, let alone if there is rush hour and a long line behind these customers and the language barrier does not make them any better, in fact a goal-oriented customer can very well use it for his or her advantage. It is understandable that especially in the latter situation there is a great temptation to shut one's eyes and let the customer buy the drinks, but on the wider perspective the way these are handled, defines also the way the Russian customers will regard to Finnish rules and regulations as well as the consistency of customer service in the future. That is why there really should be possibilities for the field personnel to discuss and maybe also work-shops where to practise also how to handle these and other difficult Russian customers in advance or as a part of regular internal customer service training programmes. The task for the corporate marketing is then, that besides the rules and regulations, also the possible consequences are communicated with the Russian customers in ways that they can relate to, which was a wish that some of the customers also expressed in their interviews regarding how to make customer service better.

Proceeding thus further with customer service and the outlook that the Russians come prepared into the shops of Alko, and thus hardly open to seek for the expertise of the personnel, the underlying message of the interviews was that the Russian customers found the language barrier the biggest obstacle on the way of trying any other services than merely asking where something can be found – printed material, available on paper or via the internet, would not only make the shopping occurrence go quicker but also to lower the barrier to fully use the services of personnel, provided that the skills of the personnel were also promoted. The suggestion, made by one customer about the badges that indicate language skill, is worth thinking about as well. In general it is recommendable that regular surveys among Russian customers are established as part of customer relations management, and the feed-back – especially practical ideas that improve customer service by lowering the customers' barrier to seek expertise and trust in it – carefully considered and implemented when possible. As part of the learning relationship with the Russian customers, also the voices of the personnel should be listened to – the awkward moments they experience, are one of the sources of information about what to do better.

When asked about the language skills of the personnel that were present at the time of the interviews, it occurred that there is a lot of Russian speaking potential among the personnel of Alko. There was someone in every four shops who had studied Russian for a year or two at school, but felt that they had not had that much chance since to practise their skill and therefore it has gradually weakened until they were already hesitant to use it at all. At the same time there were plans to recruit Russian speaking personnel, preferably immigrants with Russian as their mother tongue. Doing this, simultaneously the existing potential should be mapped and materialized in order to avoid the situation, where there is someone who speaks Russian and the others allow themselves to stop trying. It is easier to guide the customer to be served by someone without the language barrier. There lies a pitfall, though; if for a reason this person is not at work, especially the customers who come to the shop because there is someone who can assist them in their native language are left somewhat disappointed. By encouraging existing Finnish personnel refresh their skills and use them fearlessly together with recruiting native-speakers, when a suitable candidate appears, complement each other: some customers may still prefer to be assisted by someone who is of Finnish origin, because as some of the interviewed said it “when in Rome”, only that the language skill of the sales person adds to the shopping experience. Again, encouraging sign, this time in relation with the usage of Russian language can be detected among the existing personnel, since the compilation of feedback from the Russians as Customers training course shows, that the lessons around Finland had motivated the personnel to use even the simplest words in Russian. The lecturer had succeeded in convincing at least a part of the participating personnel that it bears a positive implication to the customer service and Russian customers are especially receptive to such efforts, as in general they do not come in expecting shop personnel to be neither fluent in Russian, nor knowing any words at all.

With regard to designing customer service, it could be divided in two: what is visible and/or goes on in the shops, not forgetting offerings of additional sales, such as gift packages, and how it is enhanced with means, available on the internet. Whatever measures will be and already have been taken, they need to correspond with the company brand and other realities. The concrete amendments in terms of improving the shopping occurrence in the shops include of signs in Russian that explain the symbols around the shops. Also information in Russian e.g. about opening hours, especially on special days, such as on New Year’s Eve, is of importance – there were in fact complaints about the difficulty to find it out, the small poster on the side of the shop was not enough. For example, the A-stand, in which this information is already in Finnish, might be a more visible place, together with the phrase Thank you for shopping – Welcome back, or similar, in Russian. These and other relatively small but still very inviting and affirming evidence of customer service would further enhance the feeling of being respected among the Russian customers, which is concluded from the information, given by the Russian customers.

For further development, the matter of extending the Mystery Shopping test also to the evaluation of the quality of customer service of Russian customers should be considered, however the emphasis of the results of the tests should be on evaluating where the company is at the moment regarding the customer service of targeted customer group in order to define the areas that need further development. Should there be enough interest to extend the presence of Alko Inc. to include also Russian social media, it would be one channel to look for suitable candidates for performing the tests – not forgetting that at the same time it would promote the recognisability of the company's brand. Another channel should of course be Alko's own internet-site, although the companies that provide Mystery Shopping services probably have their own ways to find suitable persons for these kinds of jobs.

The sale of additional or complementary products is a matter, worth of some thought. During the interviews it was noticeable that the Russian customers purchased mostly either ordinary plastic bags, or durable and reusable shopping bags, but for instance not one gift bag was bought and this impression was further enhanced by the personnel that were asked about it, and also the lecturer at Russians as customers training course. The explanation was that in Russia there is no such tradition as in Finland that the visitor brings e.g. wine in a gift bag. However, when the subject was researched via the yandex.ru internet site, the result was that besides the gift itself, also the package that it is presented in appeared to be important. There seem to be in fact etiquette about this and the one key element of a gift bag is originality. One, a little bit humorous internet site claimed, that wrapping wine in gift paper is ok., if you are visiting your mother-in-law, but a true token of appreciation of the host is when one presents the wine in a wine box that contains a complex of related equipment. Humour aside, there is some valuable information: should Alko be interested in sales of complementary products, the traditions need to be studied in order to be able to offer products that really sell. This could be in fact an interesting but complex challenge for a future thesis, which the marketing could design and commission in cooperation with procurement department. Not only would it require from the student to get acquainted with the secrets of package itself, but there is also the cultural aspect of traditions and taste. If possible, the Russian customers could be included in the process by giving them a chance to vote for the most original package, already marketing them the idea, but most importantly, also surveying the real interest in purchasing the completed product as well as the readiness to get involved.

Regarding the theme of interest the internet, which is also one part of Alko Inc's service strategy, using social media seem to be of interest in Alko and it can already be found e.g. on Facebook. In relation with Russian customers, the Russian social media is a natural and even obligational step, in order to reach the existing and potentially new customer in a way that is familiar, as well as popular among them.

In order to present some data to highlight the power of social media, it was expected in 2012, according to European Travel Commission's internet site New Media Trend Watch that out of more than 140 million Russians, approximately 51.8 million out of almost 68 million internet users in total would be using social networks, making Russia the sixth in the world of internet users, and by 2014 it would already climb up to 62.2 million – 79.9 % of all internet users, about 45.5 % of all population.

According to Guido Ghedin, a Market Research and Digital Scenarios Analyst at Young Digitals, an Internet-based "Viewpoint on different Digital Landscapes", presents analyses on marketing in Vkontakte, which he and many others call as the most important channel for social media marketing, especially if the aim is to reach younger generation. The main rival of Vkontakte is Odnoklassniki, which is the Russian equivalent for Classmates.com or Finnish Koulukaverit.com. Vkontakte, according to Ghedin, is the second most visited website in Russia after Yandex.ru, which is the principal search engine and web-portal in Russian, Runet. As Ghedin states, "Vkontakte is widely used as a channel for promotion and branding, and there's a vast array of options for contextual advertising campaigns, such as video ads".

However, there are some rules of thumb to social media marketing. One of the few Finnish companies that are specialized on Internet marketing in Russia, Mediatalo Toimelias Oy, lists main differences or better yet, challenges in social media marketing in Russia in comparison to the so-called regular marketing efforts as the level of trust, interaction and commitment. The challenge with trust lies in the fact that the trustworthiness of media and the right to individual intimacy are the subject of ongoing debate on the internet. Therefore the reactions to pop-up advertisements are not necessarily positive and the need to build and sustain a relationship with the customer is vital. It is equally important to realize, according to Mediatalo Toimelias Oy, that the social media users are not passive recipients to marketing; on the contrary, they are active distributors and producers of content. Therefore active interacting and paying attention to the individual users is necessary. All this requires commitment in order to build trust and interaction. A satisfied user is the best ‘mouth-to-mouth’ marketer. Toimelias Oy concludes their findings by stating that the ROI (return-on-investment) takes more time creating in social media than in many other traditional marketing channels. Furthermore, it requires efficient concentrating on quality, rather than quantity of content in order to wake up and sustain the society’s interest. Also timing and targeting play an important role, Toimelias Oy claims that the main question in social media marketing is about strengthening the brand, not appealing to the customers make the purchase decision quicker.

The decision to join the Russian social network requires some careful thought and planning. What already has established though, as noted earlier, is Alko’s internet-site in Russian, which at the present contains information for instance regarding legislation, opening hours, symbols, etc. The assumption in this thesis is that over time the information available is going to gain at least the same level of content, as e.g. the site in English. An addition to this, the site could also serve as a source of information regarding national Finnish customs on food and drinks. The interviews alone showed that given the chance also the Russian customers are very interested in our customs.

8 OVERALL GROWTH POTENTIAL

The further this thesis work proceeded, the more it became obvious that even though the famous alcoholic drinks brands seek growth among Russian customers by entering the markets e.g. by establishing a subsidiary there, there still is a lot of potential for Alko Inc. to grow its sales to Russian customers. The risk of failure or even some financial loss is not too high if invested in developing better customer services that cater also for the needs of the Russian tourists. It might eventually even benefit the main customer segment – the Finnish customers, especially by reducing disturbing behaviour during peak overs, secondly by opening new angles to additional sales articles’ development and thirdly, by thinking e.g. new interactive, country-specific ways to get Russian customers involved in the targeted services developing, Alko could in fact get new innovative ideas from young Russians in return.

A very good example of how the shop management in South-East Finland has already reacted to the needs of their Russian customers returning home by a relatively simple yet practical arrangement. The idea is that every day around noon, which is the check-out time at hotels and other accommodations, the personnel at the shops have been instructed to check that the shelves are filled especially with the most popular items among the Russians. While this is clearly good business sense, it also adds convenience and efficiency to the shopping experience of both Russian and Finnish customers. The core idea is acknowledging the Russian customers' potential and significance by including their needs to the management planning process. This could be achieved by e.g. studying also Russian customers' preferences, as well when new products and trends are being studied or decisions made about basket-products, i.e. beverages available only in specific shops and for a limited period of time.

8.2 VISA-FREE TRAVELLING TO FINLAND

There is a lot of media etc. speculation about when visa-free travelling becomes possible in cross-border travelling between Finland and Russia and currently it is estimated to take place in any case by 2020. Ministry of Interior has ordered an investigative report from the Border Guard Department regarding the effects and need for measures, with which to control increasing cross-border traffic, while servicing the interests of different participants, including Finnish tourism and retail trade.

In general the conclusion was that there is enough evidence to assume that the previous estimations about the increase of total border crossings per year need to be corrected upward. The reasons for growing border crossings from Russia to Finland are (2012:13-15): the economic growth in Russia, which contributes to positive growth of consumer purchasing power enabling increasing number of Russians afford outbound travelling; flexibility of Finnish visa policy; and the increasing popularity and profitability of shopping trips among the Russians due to rising price levels and less strict customs decrees in Russia. Other factors that contribute to growing interest to outbound travelling are the increase in granting foreign passports in Russia - the fact is that even though the number of Russians' outbound travels has tripled in the previous years, there are still approximately 100 million people there, who have never been abroad; and the realization of visa freedom between Finland (EU) and Russia (for the citizens of the European Union and Russian Federation).

The report presents four different growth scenarios (2012:15-19), three of which are based on continuing economic growth. The one that was thought most likely (first scenario) argues that the cross-border traffic continues to grow on current level (+15 – 20 % per year and 25 – 30 million border crossings at the end of the period, which is 2017) and visa freedom realizes after 2017. In this case there is + 75 % growth during the first year of inception.

8.3 FUTURE SCENARIOS

An overall view of Finnish authorities and other experts and decision-makers is that the flow of Russian tourists to Finland is going to rise significantly in the next few years and this is supported also by the scenarios, presented e.g. in the TAK Oy's Border study report 2011 including growth potential during 2012 – 2025. However, it is estimated that unlike buying clothing and from specialized retail shops, shopping food stuff is going to decrease due to rising consumer confidence in domestic offering (2011:52).

There are many estimations and much statistical information about the development and value of the flow of Russian tourists to Finland. In addition to what was stated in the beginning of this thesis, 60 % of the Russians who visited Finland in the beginning of year 2012 were, according to TAK Oy, coming here at least once a month, and more than half of the Russians, who arrived to Finland, stayed here just one day. The total amount of money they spent in Finland rose from 330 million euros in January, 2011 to 360 million euros in 2012 and the daily spending on average was about 270 euros in products and 90 euros on services.

TAK Oy has also drawn up four different scenarios that project the growth rate of Russian tourism. It needs to be stated, however, that neither of them is founded on the prediction that within 5-10 years Visa would no longer be required. Besides, as is stated in many reports, including the investigative report about the effects of increasing cross-border traffic, the amount of passengers from St. Petersburg and its surroundings exceed that of the other parts of Russia. Over 70 % of all the tourists come from there and 90 % of all the visas that are granted in the St. Petersburg Consulate are multiple entry visas. The process of handling the visa applications in a speedy manner and still according to Schengen policies in the St. Petersburg Consulate is less bureaucratic than in any other Finnish Consulate in the Russian Federation.

The most optimistic of the scenarios by TAK Oy is based on an assumption that between 2012 – 2025, the yearly growth rate is 15.4 %, provided that the exchange rate of rouble to euro remains on present level, Russian Economy continues to grow and there will not be any restrictions on the Customs Act. This translates to approximately 25.8 million trips would be made to Finland. According to the second scenario, there is going to be a stream of 19.5 million trips to Finland though South-East border stations, provided that the exchange rate of one rouble declines the same speed as it has been throughout the 21st Century. The most pessimistic of four scenarios has been made assuming, that the growth rate stays on the same monthly level as on 2006-2007 being 20000 trips more each month. This scenario realizes, if the exchange rate of one rouble rises up to USD 38.5 or one USD is the equivalent of 26 roubles, but the Customs Act is being tightened in a way that one person may import commodities Tax Free only by 35 kg weight gross to Russia.

The most likely scenario, according to TAK Oy - number three - is based on the estimation that the exchange rate of rouble stays on the present level and the amount of trips to Finland rises by 60000 trips on a monthly basis. The assumption is that the Customs Act does not change throughout the entire period and by 2025 there is already 13.4 million trips made to Finland from Russia. The Russians seem to value easy access and affordable prices in their decision making about the destinations and based on this, the most popular destination is South Carelia region. This could change, though, since there is a concentration of several different commercial services under planning in Kymenlaakso region. Furthermore, there is a real risk that if the number of passengers continues to grow on South East border stations, the existing structures do not meet with the needs and this may also guide the passenger flows to Vaalimaa border station. From Alko Inc. point of view, either way is good. Should the flow of Russian tourists take at least a partial turn to Vaalimaa, it would only have an effect, when new locations for the shops are considered. So far the sales to Russians at Virolahti Alko specialized shop has been collected from lesser customers doing remarkable purchases.

8.3.1 CHALLENGES AND OPPORTUNITIES

The most significant challenge for sales of alcoholic drinks to Russian customers is the fact that as one of the most alluring emerging new market areas in the world besides Latin America and Asia, it is already aggregating the investments from global alcoholic brands. This inevitably leads over time to growing consumer confidence in domestic offerings. However, there are also other factors apart confidence in quality, influential in buying as well as consuming alcoholic drinks abroad, especially on holiday, as was constituted in chapter 3.5.1, which dealt with 'letting go' of everyday life at home, while the key manifestations and interpretations of alcotourism were drinking places, drinking the other, drinking capital, party time and one for the road (see, p. 44 – 45).

While international brands are seeking ways to expand their business to Russia, they still need to address to a number of fundamental threats and weaknesses of the market area, which are listed in e.g. this year's Russia Food & Drink Report Q3, compiled by BMI, i.e. Business Monitor International (2013:11-12):

- The beer industry has been significantly affected by a spike in excise taxes weighing down on beer sales.
- Russia is cracking down on the vodka industry to try to rein in consumption.
- The Russian drinks market is subject to frequent government intervention, while health, safety and quality regulations remain incomplete and inconsistent.
- Threat of more anti-beer government legislation.
- The government has right to impose price ceilings on 'staples' if prices rise by more than 30% in a month, which will cut into producers' margins.
- While the timeline for WTO accession remains fluid, membership would bring new challenges to domestic drinks producers as import taxes are lowered.

What is an opportunity for Alko, is that according to BMI (2013:24-27), rising income constitutes to growing consumption of beer and wine as the trend for vodka-consumption continues to be on the negative. Furthermore, along with rising income, also growing health-consciousness, especially among the younger generation, is one of the long-term growth drivers for wine.

The personnel of Alko had noticed that even if offered, there is yet little interest toward organic wines among the Russian tourists. However, as health issues and healthier lifestyle is a growing trend, at some point this trend can also be detected in Russian alcoholic drinks preferences in a way that there can be seen a slowly growing demand for organic wines. The same trend has already been noticed in e.g. Western Europe and the wine producers have already started to react to it. Alko on its behalf already carries several organic wines in its product portfolio, and therefore it could also step on the front line by dedicating a section for organic wines on its Russian internet site.

9 FINDINGS AND SUGGESTIONS FOR FURTHER RESEARCH

The curiosity of the company management towards Russian customers is not just random curiosity, it has very practical objectives; one is to make the shopping experience more convenient for each participant, the personnel and customers, Finnish and Russian, and the other is more ‘sinister’ in nature, as with every business organization, also for Alko the ultimate goal is to generate cash flow by sales and taxation for its sole owner, the State of Finland. In contrast to other companies and organizations, however, Alko’s position as a state alcoholic monopoly puts it under strict scrutiny in many ways, not least by public opinion, which has a tendency to effect on the actions and decisions of the company governance.

The research question: *“How identifying buyer needs among Russian customers of Alko could contribute to enhancing service awareness, hence building customer retention and loyalty?”* guided the whole process of this thesis work, even though it was slightly modified along the way in order to make it more focused on the real issue, which is whether to go on as usual and rely on the Tax Free numbers that show rapid growth anyway, or is there any benefits to be gained by developing customer service in order to solve at least some of the problems, caused by language and cultural differences?

Having done the work by interviewing the Russian customers, discussing with Alko's personnel on both shop and management level, and going through various other sources, such as Finnish and international studies and surveys about Russian tourism as a phenomenon, their needs and growth potential, many of which did not even end up used for this thesis, the final assertion of this thesis is a strong yes, there is a lot of untapped potential for Alko. This appears to be also the company management's belief, since during this spring the first, although by far not completed version of the Alko internet-site in Russian was compiled and launched. It is not alleged, though, that this was in any way a result of this thesis work, but the discussions with the management may have had some minor influence in it. There are also signs that there will be even further actions, not forgetting that there already was a decision to recruit Russian speaking shop personnel and in the internal training strategy the need to educate the existing personnel about Russian customers' customs and traditions even before this thesis became current.

A few themes occurred that could be interesting regarding further research. Firstly, from a more personal but also Alko's perspective, the theory of service innovation management that Laurence A. Bettencourt discusses in his work could be studied further in practice by using e.g. the user driven methods that were presented by Tanja Bisgaard and Casper Høgenhaven, in their study about creating new concepts, products and services with user driven innovation (2010). For example, even though Alko is a state alcoholic monopoly, there is really nothing that prevents Alko from extending customer service outside its traditional boundaries and sales articles, and start developing a new kind of service concept by e.g. networking with local food producers etc., eventually also providing the services in new ways that utilize the possibilities of latest communication technology. Therefore a research project, build around this idea could produce very interesting new aspects for customer service of international retail customers.

Secondly, the cultural and social linkages to alcohol and tourism from Russian perspective might produce comparative information to the ideas and delineation that David Bell (2008) presented in his writing regarding so-called alcotourism. Last, and with linkage to the first suggested theme, also the benefits of including suppliers and customers to the customer service process of a targeted customer group by committing them to the planning cycles of complementary products at an early stage and ending with a complete new targeted and tested product e.g. by a new thesis project, which coincides also with the Alko's cooperation with different educational institutions.

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Haastattelut tehdään Alkon tiloissa tai välittömässä läheisyydessä heti sen jälkeen, kun asiakas on maksanut ostoksensa (tarkoituksena ei häiritä ostostapahtumaa). Haastateltavalle kerrotaan, että kyseessä on KyAmk:n MBA-opintojen lopputyö. Haastattelut nauhoitetaan (haastateltavan luvalla, muussa tapauksessa kirjallisesti) ja nauhoitteet puretaan myöhemmin kirjalliseksi tutkimusmateriaaliksi. Tämän tavoitteena on mm. pyrkiä eroon ymmärrysvirheistä. Mikäli haastateltavalle saattaisi olla tarpeen esittää myöhemmin jatkokysymyksiä (riippuu vastauksista ja suhtautumisesta kysymyksiin), tältä pyydetään esim. email-osoite.

Haastattelun aikana (max 15-20 min.) käydään läpi seuraavat osa-alueet:

1. Who?
    a. Background Information: travelling alone/in a group, frequent visitor/first-timer in Alko-store
2. What and Why?
    a. Assortment Expectations
        i. What was bought
        ii. Why
        iii. Was the Interviewee satisfied with the assortment & why?
        iv. Is the I. aware of the so-called 'basket-products' = specialities (wines, etc.) that can be bought only on certain Alko's?
        v. Would the Interviewee be interested in anything else, if… / What would it take for the Interviewee get interested in something else ->
    b. Service Expectations
        i. Was the I. satisfied with the shopping experience & why?
        ii. Did the I. know about the services that Alko provides: if yes, how / if no, why?
        iii. How could s. be improved from R. customer's point of view?
        iv. What else would be needed?
3. Wow-Factor
    a. Assortment-related?
    b. Service-related?
    c. Location-related?
    d. Combination? (Assortment+Service / Service+Location / Assortment + Location / Other, what?

4. Location
    a. Is the location of the Alko-retail shop good/convenient near a supermarket or what kind of shops should there be near?
5. Internet-pages
    a. Has the I. visited Alko Oy's web-pages & why?
    b. Is the I. aware that pre-orders can be sent straight to the email-address of every retail shop of Alko?
    c. Opinion about the web-pages & any suggestions about how to develop?