

Saimaa University of Applied Sciences
Business Administration, Lappeenranta
Degree Programme in International Business Management
International Business Management

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**The development of tax-free tourist sales
Case: Puukeskus Oy, Lappeenranta**

Master's Thesis 2014

Abstract

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The development of tax-free tourist sales, Case: Puukeskus Oy, Lappeenranta, 98 pages, 3 appendices

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The purpose of this study was to find out how tax-free tourist sales could be developed in the case company, Puukeskus Oy, in Lappeenranta. The amount of Russian tourists and tax-free sales has been remarkable in South-East Finland and the shopping tourism has been predicted to increase also in the future. The case company, Puukeskus Oy, in Lappeenranta also wants to reach these Russian customers.

The theory part concentrates on earlier researches made of Russians' travelling in Finland, and the Russian customer as a target market and marketing. Marketing is handled through marketing mix 4Ps. The information for theory part was gathered from books, articles, newspapers and the Internet. The chosen research method was qualitative. The data for empirical part of the study were collected by self-administered questionnaire and by semi-structured interviews addressed to Russian customers.

Based on the findings, the most important product groups, product types and advertising recommendations were discovered. One of the most important factors for Russian customers choosing Puukeskus Lappeenranta is invoice (VAT 0 %) sales. Word-of-mouth marketing is the most effective channel among Russians, and as a result of this thesis, recommended promotion channels for Puukeskus are personal selling and its availability, direct marketing by e-mail, outdoor advertising and Internet.

Keywords: tax-free, Russian customer, marketing, marketing mix

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- Appendix 3 Semi-structured interviews / Questions

1 Introduction

1.1 Background of the study

Location near St. Petersburg gives to South-East Finland a competitive advantage over other regions. St. Petersburg is a huge market area with 5 million people. Russia's economy has been growing and this has increased purchasing volume. The amount of Russian tourists is remarkable in South-East Finland and the development of tax-free sales has been strong. Also possible visa-free travel will increase the amount of tourists in Finland. This study researches how Russians' tax-free tourist sales could be developed in the case company Puukeskus Oy in Lappeenranta.

The author of the study works in the company Puukeskus Oy in Lappeenranta, and her task is to serve Russian customers. The amount of Russian customers has increased year by year and there is a lot of potential among Russian customers. It is worth researching how tax-free tourist sales could be developed and how Puukeskus in Lappeenranta could be marketed to Russian tourists. Puukeskus is not so familiar among Russian tourists, so it is a benefit for the company to understand how to reach and serve Russian customers better and how tax-free sales could be increased and developed.

1.2 Objective, research questions and delimitations

The objective of this study is to find out how tax-free tourist sales could be increased and developed in the company Puukeskus, Lappeenranta. The goal of the study is to understand better the factors that are important and influence the Russian customer to choose Puukeskus Lappeenranta. Also the study provides information about the products having strongest demand among Russians, and which products might be added to the product range in the future. The study clarifies from which sources the customers have found out the information about the company Puukeskus, Lappeenranta and building materials, and which channels are the most valuable and useful in marketing for Russians.

Marketing is a critical business function for attracting customers and also tax-free sales could be developed through marketing, so the objective will be reached by studying the most effective and best possible marketing actions for reaching Russian customers.

The main research question of the thesis is:

How could tax-free tourist sales be developed in the company Puukeskus Lappeenranta?

The sub question is:

What kind of marketing actions should Puukeskus Lappeenranta do for developing tax-free tourist sales?

Tax-free sales of goods to tourists can be organized in several ways, but this study is limited to contain only tax-free tourist sales, and the survey is conducted only among Russian tourists in Puukeskus Lappeenranta. The principles of tax-free sales are explained more deeply in Chapter 2.1, Tax-free tourist sales generally. Other nationalities as well as using export activities or airports sales for organizing tax-free sales are left outside of this study, because the amount of those activities is not remarkable, or there aren't any such actions.

The theory part of Russians' travelling and tax-free sales in Finland has been written at the end of year 2013, so it contains information which has been available at that time. Most of the statistical data is from the year 2012. This study doesn't include the changes that happened in Russian shopping tourism at the beginning of 2014 caused by the poor exchange rate of the ruble and the crisis in Ukraine (pro-Russian unrest in Ukraine).

1.3 Theoretical framework

"Tutkimus- ja Analysointikeskus TAK Oy" (Research and analysis center TAK Ltd.), later referred to only as TAK, has researched Russians' travelling in Finland, media culture in Russia and different segments of the Russian

markets. There aren't any researches made especially in the field of tax-free sales in the construction retail market in Finland.

The theoretical framework will handle principles of tax-free sales in common and the amount and reason for the huge amount of Russians in South-East Finland. Also the possible visa-free travel and its influences will be considered in the study. Most of this theory will be based on earlier researches of Russians' travelling in Finland. These researches show the importance of the volume of Russian tourists and tax-free sales in Finland. The aim of this study is to find out how tax-free sales could be developed in Puukeskus Lappeenranta, and one part of the development will happen if the estimations of future prospects and effects of visa-free travel to shopping tourism will be realized as predicted in the researches made by TAK, of which have been written more in Chapter 2.

TAK has made several researches, but in this study has been utilized the following researches: 1) "TAK border research 2012", which examined Russian travel behavior in Finland in 2012; 2) "The importance and future prospects of Russian shopping tourism"; 3) "The effects of visa-free travel"; and 4) "TAK media research, St. Petersburg", which studied media culture in St. Petersburg in 2010.

Marketing and marketing mix is a part of theory, because marketing is the important competitive tool for increasing and developing sales. The marketing mix refers to the set of actions that a company uses to promote its brand or product in the market. One of the best known models is the four Ps (4Ps), which helps define marketing options in terms of product, place, price and promotion. The marketer E. Jerome McCarthy proposed a four Ps classification in 1960, which has since been used by marketers throughout the world (Blythe 2009). The concept of marketing mix is considered as an operative tool to achieve marketing objectives. The model has been criticized for being too simplistic, but the marketing mix is still valid and helpful in all industries (e.g. service as well as manufacturing). If a company does not have the right price, product/service quality, promotion and place or any other right marketing mix elements, it cannot create or achieve the right relationship with a customer. The right marketing and relationship mix of components offers a company a good

opportunity to create a good total relationship with existing and potential customers. The strength of the 4Ps approach is that it represents a memorable and practical framework for marketing decision-making and has proved useful for case study analysis in business schools for many years. (Zineldin & Philipson 2007.)

Because it's important to know the customer so that target markets can be clearly identified, this study will also introduce the typical features of a Russian tourist and Russian customer. It's important to know what kind of a customer the Russian is, and what he expects and how he behaves in the customer service situation.

In the theory part of marketing has been borrowed texts from Philip Kotler (2005), Svend Hollensen (2010) and Jim Blythe (2005; 2009), who all have written much about the theory of marketing and marketing mix. Several articles and publications about marketing mix, Russian consumer behavior and advertising in Russia are also as a source of information in the theory part.

1.4 Research method

The research method used in this study is qualitative. The qualitative research aims to gather an in-depth understanding of human behavior and the reasons that influence such behavior. The qualitative research method answers to the questions why and how. The qualitative research is often used in the social sciences in contrast to quantitative research. Sampling is typically not random but is purposeful, and the role of the researcher is the key. Qualitative research is exploratory, while quantitative research is more focused and aims to test hypotheses. Data analysis differs considerably. (Glenn 2010.) While the statistical survey analyses frequencies in member characteristics in a population, the qualitative survey analyses the diversity of member characteristics within a population (Jansen 2010). In this study research results have not been analyzed making correlations between variables, cross-tabulations or regression analysis, so the data analysis can be classified as a qualitative research. Statistical significances have not been analyzed, because

the objective of the research is to understand reasons behind the behavior more deeply.

This study is a case study. The basic case study entails the detailed and intensive analysis of a single case. A case can be a single organization, a single location, a person or a single event. The case study often favors qualitative methods, because these methods are viewed as particularly helpful in the generation of an intensive and detailed examination of a case. (Bryman & Bell 2007, p. 62.) Case studies are the preferred method when “how” or “why” questions are being posed, the researcher has little control over events and the focus is on a contemporary phenomenon within a real-life context. The case study method allows researchers to retain the holistic characteristics of real-life events such as small group behavior, organizational and managerial processes, international relations and the maturation of industries. (Yin 2009, pp. 2-4.)

Interviewing is one of the most common ways to collect qualitative data for understanding human behavior. Interviewing includes wide variety of forms and a multiplicity of uses. The most common form of interviewing involves individual, face-to-face verbal interchange, but interviewing can also take the form of face-to-face group interchange, mailed or self-administered questionnaires and telephone surveys. Interviews can be structured, semi-structured or unstructured. (Fontana & Prokos 2007, p. 9.)

The data collection methods used in this study are structured interview in the form of self-administered questionnaire and semi-structured interview.

In the structured interview the aim is for all interviewees to be given exactly the same context of questioning. Telephone interviews, face-to-face interviews, intercept interviews in malls and parks and interviews generally associated with survey research are included in the structured interview category. Recently new developments in computer-assisted interviewing have called into question the division between traditional modes of interviewing, such as the survey interview and the mail survey. Today we are looking at a continuum of data collection methods that involve greater or lesser human interaction, rather than clearly

divided methods. Face-to-face interviews are the most interactive while the self-administered questionnaires are the least. (Fontana & Prokos 2007, pp. 19-23.)

The empirical data of the study is gathered by using questionnaires addressed to Russian customers visiting Puukeskus Lappeenranta. Because high season was over, most part of the questionnaires were sent by e-mail, where was a link to web-survey. This enabled reaching more responses.

The self-administered questionnaire consisted of open-ended and closed-ended questions. An open-ended question asked the respondent to formulate his own answer, whereas a closed-ended question had the respondent pick an answer from a given number of options. Because open-ended questions are usually left without answers, the questionnaire included mostly closed-ended questions.

The empirical data is also collected by semi-structured interviews. Semi-structured interview is open, allowing new ideas to be brought up during the interview as a result of what the interviewee says. The interviewer in a semi-structured interview generally has a framework of themes to be studied. (Bryman & Bell 2007, p. 474.) Semi-structured interview was made for three customers for getting clearer picture of hopes and needs. In addition, semi-structured interviews give possibility to cover and deepen information needed, which might not be received from the survey. Especially to open-ended questions, which usually are left without answer in questionnaire, can be received answer in the interview situation.

One part of the study is to find out the increase of tax-free sales in Puukeskus Lappeenranta during 2011-2013. This information was verified with the help of reports and statistics from the computer program, Qlickview, which Puukeskus is using in reporting.

1.5 Structure of the study

The study begins with the introduction chapter above and the Chapter 2 introduces the principles of tax-free tourist sales. Chapter 2 explains the requirements of tax-free tourist sales, and how VAT can be refunded to a tourist. Earlier researches concerning Russian tourists in Finland made by TAK

are included in the Chapter 2. The chapter provides information about the development of tax-free sales and the amount of Russian tourists in Finland. Chapter 2 handles also the importance and future prospects of Russians' shopping tourism and possible effects of visa-free travel.

Marketing is the key word, when company wants to reach new customers. Chapter 3 includes the theory of marketing and marketing mix. Marketing mix theory 4Ps is used in this study, so the Chapter 3 introduces the content of 4Ps; product, price, place and promotion. As target market being Russian tourists visiting Finland, the study explains also the features of a typical Russian customer and tourist. Chapter 3 contains also the promotion for Russians by introducing the marketing channels, which are usually used in Russia and the channels, which are most effective in marketing for Russian tourists.

Chapter 4 introduces the case company Puukeskus Oy. In this chapter the development of tax-free sales in Puukeskus Lappeenranta will be informed, and also the marketing actions that the company has done earlier for Russians will be introduced.

Research process of the study will be explained in the Chapter 5. This chapter explains how the empirical data of the questionnaire and semi-structured interviews were collected.

Chapter 6 analyses the results of both used data collection methods, and Chapter 7 is for conclusions and recommendations. Conclusions summarize the most important findings and recommendations include the development ideas for the case company Puukeskus Lappeenranta.

The Table 1 below clarifies how the theoretical part is linked to the empirical part. The theory of the tax-free tourist sales and earlier researches of Russian tourists in Finland are linked to the empirical part, which studies the development of tax-free sales in Puukeskus Lappeenranta. The theory of marketing mix and marketing for Russians are linked to the questionnaires and interviews. Also earlier marketing actions of Puukeskus Lappeenranta are linked to this part of theory. Finally are recommendations how tax-free sales could be developed in the case company Puukeskus Oy in Lappeenranta.

THEORETICAL PART	EMPIRICAL PART
- Tax-free tourist sales and Russian tourists in Finland	- Tax-free sales in Puukeskus Lappeenranta (development)
- Russian customers as a target market - Marketing mix / 4Ps	- Earlier marketing actions for Russians in Puukeskus - Questionnaires and interviews
➔ Findings and recommendations for developing tax-free sales	

Table 1. Structure of the study

2 Tax-free tourist sales and Russian tourists in Finland

2.1 Tax-free tourist sales generally

Consumers pay normally value added tax (VAT) for the goods and services that they intend to consume. VAT will be paid in the country of consumption. In Finland prices include the Finnish VAT when selling goods and services to all consumers, including tourists. When tourists purchase goods in Finland but intend to use them outside the EU, they are entitled to a refund of the VAT. Tax-free tourist sales mean that the buyer takes possession of the goods immediately and exports them in his personal luggage from the country where they were purchased. Tourist pays VAT at the time of purchase but he receives a VAT refund later. (Finnish Tax Administration.)

Tax-free sales of goods to tourists can be organized also by using the normal procedure of exports of goods and as airport sales. There are also some special rules for travelers from Norway. As mentioned in the introduction chapter, this study concentrates only on tax-free tourist sales, which means that the VAT is refunded later either by the VAT refund company or by the seller.

Tax-free tourist sales require that the buyer must be a tourist domiciled outside the EU or Norway. The buyer is considered domiciled outside the EU or Norway, if he is not living or staying continuously in an EU country or Norway. Buyers having a residence permit in Finland, even if they are domiciled outside the EU, are deemed to be living in Finland and not allowed to make tax-free

tourist shopping. The seller is obliged to check where the buyer lives from the passport. (Finnish Tax Administration.)

There are also requirements that the minimum value of the purchase is 40 EUR and the goods must be exported from the EU territory unused within three months after they were purchased. Therefore the seller has to seal the goods before handing them over to the buyer.

According to instructions of Finnish Tax Administration, retail companies can use two different methods of VAT refund when selling goods to tourists. Retail companies can refund the VAT themselves and take care of the necessary documentation or use authorized VAT refund service companies. These two methods are to some extent different, although they are not different as to the legal requirements of tax-free tourist selling.

If the retailer takes care of the VAT refund himself, he must issue to buyer an invoice or other verification (tax-free receipt) with special itemizations concerning tax-free sales. When buyer leaves the EU territory, he must request a stamp at the Customs office and then send or return the stamped copy of the invoice back to retailer. When retailer receives this stamped invoice, he will refund the VAT minus possible fee to the buyer. (Finnish Tax Administration.)

Retailers using the services of a VAT refund company should fill in the tax-free form. The retailer attaches the invoice or similar verification to the tax-free form. When buyer leaves the EU territory, he should visit the office of the VAT refund company at the border station, at the port or the airport departure hall. The tourist must request the VAT refund from the VAT refund service company of the last EU Member State in his itinerary when he leaves the EU. The VAT refund company will then refund the VAT amount minus its service charges to buyer. (Finnish Tax Administration.)

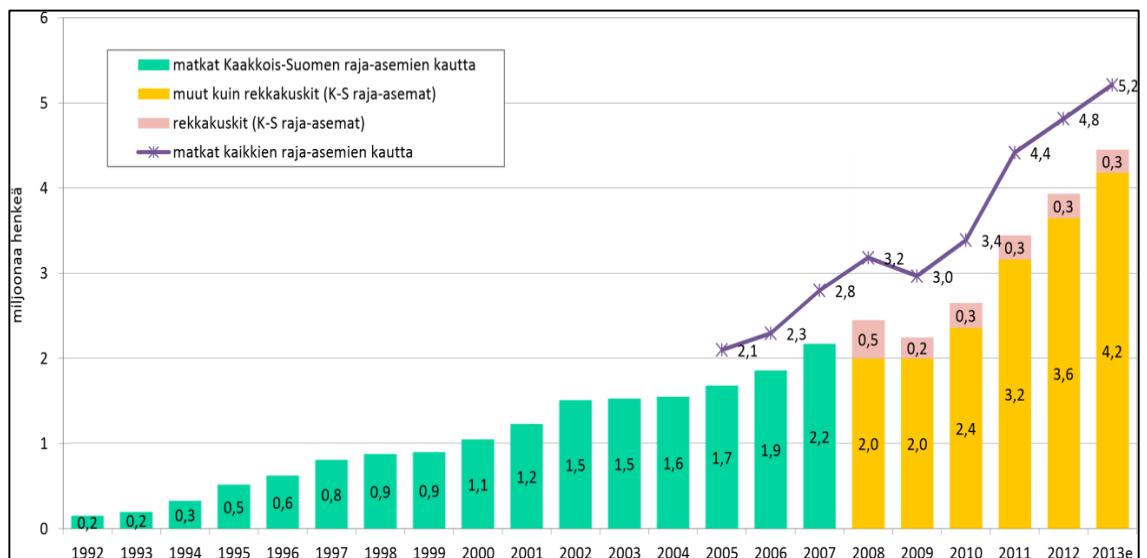
2.2 Russian tourists in Finland

According to Border Interview Survey of Finnish Tourist Board (MEK b), 7.6 million foreigners visited Finland in 2012. The number of visitors to Finland increased by 0.3 million passengers from the previous year. The total number of

visitors went up by 5 %. Russians formed the biggest group of visitors. Of all visitors, 47 % (about 3.6 million) came from Russia. Travelling from Russia to Finland grew by 10 % from the previous year. (MEK b.)

Finland is a popular tourist destination for Russians. In 2012 the number of visas issued increased by 9% from the previous year. The total number of visa decisions reached more than 1.3 million. The largest number of visas was issued in the St. Petersburg. For improving the service, Finland has opened visa centers in 12 other cities in different parts of Russia in addition to Moscow, St. Petersburg, Murmansk and Petrozavodsk. (Ulkoasiainministeriö a.)

TAK made border research in 2012, which included the research of the Russian travel behavior in Finland including the purpose of the trip and the expenditure in Finland. The research was conducted by interviewing Russians travelling through four border stations in South-East Finland; Imatra, Nuijamaa, Vainikkala and Vaalimaa, at the port of Helsinki and at the Helsinki-Vantaa airport. (TAK 2013a.)



■ = trips through border stations in South-East Finland, ■ = other than truck drivers (border stations in S-East Finland), ■ = truck drivers (border stations in S-East Finland), * = trips through all border stations in Finland

Figure 1. Russians travelling to Finland through border stations in South-East Finland (TAK 2013a).

The border research shows that 3.65 million Russian tourists arrived to Finland through border stations in South-East Finland in year 2012. The amount of Russians' trips increased by 13 % in 2012 compared to the previous year. If truck drivers are included, Russians made to Finland 3.93 million trips. In addition from Russia to Finland were made over 0.2 million trips by passenger boat and by airplane. If other border stations are taken into account, Russians made over 4.8 million trips to Finland in 2012 (Figure 1). (TAK 2013a.)

In 2012, 41 % of Russians travelling through border stations in South-East Finland visited Lappeenranta. 29 % of Russian tourists visited Helsinki and 23 % traveled to Imatra (TAK 2013a).

In 2012, 77 % of Russian tourists came to Finland for shopping, while in 2006 the figure was 50 %. 32 % of Russians arrived for leisure trips. The amount of business trips has decreased; in 2006 almost one-third of the trips were business trips and in 2012 the share was only 9 %. In the border research made by TAK (2013a) there could be several reasons for visiting in Finland, therefore the sum of percentages exceeds 100 % (Figure 2).

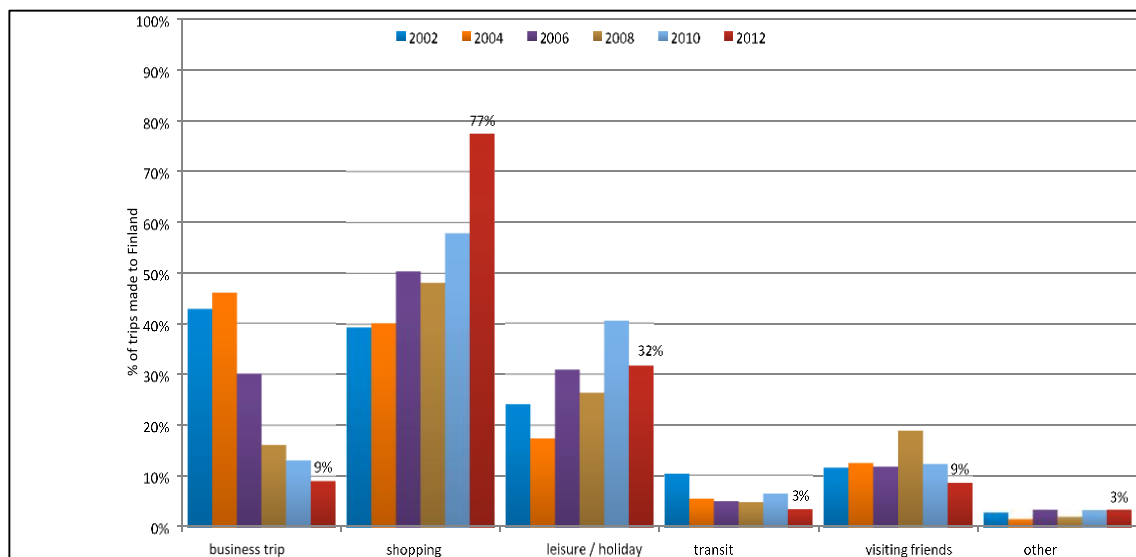


Figure 2. The purpose of the trip (TAK 2013a).

75 % of those Russian tourists, who arrived for shopping, informed that the most important reason for shopping in Finland is the better quality of the

products, and 37 % of tourists informed that better range of products in Finland is the reason for shopping (TAK 2013a).

2.3 The development of tax-free tourist sales

In 2012 Russian tourists spent money in Finland 1154 million EUR, of which 879 million EUR for goods and 274 million EUR for services. Russians spent money at the area of Lappeenranta total 281 million EUR and at the area of Imatra 85 million EUR. Russians spent about 303 EUR per passenger, of which 231 EUR for goods and 72 EUR for services. (TAK 2013a.)

Russians spent the most money on clothing in 2012 (264 million EUR), but the amount of money used for food almost doubled from the previous year (232 million EUR). Electronic products were purchased at 73 million EUR and car accessories at 63 million EUR. Russians used 34 million EUR for building materials and tools in 2012. (TAK 2013a.)



Figure 3. Tax-free and VAT 0% -purchases in Finland (TAK 2013a).

In the border research made by TAK (TAK 2013a) found out that 33 % of the respondents made tax-free purchases in 2012. 11 % made VAT 0 purchases and 19 % made both purchases; tax-free and VAT 0 purchases, as Figure 3 shows. 37 % of Russian tourists didn't make tax free tourist purchases at all. The most common reason for that was small amount of purchases. As mentioned in the previous chapter, tax-free tourist sales require that the

minimum value of the purchases is 40 EUR. One-third of respondents didn't want to queue up for tax-free or invoice –service. (TAK 2013a.)

The amount of VAT 0 (invoice) purchases grew remarkably. Russian tourists who visit often Finland prefer VAT 0 (invoice) purchases. In VAT 0 (invoice) purchases the buyer gets the VAT refund from the retailer arriving next time to Finland. The share of VAT 0 (invoice) purchases was about 30 % of all Russians tax-free purchases. (Ostosmatkailijoiden reitti vaikuttaa...2013.)

Usually retailers return the VAT totally, therefore this is called VAT 0 (invoice). When talking about tax-free purchases, it means that the retailer has sold goods by using the services of a VAT refund company. The VAT refund company refunds the VAT, but because the company charges for their service, the amount of refunded VAT is less than in variation in which the retailer refunds the VAT. In Finland is operating the VAT refund company called Global Blue Finland.

According to statistics of Global Blue, VAT Refund Company, the total amount of tax-free sales in Finland was 316 million EUR in 2012 (Figure 4).

Global Blue		TAX FREE -MYYNТИ PAIKKAKUNNITTAIN				Calendar Month: Dec 2012			
Paikkakunta	Myynti 2012	Myynti 2011	Muutos	Osuus	Myynti 2012 kk	Myynti 2011 kk	Muutos	Osuus	
Helsinki	100 839	80 877	25%	31,9%	7 698	7 068	9%	28,0%	
Lappeenranta	94 116	76 469	23%	29,8%	9 213	7 488	23%	33,5%	
Imatra	20 676	15 046	37%	6,5%	2 200	1 493	47%	8,0%	
Joensuu	13 041	9 558	36%	4,1%	1 142	867	32%	4,1%	
Kotka	12 285	9 847	25%	3,9%	1 114	978	14%	4,0%	
Vantaa	10 761	8 981	20%	3,4%	827	733	13%	3,0%	
Rovaniemi	7 818	4 953	58%	2,5%	800	568	41%	2,9%	
Kajaani	5 335	4 606	16%	1,7%	450	330	36%	1,6%	
Lahti	4 674	3 891	20%	1,5%	350	299	17%	1,3%	
Kouvola	3 844	3 302	16%	1,2%	306	277	11%	1,1%	
Savonlinna	3 182	2 631	21%	1,0%	164	159	3%	0,6%	
Espoo	3 177	2 767	15%	1,0%	236	245	-4%	0,9%	
Mikkeli	3 134	2 337	34%	1,0%	151	140	8%	0,5%	
Kuopio	2 783	2 162	29%	0,9%	153	138	11%	0,6%	
Hamina	2 604	2 099	24%	0,8%	304	209	45%	1,1%	
Muut	28 078	22 013	28%	8,9%	2 425	1 720	41%	8,8%	
Total	316 348	251 540	26%	100,0%	27 532	22 712	21%	100,0%	

Figure 4. Tax-free sales in Finland by locations (Tax free –myynti paikkakunnittain 2012).

Helsinki was number one in tax-free sales in Finland in 2012. The amount of tax-free sales in Helsinki exceeded 100 million euros. Tax-free sales were 94

million EUR in Lappeenranta in 2012. The growth was 23 % from the previous year. In four years tax-free sales in Lappeenranta have more than doubled. (Tax free –myynti paikkakunnittain 2012.) Imatra reached the third position with the amount of 21 million EUR of tax-free sales in 2012. The growth of tax-free sales in Imatra was 37 % from the previous year. If tax-free sales in Imatra and in Lappeenranta are counted together, they would clearly go over Helsinki. (Kemppainen 2013.)

Tourists arrive to Finland through Nuijamaa border station more than they depart back to Russia. This partly explains why tax-free sales in Lappeenranta have grown less than in Imatra. According to Pasi Nurkka, managing director of TAK Oy, part of purchases are made just before leaving from Finland. (Ostosmatkailijoiden reitti vaikuttaa...2013.)

If only Russian tourists are included, then Lappeenranta goes over Helsinki in tax-free sales in 2012. In Lappeenranta almost all tax-free sales 94 million EUR were Russians' tax-free purchases, as Figure 5 shows. In Helsinki Russians made tax-free purchases with the amount of 66.5 million EUR. (Kemppainen 2013.) The amount of Russians' tax-free sales in Lappeenranta is almost 1.5 times bigger than in Helsinki.

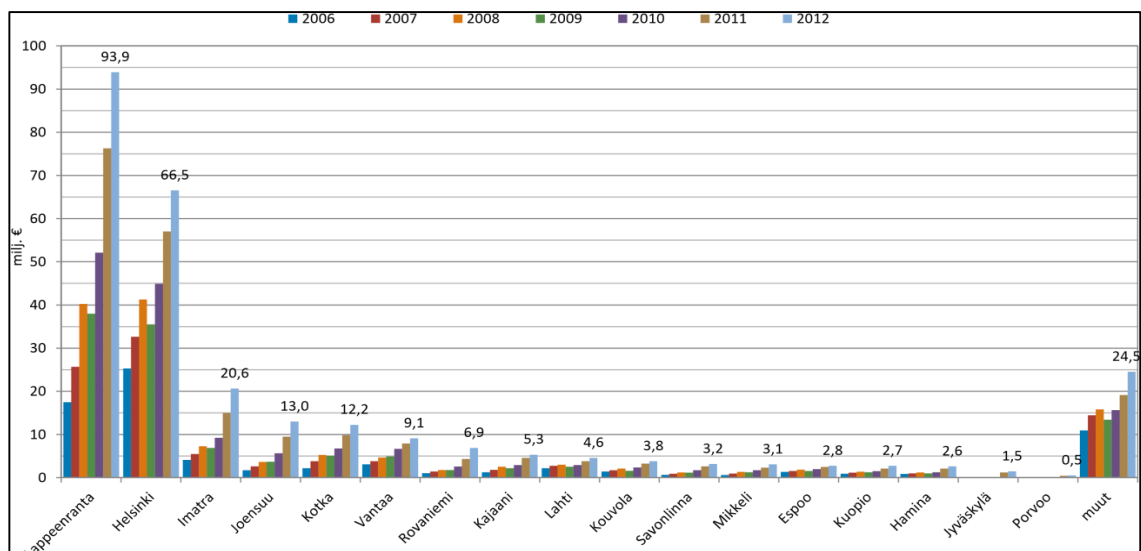


Figure 5. Tax-free sales for Russians by locations (TAK 2013a).

The statistics of Global Blue don't include VAT 0 (invoice) sales. There isn't any statistics about VAT 0 (invoice) sales, in which the retailer refunds the VAT himself. In the future retailers making VAT 0 (invoice) sales could do necessary documentation on the Internet. This would facilitate document handling of the retailer and customs. At the same time there would be available statistics of whole tax-free trade. (Invoice-kauppa sähköistyy 2013.)

In October 2013 Finnish Commerce Federation informed that Russians' consumption in Finland is declining. This estimate bases on statistics of Global Blue, where can be seen signs of reduction in tax-free sales in other parts of Finland, except in South-East Finland. According to Jaana Kurjenoja, the Chief Economist of Finnish Commerce Federation, Russians' consumption in Finland is now at a turning point. Russians' consumption both at home and abroad depends on economic growth, which has slowed down since last year. Economic growth is expected to increase again next year, thinks Jaana Kurjenoja. (Kaupan liitto 2013.)

Border interviews made January-August 2013 for Russian tourists support the statistics of Global Blue. According to border interviews the shopping tourism is still the main reason for Russians to arrive in Finland, but its importance is clearly decreased from the previous year. Although the amount of Russian tourists is expected to increase further this year, there can be seen clear changes among the tourists. Border interviews show that the shares of tourists visiting for one day and at least once a month have declined, especially those who arrive in Finland for shopping. (Kaupan liitto 2013.)

The economic situation may be one reason for the decline in shopping tourism, but according to some estimation, the popularity of Estonia is growing among Russian tourists. Russians' overnight stays in Estonia have increased by 17 % at the beginning of 2013, while in Finland the increase was only 7 %. Estonia has a competitive advantage over Finland. With the electronic queue number system a Russian tourist can book the time frame during which he can cross the border almost without queuing. This same system is planned to come to Finnish border stations in the spring 2014. Estonia's competitive advantage is also the near location and there people can speak Russian better than in Finland. Brand

products are available, like in Finland, but they are a bit cheaper in Estonia. (Granholtm 2013.)

The statistics of Global Blue don't tell the whole truth of tax-free sales. As mentioned earlier the statistics of Global Blue don't include VAT 0 (invoice) sales. Border crossing points in Imatra and in Nuijamaa inform that the amounts of stamped invoices have increased sharply. Russian tourists are increasingly using the system in which value added taxes will be returned by the retailer during the next trip to Finland. The tax benefit is better in VAT (invoice) sales compared to tax-free sales. (Pihlaja & Väisänen 2013.)

2.4 Future prospects of Russian shopping tourism

Russia's economic growth in the 2000s has increased shopping tourism in South-East Finland. Regional council of South Karelia and Kymenlaakso ordered from TAK research "The importance and future prospects of Russian shopping tourism". The research anticipates that the growth rate of shopping tourism will remain at a high level.

Russians' traveling abroad has increased by 2 to 18 % per year in the 2000s. In 2012 Russians travels abroad increased by 9.4 % from the previous year. If the Russian economy continues to increase, it can be assumed that the volumes of travelling abroad will continue for about 5 – 15 % growth in the coming years. The International Monetary Fund has predicted GDP (PPP) to grow 6 % per year in Russia during 2013 - 2017. The increase in the price level at the beginning of 2000s was even over 20 %, but after the recession in 2008, the increase of price level has slowed, and the inflation was about 6 % in 2011. Russia's economic development is strongly dependent on prices of raw materials, especially oil prices. OPEC predicts that oil demand will grow, even if the development of the world economy would be slow during the economic crisis. Thus, it is likely that oil prices will rise, which will support Russia's economic development. (TAK 2012.)

The faster increase of prices in Russia makes Finland attractive shopping destination for Russians. Economic growth makes it possible to travel for an increasing proportion of Russians. Finland is, due to its location and image, the

most attractive destination abroad among people living in St. Petersburg and in neighboring areas of Finland. There are about 5 million people living in St. Petersburg, of whom less than 1.5 million have been to Finland. In Vyborg and in neighboring areas of Finland live about 200000 people and most of them have not yet been to Finland. The amount of potential customers is thus considerable. The amount of Russian travelers in Finland has grown average of 18.5 % per year during 1992 – 2011. Experts of Russia's economy and tourism believe that the number of trips increase by an average of 12 % in the period 2012-2025. (Pulkkinen 2013.)

Choosing a destination in Finland, Russians appreciate mostly the good transport links and affordable shopping places. For this reason, South-East Finland is in the best position in the competition according to these criteria. If the passenger profile is maintained with current trends (passengers from St. Petersburg with higher incomes average), the amount of money per trip used by the Russians in Finland likely to remain high. Russians use significantly more money per trip in Finland than the other people visiting Finland from the neighboring countries. (TAK 2012.)

At the research of TAK (TAK 2012) ordered by regional councils, the growth forecast of Russian tourism was made in four different scenarios. From the economic point of view in South-East Finland, all the scenarios seem promising. From the perspective of cross-border traffic, the future however may look worrisome unless the government can't meet the service needs required by the growth of border traffic. (Pulkkinen 2013.)

2.5 Possible effects of visa-free travel

TAK made together with the University of East-Finland a report on the potential impact of the Russians' visa-free travel in Finland. Report was made during the spring and summer 2013, and its purpose was to study advantages and disadvantages of Russians' visa-free travel. In addition was analyzed tourism, population and crime statistics in Finland and in Russia. Effects relating to crimes and to violations are not included here.

According to this study visa-free travel has several advantages. If visa-free travel would start at the beginning of year 2014, it would increase the amount of Russians' trips to Finland at least to 7.1 million trips. Nowadays about 80 % of trips to Finland are made by Russians living in St. Petersburg. Possible visa-free travel would increase the amount of trips made from Moscow.

Russians' overnight stays would at least quadruple in the Finnish accommodation places. According to border research made by TAK in 2012 (TAK 2013a), Russians stayed in Finland in all accommodation places total 2.6 million nights in 2012. If Russians could travel to Finland without a visa, it would increase Russians' overnight stays at least to 11.4 million overnight stays per year. This means that Russians would have more overnight stays in Finland than other foreigners together, and that the current total accommodation capacity in Finland wouldn't be sufficient to meet the increased demand. (TAK 2013b.)

Russians' expenditure in Finland would triple due to visa-free travel. Russians spent in Finland for goods and services 1.15 billion EUR in 2012. Because more passengers would arrive from Moscow, it would increase expenditure for services. Expectation is that over 1 billion EUR would be brought by Russian tourists for accommodation and restaurant services. It can be also estimated, that visa-free travel would increase the amount of money spent by Russians for goods from 0.8 billion EUR to about 2 billion EUR. This would have positive effects on Finnish economy. Increasing tourism revenue would create over 12000 new jobs in tourism industries. The growth would be concentrated in the capital city region and areas offering high-level cultural and tourist services. (TAK 2013b.)

Also increased amount of tourists arriving to Finland will be a challenge for border stations. Most part of border crossings (80 %) between Russia and Finland are made through border stations in South-East Finland. As Figure 6 shows even 12 million passengers crossed the eastern border in 2012, which was 13 % more than in 2011. The amount of passengers is estimated to grow also in the coming years. If the growth will continue like in 2012, the amount of 20 million passengers crossing the border will happen during next four years, by

2017. If visa-free travel will be realized, the growth of border crossings is even bigger. (Jorvala 2013.)

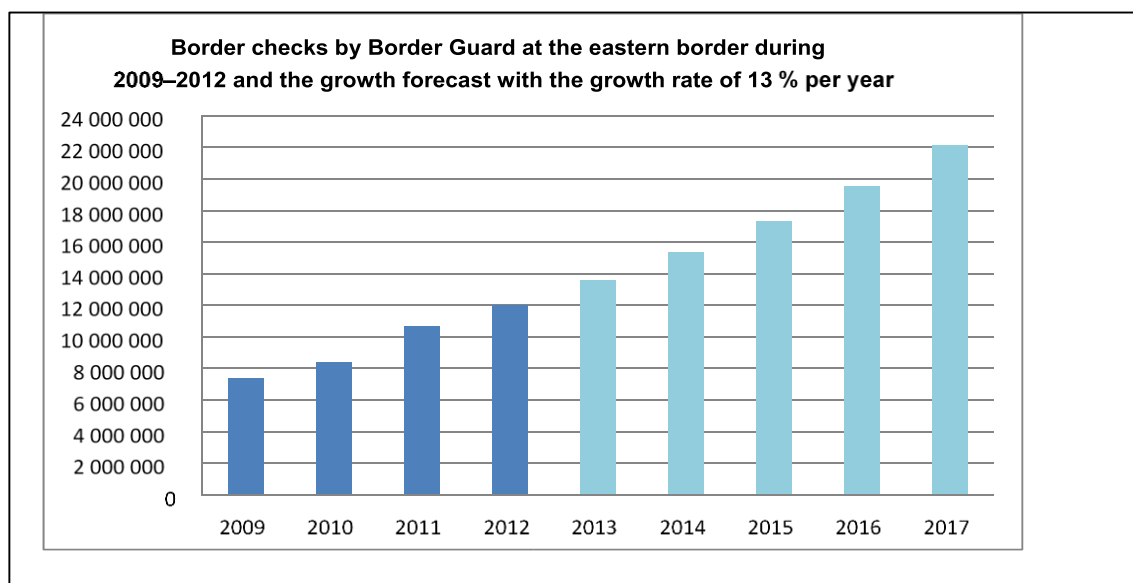


Figure 6. Border checks by Border Guard at the eastern border during 2009 – 2012 and the growth forecast with the growth rate of 13 % per year (Jorvala 2013).

The growth of border crossings requires that border stations, especially in South-East Finland, have to increase their capacity. Capacities have been planned to increase with projects during 2013 – 2015. The Border Guard estimates that with the help of these projects the capacity can be increased to 15 million passengers by 2014. Border traffic is heaviest during the summer months and at the time of New Year, and these periods will be the most challenging. For balancing these congestions have been scheduled to implement electronic queue number system. (TAK 2013b.)

The visa-free travel between Russia and EU would facilitate travelling to Finland, but also to other EU countries. One of the advantages of Finland has been the ease for getting visa compared to other consulates issuing Schengen visas. Visa-free travel increases the travel options and flight supply, which may attract passengers more to other EU countries. This would put challenges for Finnish tourism marketing and for the development of new tourism service concepts. (TAK 2013b.)

Border research 2012 (TAK 2013a) shows that 64 % of Russian tourists think that there should be visa-free travel between Russia and Finland. Visa-free travel would increase the convenience of travelling, and nearly one-fifth of the respondents favoring visa-free travel believe that the border crossing would accelerate. 40 % of these passengers would travel more often to Finland. Those passengers, who think that there shouldn't be visa-free travel, justify the opinion by growing border queues and by the fact that there would be too many Russians in Finland after visa-free travel.

Although the Finnish politicians and industry representatives hope visa-free travel between Russia and Finland be achieved soon, the cooling of relations between the European Union and Russia will postpone the visa solution for years. Finland's aim is that the visa-free will be a reality in 2018. This will not happen unless the relationship between Russia and the EU changes significantly. Finland is committed to the common EU position on visa policy. (Kymäläinen 2013.) Also travel documents and issuing them should be reliable. The biometric identifiers are required for the passports and border controls should go reliably and flexibly, even if the traffic increases. Some terms are technical, and some terms are political. There are many political terms where realization is hard to measure, such as references of agreement for rejection of illegal immigration, human trafficking and corruption. (Haapanen 2012.)

3 Marketing and Russian customers

Marketing is not only selling or advertising. Marketing is the process of analyzing marketing opportunities, selecting target markets, developing the marketing mix and managing the marketing effort. The marketing process matches consumer needs with the company's mission, capabilities and objectives. Consumers are at the center of the marketing process. The goal is to build profitable relationships with customers. Through market segmentation, target marketing and positioning, the company divides the total market into smaller segments, selects the most promising segments and decides how it wants to bring value to target consumers. The company designs a marketing mix to produce the response it wants in the target market. The marketing mix

consists of everything the firm can do to influence the demand for its product. The many possibilities gather into four groups of variables known as the “four Ps”; product, price, place and promotion. (Kotler, Wong, Saunders & Armstrong 2005.)

The goal of marketing is to attract new customers by promising superior value and to keep and grow current customers by delivering satisfaction. Marketing is managing profitable customer relationships. Kotler et al. (2005, p. 6) define marketing as *“a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others”*.

Competition is tough nowadays, and if sellers fail to deliver acceptable product and service quality, they will quickly lose customers to competitors. In addition, what is acceptable today may not be acceptable to tomorrow’s even more demanding consumers. Consumers are becoming more educated and demanding, and their quality expectations have been raised by the practices of superior manufacturers and retailers. To succeed in today’s competitive markets, companies have to move from a product and selling philosophy to a customer and marketing philosophy. (Kotler et al. 2005, p. 462.)

Over the last decade, the emphasis has been placed on the importance of relationship marketing. This reorientation of marketing has been proposed in contrast to the traditional approach, transactional marketing. Relationship marketing aims at creating a client relationship from the start to satisfy and retain existing customers, while transactional marketing tries to make the sale and find new customer. (Zineldin & Philipson 2007.)

Relationship marketing is oriented more towards the long term. The goal is to deliver long-term value to customers and the measure of success is long-term customer satisfaction. Relationship marketing requires that all of the company’s departments work together with marketing as a team to serve the customer. It involves building relationships at many levels resulting in high customer loyalty. (Kotler et al. 2005, p. 476.)

“There is only one boss – the customer. And he can fire everybody in the company from the chairman on down, simply by spending his money somewhere else.”

Sam Walton, American founder of WalMart Stores, the largest retail chain in the world (Blythe 2005, p. 14).

It is important to know the customer so that target markets can be clearly identified and selected and the marketing mix managed properly (Jakosuo 2011).

Following chapters introduce first typical features of a Russian tourist and Russian as a customer. Marketing mix 4 Ps is handled from the point of view both the theory and the Russians. The marketing mix variable Promotion (marketing communication) is a large entity, so it is presented as a separate chapter.

3.1 Russian customers as a target market

Marketers use usually the STP-approach to define the target market. The STP-approach is the principle of segmentation, targeting and positioning in order to define unique group of customers who require a special marketing mix. (Hollensen 2010, p. 283.)

Market segmentation separates potential customers into several segments with distinctive characteristics. Customers within a segment should have similar wants and needs. In B2C market typical segmentation variables are geographic, demographic and ethnic factors, psychographic and behavioristic factors and desired benefits. (Hollensen 2010, p. 314.)

Targeting is the process of deciding which market segments should be approached with the company’s marketing mix. Marketers need to decide which segment to target in order to achieve the company’s objectives. The three basic target marketing strategies are undifferentiated, differentiated and concentrated marketing (Blythe 2009, p. 126).

Undifferentiated marketing treats all customers alike and is similar to mass marketing. Differentiated marketing serves several segments, but adjusts the

marketing mix for each, and concentrated marketing focuses on one segment or only a few segments. (Hollensen 2010, p. 314.)

Positioning is the process of creating a brand in the minds of its consumers in an appropriate relationship to competing brands (Blythe 2009, p. 170). Positioning seeks to maximize a product's performance relative to competitive offerings and to the needs of targeted market segments (Hollensen 2010, p. 314).

When combining different data from researches and guides made of Russians' travelling in Finland, there can be reached relatively much valuable information about Russian tourists and their behavior. Exact information is hard to get, but at least some information for marketing to right target groups.

3.1.1 Typical features of a Russian tourist

There is no doubt that Russians are very enthusiastic travelers and it is no longer just the elite of Russian society that can afford to travel, although this is of course the most attractive market to target. Enthusiasm for travel abroad has also spread to the fast-emerging middle classes. As their numbers grow, the further demand for outbound travel will increase. (European Travel Commission.)

According to the Moscow-based Independent Institute for Social Policy (IISP) nearly 20 % of Russian households qualify as "middle class". The share of middle class households has increased about 1 % per year since 2004, and the structure of Russia's middle class has changed since the late 2000s. The share of people employed by companies in the private sector, entrepreneurs, and professionals has been decreasing, while the share of public sector experts, managers and representatives of power organizations (e.g. those ministries that operate directly under the president such as the interior ministry and justice ministry) has been increasing. These public-sector groups now make up about 20% of the Russian middle class. IISP researchers use several criteria to define membership in the middle class, including wealth, education level, work quality, and the household's own evaluation of its social status. (Suomen pankki.)

In 2012, the amount of families with good income per month, earnings over 120 000 RUB (2834 €), has increased from the previous year (Figure 7). The amount of these passengers was almost one-third (29 %), while in 2011 the amount was only 13 %. About 2.5 % of the population in St. Petersburg is estimated to belong to this group. (TAK 2013a.)

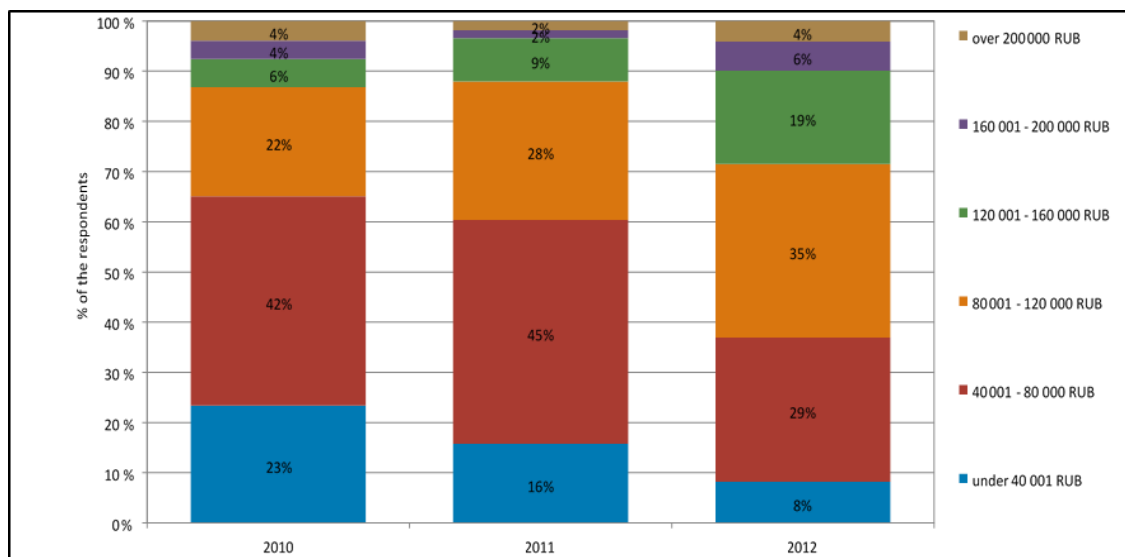


Figure 7. The total family income per month (TAK 2013a).

Russians abroad tend to be big spenders and very brand conscious. Their reputation as “shopaholics” is reflected in numerous surveys. In 2012 The Russian Federation ranked fifth (US\$ 43 billion) in international tourism expenditure. Russia moved up two places by the growth of 32% in 2012. Chinese travelers spent mostly in 2012 and China ranked first (US\$ 102 billion) by the growth of 41 % in international tourism expenditure. The highest growth rates in expenditure on travel abroad came from emerging economies, from China and from Russia. Top spenders between China and Russia were Germany (2nd), United States (3rd) and United Kingdom (4th). (World Tourism Organization.)

According to the border research, which studied Russian travel behavior in Finland in 2012 (TAK 2013a), 25 – 44 years old travelers made 68 % of all Russians’ trips to Finland. Their share has again started to increase. 26 % of Russian tourists were 45 – 64 years old and 6 % of tourists were less than 25 years old.

The biggest profession group of Russian tourists who visited Finland in 2012 was employees and officers. Although the share of employees and officers hasn't increase, the amount of the trips they made has risen remarkably. 14 % of Russian travelers were entrepreneurs and 14 % worked in a leading positions. The share of pensioners was about 3 % and the share of students was 4 % in 2012. (TAK 2013a.)

As Table 2 shows, 80 % of Russian tourists arriving to Finland were from St. Petersburg area in 2012. Russian middle class has been concentrated in large cities, and St. Petersburg is the nearest large city in Russia. 15 % of Russian travelers visiting Finland lived in Vyborg and near areas of the border and 4 % of travelers arrived from Moscow. (TAK 2013a.)

Russian tourists in Finland		2006	2008	2010	2012
Age	15-24 years	4 %	3 %	5 %	6 %
	25-44 years	60 %	75 %	66 %	68 %
	45-64 years	34 %	21 %	28 %	26 %
	over 64 years	3 %	0,5 %	1 %	1 %
Occupation	employee or officer	54 %	62 %	59 %	59 %
	entrepreneur	21 %	16 %	16 %	14 %
	in a leading position	10 %	15 %	14 %	14 %
	other	15 %	8 %	12 %	13 %
Place of residence	St. Petersburg area	50 %	68 %	78 %	80 %
	Moscow area	8 %	6 %	7 %	4 %
	Vyborg and near areas	37 %	23 %	13 %	15 %
	other	5 %	3 %	3 %	1 %

Table 2. Age, occupation and place of residence of the passengers (TAK 2013a).

The border research 2012 (TAK 2013a) found that the majority of the trips are made by car. In 2012 holiday trips were mostly made by passenger boat and shopping trips by car. Shopping trips were not made by plane, and holiday trips were not made by van. Those who travelled by plane were usually on a business trip. Surprisingly, big part (66 %) of Russians travelling by train informed to come to Finland for shopping.

More than 40 % of Russians tourists visited our country at least once a month in 2012. The share of these tourists grew from the previous year. 0.22 million Russians visited here at least once a week, and 1.34 million visited 1-4 times a month. First time to Finland arrived about 175000 Russians. (TAK 2013a.)

Two-thirds of Russians visiting Finland stayed here not more than day. One day trips have increased most likely due to changes in Russian customs regulations in summer 2010. Now travelers can carry goods to Russia as duty-free even on a daily basis, as long as the weight and value limits are not exceeded. (TAK 2013a.)

Customs clearance is performed according to the Customs Code of the Customs Union (the CU CC), which entered into force on 1 July 2010. The Customs Union (the CU) of the Republic of Belarus, the Russian Federation and the Republic of Kazakhstan is an integrated customs area which forms part of the Eurasian Economic Community (EurAsEC). The main principles of the CU CC governing the customs procedures relating to goods intended for personal use transported by natural persons were almost identical to those of the Russian legislation. The CU raised the limits for duty-free import; accordingly, natural persons can import goods (with the exception of vehicles) duty free, as accompanied or unaccompanied baggage which does not exceed 1500 EUR in value and 50 kg in weight. If the these limits are exceeded, a unified customs duty and tax rate is applied to the excess amounting to 30 % of the customs value of the said goods and not less than 4 EUR per kilogram. (Krotov 2011.)

There are many factors that influence interest groups and local residents' attitudes towards tourism, such as the type of tourism and tourists. Jakosuo (2011) writes in her article that in Finland, and especially in the Karelia region, some residents and some local enterprises have a negative attitude towards Russians. Fenno-Russian history has had its own effect and for example in 1939–1944 one form of Finnish war propaganda was to disseminate negative information about the Russians. This negative information resulted in so-called "russophobia". Even now decades after the wars, Finns rate the Russians below average compared to other Europeans.

There are many negative stereotypes about Russian tourists, like drunkenness, scandalous and uncivilized behavior, and some facts are justified. Among the reasons for such behavior of Russian travelers, experts distinguish the Russian mentality and post-soviet legacy. (Ageenko, Papazyan & Apukhtin 2013.) Also in addition, cultural and linguistic problems complicate relations: unlike the Finns, Russians use the Cyrillic alphabet, and in Russia the rhythm of life and concept of time are different. Attitudes are changing slowly, and especially during the global recession the importance of our eastern neighbor is noticed, with the result that now Russia and Russian tourists have become an essential part of the Finnish tourist industry. (Jakosuo 2011.) Despite all the negative attitudes of the media to "russoturisto", travelers from Russia are most lucrative guests for all resorts, because they like to relax in a big way. Russians are among the most profitable tourists because they spend 3 times more money than people from other countries. There are positive trends in the behavior of Russian tourists in foreign resorts. This is largely due to the increase of educated middle class in Russia who travel overseas. (Ageenko et al. 2013.)

3.1.2 Russian as a customer

As a client, Russian hopes for princely customer service. The Finnish seller is required to be service-minded and to give creative solutions in order to satisfy the demanding Russian client. Listening and implementing extra requests might be the guarantee of following trades. (Startti Venäjän kauppaan 2012.)

Russians' language skills are generally poor. The majority of Russian populations don't need language skills and those who study languages can't apply language skills in home country, so without practical training, the language skill remains at the poor level. Many Russians don't bother to learn English only because of the trip abroad, because in many destinations where Russians visit the service-oriented staff speaks Russian and guide services are also in Russian. (Venäläisen matkailijan asiakaspalveluopas 2004.) So the Russians are waiting for that they will be served in the Russian language, and the assumption is that the seller provides also support and maintenance services in Russian language (Startti Venäjän kauppaan 2012). For Russians, the language is the easiest means of communication. For them, the speech is

the most important tool for getting the information, sending it forward and for social discussion. Russian language is the key, if we talk about the long established customer relationships. Problematic situations can't be solved without fluent Russian language skills. (Malankin 2012.)

According to researches, Russian tourists traveling abroad wouldn't want to deal with the Russians immigrants. Russian tourists have arrived to foreign country for a holiday and for exploring the country's culture and people. For getting to know the residents runs high priority in Russians' hopes, but this hope is often a dream. When thinking the best customer servant in the point of view Russian tourists, it would be Finnish who speaks well enough Russian. Enough in this context means that the customer service can be implemented in the Russian language; the grammar and the pronunciation doesn't have to be perfect. (Malankin 2012.)

Company's materials in Russian language facilitate the purchase decision and getting information about the company's products. Material in Russian language also communicates to the customer that he is important to the company; the company is interested in his needs and the company wants to serve him well. The service material is also part of the company's image. If a company wants Russian customers, it should determine the needs from the point of view of the company and the customer, and decide what material should be made in Russian. (Venäläisen matkailijan asiakaspalveluopas 2004.)

In Russia the personal relationships are very important. Russian customer wants to do business with the same person with whom he has started negotiations. The seller's role with Russian customer is challenging, because the seller is expected to act as a salesperson, as a coordinator, as a travel agent and as a host. (Startti Venäjän kauppaan 2012.) Creating confidence is the most important thing in the customer service situation. Russians sense easily how they are being treated. The first impression will be created in a few minutes from facial expressions, gestures, tone of voice, and outward appearance. In Russia the concept of customer relationship is more extensive than in Finland. The successful communication situation requires creating personal contacts, and in Russia the relationship between the seller and the

buyer is also part of free time. (Venäläisen matkailijan asiakaspalveluopas 2004.)

Russians are very emotional and they express their feelings openly. Russian customer is also very impulsive and can make changes to the schedule at the last minute (Startti Venäjän kauppaan 2012). If a Russian customer gets mad about something, he may express his anger visibly. This special feature should keep in mind in customer service situations, because the problem may not be as big as it looks. Solving the problem in a professional way calms the temperamental customer. (Venäläisen matkailijan asiakaspalveluopas 2004.) Good psychological eye and adaptability to challenging situations are the trump cards of the trade with Russians. In addition, the seller must have the product knowledge and excellent interpersonal, presentation and negotiation skills. Customers who are satisfied with the service will provide good feedback. (Startti Venäjän kauppaan 2012.)

The Russians have a great sense of humor and they are skilled to laugh themselves and their country. Humor is therefore also a very important tool in customer service with Russians. In a situation where the service fails, the humor has invaluable help. (Malankin 2012.)

3.2 Marketing mix and Russian customers

Creating market demand can be considered as a key marketing goal. Marketing is mostly the fact that the seller achieves a real desire among customers which makes them want to purchase the seller's product. The marketing mix consists of everything the company can do to influence the demand for its product. The many possibilities gather into four groups of variables known as the "four Ps"; product, price, place and promotion (Figure 8). (Kotler et al. 2005.) It means putting the right product in the right place, at the right price and at the right time.

Marketing mix is not only a theory, but also a conceptual framework that identifies the principal decision making managers make in configuring their offerings to suit consumers' needs. The tools can be used to develop both long-term strategies and short-term tactical programmes. (Goi 2009.)

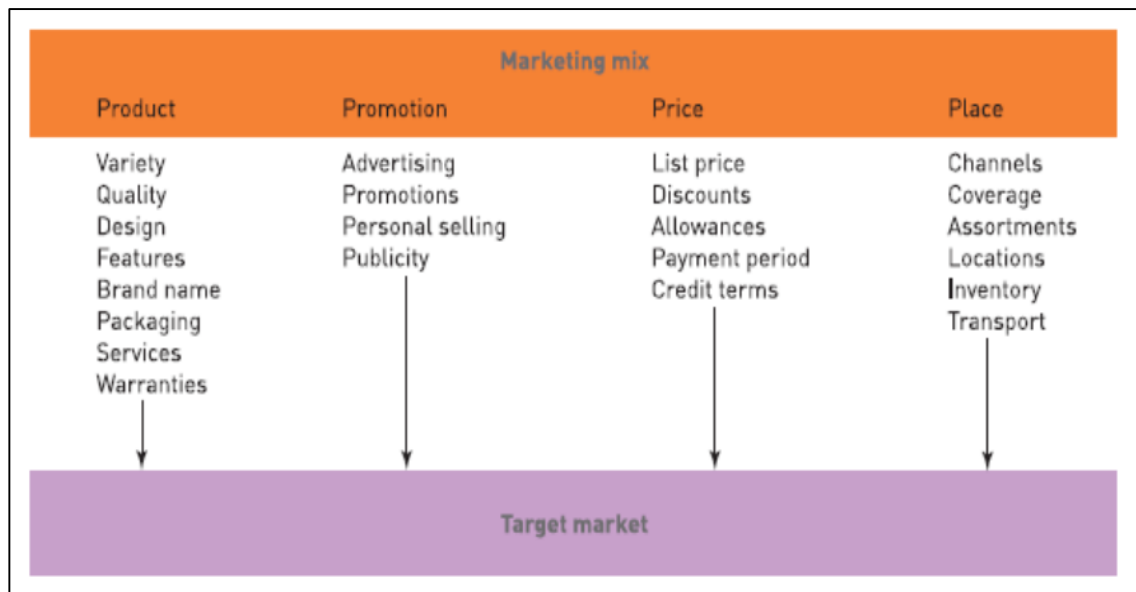


Figure 8. The four Ps: the marketing mix (Kotler et al. 2005).

Personal relationships, interactions, and social exchange are the most important core elements of relationship marketing. The 4Ps must work together in a single marketing plan to satisfy the customer's needs and allow the company to make a reasonable profit. Marketing mix elements are often viewed as controllable variables because they can be changed. They also describe the result of the management's efforts to creatively combine marketing activities. To start the exchange process, the seller must know what the potential buyer needs. To implement the company's sales strategy and ensure its success, the marketers must actively manage and facilitate satisfying exchange relationships through the creation, distribution, promotion and pricing of high quality goods, services and ideas. (Kotler et al. 2005; Zineldin & Philipson 2007.)

When a company is seeking Russian customers, it must know how to use all necessary elements of marketing mix. It's important to improve the competitiveness of the product, pricing, ensuring the availability of the product and advertising, personal selling as well as other marketing communication efforts. Each element of marketing mix ideally supports the others, and companies modify each element for making their products stand out from the competition.

Next chapters clarify the basic theory of marketing mix, and each variable has been evaluated from the point of view Russian or Russian tourist.

3.2.1 Product

In marketing, a product is anything that can be offered to a market that might satisfy a want or need. Products include more than just tangible goods. Products include physical objects, services, persons, places, organizations and ideas. Services are intangible products that consist of activities, benefits or satisfactions that are offered for sale. Services don't result in the ownership of anything. (Kotler et al. 2005, p. 539.)

Products can be divided into two classes based on the types of buyers that use them. Consumer products are sold to final consumers for personal consumption. They are classified according to consumer shopping habits (convenience, shopping, specialty and unsought products). Industrial goods are bought by individuals or organizations for the purposes of resale or to be used to make other products. They are classified according to their cost and the way they enter the production process (materials and parts, capital items and supplies and services). (Kotler et al. 2005, p. 570.)

The concept of a product is complex and can be viewed on three levels (Figure 9). The core product consists of the core problem-solving benefits that the customers seek when they buy a product. The actual product exists around the core and includes the features, styling, design, quality level, brand name and packaging. The augmented product is the actual product plus the various services offered with it, such as warranty, free delivery, installation and maintenance. (Kotler et al. 2005; Blythe 2005.)

The product decision involves deciding what goods or services should be offered for sale to a particular group of customers. The main issues revolve around managing the product portfolio to ensure that the company continues to offer relevant products to meet the needs of customers, knowing when to drop a product from the mix and knowing when to introduce a new product (Blythe 2005, p.160).

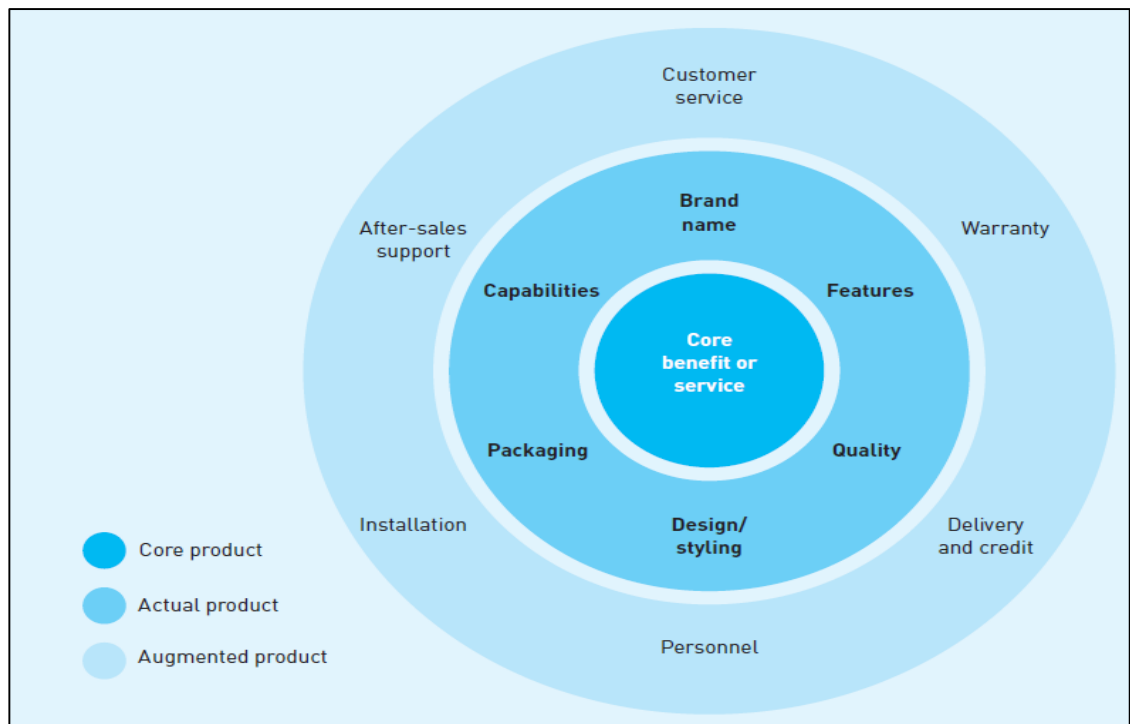


Figure 9. Three levels of product (Blythe 2005).

Company's product decisions include individual products, product lines and product mixes. Individual product decisions involve product attributes (quality, features, design and style), branding, packaging, labelling and product-support services. Most companies offer a product line rather than a single product. A product line is a group of products that are closely related because of similar function or pricing, are sold to the same customer groups or are marketed through the same types of outlet. If a company is offering several product lines, they form a product mix or product assortment. (Kotler et al. 2005, p. 570.)

Selecting what to sell, making the right purchasing decisions, organizing stock management and arranging how to display product ranges is very important to retail management.

While there is a perception that Russia is a conservative place, Russian shoppers actually love new products and innovations. They also love brands and they exhibit strong brand loyalty. In socialist Russia, consumers experienced products at their most basic level. Russian brands, with the exception of very few food items, didn't exist. In the early 1990s, foreign brand awareness was very low. However, by the middle of the 1990s, the Russian

elite were becoming sophisticated shoppers and by 2002, the majority of urban consumers knew most global brands. (Karpova & Nelson-Hodges & Tullar 2007.) Russians trust Western brands and they have greater trust to foreign retailer which promotes foreign trade marks. Russian tourists arriving in Finland value high quality of the products and the better range of products in Finland (TAK 2013a). Russian consumers' preference for foreign-made products can be explained by the fact that Russians prefer Western goods because they are perceived as being better quality, not because they are Western (Karpova et al. 2007).

In Russia, quality of products, while improving, hasn't maintained speed with the demanded quality of Russian consumers. Having been a country closed to import products, the novelty of imported products is still a factor in Russian consumer behavior. During a command economy where consumer desires were not considered in the demand equation, has left Russian production facilities unable to interpret consumer demand. Lack of raw materials to produce many consumer goods has also inhibited the ability of domestic producers to satisfy demand. While pride in increasing the quality of domestic production abounds, not all products are available domestically or are available in the level of quality demanded by consumers for purchasing. Russia, however, hasn't enjoyed the same level of revitalization of domestic consumer product production as has e.g. Poland. (Good & Huddleston 1995.)

The border research 2012 (TAK Oy 2013a) showed, that Russians bought mostly clothes and food. From the service side, Russians spent most money for accommodation and restaurant services.

According to the study of Karpova, Nelson-Hodges and Tullar (2007), a lack of moderately priced, quality clothes is the major problem in the Russian market. The study examined the clothing consumption practices and the data was collected in St. Petersburg in 2004. The participants of the study expressed disappointment with poor product assortment. As a result, they were not able to buy what they wanted most of the time. The results of this study showed that there were two distinctive ends, with almost nothing in the middle. On one end, there is very expensive, high quality, stylish clothes and on the other end are

inexpensive, low quality clothes. Those who can afford prefer to shop for clothes abroad, because similar clothing in European countries is significantly cheaper than in Russia (Karpova et al. 2007.)

Due to the short history of the market economy, the length of the product life cycle is shorter and steeper in Russia than in old market economy countries. New products come onto the market often and the generation of new needs is easier in Russia. Thus, the demand for the product may suddenly increase hugely and suddenly the consumer interest stops and demand falls. (Perilä-Jankola 2001, pp. 35-37.)

Russian customer doesn't want to buy products, which are marketed so that they are made only for them. Even if we would add some elements to products especially for Russians, it shouldn't be told to customer. Russian in fact wants the same as everyone else. Russian is convinced that the product made especially for him is worse than the product made for others. The experience in the 1990s taught them that the Western product in the Russian market is worse than the same product in the Western market. Russians are convinced that the Fairy soap sold in Russia is worse than Fairy bought from Finland. Russians explain this so that the product for Russians produced abroad is made from worse raw materials, because the price of the product is intended to get as low as possible. If the Western product is made in Russia, it is simply done worse than elsewhere. This also involves the mindset that if the service in Finland is bad, it is bad because the customer is Russian. So they interpret to receive poorer service than others. Indeed, they "know" that in Finland the level of service is very high, so if they get bad service, it is considered to be the cause of their being Russian. We Finns know that this is often not the case, but it is difficult to prove to a Russian. (Malankin 2012.)

The Russians appreciate good service when they need it, but they also appreciate the ability of Finnish customer service to stay out of sight when assistance is not needed. Finnish customer service is discreet and non-intrusive. Very important for the Russian and wellbeing at Finland is the fact that they get the feeling of being dignified and respected. (Malankin 2012.)

Only 29 % of Russians speak English even at the basic level. Providing service with Russian language definitely increases satisfaction. It is very important for Russian customer to present additional questions about the product or service. If he is able to do it in his own language, the service / product purchase decision is much easier to make. (MEK a.)

3.2.2 Price

Price is the amount of money charged for a product or service. Price is a key element of the marketing mix because it represents what the company receives for the product or service that is being marketed. It is the only element of the marketing mix that creates revenue, while all of the other elements represent costs. Price is also one of the most flexible elements of the marketing mix. Unlike product features and channel commitments, price can be changed quickly. (Kotler et al. 2005, pp. 664-665.)

Marketers need to be very clear about pricing objectives, methods and the factors that influence price setting. There are internal and external factors that influence the company's pricing decisions. Internal factors include the company's marketing objectives, marketing-mix strategy, costs and organization for pricing. The pricing strategy is mainly determined by the company's target market and positioning objectives. Common pricing objectives include survival, current profit maximization, market-share leadership and product-quality leadership. Other marketing mix elements; product, place and promotion decisions affect pricing decisions. The price must cover all the costs of making and selling the product, plus a fair rate of return. Top management usually sets pricing policies, but some pricing authority may be delegated to lower-level managers, including salespeople, production, finance and accounting managers. External factors that influence pricing decisions include the nature of the market and demand; competitors' prices and offers; and factors such as the economy, reseller needs and government actions. The seller's pricing freedom varies with different types of market. (Kotler et al. 2005, p. 706.)

Because price affects the value that customers perceive they get from buying a product, it can be an important element in their purchase decision. Pricing can

be cost-based, competition-based or customer-based; eventually consumers have the last word because they can simply spend their money elsewhere (Blythe 2005, p. 184).

Russians are very aware of prices. They love the discounts and bonuses. There are at least four reasons for Russians' buying mania in Finland. First, the asking prices in Finland are lower than in Russia, because high customs tariffs raise the prices of products made abroad. Second, in Finland sales starting right after Christmas is much wider and discounts much bigger than in Russia. Third, Russians living outside EU are entitled to make tax-free shopping. The VAT will be refunded them, and the amount of refund varies depending on the VAT refund system. If the Russian has made VAT 0 purchases, the VAT will be usually refunded totally. Fourthly, Russian rely strongly on that all products sold in Finland are not fake and have better quality. (Paananen 2012.) Several studies reported that Russians preferred products that had value, even if the price was higher. Even though resources were scarce, many Russian consumers tried to reduce risk by purchasing higher quality goods. Although most Russian consumers are price sensitive, they demand high quality, thereby setting up unrealistic expectations. (Karpova et al. 2007.)

It is often said, that Russians don't haggle over the price, but actually haggling is natural for Russians. However, haggling is situational; a Russian may not feel himself confident, because he is using foreign language. Haggling also depends on the company; if a Russian is host of guests, he wants to make generous effect and doesn't watch the price or haggle over it. Russian is very accurate about the price-quality relationship of product, and he won't buy, if he thinks that the product is too expensive. Often a Russian doesn't dare to ask the price, because he is not comfortable with a situation where he must say that he won't buy the product. Therefore it is very important that product prices are visible. Price is not necessarily too high, but the product remains unsold because no one dares to ask the price. When buying a product, Russian customer examine it very carefully for avoiding any manufacturing defects. For the service in turn, a Russian thanks the seller if he was satisfied with it. (Malankin 2012.)

The fact that the Russians have more to spend on holidays largely depends on the mentality. If a Russian goes to rest, then it will be rest without limits. The growth of expenses doesn't depend directly on the increase in Russian earnings. The reason is the distribution of credit cards and deferred payments. (Ageenko et al. 2013.)

3.2.3 Place

People can only buy products that are available and easily obtained. Marketers spend considerable efforts on finding the right channels of distribution, and on ensuring that the products reach consumers in the most efficient way. Producing a product or service and making it available to buyers requires building relationships not just with customers, but also with suppliers and resellers in the company's supply chain. Marketing channels are the means by which interdependent organizations make products or services available from the producer to the final consumer. Physical distribution and logistics effectiveness has a significant impact on customer satisfaction and company costs. A poor distribution system can destroy a good marketing effort. (Blythe 2005; Kotler et al. 2005.)

Physical distribution is concerned with the ways organizations get the physical product to a point where it is most convenient for the consumer to buy it. Logistics is concerned with the process of moving raw materials through the production and distribution processes to the point at which the finished product is needed. This involves strategic decision-making about warehouse location, materials management, stock levels and information systems. (Blythe 2005, p. 190.)

Distribution channels (Figure 10) consist of organizations such as retailers, wholesalers and agents through which goods pass on their way to customers. Agents sell for major retailers and wholesalers on behalf of a manufacturer, take orders and arrange delivery without actually buying the products. It is easier and cheaper for producer and saves the cost of operating a sales force, especially if the product range is small. (Blythe 2005, p. 193-194.) Wholesalers buy the goods from the manufacturers, often through an agent, and then sell the

goods on to the retailers or sometimes the final consumers. A retailer is any organization that offers goods directly to consumers. This includes mail order companies, door-to-door salespeople and e-commerce organizations selling over the Internet. (Blythe 2005.)

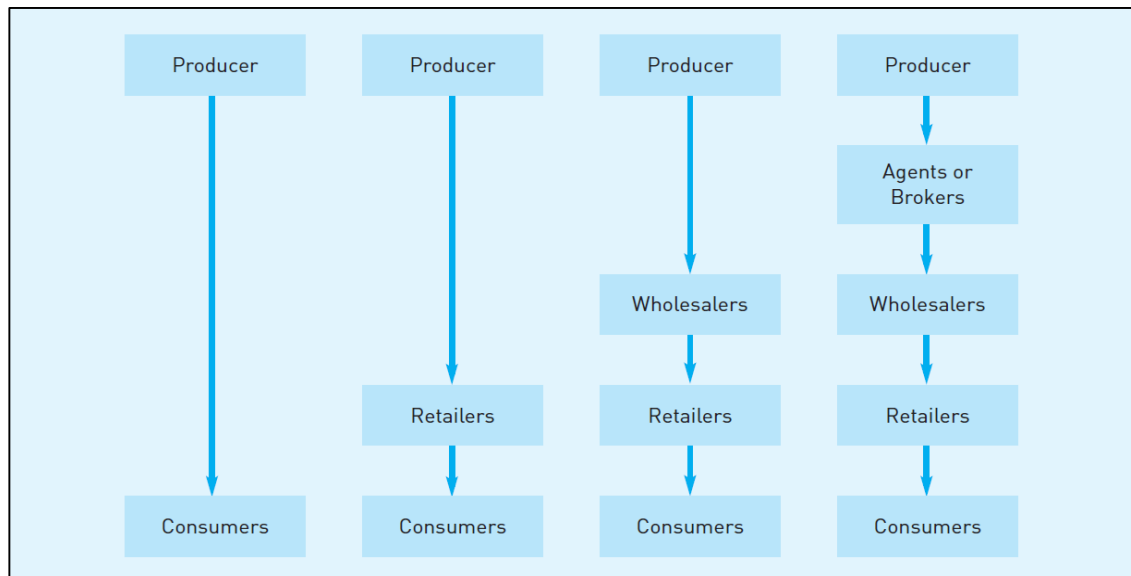


Figure 10. Channels of distribution (Blythe 2005).

In Russia under the command economy, consumer preferences were not considered in the production and distribution of goods. Shopping was a time-consuming effort because of the shortage of desirable goods. It was often necessary for consumers to buy goods via the “second economy” (black market). Most stores were state-owned, with a few co-operatives and special stores existing. The basis of the command system was to deliver state-produced products to state-run outlets ignoring the consumer needs. (Good & Huddleston 1995.) After the collapse of Soviet Union, consumer purchasing patterns changed dramatically as more products became available, channels of distribution improved and imported products, previously unavailable to the average consumer, increased in popularity.

Finland competes in Russia on the side of product supply mainly with Nordic and Baltic countries. However, Finland has the geographic advantage, so most of the tourists going to Nordic countries, will be automatically visited in Finland. Russians already form the largest foreign customer group in Finland, and the potential for increasing the number of tourists is huge. Russia doesn't have

connections to any other country which are as good and quick as these. (MEK a.) From St. Petersburg to Lappeenranta is only 209 km, and to Helsinki 386 km. It takes only few hours from St. Petersburg and less from Vyborg and other areas near the border to drive to Finland. The Allegro train connection between Helsinki and St. Petersburg takes only 3.5 hours, and between Vainikkala and St. Petersburg only 1.5 hours. There are four departures daily from Helsinki. Tolstoi train, which has one departure per day from Helsinki, goes to Moscow. (Ulkoasiainministeriö a.)

Due to the location, Finland's position in relation to its competitors is good, especially with St. Petersburg. It's easy to get to Finland and short holidays here are very popular among people living in St. Petersburg. In Moscow the situation is a bit different and Finland is more equal with competitors. However, geographical proximity and direct train connection are the trump cards of Finland with Moscow. (MEK a.)

3.2.4 Promotion / marketing communication

Marketing requires more than just developing a good product, pricing it and making it available to target customers. Companies must also communicate with current and potential customers and companies should also be interested in what customers communicate. (Kotler et al. 2005, p. 750.) The role of communication is to communicate with customer so as to provide the information that buyers need to make purchase decisions. It's impossible to connect with customers unless you communicate with them. (Hollensen 2010, p. 490.)

Communications often follow the AIDA approach: **A** Attention, **I** Interest, **D** Desire and **A** Action. This implies that marketers must first get the customer's **attention**. Secondly, the marketer must make the message **interesting**, or the receiver will not pay attention to it. This should, if the message is good, lead to a **desire** for the product on the part of the receiver, who will then take **action**. (Blythe 2005, p. 218.)

Marketing communications mix, also called promotion mix, includes advertising, personal selling, sales promotion, public relations and direct marketing (Figure

11). These tools the company uses to reach advertising and marketing objectives. (Kotler et al. 2005, p. 719.) The communication tools are handled deeply in the next chapter.

One-way communication <----->		-----> Two-way communication		
Advertising	Public relations	Sales promotion	Direct marketing	Personal selling
* Newspapers * Magazines * Journals * Directories * Radio * Television * Cinema * Outdoor	* Annual reports * Corporate image * House magazines * Press relations * Public relations * Events * Lobbying * Sponsorship * Celebrity endorsement	* Rebates and price discounts * Catalogues and brochures * Samples, coupons and gifts * Competitions	* Direct mail / database marketing * Internet marketing (WWW) * Telemarketing * Mobile marketing * SMS * Viral marketing * Social networking (Facebook, Twitter etc.)	* Sales presentations * Salesforce management * Trade fairs and exhibitions

Figure 11. Typical communication tools (media) (Hollensen 2010).

Advertising includes any paid form of non-personal presentation and promotion of ideas, goods or services through mass media, like television or newspapers, by an identified sponsor. Personal selling is any form of personal presentation by the company's sales force for the purpose of making sales and building customer relationships. In many companies sales persons have a key role in the marketing mix. Sales persons work directly with customers and often they are the customer's only direct contact with the company. Firms use sales promotion to provide short-term incentives to encourage the purchase or sale of a product or service. Public relations focuses on building good relations with the company's various publics by obtaining favorable unpaid publicity, building up a good 'corporate image', and handling or heading off unfavorable rumors, stories and events. Companies seeking immediate response from targeted individual customers use direct marketing tools to communicate with customers. (Kotler et al. 2005, p. 750.)

Much of today's business operates on digital information, which flows through connected networks. Intranets, extranets and the Internet connect people and companies with each other and with important information. The Internet has grown explosively and it's empowering consumers and businesses alike with

the benefits of connectivity. E-marketing is possible for companies in any of four ways: creating a website, placing ads and promotions online, setting up or participating in Web communities or using online email or webcasting. (Kotler et al. 2005.)

Next chapters introduce marketing communication/promotion in Russia, including most important promotion tools taking into account Russian tourists in Finland. Also some findings of media behavior research in St. Petersburg made by TAK in 2010 are included. Promotion part concentrates mostly on advertising and due to the growing significance of Internet marketing, there is a separate chapter for that.

3.3 Marketing communication in Russia and for Russian tourists

Marketing is relatively new thing in Russia. When Russia was a centrally-planned economy, the marketplace and, therefore, consumers didn't exist, at least as they are understood within the Western world. Within the centrally-planned economy, when the state owned all businesses and controlled the entire production and distribution chain, consumer preferences were irrelevant and there was no pressure on managers to meet the market needs. Russia was under the Communist regime for a longer period of time than other countries, and as a result, a centrally-planned economy was deeply entrenched in the society. Finally, since the country opened its doors to the rest of the world in the early 1990s, this market has experienced a boom in consumerism. Consumer spending has been climbing rapidly, turning Russia into the fastest-growing market. (Karpova et al. 2007.)

Advertising markets has grown rapidly due to fast economic growth and increased consumption. The total volume of advertising in Russia was almost 300 billion RUB in 2012. As Table 3 shows, the growth was 13 % comparing to previous year. Online advertising is increasing in Russia and it was the second biggest medium, behind TV and ahead of print, in 2012. Internet advertising increased even 35 % in 2012.

Segment	2012	Growth in 2012
	billion RUB	%
Television	143.2	9
Radio	14.6	23
Print media	41.2	2
Newspapers	9.5	8
Magazines	20.1	1
Advertising publications	11.6	-1
Outdoor advertising	37.7	10
Internet	56.3	35
Other media	4.9	14
Indoor advertising	3.8	13
Advertising in cinemas	1.11	18
Total	297.9	13

Table 3. Russian marketing communications 2012 (AKAR).

Russia is a large country and there are lots of potential customers. There are 142.5 million people in Russia, of which almost 80 % lives in the European part of Russia. Two biggest cities, Moscow and St. Petersburg, are both located in the European part of Russia, and especially St. Petersburg is near Finland.

To be a practitioner of marketing and advertising in Russia is not easy. Because of the huge area of the country, the unified marketing concept is hard to apply. What sells well in Moscow, may not impress buyers in St. Petersburg, and even less in Siberia. (Repiev 2011.)

The selected marketing channels should be selected taking into account the infrastructure of the area. Often e-marketing is more effective than advertising letter sent by post due to the bad roads and problems caused by the weather or slow mail handling. In Europe there are mostly Internet users in Russia and Russians use more time in Internet than for example Finnish, so e-marketing is very effective. (Startti Venäjän kauppaan 2012.)

Consumers are not used to Western-style advertising or advertising messages. Previously, advertising was seen as a form of propaganda to move unpopular,

poor-quality merchandise. Advertisements need to communicate in a culturally consistent manner, focusing on the country's rich history and cultural artefacts. (Good & Huddleston 1995.) Russians have often held a negative attitude toward Western advertising. These views are influenced by what they feel are misunderstandings of the value of history in Russian culture, traditional Russian taboos, gender roles, and the Russian sense of humor. The consequence of ignoring language differences, including structure, in advertising also proves to be a serious problem. Successful advertising in Russia must "tell a story," appeal to the "Russian soul," and build on verbal, not visual, icons. (Six 2005.) If the products are advertised e.g. to be safe and consumer-friendly in the West, the advertisement may not be effective in Russia, because Russian prefer product features such as beauty, speed, fashionable and specialty (Perilä-Jankola 2001, p. 37).

In Russia the marketing is more colorful, louder and more aggressive than in Finland. In cultural issues have to be careful, for example Finnish humor doesn't necessary affect Russians in a desired way. Russians love word games and they use adjectives bolder than used in Finland. The meaning of pictures is smaller than texts. (Startti Venäjän kauppaan 2012.) The Finnish company has to pay attention to the differences of the Finnish and Russian advertising materials. The extent to which the advertising message is received depends on the advertising material selection, design and content. Material must be suitable for the target group. Even though the message of the ad would be apt, the message of the ad can't be delivered, if the design and look of the ad is not correct. It is also very important that the ad language is translated correctly. (Perilä-Jankola 2001, pp. 59 - 60.)

There are several different reasons why advertising is hard to target for Russian tourists in Finland. Right target groups are difficult to identify, customer database is usually missing and the lack of information about Russian media and its efficiency. The information is diffuse; Russia has a lot of market data information available, but the problem is the fragmentation and reliability. Russian language and different culture is challenging and Russians' buying behavior is difficult to predict. (Perilä-Jankola 2001, pp. 99 -100.)

Marketing channels which can be used for Russian tourists visiting Finland are: border magazines, Russian travel magazines, trade fairs, exhibitions, Internet and television. However, the use of Russian television in marketing is difficult, because it's hard to find the right channel and the right time when it pays to advertise. The same is also true with the radio channels, so it's worth to study first profile reports of the radio listeners and TV watchers. Marketing for Russian tourists can also be effective using Russian travel agencies, bus companies driving between Finland – St. Petersburg and outdoor advertising. Companies having customer databases can use addressed direct marketing for marketing. (Perilä-Jankola 2001, p. 112.)

Although advertising has power and it's accepted in Russia, it must be remembered that the recommendations from friends are still a high priority. The best way to market in Russia is still a satisfied customer. Strong solidarity with trusted friends influences product trials, and not always positively. Brand recommendations from friends and family are valuable guides in the choice process, and tend to have a lasting impact on consumer behavior. This fact offers a promising starting point for viral marketing, information is spreading nowadays also in social network. Personal recommendations are more valuable in influencing the acceptance and spread of brands than most traditional advertising tools. (Glubokovskaya 2008.)

3.3.1 Advertising

In Russia the advertising media are the same as in all other market economies. Media in Russia has undergone significant changes during the last decades, resulting in more than 330 television channels, more than 25,000 newspapers and magazines, over 2,300 radio programs and around 400 news agencies offering communication services today. (To Russia with Ease.)

Advertising was a very rare phenomenon during the Soviet time because the newspapers and TV channels were owned and sponsored by the socialist government. As a revived industry in Russia, advertising reappeared as a real force during “perestroika”, when the acquisition of private property, joint ventures, small business and direct negotiations for products were finally

allowed. During the last 20 years, the advertising industry has taken a gigantic step forward in Russia. The marketing and advertising is changing rapidly, which has facilitated the entry of multinational companies. A lot of Russian and Western advertising agencies have been opened in Russia, reflecting radical changes in social and economic relations, technologies and mass media. (Ustinova 2008.)

Advertising and marketing in Russia is regulated mainly by the Federal Law on Advertising (Федеральный закон о рекламе) and the Law on Protection of Consumer Rights (Закон о защите потребителей). The New Federal Law on Advertising came into effect in July 2006 and replaced the previous one from the year 1995. It has undergone several amendments since then, the most notable of which took place in July 2011 when the rules applying to advertising of alcohol (spirits) were made applicable to beer. (Långstedt & Golov 2013.)

The Federal Antimonopoly Service of the Russian Federation (Федеральная антимонопольная служба) and the Federal Service on Customers' Rights Protection and Human Well-Being Surveillance (Федеральная служба по надзору в сфере защиты прав потребителей и благополучия человека) oversee compliance with the aforementioned laws and other laws and regulations that control advertising or that have been enacted for the purpose of protecting consumers. The Federal Antimonopoly Service of the Russian Federation is entrusted with the authority to initiate cases and examine violations of the Federal Law on Advertising, to prohibit advertisers from using advertising practices that violate the law, to hinder the dissemination of illegal advertisements and to apply administrative sanctions on advertisers that breach the law. (Långstedt & Golov 2013.)

Businesses advertising in Russia should also take into consideration the Federal Law on Personal Data (Федеральный закон о персональных данных), if the advertising campaign involves collecting of personal data. (Långstedt & Golov 2013.)

Television

Television is the most popular source of information in Russia. Television is a particularly popular source of information among Russian people living in small towns and villages and among senior citizens. According to media research made in St. Petersburg in 2010 by TAK (TAK 2010), 69 % of people living in St. Petersburg informed to watch TV on a daily basis and 90 % at least once a month. TV was watched actively in all age and professional groups. However, pensioners were watching television a little more than other professional groups. Television advertising is the most impressive way of advertising. In media research 2010, 40 % of respondents living in St. Petersburg thought that television ads are memorable and almost a third thought that TV ads are interesting. Nearly one in four in St. Petersburg said television ads also affect purchasing decisions.

Radio

Russian radio is diverse. There are more than 2000 radio channels with the majority of them being musical ones. Although most radio stations focus on broadcasting music, they also offer some news and analysis. (To Russia with Ease). The most common radio listeners are people living in large cities, senior citizens, men and highly educated people. In media research (TAK 2010) found out that 38 % of people living in St. Petersburg listened to the radio every day or several times a week in 2010. Over half (52 %) listened to the radio at least once a week. A third of people living in St. Petersburg didn't listen to the radio at all. One in ten from St. Petersburg said radio advertisements were memorable. (TAK 2010.)

Print media

The press in Russia is an important source of information delivering the news of the political and economic situation of the country and abroad. There are over 400 daily newspapers keeping people up-to-date with the latest news. Russian people read everywhere; they never miss a chance to read the latest news. Most newspapers and magazines are printed in the Russian language; however, there is a small choice of the media printed in English, such as The

Moscow Times and The St. Petersburg Times. (To Russia with Ease.) Media research in 2010 (TAK 2010) shows that every third person living in St. Petersburg read newspapers daily or several times a week. Two-thirds read newspapers at least once a month. Over 54 years old read newspapers more actively than other age groups. One-third of respondents read magazines weekly and almost 60 % read magazines monthly. This research found out that women read magazines more actively than men. Newspapers were more believable advertising medium than average, but ads in magazines considered to be more interesting than average.

Border magazines are not part of Russian media, but they are important advertising channel for Finnish companies marketing for Russian tourists. Advertisement in border magazine can be effective, because the magazine usually follows home and has an effect on the plans of the next trip. According to border research 2012, Russians read mostly “Venäjän Kauppatie” and Stop in Finland magazines. Both of these magazines are distributed in Finland and in Russia.

Stop in Finland magazine is published 10 times a year. The circulation is 25000 pcs/number, and the distribution is divided following: Finland 5 % (tourist information centers, shopping centers and hotels), St. Petersburg 45 % (travel agencies, insurance companies, General Consulate of Finland, visa application centers) and the border 50 % (Duty Free –shops). (Stop in Finland.)

“Venäjän Kauppatie” is published monthly. The circulation is 85000-115000 pcs/number, and it’s distributed in 150 places in Finland and in Russia. The distribution is organized in Finland in shopping centers, at the border and also in Tornio. In Russian side “Venäjän Kauppatie” can be found from several cities; St. Petersburg, Moscow, Vyborg, Petrozavodsk and Sortavala. (Venäjän Kauppatie.)

Outdoor advertising

Outdoor advertising includes various billboards, light flats, external and interior surfaces of transport vehicles, showcases, the walls of sport halls and edges of ice hockey rinks. Especially billboards on the road sides are quite effective

means of advertising. Finnish companies can use outdoor advertising, and advertisements especially on Finnish roadsides are worth to advertise. (Perilä-Jankola 2001, p. 49 & 112.)

Media research in St. Petersburg in 2010 (TAK 2010) showed that nearly one-third of people had seen outdoor advertisements on the streets during the day, and nearly two-thirds of people had seen ads on the streets during the week. People had also often seen ads at the bus stops. Respondents thought that outdoor advertising was second memorable advertising medium after the television advertising in 2010.

3.3.2 Internet and marketing

The Information Technology market in Russia is growing dynamically. The Internet has been Russia's fastest-growing advertising medium. In the middle of 2012 more than half of adult-aged Russians used the Internet. Russia has most Internet users in Europe, almost 70 million. Russian Press and Mass Media Agency predicted that in 2014 there will be 80 million Internet users in Russia. (Ulkoasiainministeriö b.) The Internet penetration in Russia is 48 % of population and measured with the Internet user numbers, Russia is ranked sixth in the world (Internet World Stats).

In addition to Moscow and St. Petersburg areas, the use of Internet is very common in larger cities, but the usage of Internet is growing also in smaller cities. The Russians have also been found to be more eager online shoppers than average users. Internet users search from the Internet mainly useful (job, weather) or entertaining (photos, music) information and use it for social debate. Social network is used diligently. The number of smart phones is rising, and especially young people are active users of the mobile connection. The smart phones with internet connection enable to transmit the real-time data directly to the scene. (Ulkoasiainministeriö b.)

According to border research 2012 (TAK 2013a) already 90 % of Russian tourists travelling to Finland have Internet access. 60 % of these Internet users have registered to social network "Vkontakte" and 86 % of users have Internet access at home. Almost half of Russian tourists had searched information

before the trip, and of these 84 % searched information from the Internet. The most popular sites for seeking information were search engines, social networks and hotel booking sites. (TAK 2013a.) In media research in 2010 people living in St. Petersburg said Internet advertising affecting to their purchase decisions more often than radio or print media (TAK 2010).

The Russian Internet advertising differs visually from the Finnish Internet advertising. Russian sites contain a lot of material and ads (banners, pop-ups). They are dynamic with moving pictures and texts. Finnish people might find such banner advertisement irritating, while Finnish static ads can seem boring for Russians. Company's own Russian language web pages with product catalogs, delivery terms and sales channels are worth doing, even in small companies. Internet advertising's strengths are its ease of monitoring, directionality, good accessibility and interactivity. When planning to advertise in the Russian Internet, it's better if the Russian content provider plans the ad or web pages. (Tiri 2007, p. 98.)

Search engines and blogs

The most popular search engine in Russia is Yandex. Yandex is a Russian Internet company and the largest search engine with about 60% market share. The second largest search engine is Google.ru. The users of Yandex are mostly "basic Russians", while the Google is popular among business people and students. (Mediatalo Toimelias Oy 2012.)

Russians are the most diligent bloggers in the world. A popular blog platform is LiveJournal.com. (Ulkoasiainministeriö b.)

Social networks

Russians use social networks actively. The most popular social networks are "Odnoklassniki.ru" and Facebook's Russian counterpart "Vkontakte.ru". "Vkontakte" is available in several languages, but it is popular particularly among Russian-speaking users around the world.

Figure 12 below shows both the unique visits to social networking sites in July 2013 and the total average number of minutes a user spent onsite that month.

Social networking sites are popular in Russia receiving 56 million visitors, accounting for 85% of the online population in Russia. “Vkontakte” is the most popular social network in Russia, and it had almost 50 million users in July 2013. “Odnoklassniki”, which reconnects classmates and old friends, had almost 38 million visitors. The user amounts of Facebook have risen, as well as of Twitter. Also Mail.ru is a popular social network in Russia. (Digital Strategy Consulting.)

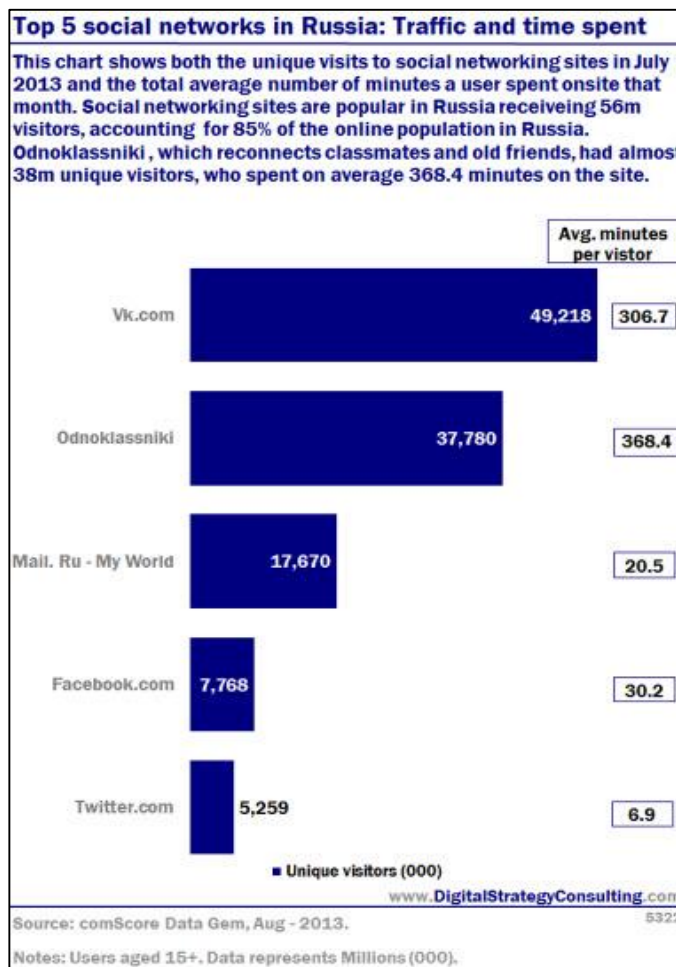


Figure 12. Top 5 social networks in Russia: Traffic and time spent (Digital Strategy Consulting).

3.3.3 Personal selling and direct marketing

Personal selling has a key role in Russia. The personal relationship between the seller and the buyer is emphasized in marketing. In the best case trading is creating a good relationship and completing the network of relationships. In Russia trading demands more personal selling than in Finland. In Russia the

seller and the buyer wants to evaluate each other first face to face. Successful co-operation is based on trust. In personal selling the trust between the seller and the buyer is the most important thing. The importance of personal relationship can't be emphasized too much in Russia; if the relationship is not working, it's almost impossible to trade, even though the terms are good. (Perilä-Jankola 2001, pp. 45-46.) In Russian culture has always thought that the seller lies and sells fake products, so buyers are skeptical. Personal selling requires a lot from the seller; the seller has to have broad range of skills, he has to understand the business field and have good customer care. The seller has to know the demands of the buyer. There are explained more about Russian customers and their expectations and behavior in customer service in the Chapter 3.2 Russian as a customer.

The popularity of the direct marketing has grown in Russia. There are addressed direct marketing for consumers also in Russia, but not so much as in Finland. The problem in Russia is the lack of consumer information and their consumption habits, the lack of address database and irregular mail delivery. Direct marketing is used more for companies, because there is more information available. (Tiri 2007, p. 100.) Unaddressed direct marketing for consumers can be carried out at fairs, stores, metro stations, buses, trains and border stations. This kind of direct marketing is especially popular at metro stations in Russia. (Tiri 2007; Perilä-Jankola 2001.)

3.3.4 Public relations and sales promotion

Sales promotion instruments used in Russia are fairs and exhibitions, seminars, workshops, presentations, sponsorship and different promotion tools like competitions, price campaigns and discount sales. The fair is an old and traditional way of making the product known in Russia. Fairs or exhibitions can be national or international. Participating in fairs is expensive, so it's good to invite old customers to fairs and have all materials in Russian language, as well as have skilled and Russian speaking demonstrators. Seminars, workshops and presentations are quite common alongside the fairs for certain target groups or just for the press. (Perilä-Jankola 2001, pp. 52-53.)

Sponsorship has grown in Russia tremendously. Sponsorship is a common method of financing at seminars, in television programs and in sport and culture events. (Tiri 2007, p. 102.)

Russian consumer likes different competitions and answers happily surveys relating to them. Because the price is one of the most important factors when making purchase decision, the price campaigns and discounts are good way to promote sales. (Perilä-Jankola 2001, p. 54.)

Public relations (PR) can be carried out in the form of external relations, when the target is customers, suppliers, authorities, shareholders, sponsors, media and other stakeholders. The maintenance of good relations is extremely important in Russia, because the business is conducted largely on personal level, not on corporate level. Good relationships are the key point in business. Even that the product is good, it's not possible to find sales channels for the product without sufficient relationships. Other PR activities can be organizing press conferences, reporting (annual reports) or publishing customer magazine. Also presents or lunch negotiations are good PR. (Perilä-Jankola 2001, pp. 57-58.)

4 Tax-free sales in the case company – Puukeskus Oy

4.1 Company presentation

Company Puukeskus Oy is Finland's leading supplier of timber and building materials. The company has 22 branches in Finland and one in Estonia. There are about 400 employees working in branches of company Puukeskus and the turnover was 292 MEUR in 2012. (Puukeskus.)

Puukeskus was founded in 1929. The company became a part of current UPM group in 1978. Equity Investment Company Triton bought Puukeskus in 2006.

Company's customer segments consist of national and local contractors, wood working industry, secondary builders' merchants and consumers.

Puukeskus Oy is one of the leading companies operating at DIY market in Finland. It has 8 % market share, and it is fourth largest operator after K-group, Starkki and S-group (Figure 13).



Figure 13. DIY market in Finland 2012 (RaSi).

The product range of Puukeskus consists of wood products, construction materials and hardware store products. Puukeskus offers also services in structural engineering, transportation, timber cutting, installation, invoicing and financing to both professional customers as well as consumers.

Puukeskus Lappeenranta has wider selection of products at the warehouse than many other branches in Finland. Reason for this is that there are more consumers as a customer than in other branches of Puukeskus. There is also lot of Russian consumers in Puukeskus Lappeenranta due to the close location of Russian border. The consumer sales share of total sales was 28 % in 2013 in Puukeskus Lappeenranta. Tax-free sales for Russian consumers account for about 6 % of consumer sales.

4.2 Tax-free sales development during 2011-2013

Tax-free sales started to grow after the changes in customs clearance in summer 2010. According to new import regulations, the limits for duty-free import increased. Natural persons can import goods for personal use as duty-

free, as accompanied or unaccompanied baggage which doesn't exceed 1500 EUR in value and 50 kg in weight. The number of imports were not anymore restricted as earlier, when natural person was allowed to import good for personal use as duty-free only once a month, while now it's possible to import duty-free even daily. This clearly positively affected shopping tourism.

Puukeskus Lappeenranta started invoice (VAT 0) sales in October 2010. At the same time was opened the new customer number for these sales, which enabled and facilitated the monitoring of VAT 0 sales. Before that all tax-free sales were handled using the services of Global Blue. Because the customer number for tax-free customers were opened only at the end of 2010, the development of tax-free sales in Puukeskus Lappeenranta is possible to introduce only during 2011 – 2013. But it can be said, that the amount of tax-free sales before new customs regulations wasn't remarkable.

Puukeskus Lappeenranta located earlier in the region of Pallo in Lappeenranta. The location wasn't in the city center or near services and shops where Russian tourists usually spend time. In spring 2011 Puukeskus moved to the region of Myllymäki in Lappeenranta. Myllymäki is growing region and many markets and shops have been opened during past few years in Myllymäki area. Most of the shops at the area are directed especially for serving Russian customers. The new location and new store of Puukeskus Lappeenranta was ideal for attracting more customers. The amount of Russian tourists grew remarkably after the move.

Because the customer number for tax-free customers was established only at the end of 2010, there aren't any statistics from the year 2010 and thus the growth in 2011 is impossible to introduce. Chart 1 shows that tax-free sales rose by 28.4 % in 2012 compared to the previous year. The growth continued strongly and in 2013 the growth rate was even 52 %. But as mentioned earlier, the amount of tax-free sales started to grow remarkably after the new customs regulations. The new location of Puukeskus Lappeenranta has also affected to the growth of tax-free sales.

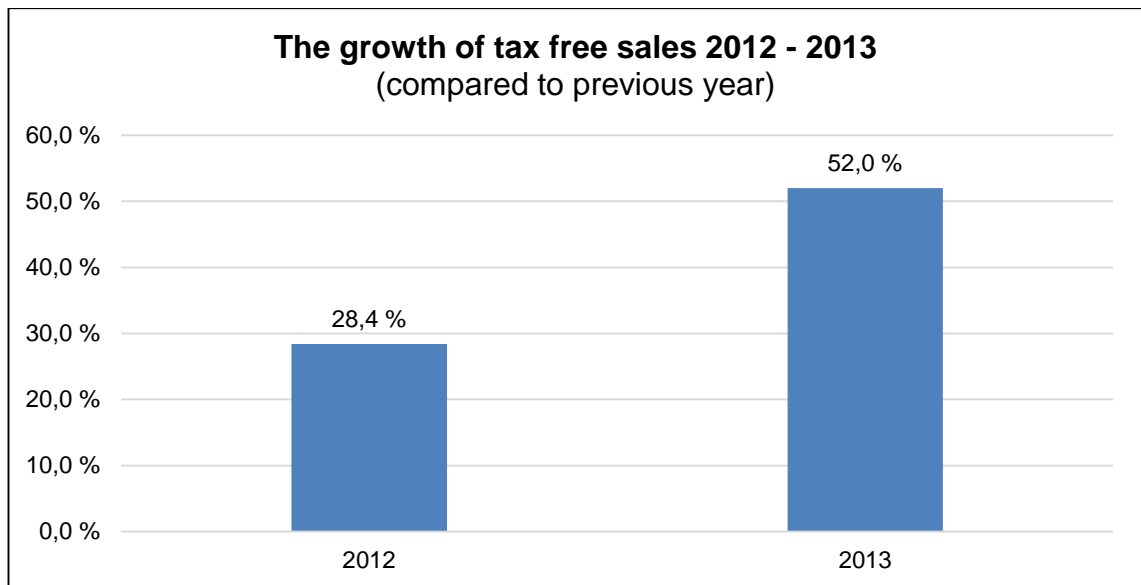


Chart 1. The growth of tax-free sales in Puukeskus LPR 2012 – 2013

4.3 Earlier marketing actions for Russian customers

Russian customers didn't come to the store just accidentally, when Puukeskus Lappeenranta located outside city center, in the region of Pallo. Most of the customers were old customers, who had visited Puukeskus Lappeenranta for many years. Actually most of the customers visiting Puukeskus Lappeenranta when it was located in the region of Pallo, were export customers, who are not included in this study. Those new customers who visited Puukeskus Lappeenranta had heard about the store from friends. Word-of-mouth marketing is the most effective channel among Russian customers. Even today most of the customers visiting Puukeskus Lappeenranta have arrived from the recommendations of friends or relatives.

Puukeskus Lappeenranta hasn't done many marketing actions earlier for Russian customers. The company has marketed for Russians in the border magazines two times. First time the advertisement was in the border magazine EU Gate. Puukeskus located that time in the old place in the region of Pallo. There was a discount coupon in the advertisement, but unfortunately it didn't help and new customers were not reached.

In spring 2012 Puukeskus had article advertisement in magazine Stop in Finland. It was one page article advertisement, and half of the page covered

information about Puukeskus in general and the new store of Puukeskus Lappeenranta in the region of Myllymäki. The other half page was covered with commercial information about product offers and also a coupon that offered a small gift for visitors in Puukeskus Lappeenranta was included. The exact amount of distributed gifts can't be remembered but the amount wasn't huge. Thus it can be concluded that ads in the border magazines were not effective. Especially the magazine EU Gate is the kind, that there are so many ads in the magazine, so it's hard to stand out from the crowd. It has to be also noticed that ads were only once in both magazines, and effective marketing demands that the visibility is continuing, not just from time to time.

The brochure of Puukeskus Lappeenranta in Russian language was designed as a final project by one employee, who studied marketing. Also the author of this thesis participated in designing process of the brochure. The brochure was two-sided and designed for Lappeenranta Puukeskus. It covered information about Puukeskus Lappeenranta and Puukeskus in general. The brochure contained information on the company's products, as well as contact information. In addition was included that company is engaged in tax-free sales either via Global Blue or invoice (VAT 0) sales. So far the brochure has been distributed only in the store of Puukeskus Lappeenranta.

During this thesis process, Puukeskus Lappeenranta decided to make outdoor advertisement in the area of Myllymäki. The outdoor ad is not just for Russian tourists, but mainly for Finnish customers.

5 Research process

5.1 Self-administered questionnaire

The empirical data for this study was gathered by using survey research and the data was collected by self-administered questionnaires. Self-administered questionnaire means that the respondent fills it on his own, without the aid of an interviewer (Bryman & Bell 2007, p. 241). They are especially useful in surveying people who are dispersed over a wide geographical area. The questionnaire form was drawn up in Russian language. The questionnaire form

is presented in appendices of this thesis; Appendix 1 is questionnaire form in English and Appendix 2 questionnaire form in Russian.

The questionnaire was distributed for Russian customers visiting Puukeskus Lappeenranta. Because the high season was over, and many customers were not visiting at winter time, most of the questionnaires were sent as a web-survey. The link to web-survey was sent by e-mail to 75 Russian customers. 2 e-mails returned back undelivered, 4 persons informed that they haven't visited Puukeskus Lappeenranta and 2 of the customers, who got the e-mail link to web-survey, answered to questionnaire in the store by using paper forms instead of answering via Internet. Thus, the net sample size of web-survey was 67. 35 Russian customers answered to the questionnaire using web-survey, so the response rate of web-survey was 52.2 %, which is actually very good.

Totally 8 customers filled the questionnaire in the store, resulting that the total number of respondents was 43. Many customers visiting Puukeskus Lappeenranta during the research process informed that they had already filled the questionnaire via Internet. The amount of questionnaires collected in the store would have been bigger if it wouldn't be low season. When questionnaire form was planned, it was known, that there won't be many customers filling the paper questionnaire due to the low season, but anyway the amount of 8 answers through collecting answers in the store was surprisingly low.

The amount of questions was restricted in the questionnaire, because it wanted to keep simple and easy to follow. Also it wanted to keep short, so the questionnaire form was designed to be two-sided especially thinking of paper questionnaires distributed in the store. If the questionnaire is too long, response rate will be smaller and the quality of responses may suffer. The questionnaire consisted totally 17 questions, of which 14 were close-ended, and 3 open-ended. In open-ended questions the respondents use their own words to answer a question, whereas in closed-ended questions prewritten response categories are provided. Closed-ended questions are quick and easy for respondents to answer, while open-ended questions are usually left blank. But the benefit of web-survey is that people give longer answers to open-ended questions on web page questionnaires than they do to other kinds of self-

administered surveys. Closed-ended questions are for the researcher easier to code than open-ended, especially if multiple answers are given.

The questionnaire included background information questions about the customer, such as gender, age and place of residence, which are important questions for clarifying the target market. The rest of the questions were all somehow related to the product, price, place or promotion. These variables form the marketing mix, which is considered as an operative tool to achieve marketing objectives.

All 14 closed-ended questions were compulsory in the web-survey. Three open-ended questions were optional. 13 of closed-ended questions were multiple choice questions, of which 11 questions required only one answer and three multiple questions with check-all-that-apply. One of the closed-ended questions was in scale format.

The questionnaire survey was conducted in November 2013. The link to web-survey by e-mail was sent first time on 19 November to 75 customers, and week after that, 27 November, the questionnaire was sent again to 46 customers. Five non-functional e-mail addresses and those e-mail addresses from which had reportedly responded already were left out from the second round. The collection of questionnaire answers for paper forms in the store started also 19 November. The author of this thesis managed to get 8 responses by the beginning of December when she started her study leave. The questionnaires were available in the store also after that, but because there wasn't any Russian speaking person in the store while the author was on study leave, answers were not collected from Russian customers anymore by the end of the year.

5.2 Semi-structured interviews

Semi-structured interviews were chosen also for collecting empirical data, because they gave possibility to deepen the theme. Semi-structured interviews enabled to reach answers to questions that weren't asked in the questionnaire or could be asked differently in the interview situation.

In semi-structured interview the researcher works from a list of topics that need to be covered with each respondent, but the order and exact wording of questions is not important. The interviewee has a freedom how to reply. The interview process is flexible and the interviewer usually has some latitude to ask further questions as the interviewer picks up on things said by interviewees. (Bryman & Bell 2007, p. 732.)

Three Russian customers were chosen and asked to the interview. All these three customers had visited more than once Puukeskus Lappeenranta, so they had some kind of a picture about the company and its actions. Interviewees wanted to be anonymous, so they are named in this study as Interviewee I, Interviewee II and Interviewee III.

Interviewee I: Woman, age 20 - 39, St. Petersburg

Interviewee II: Man, age 40 – 59, Leningrad region

Interviewee III: Man, age 40 – 59, St. Petersburg

All 3 interviews were conducted during the last week of November 2013 in the premises of Puukeskus Lappeenranta and they were held in Russian. The author of this thesis speaks Russian, so she was acting as an interviewer. The interview consisted of 10 questions and one interview session last about 15-20 minutes. The list of questions is introduced in Appendix 3. All the three customers responded also to the questionnaire, two of them through the web-survey and one of them through paper questionnaire in the store.

6 Research analyses and findings

This chapter analyses the results of both research methods; the self-administered questionnaire and semi-structured interviews. First will be introduced the findings of the questionnaire and after that will be presented the findings of the interviews.

6.1 The results of self-administered questionnaire

The self-administered questionnaire was responded by 43 Russian customers. The results of the questionnaire will be presented in the order they were asked in the questionnaire.

Gender of the customers

In the first question was asked the gender of the respondent. As Chart 2 shows, most of the Russian customers in Puukeskus Lappeenranta are men. This is not a surprise, because usually men make the purchases in the building material store. 33 customers of all respondents were men and 10 women. So the share of men was 77 % and the share of women 23 %.

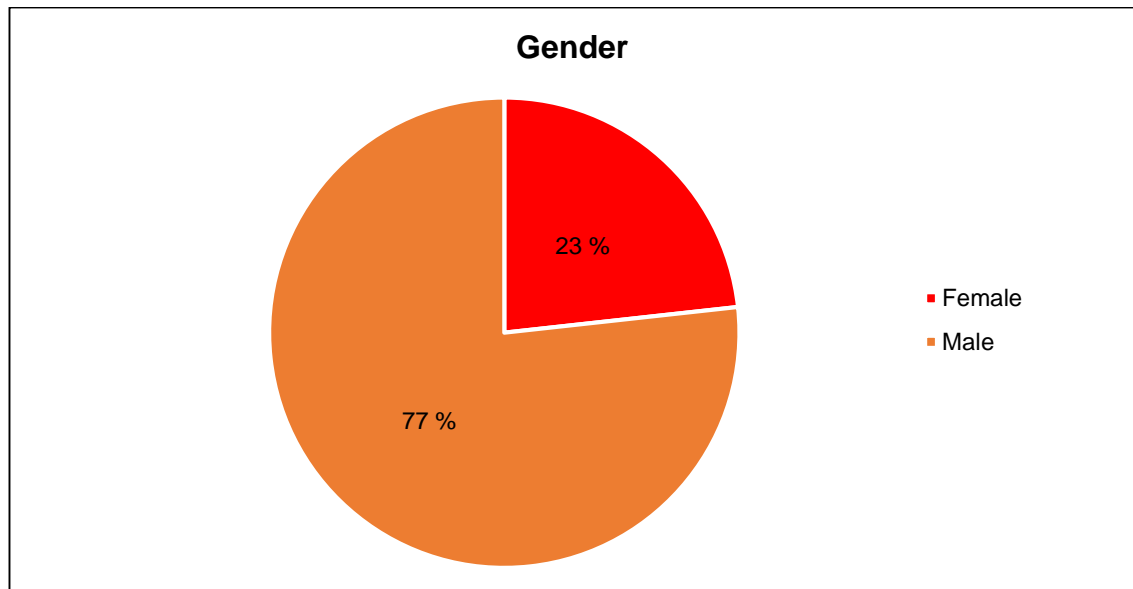


Chart 2. Gender of the customers

Age of the customers

In the second question was asked about the age of the customer. As from the Chart 3 can be seen, most of the customers, 95 % are 20 -59 years old. Also in the border research 2012 made by TAK Oy, the share of Russian tourists travelling to Finland in age 25 – 64 was 94 %.

The biggest amount of customers belongs to the age group 40 – 59 having the share of 60 %. 35 % of respondents are 20 – 39 years old. None of the customers is under 20 years, and only 2 customers are over 60 years old.

The biggest share of the customers belonging to the age group 40 - 59 is understandable, because at that age people usually have already child/children and well-established income and the purchasing or renovating of own apartment or house is current issue.

In Russia almost all apartments are sold unfinished, which means that the buyer himself decorates and completes the apartment. If the new apartment is not bought, then customers usually renovate their current apartment. Many of the Russians have their own apartment because in the early years of Russia, after the collapse of the USSR, each Russian had the right to privatize their homes as their own.

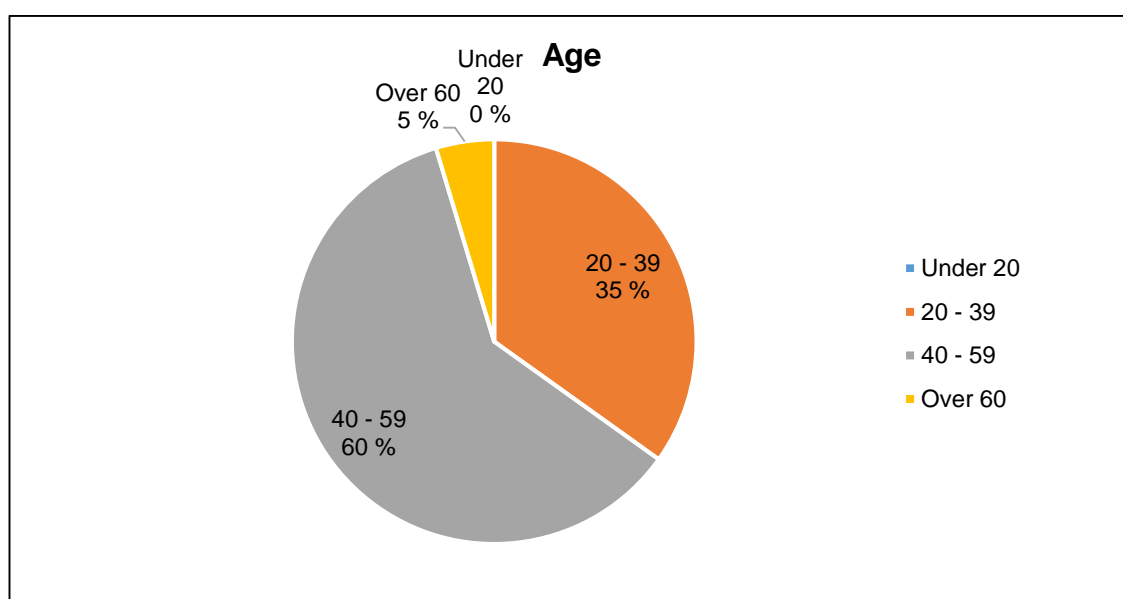


Chart 3. Age of the customers

Customers' place of residence

When comparing results of the place of residence in this study to the results of the border research 2012, it can be noticed that the share of the customers from St. Petersburg in this study is not so huge as in the results of the border

research by TAK. The share of customer from St. Petersburg in this study is 56 % (Chart 4), while in the border research the share was even 80 %.

The share of customers from Vyborg is 28 %, and the reason can be estimated to be the fact that when buying building materials which are heavy and not so easy to transport, it's easier for customers near the border to come and make building material purchases in Lappeenranta. Usually transporting building materials demands a trailer, and this is not so convenient for the customers who live further away from the border. Also one reason can be that the awareness of Finnish building materials in Vyborg is better than in St. Petersburg. Also the supply of high quality building materials in Vyborg area is less than in St. Petersburg.

It is quite remarkable that even 5 % of the customers live in Moscow, which already is located quite far away from the border and Lappeenranta. Customers who live in other parts of Russia, informed their place of residence to be Svetogorsk, Leningrad region, Priozersk and Sestroretsk. The share of these customers is 11 %.

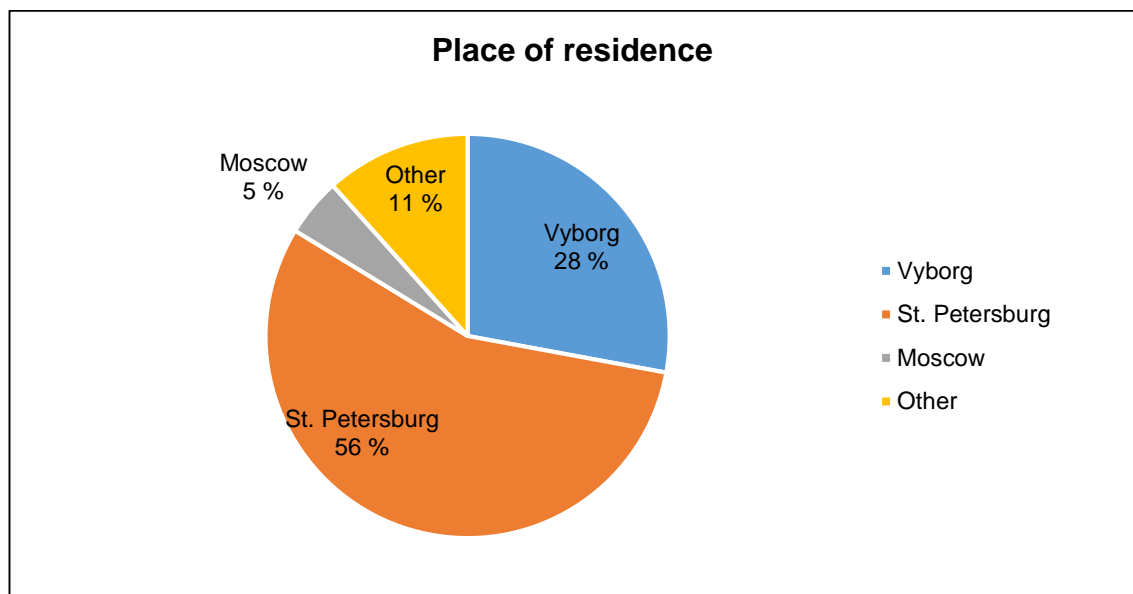


Chart 4. Customers' place of residence

Information received about Puukeskus Lappeenranta

As already mentioned earlier the most effective marketing channel among Russians is word-of-mouth marketing. In word-of-mouth marketing satisfied

customers tell other people how much they like a certain company, product or service. Even that marketing has started to be accepted in Russia, many Russians still rely on the recommendations received from the friends. Also this study shows that most of the customers have heard about Puukeskus Lappeenranta from friends. Because this is the most effective channel among Russian customers, it's very important that the company Puukeskus in Lappeenranta offers its products and services in Russian language. If the customer receives good service in his own language, it's guaranteed that he will recommend the company forward to his friends and relatives. When purchasing the building materials, which are relatively expensive and the technical information play an important role, it is very important that the customer receives the service in Russian language.

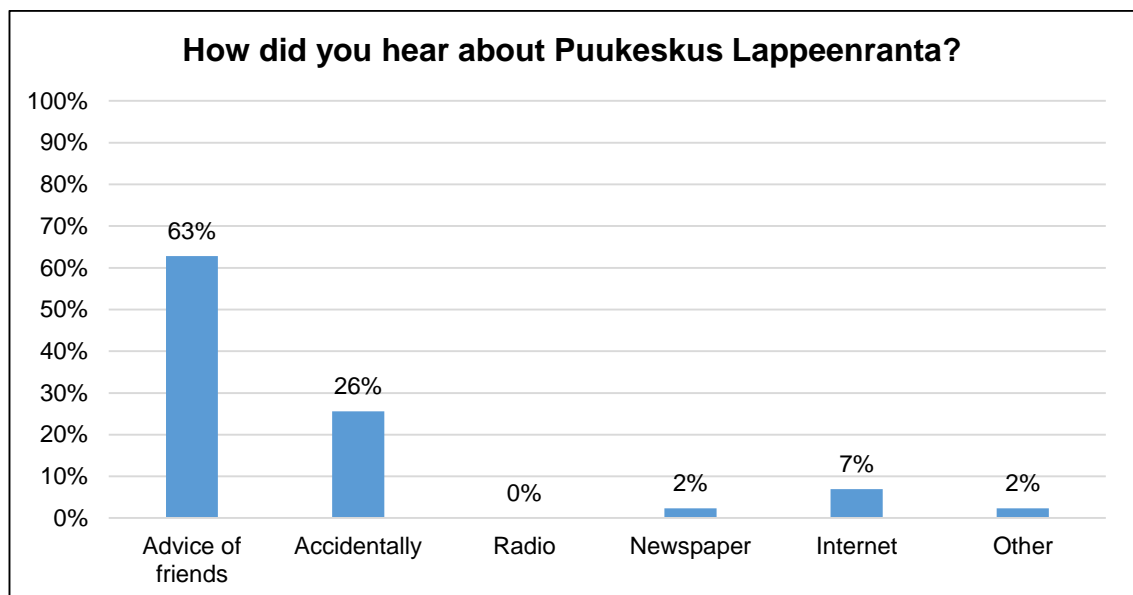


Chart 5. How the customer has heard about Puukeskus Lappeenranta

Because there haven't been many marketing actions for Russians in Puukeskus Lappeenranta, it's obvious that most of the customers on that base have visited Puukeskus Lappeenranta from the advice of friends. This study confirms also that fact. Chart 5 shows that 63 % of customers informed that they have heard about Puukeskus Lappeenranta from the advice of friends.

26 % of the respondents answered that they have heard about Puukeskus Lappeenranta accidentally. This means that they have just driven past and

noticed the store by chance. Puukeskus moved to new premises in the region of Myllymäki in Lappeenranta in spring 2011. The new location enables that many Russian customers drive past the store. There are many shops and markets in the region of Myllymäki, and many Russian tourists do shopping in the area. The new location has brought many new Russian customers for Puukeskus Lappeenranta.

The share of Internet as a source of information was quite low. Only 7 % of customers informed that they have heard about Puukeskus Lappeenranta from Internet. The result is not unexpected, because Puukeskus hasn't have any search engine marketing (SEM) or search engine optimization (SEO) in most popular search engines in Russia, Yandex and Google.ru. Puukeskus hasn't also marketed in any travelling pages in Internet and it doesn't have own web pages in Russian language.

Customers' visits to the store Puukeskus Lappeenranta

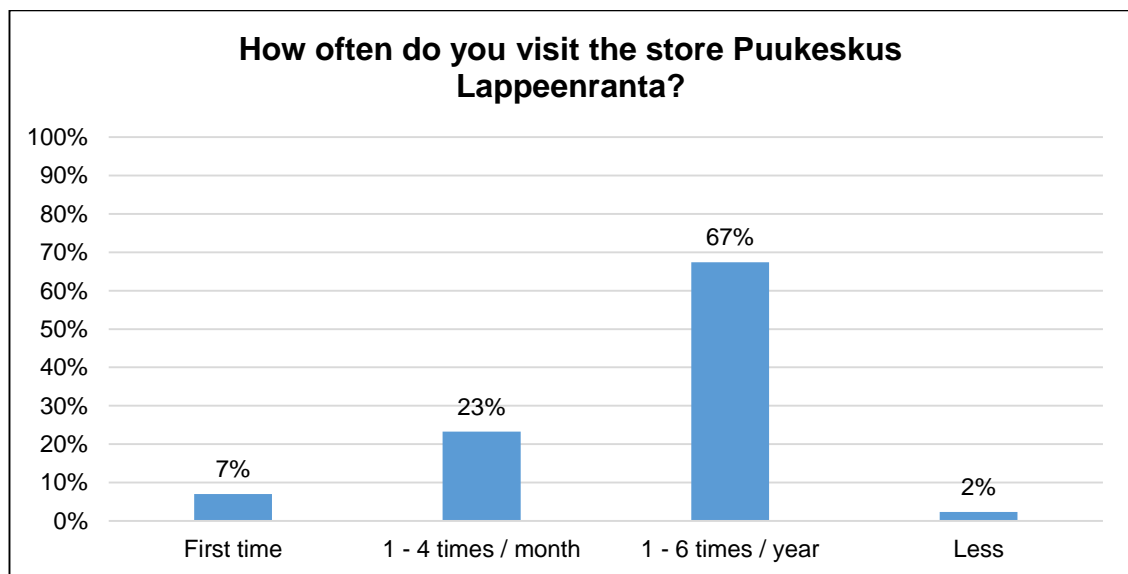


Chart 6. How often customers visit the store Puukeskus Lappeenranta

Most of the customers (67 %) visit in Puukeskus Lappeenranta 1 – 6 times a year. 23 % of the customers visit 1 – 4 times a month and 7 % of customers informed that the visit was first time in Puukeskus Lappeenranta (Chart 6).

Those customers who visited Puukeskus Lappeenranta first time have heard about the store from advice of friends or accidentally.

Recommendations for friends

All of the respondents could recommend Puukeskus Lappeenranta for their friends, as Chart 7 shows. This is very important, because as earlier mentioned, the word-of-mouth marketing has powerful effect among Russian customers and their shopping places are mostly chosen according to the recommendations received from friends.

Puukeskus Lappeenranta has to recognize the power of word-of-mouth marketing and put enough effort for serving Russian customers, so that the customers are able to recommend the store also in the future.

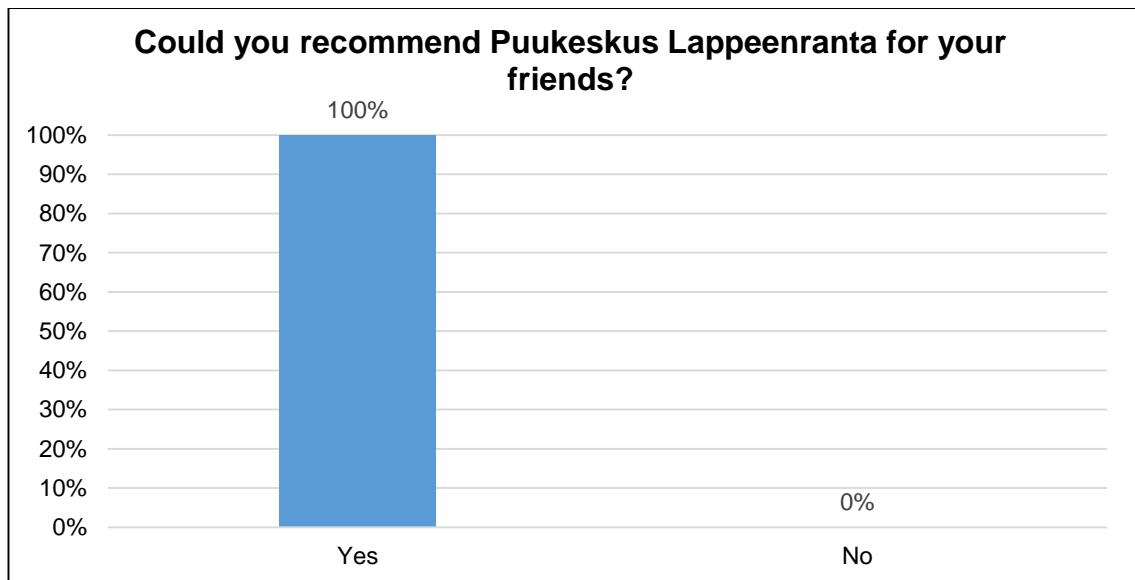


Chart 7. Recommendations for friends

The significance of the factors influencing on choosing Puukeskus Lappeenranta

The factors, which are the most relevant and have influenced for choosing Puukeskus Lappeenranta as a shopping place of building materials, were one of the most important matters, which wanted to be clarified in this study. In the Chart 8 is presented the significance of different factors. There are marked only shares covering more than 10 %.

It can be seen that the most important factor for choosing Puukeskus Lappeenranta is invoice (VAT 0) trade. 81 % of customers informed that invoice

trade is the most important factor in Puukeskus Lappeenranta. Puukeskus refunds the VAT for the buyer himself, which means that when Puukeskus receives the invoice stamped by the customs back from the Russian customer, it will refund the VAT to the buyer. Building materials are quite expensive products, so the amount of refunded VAT has significant meaning for Russian customers. Puukeskus Lappeenranta doesn't charge any fees about this service, but refunds the value of VAT in full. This refund system has also advantages for the Puukeskus, because this requires that the customer has to return back to the store.

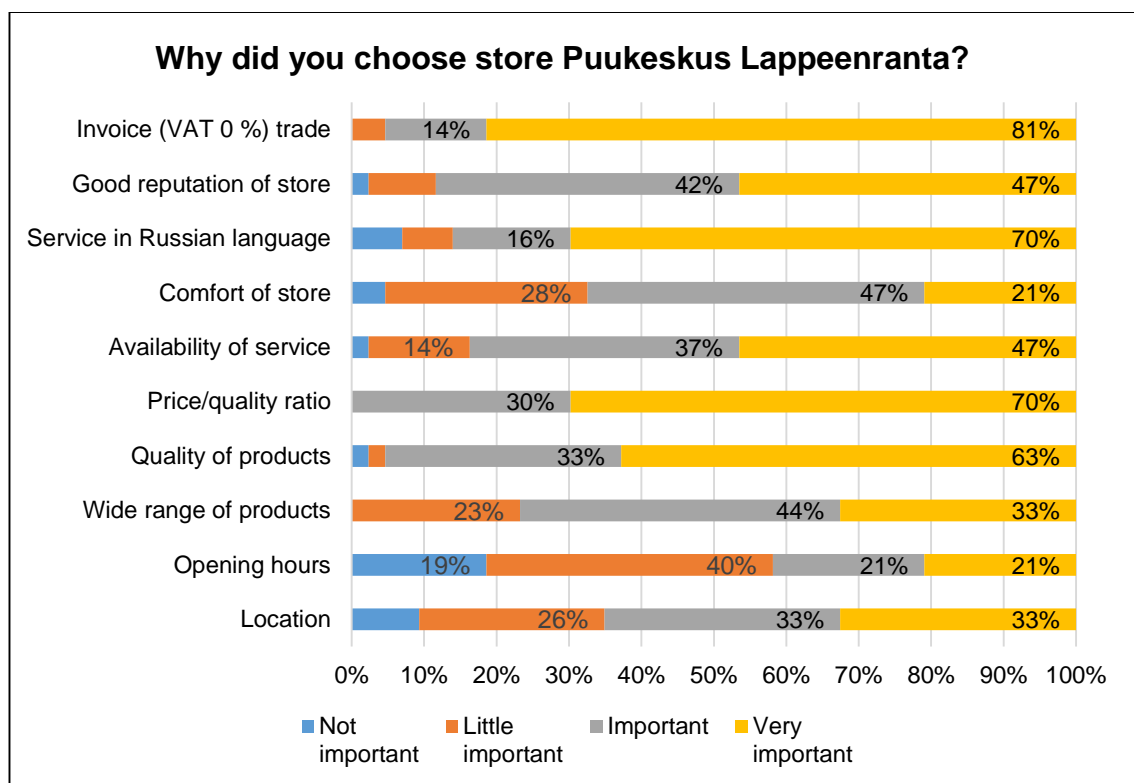


Chart 8. The significance of the factors influencing on choosing Puukeskus LPR

The second important factor is the service in Russian language and price/quality ratio. 70 % of customers informed those factors to be very important reasons for choosing Puukeskus Lappeenranta. There are two Russian speaking employees in Puukeskus Lappeenranta; another employee working in the store and the other in the warehouse. The service of Russian customers suffers when these employees are not at work.

Quality of the products is one important factor for the customers, and 63 % of respondents informed this factor to be very important.

47 % of respondents informed that availability of service is very important, while 37 % of them informed it to be important.

As an important factor is mentioned wide range of products (44 %) and comfort of the store (47 %). Puukeskus Lappeenranta has wider range of products in the warehouse than other branches of Puukeskus in Finland. Some products in the branch of Puukeskus have been chosen to be in the warehouse because of Russian customers. Puukeskus moved to new premises in spring 2011, so the store is comfortable and large, and products in the store and at the warehouse are easily available. Some of the information signs are also in Russian language.

The most insignificant factor is opening hours. Puukeskus Lappeenranta has different opening hours for the summer time and for the winter time. At the winter time the store is closed on Saturdays. Russian tourists usually do shopping by day, so the opening hours don't affect their purchasing decisions.

Location is the factor, which 33 % of respondents think to be important and same amount think the location is very important. The amount of tax-free sales has increased after Puukeskus Lappeenranta moved to new place. The location is very suitable now for serving Russian customers and as noted before quite many Russian customers have heard about Puukeskus Lappeenranta accidentally driving past the store.

All the results of influencing factors, including the shares under 10 %, are presented in the Table 4 below. Most significant results of each factor are marked in red color. There were 10 different factors of which most important is clearly invoice (VAT 0 %) trade and the most meaningless factor is opening hours. Puukeskus Lappeenranta should focus on those factors that mostly affect Russian customers.

Factor	Not important	Little important	Important	Very important
Location	9 %	26 %	33 %	33 %
Opening hours	19 %	40 %	21 %	21 %
Wide range of products	0 %	23 %	44 %	33 %
Quality of products	2 %	2 %	33 %	63 %
Price/quality ratio	0 %	0 %	30 %	70 %
Availability of service	2 %	14 %	37 %	47 %
Comfort of store	5 %	28 %	47 %	21 %
Service in Russian language	7 %	7 %	16 %	70 %
Good reputation of store	2 %	9 %	42 %	47 %
Invoice (VAT 0 %) trade	0 %	5 %	14 %	81 %

Table 4. The shares of different factors (including shares under 10 %)

Three most important product groups

In the question of most important product groups was asked the customer to mark three most important product groups. Only three groups were asked to mark, but some of the customers had marked more.

The most important product group for 79 % of Russian customers is clearly doors (Chart 9). Here are not separated inside and outside doors, but Russian customers buy both of them. The share of inside doors is bigger, because they are lighter than outside doors. Inside doors and frames are also sold separately, while outside doors are sold with frames as a one package. Even that Russian passengers may import free of customs duties and taxes goods for a total weight of at most 50 kg, an indivisible item for personal use can be with a maximum weight of 35 kg. If the weight of the indivisible item for personal use exceeds 35 kg, full customs duties will be collected irrespective of its customs value (customs duties + VAT + customs clearance fee). An outside door package is, depending on the type and size of the door, usually heavier than 35 kg.

The Finnish doors have a reputation of high quality and this is the main reason for a Russian to buy the doors from Finland. There are Finnish doors also available in Russia, but the price is higher than in Finland. When the doors are

exported to Russia, there will be added import tariff, Russia's value added tax and the seller's margin. Thus the same door in Russia is much more expensive than in Finland.

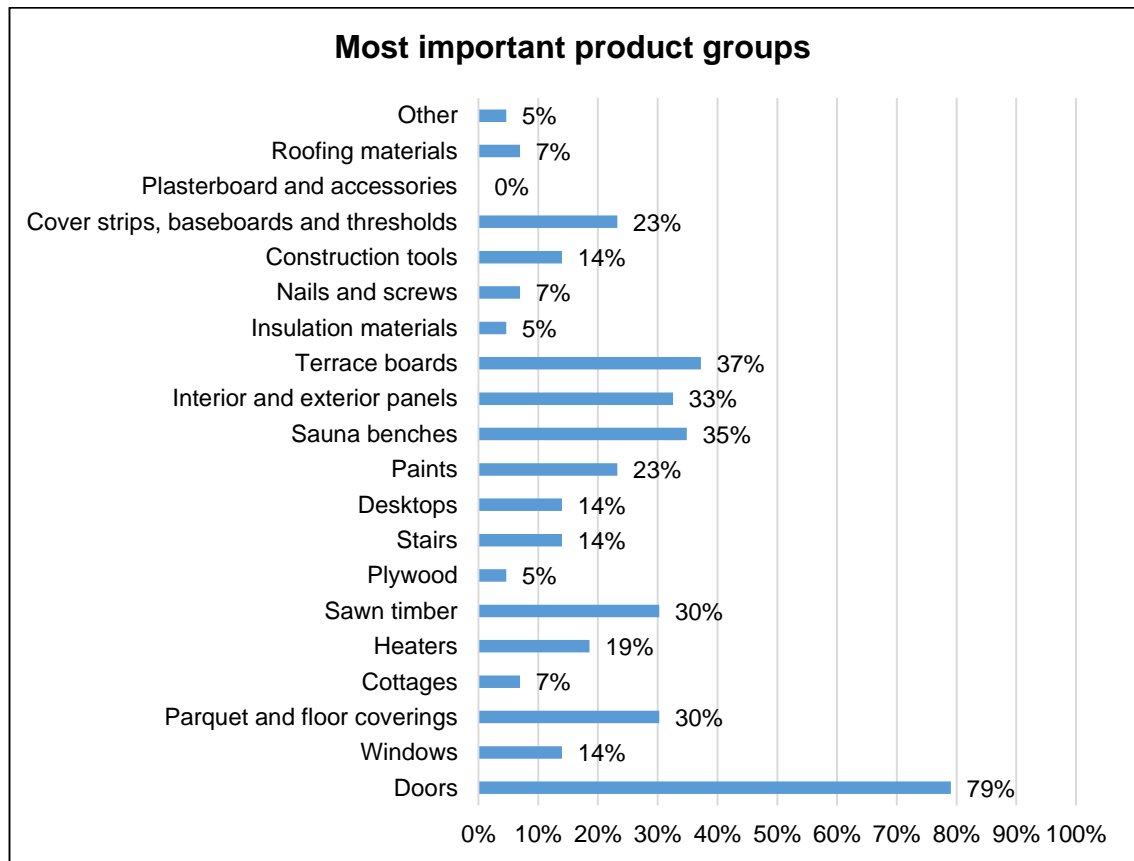


Chart 9. Most important product groups

Also processed timber products are so far of better quality in Finland than in Russia. The second important product group is terrace boards for Russian customers visiting Puukeskus Lappeenranta. 37 % of customers inform terrace boards to be among three most important product groups and 35 % choose sauna benches, which is the third popular item group. Also interior and exterior panels are popular products among Russian customers.

None of the customers chose plasterboard and accessories and the reason is that this product can be bought also in Russia, so there isn't any sense in distributing it from Finland.

Customers' ideas about the new products in the assortment

In the first open-ended question was inquired what other products the customer would like to see in the assortment. This question, like other open-ended questions, was voluntary; it was not obliged to answer to open-ended questions. Only six customers (14 %) answered to this question. Most of them wanted to have electric goods and radiators in the assortment. One of the customers informed that there should be more sauna panels in the product range and one customer thought that there is lack of white lacquered cover strips and baseboards in the selection.

On the other hand, because the response rate for this question was so small, it can be assumed that Russian customers are satisfied with the selection of Puukeskus Lappeenranta.

Visits in other building material stores in Lappeenranta

With the question of visiting other building material stores, the author wanted to clarify if Russian customers do purchases also in other building material stores and to find out the biggest competitor. The respondents had possibility to choose several options in this question.

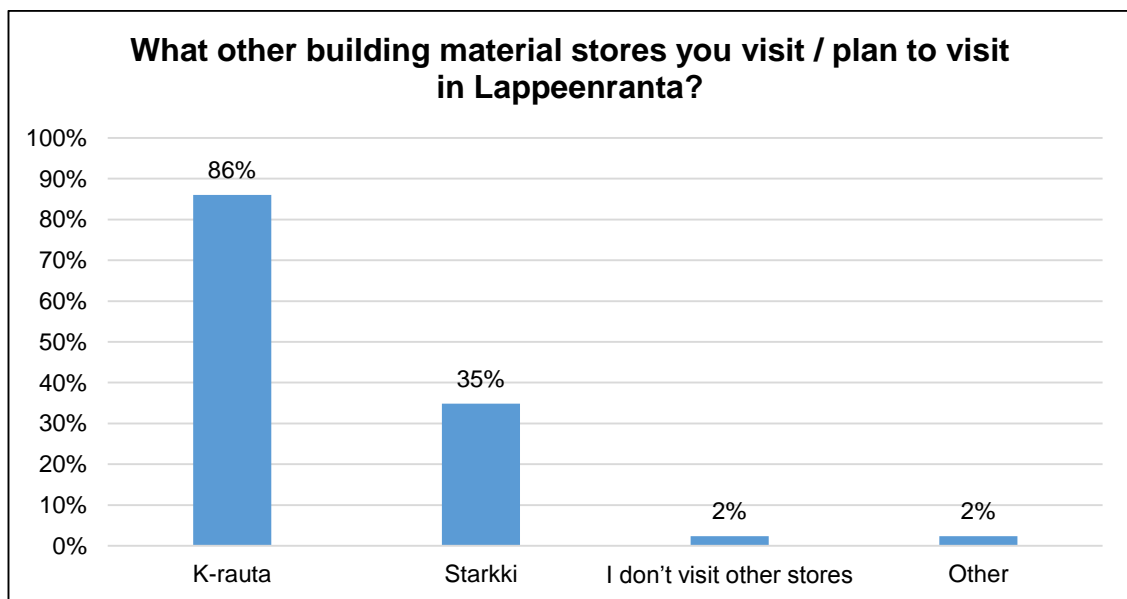


Chart 10. Visiting other building material stores in Lappeenranta

As Chart 10 shows, 86 % of the customers answered that they visit or plan to visit K-rauta in Lappeenranta. The share of customers visiting Starkki was 35 %. K-rauta and Starkki are both located near Puukeskus in the region of Myllymäki. K-rauta operates also in Russia, which certainly has increased the awareness of the company. The product range of K-rauta differs from the product range of Puukeskus. The product range of K-rauta is wider and the trade of K-rauta is more consumer-orientated than in Puukeskus. K-rauta also advertises aggressively and continually, which also has attracting effect. Starkki has a long history and the company was founded in Vyborg in 1868. The company has operated in the building material market longer than K-rauta and Puukeskus. The company Puukeskus had earlier a subsidiary in St. Petersburg, but the subsidiary operated with the Russian name, because there was no need to emphasize the foreign background and the idea was to be a local company for local customers. Awareness wasn't achieved through this way among Russians.

K-rauta and Starkki cover over half of a DIY market in Finland. S-group had 14 % market share in 2012 (RaSi), but surprisingly Russian customers of Puukeskus Lappeenranta didn't inform visiting building material stores of S-group.

2 % of customers informed visiting other building material stores and same amount informed that they don't visit other stores. Biltema was the only other building material store which was mentioned in the responses.

The effect of the weight limit (50 kg) to the amount of purchases

The weight is one of the challenging factors that influences on purchases of building materials. As earlier mentioned Russian tourist can import duty-free totally 50 kg, and one indivisible item for personal use can be with a maximum weight of 35 kg. Chart 11 shows, that 67 % of customers inform that weight limit affects significantly the amount of their purchases. The weight has some effect on the purchase amount for 14 % of respondents and a little bit weight affects for 12 % of customers. 7 % of respondents report that weight doesn't affect the amount of their purchases. There are some rich customers who don't care

about the price and thus can be also evaluated that for these customers the weight is not a problem. Money can buy anything.

Selling for Russians demands usually more time than selling for Finnish customers. The weight is not important information for Finnish customers, while for Russian customers it's a vital information. The weighing the products takes time, because one person can buy products only the amount of 50 kg.

Puukeskus should think what new products, which are not so heavy, could be added to the product range. The electric equipment was hoped to be added in the product range by Russian customers, but this is not so simple to organize in practice, especially because the company is not focused on selling electrical goods, but wood-based products. When marketing for Russian customers it would be useful, if Puukeskus informs also weight of the products in the advertisement.

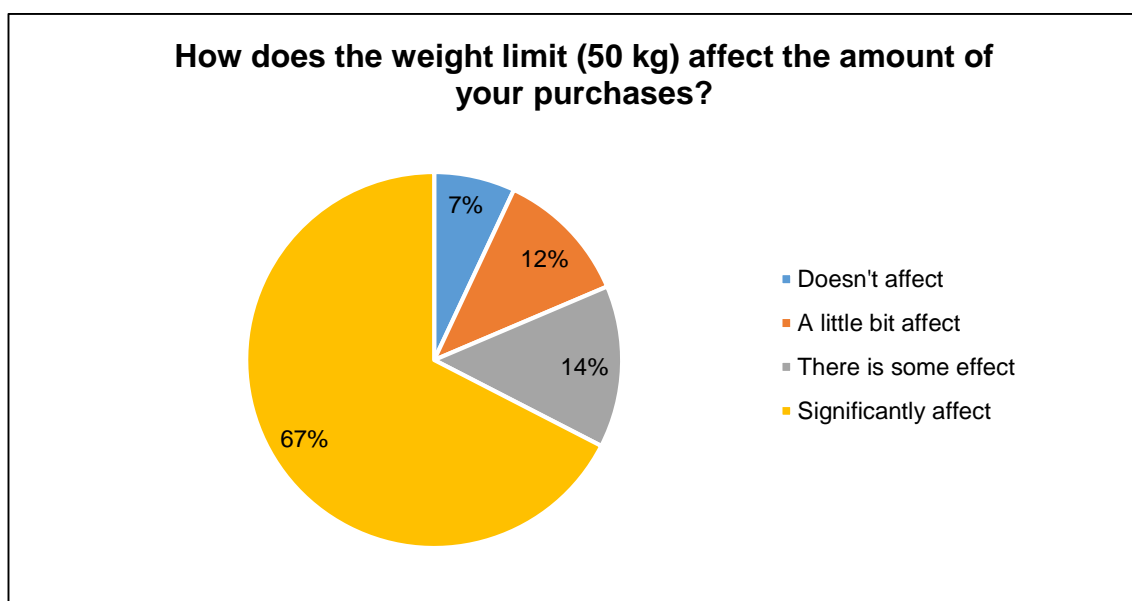


Chart 11. The effect of the weight limit

A warehouse product or an order product

Russian customers love different and special products, which nobody else has. They want to buy unique and high quality products. The standard products which usually are kept at the warehouse are not favorable to a Russian customer. Of course the standard products are also with the standardized sizes

which may not even be suitable for Russian homes. This is confirmed also in this study, because the share of order products and warehouse products was almost 50/50. 53 % of the Russian customers responding to the questionnaire informed that they bought warehouse product, which means that the product was in the warehouse of Puukeskus Lappeenranta and it didn't have to be ordered separately from the producer. The share of an order product was 47 % (Chart 12). So almost half of the products bought by Russian customers were ordered separately for the customer from the factory.

This emphasizes the importance of personal selling. It's not possible to offer building materials for Russian customers, if the salesperson doesn't have the professional knowledge about the products and Russian language skills. Russian customers want to do business with one person, and if the confidence is created between the seller and the buyer, the buyer will return to this same salesperson. Even if the customer had purchased first a warehouse product, he will continue buying also products which are not in the product range of Puukeskus Lappeenranta, if the confidence is achieved. In addition, if the Russian customer has received good service, he will recommend for friends this certain store and certain sales person, so it's important for the companies doing Russian business to understand the fact that there must be enough skilled employees serving Russian customers in their own language.

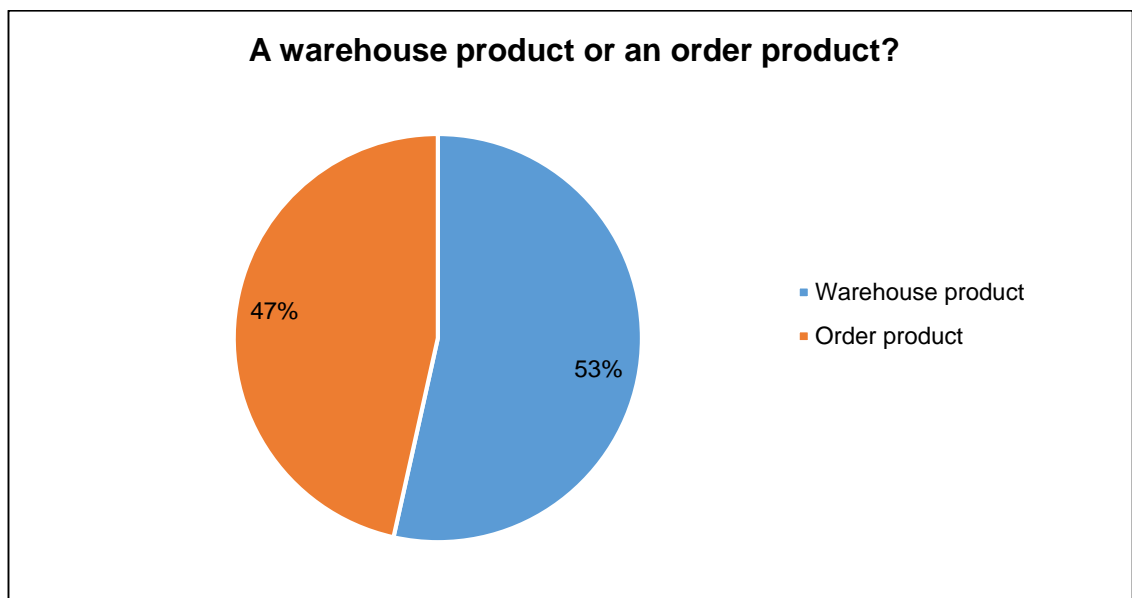


Chart 12. A warehouse product or an order product

Purchase decision place

As Chart 13 shows, 56 % of respondents informed making purchase decision in the store and 44 % at home. Especially in the cases the purchased product is an order product, the sales process usually continues by e-mail or by phone. The customer, visiting Puukeskus Lappeenranta, might first check all possibilities, ask technical issues and collect brochures and make the purchase decision only at home. Further questions and the order itself happen usually by e-mail.

This question correlates directly with the previous question. Usually order products are ordered at home by e-mail, while the purchase decision made in the store concerns usually warehouse products. But this not the only perception. This information also point out that the serving Russian customers doesn't happen only in the store, but almost half of the selling is happening by e-mail or by phone.

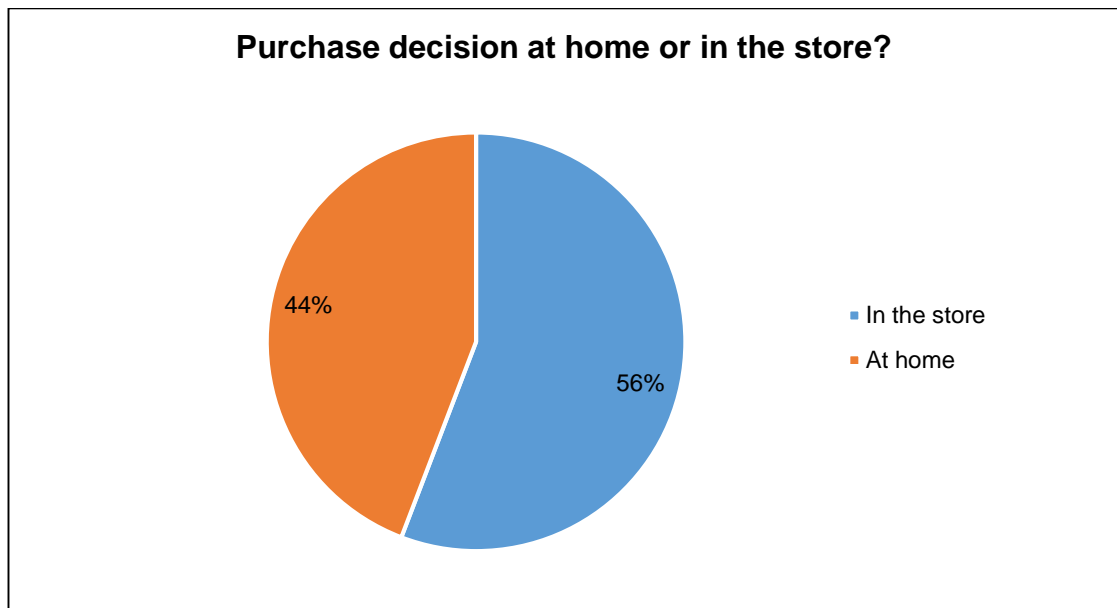


Chart 13. Purchase decision at home or in the store

79 % of those customers who responded making purchase decision at home, answered separately where they had received information about products. Four different sources of information were mentioned and answers divided as presented in the Table 5 below.

60,0 %	From the employee of the store (visiting first or by e-mail)
13,3 %	Brochure of the store
13,3 %	Internet
13,3 %	The website of Puukeskus

Table 5. The source of information (the purchase decision made at home)

Most of the customers informed that they received information about products from the employee of the store Puukeskus Lappeenranta. Either they had visited the store first and clarified the product range and other terms or they had directly contacted by e-mail.

Some other sources of information were the brochure of the store, Internet and the website of Puukeskus. As earlier mentioned the brochure of Lappeenranta Puukeskus in Russian language was designed by one employee of Puukeskus Lappeenranta and the distribution of this brochure has been only in the store. One customer received from the friend this brochure. It's worth thinking where this same brochure could be additionally distributed. Those who mentioned receiving information about products from the Internet didn't mention any site. In 13.3 % of responses the information was received from the website of Puukeskus. This is quite a surprise, because the websites of Puukeskus are only in Finnish. Only some company information is presented in English and in Swedish. The earlier mentioned brochure in Russian language could be added to the website of Puukeskus. The brochure is now made only for Puukeskus Lappeenranta, but with little changes, the brochure on the website would serve also those other branches of Puukeskus that are having Russian customers.

Advertise recommendations for Russian speaking customers

58 % of respondents answered to this open-ended question. The aim of this question was to clarify the marketing channels which might be most useful in advertising for Russian speaking customers. All responses are collected to the Table 6 below. Some of the customers gave many different recommendations, so the sum of percentages exceeds 100%.

4 %	Print media in Russia, Russian radio
12 %	Outdoor advertising on the roadside
4 %	I don't care
4 %	Currency exchange offices, petrol stations, shopping centers in St. Petersburg
8 %	In advertising newspapers or catalogues in St. Petersburg (building materials)
4 %	I would like to have less Russian in Finland, first let learn culture
4 %	At the Palace Square in St. Petersburg
32 %	At border crossing point (different border magazines, brochures)
40 %	Internet (site not recommended 20 % + site recommended 20 %)

Table 6. Recommended marketing channels

The growing usage of Internet can be seen in the results. In 40 % of responses were recommended advertising in the Internet. Half of those customers who advised to advertise in Internet mentioned Internet sites like avito.ru, littleone.ru, yandex.ru, Internet sites with information about Finland (stopinfin.ru, nagranitse.ru) and the website of Puukeskus. Half of the customers recommending advertising in Internet didn't mention any site separately.

Advertising at the border crossing points was recommended in 32 % of responses. Advertising at the border includes border magazines, and they are not just distributed at the border crossing points, but also in shopping centers in Finland and in visa application centers in Russia. Mentioned border magazines were Stop in Finland and "Venäjän Kauppatie". These two border magazines were also named in the border research 2012 made by TAK Oy. Some customers mentioned also brochures that would be available at the border crossing points, but usually it's not allowed to distribute brochures at the border, the advertising is restricted to concern only border magazines. The border crossing points would be full of different brochures and handouts if this would be possible.

12 % of responses recommended outdoor advertising. Outdoor advertising was advised on the roadside from St. Petersburg – Helsinki/Lappeenranta and near the roundabout at K-rauta in Lappeenranta.

Plans to visit again the store Puukeskus Lappeenranta

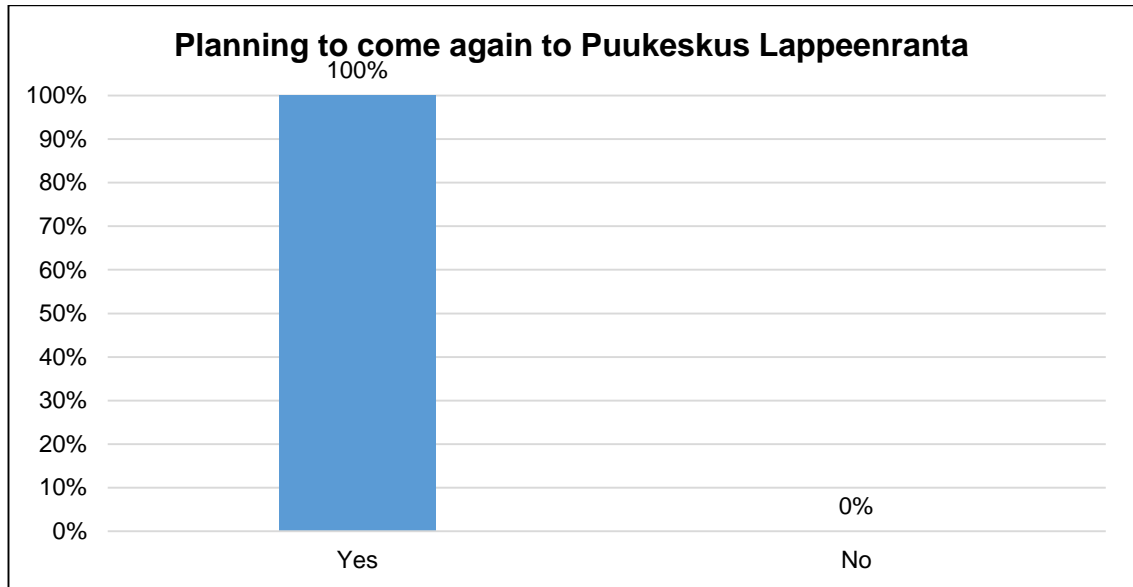


Chart 14. Planning to visit again Puukeskus Lappeenranta

All customers informed that they will visit again Puukeskus Lappeenranta (Chart 14). This is good news and means that the customer has received the service he needed and he has been satisfied with the service and the product.

Also because of invoice (VAT 0 %) purchases, the customer usually returns to the store for receiving the refund of VAT.

Improvement ideas for Puukeskus Lappeenranta

19 customers (44 %) answered to this question. All answers are gathered here:

- The name of the company Puukeskus is hard to remember first time if the person unknowing Finnish language.
- The amount of Russian speaking employees
- We had problems at the border, because the weight of the purchased product wasn't mentioned in the package or in the check. In the check should specify the weight for Russian buyers.
- Lower prices. For many products in K-rauta prices are lower.
- Only Tia speaks Russian in the store. If she is not available, it's difficult for many to buy goods.
- More advertising and release of catalogue

- Increase the range of exhibition products (e.g. doors) like in the Bauhaus.
- I was happy with everything. Especially pleased to communicate with Tia.
- To expand opening hours, including weekends. To expand the assortment.
- It's important that goods are available at the warehouse! I don't want to come separately to order the product and the next visit to pick up it.
- To resolve the issue for selling fireplaces to Russia. Buying from you is cheaper than in Russia, because of the refund of VAT in invoice trade.
- Catalogues in Russian language
- More advertisements about the goods and their value for Russian customers from St. Petersburg in the Internet sites and in the publications. Also indicate in the advertisement that the service is possible in Russian. For most buyers from Russia this is crucial.
- Make a website in Russian. And being able to pay by Visa.
- All super, Tia super, she makes all the sales.
- I am not a frequent visitor, so I can't work out some sort of opinion on this matter.
- Increase the range of fireplaces
- Lovely store, maybe the product range could be expanded.
- Service in the warehouse

Advertisements or/and special offers by e-mail

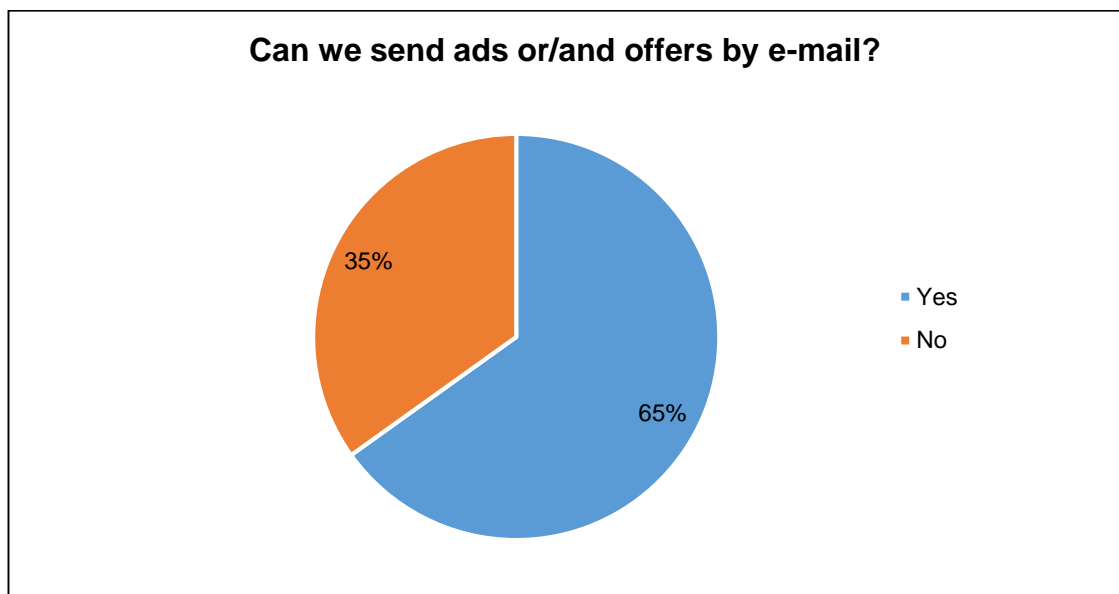


Chart 15. Offers and ads by e-mail

65 % of respondents gave permission to send advertisements or/and special offers by e-mail (Chart 15). These customers informed at the same time their e-mail address. This is a good channel for making direct marketing.

6.2 The results of semi-structured interviews

Semi-structured interviews were held for three Russian customers in Puukeskus Lappeenranta. As mentioned earlier, all of them had visited the store of Puukeskus Lappeenranta more than once and they were already quite familiar with the company. Ten open-ended questions were asked from all of the interviewees. The interviewer of these interviews was the author of the thesis.

The profiles of interviewees were following:

Interviewee I: Woman, age 20 - 39, St. Petersburg

Interviewee II: Man, age 40 – 59, Leningrad region

Interviewee III: Man, age 40 – 59, St. Petersburg

In the first question the author wanted to clarify the reason of Russian customers for buying building materials from Finland. All three interviewees informed that the quality of the building materials in Finland is high, and therefore they purchase building materials here. One of the interviewees said that there are only some sellers of high quality building materials (e.g. thermo-treated wooden panels) in Russia and those materials are very expensive.

The second question was about competitors. All of the interviewees informed that they visit also other building material stores in Lappeenranta. Starkki and K-rauta were mentioned. The reason for visiting other building materials stores is the wider product range. If some product isn't available in Puukeskus, it is bought from the other building material store. There are some products like bathroom furniture and tiles which Puukeskus doesn't provide, so naturally they are purchased elsewhere. Also there are products from different producers in building material stores in Lappeenranta, and sometimes certain product from certain producer defines the purchase place.

In the third question was clarified the importance of invoice (VAT 0) sales. Invoice (VAT 0) purchases are very important and profitable for Russian

customers. 99.5 % of tax-free sales for Russians are made using invoice sales in Puukeskus Lappeenranta. Puukeskus refunds the VAT totally for the customer after receiving invoice stamped by customs. Building materials are quite expensive and the value of VAT refund can be considerable. All of the interviewees would make purchases in earlier mentioned building material stores, if Puukeskus Lappeenranta wouldn't make invoice sales. One interviewee informed that Puukeskus has nowadays advantage over mentioned building materials stores by making invoice (VAT 0) sales for all tax-free purchases which are over 40 EUR. Tax-free tourist sales requires that the minimum value of the purchase is 40 EUR, and Puukeskus makes invoice sales by following this minimum value, but in some other building materials stores according to the one interviewee minimum sum for invoice sales is higher.

Fourth question was about Internet website(s) that customers are using when looking for information on building materials. Interviewee I said that principally she first studies the assortment in building material stores in Finland and then finds out more information from the websites of the producers. Interviewee II informed looking for information on building materials from google.com and yandex.ru, and Interviewee III told that he uses the websites of K-rauta, Starkki and Puukeskus.

In the fifth question the interviewees named the factors, which are particularly good in Puukeskus Lappeenranta. Two of the interviewees said that the product assortment of Puukeskus Lappeenranta is good. One of them highlighted the product range of sauna materials, cover strips and doors. He was also pleased with Tikkurila paints. The other one of them liked the selection of wooden panels, cover strips and sawn timber. Puukeskus is known as a supplier of wooden building materials, and even that there are also many other products in the assortment, the focus is on wood based building materials. As questionnaire results showed only electronic products were hoped to have in the assortment, so this strengthens the estimation that customers are quite pleased with the product range of Puukeskus.

One of the interviewees thought that both Russian speaking employees are good in Puukeskus Lappeenranta. There are two Russian speaking employees

working in Puukeskus Lappeenranta, the other one works in the warehouse and the other one in the store.

In the interview situation the researcher wanted to sort out also the factors, which are not good in Puukeskus Lappeenranta. All of the interviewees had different opinions about cons of the store. Interviewee I was dissatisfied with the small range of tools and garden accessories like hoses, rakes and shovels in Puukeskus Lappeenranta. Those products are usually bought in other building material stores. She also had noticed that Puukeskus sells products from many different manufacturers, but there isn't enough information. She had bought already parquet produced by Kährs from other building material store, because she didn't know that it would have been also possible to buy through Puukeskus Lappeenranta.

Interviewee II complained that sometimes the amount of products in the stock isn't up to date. According to the computer there should be e.g. some front doors at the warehouse, but at the moment of pick up, the door is not physically available. This is of course unfortunate, and doesn't happen often, but when the amount is one piece or one unit, this may happen. Inventory is done on a regular basis, but sometimes the stock level is not up to date. This was earlier a bigger problem, but Puukeskus Lappeenranta started to use personal digital assistant (PDA) devices at the warehouse in the beginning of October 2013, which enables to have more real-time stock level information.

The seventh question was about advertising. The author asked if the interviewees had seen advertisements of Puukeskus Lappeenranta, and if they had, where they had seen them. Because Puukeskus Lappeenranta hasn't marketed aggressively, it's not a surprise that two of the interviewees said that they haven't seen advertisements of Puukeskus. One of these recommended making outdoor advertising on the roadside right after the border. In addition this interviewee told that Starkki and K-rauta both distribute the catalogue with special offers and the interviewee felt those catalogues very comfortable. The interviewer asked more about these catalogues, and found out that the catalogues are in Finnish, and they are distributed 3 or 4 times a year. Puukeskus has also these kinds of catalogues in Finnish and they haven't been

distributed separately for Russian customers because of the Finnish language. The catalogues are distributed by post to Finnish households and they are also available in the store, but only some Russian customers have paid attention to the catalogues. Even that catalogues are in Finnish, the most part of the material includes photos, pictures and prices, so it's quite understandable to read the catalogue, even if you don't understand Finnish. Puukeskus could start to distribute these catalogues for Russian customers more actively, for example the electronic version of the catalogue could be sent to those Russian customers by e-mail, who gave permission in the questionnaire for sending offers and advertisements by e-mail.

One of the interviewee had seen the advertisement of Puukeskus Lappeenranta only in the store. This advertisement was the brochure in Russian language which was mentioned earlier in the Chapter 4.3 Earlier marketing actions for Russian customers. The interviewee commented that there should be a picture or a photo of sauna in the brochure.

Also the author wanted to clarify the effectiveness and attractiveness of the ads of Puukeskus Lappeenranta, if the interviewee had seen them. The interviewee who had seen the brochure of Puukeskus Lappeenranta in the store advised to distribute the brochure also somewhere else and not only in the store. He didn't recommend any exact place, but he is right. Usually those kinds of brochures are not allowed to distribute at the border or at the shopping centers, but Puukeskus should find some other channels where the brochure could be distributed. There are lot of stores and shops, which are popular among Russian tourists, like Disa's Fish or Laplandia located near the border station of Nuijamaa. It's worth checking, if the brochure of Puukeskus Lappeenranta could be distributed in those stores. If it's not possible, there are plenty of shops in the city center, which are popular shopping places for Russian tourists. Also earlier was mentioned that the brochure could be added to the website of Puukeskus, because there isn't any information in Russian language at the moment.

In the ninth question was inquired the use of social network. The idea was to find out have the interviewees registered in social network and have they seen

any (building material) ads there. And if they have seen, how have those ads affected them.

Two of the interviewees told that they haven't registered in social media. The other one thought that it's not necessary, and his opinion was that it's more effective if the product or website of Puukeskus would be in the search engine yandex.ru. He also told that Russians use more search engine yandex.ru than google.com.

One of the interviewees has registered in social networks "Vkontakte" and Facebook, but he is not looking for advertisements there. It's easier for him to get all necessary information about building materials from the seller.

In the last question the author asked the interviewees' opinion what Puukeskus Lappeenranta should take into account when trying to develop sales for Russians. All interviewees advised to advertise more. One interviewee recommended advertising at the border crossing points, in currency exchange offices, petrol stations and in yandex.ru. Also outdoor advertising near the highway after the border and at the area of Myllymäki near the shops Kodin1 or Biltema was recommended by one interviewee. This interviewee advised also to show in the ads that Puukeskus sells building materials and all for home, because many Russian customers don't know what the company Puukeskus sells.

One of the interviewees thought that K-rauta has more customers because of the wider product range and those Russian tourists, who don't have experiences about building material purchases in Finland, usually visit K-rauta. The wide product range and having many products at the stock has important significance.

One other interviewee also had comments about the assortment of Puukeskus; he thought that the assortment of Puukeskus was too small. He recommended to concentrate on those products which Puukeskus has in the product range and to increase the range of those products, e.g. internal doors, standard windows, parquet and laminate.

7 Conclusions and recommendations

The objective of this study was to find out how tax-free tourist sales could be increased and developed in the case company Puukeskus Oy in Lappeenranta. The amount of Russian tourists and their tax-free purchases has grown annually in Finland, and especially in South-East Finland and in Lappeenranta the amount of Russians' tax-free purchases is remarkable. If the possible visa-free travel will come true, then the number of Russian tourists will increase strongly. The aim of this thesis was to study what kind of marketing actions Puukeskus Lappeenranta should do for developing tax-free tourist sales and for reaching Russian customers. The development of sales is possible through marketing, so the factors and products that are important for Russian customers in Puukeskus Lappeenranta were researched in this study. Also were studied the most powerful promotion channels, which Russian customers use for finding information about building materials, and which channels in marketing for Russians are the most valuable.

The research methods used for collecting data were structured interview in a form self-administered questionnaire and semi-structured interview. These qualitative methods enabled to understand the reasons behind the behavior of Russian customers more deeply.

The most important findings and recommendations are introduced in the form of marketing mix 4Ps including the target market.

Target market

The target customers in this study were Russian customers visiting Puukeskus Lappeenranta. The study results show that the gender of most customers is male. This is natural, because men usually make building materials purchases. The biggest part of the customers belongs to the age group 40 - 59 and most of the customers are from St. Petersburg. Most of the customers visit in Puukeskus Lappeenranta 1 – 6 times a year and all respondents informed to visit again Puukeskus Lappeenranta. It is important to know the customer so that marketing can be targeted to right customers and the marketing mix managed properly.

Product

The quality of the building materials in Finland is high, and it was the most important reason for interviewees to buy them in Finland. Also according to survey responses, the quality of the products is a very important factor for Russians to choose Puukeskus Lappeenranta. The most important product groups are doors, terrace boards and sauna benches. Also interior and exterior panels are popular among Russian customers. The wood is ecological and it's warm and aesthetic interior decoration material.

According to the interviewees, the reason for visiting other building material stores is the wider range of products. Only one-third of the questionnaire respondents mentioned that wide range of products is very important factor for choosing Puukeskus Lappeenranta. The other building material stores mentioned by the respondents of the questionnaire and interviewees were K-rauta and Starkki.

The challenge in selling building materials for Russians is the import regulation of Russia, which allows Russian passengers to import free of customs duties and taxes goods for a total weight maximum 50 kg. An indivisible item for personal use can be with a maximum weight of 35 kg. The amount of imports is not restricted, so the allowed amount can be imported even daily basis. The new import regulation came valid in summer 2010, and after that the amount of tax-free sales increased remarkably in Puukeskus Lappeenranta. But this regulation affects the amount of purchases considerably and slows down the service of Russian customers. If the weight is not known by the sales person, the products need to be weighed first. Building materials are quite heavy, so Puukeskus Lappeenranta could think what other lighter products could be added to the product range. In the survey some respondents recommended to add electric products to the product range, but this is not so simple, while all such decisions are made centrally and the main articles of Puukeskus still are wood based building materials. It might be sensible to inform also the weight of the products if advertising some specific products separately.

The study shows that Russian customers value highly receiving service in Russian language. Other factors that emphasize the role of personal selling are the product type and the purchase decision place. Almost half of the products that Russians purchase are order products, which means that the product is ordered separately for the customer. Also almost half (44 %) of the respondents make the purchase decision at home. Information about building materials is received from the employee in the store, either by visiting first or by e-mail. Company Puukeskus Lappeenranta should take into account that there are enough Russian speaking employees available, so that Russian customers can be served properly and then enjoy the results of word-of-mouth marketing.

Price

The most important factor, influencing Russian customer to choose Puukeskus Lappeenranta is invoice (VAT 0 %) trade. More than 80 % of survey respondents informed that invoice trade is the most important factor in Puukeskus Lappeenranta. Building materials are quite expensive, so the amount of refunded VAT has significant meaning for Russian customers. Puukeskus has a competitive advantage over other building material stores by issuing invoice for purchases valued minimum 40 EUR, while in other building material stores the demanded minimum sum for invoice sales is higher. Building materials are quite expensive products, so it's a significant advantage for the buyer, because Puukeskus refunds the VAT in full to the customer. This also benefits the company Puukeskus, because the customer comes back to the store to pick up a refund.

Russian customers value the price/quality ratio of Puukeskus Lappeenranta. It was the second important reason influencing Russian customers to choose Puukeskus Lappeenranta. Russian customers love discounts, so even small discount will be appreciated.

Place

Lappeenranta is located near the Russian border, so it's easy for Russian tourists to come for shopping. Puukeskus Lappeenranta moved to the new premises in the region of Myllymäki in spring 2011. Myllymäki is growing region

and most of the shops at the area are popular among Russian tourists and directed especially for serving Russian customers. The new location and the new store of Puukeskus Lappeenranta is ideal for attracting more customers. The amount of Russian customers has been grown remarkably after the move, even that the location wasn't mentioned to be an important factor for the Russian customers in the survey. Survey results show, however, that 26 % of the respondents have heard about Puukeskus Lappeenranta accidentally. The new location has brought many new Russian customers for Puukeskus Lappeenranta.

Promotion

The findings of questionnaire show that most Russian customers have heard about Puukeskus Lappeenranta from advice of friends. The word-of-mouth marketing is the most effective channel for Russians when choosing the place for shopping. This emphasizes the importance of personal selling, so it's very important that the company Puukeskus in Lappeenranta offers its products and services in Russian language. There are only two Russian speaking employees at the moment in Puukeskus Lappeenranta, and because also some customers complained about the lack of Russian speaking employees, it's recommended that Puukeskus Lappeenranta would hire more Russian speaking employees for developing tax-free sales. If the customer is satisfied for the product and service received, he will definitely recommend the company forward to his friends. All of the survey respondents informed that they could recommend Puukeskus Lappeenranta for their friends.

All interviewees in semi-structured interviews advised Puukeskus Lappeenranta to advertise more. This was mentioned also in the questionnaire by some respondents while asking the improvement ideas for Puukeskus Lappeenranta. The respondents and interviewees recommended mostly advertising in the Internet, the distribution of brochures and ads in the border magazines at the border crossing points and also using outdoor advertising. At the moment while making this thesis, Puukeskus Lappeenranta decided to make outdoor advertisement in the area of Myllymäki. It's mostly targeted for Finnish

customers, but there are mentioned building materials in Russian language, so that this ad would attract also Russian customers.

Puukeskus hasn't put a lot effort on advertising for Russians; the company has advertised twice in border magazines and one of the employees of Puukeskus designed a brochure for Russian customers, which is so far distributed only in the store of Puukeskus Lappeenranta. It's recommended that this brochure will be distributed also in some other places; like in the shops which Russian tourists favor. The brochures are not allowed to leave at the border crossing points or shopping malls, but there are such shops like Disa's Fish or Laplandia, but also many others, which are famous shopping places among Russian tourists, so Puukeskus could find the suitable place where these brochures could be distributed. Also because Puukeskus doesn't have websites in Russian language, I recommend that the brochure with little changes would be added to the website of Puukeskus. Many Russians don't know what products are available in Puukeskus, so this brochure would clarify the product range, the contact persons serving in Russian language and also the information that it's possible to make invoice (VAT 0) purchases. Also the biggest suppliers are important to mention, because the brand of some building material producers is highly valued.

Even that social network and its usage is rapidly increasing in Russia, none of the interviewees recommended to advertise there. "Vkontakte" is the most popular social network in Russia, but advertising there might not be useful for Puukeskus according to the results of the study. On the contrary, Puukeskus Lappeenranta could think that it would advertise in Yandex, which is the most used search engine in Russia. This website was mentioned also in the questionnaires and in the semi-structured interviews.

65 % of the questionnaire respondents gave permission to send them offers/ads by e-mail. These e-mail addresses are valuable and Puukeskus Lappeenranta should start to advertise directly to these customers. In semi-structured interviews one interviewee mentioned catalogues that competitors have. Those catalogues are in Finnish, and also Puukeskus publishes such discount and product catalogues 3-4 times a year. Even that these catalogues are in Finnish,

they could be sent by e-mail to Russian customers. These catalogues include a lot of pictures, so they certainly are understandable. Also some special offers in Russian language are recommended to send by e-mail. If the customer receiving e-mail offer or catalogue sends it forward even to one of his friends, the awareness of Puukeskus will definitely grow. Welcome Russian customers!

Table 7 below summarizes the most important findings and recommendations in the form of marketing mix 4Ps including target market.

<p>TARGET MARKET</p> <ul style="list-style-type: none"> - Russian men - age 40 – 59 years - St. Petersburg
<p>PRODUCT (SERVICE)</p> <ul style="list-style-type: none"> - high quality appreciated and well-known suppliers (brand) - wood is ecological and warm material - doors, terrace boards, sauna benches and panels most famous products - lighter products to the range (import regulation 50 kg) → weight information in advertisements - service in Russian language → almost half of orders made by e-mail (order products, purchase decision at home)
<p>PLACE</p> <ul style="list-style-type: none"> - Puukeskus Lappeenranta near the Russian border - location in Myllymäki area attractive, a lot of Russian tourists - new comfortable store
<p>PRICE</p> <ul style="list-style-type: none"> - good price/quality ratio - VAT 0% (invoice) sales → mention it in ads/website → huge benefit for the customer and for the company (customer returns for VAT)
<p>PROMOTION</p> <ul style="list-style-type: none"> - personal selling (service in Russian language should be guaranteed) → the power of word-of-mouth marketing significant (recommendations from and for friends and relatives) - distribution of the brochure of Puukeskus Lappeenranta in Russian language also in other shops and stores (Disa's Fish, Laplandia?) - website of Puukeskus -> add brochure in Russian language - offers, ads and catalogues directly by e-mail to customers - Yandex (search engine) - outdoor advertising - advertising at the border (border magazines)

Table 7. Marketing mix 4Ps based on findings and recommendations

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Dear Customer!

Puukeskus in Lappeenranta seeks to improve the service of Russian customers, as well as attract new customers. The study is part of Master's Thesis in Saimaa University of Applied Sciences. Please, mark the answer or write your answer.

1. Your gender? Female Male**2. Your age?** Under 20 years 40 – 59 20 – 39 Over 60**3. Your place of residence?** Vyborg Moscow St. Petersburg Other, what? _____**4. How did you hear about Puukeskus Lappeenranta?** Advice of friends Newspaper, which one? _____ Accidentally Internet, what site? _____ Radio Other, what? _____**5. How often do you visit the store Puukeskus Lappeenranta?** First time 1- 6 times / year 1- 4 times / month Less**6. Could you recommend Puukeskus Lappeenranta for your friends?** Yes No, why? _____**7. Why did you choose the store Puukeskus Lappeenranta?**

(1 = Not important, 2 = Little important, 3 = Important, 4 = Very important)

	1	2	3	4
Location	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Opening hours	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Wide range of products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Quality of products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Price/quality ratio	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Availability of service	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Comfort of store	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Service in Russian language	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Good reputation of store	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Invoice (VAT 0 %) trade	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



8. Please, mark three most important product group for you

- | | |
|--|--|
| <input type="checkbox"/> Doors | <input type="checkbox"/> Sauna benches |
| <input type="checkbox"/> Windows | <input type="checkbox"/> Interior and exterior panels |
| <input type="checkbox"/> Parquet and floor coverings | <input type="checkbox"/> Terrace boards |
| <input type="checkbox"/> Cottages | <input type="checkbox"/> Insulation materials |
| <input type="checkbox"/> Heaters | <input type="checkbox"/> Nails and screws |
| <input type="checkbox"/> Sawn timber | <input type="checkbox"/> Construction tools |
| <input type="checkbox"/> Plywood | <input type="checkbox"/> Cover strips, baseboards and thresholds |
| <input type="checkbox"/> Stairs | <input type="checkbox"/> Plasterboard and accessories |
| <input type="checkbox"/> Desktops | <input type="checkbox"/> Roofing materials |
| <input type="checkbox"/> Paints | <input type="checkbox"/> Other, what? _____ |

9. What other products would you like to see in the assortment?

10. What other building material stores you visit / plan to visit in Lappeenranta?

- | | |
|----------------------------------|---|
| <input type="checkbox"/> K-rauta | <input type="checkbox"/> Other, what? _____ |
| <input type="checkbox"/> Starkki | <input type="checkbox"/> I don't visit other stores |

11. How does the weight limit (50 kg) affect the amount of your purchases?

- | | |
|--|---|
| <input type="checkbox"/> Doesn't affect | <input type="checkbox"/> There is some effect |
| <input type="checkbox"/> A little bit affect | <input type="checkbox"/> Significantly affect |

12. Was the product you purchased a warehouse product or an order product?

- | | |
|--|--|
| <input type="checkbox"/> Warehouse product | <input type="checkbox"/> Order product |
|--|--|

13. Did you make purchase decision at home or in the store? If at home, where did you get information about products?

- | | |
|---------------------------------------|--|
| <input type="checkbox"/> In the store | <input type="checkbox"/> At home, source of information? _____ |
|---------------------------------------|--|

14. Where would you recommend advertising for Russian speaking customers?

15. Are you planning to come again to Puukeskus Lappeenranta?

- | | |
|------------------------------|-----------------------------|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No |
|------------------------------|-----------------------------|

16. What you think that needs to be improved in the store Puukeskus in Lappeenranta?

17. Can we send advertisements or/and special offers for you by e-mail?

- | | |
|-----------------------------|---|
| <input type="checkbox"/> No | <input type="checkbox"/> Yes, e-mail: _____ |
|-----------------------------|---|

Thank you for answers!

Уважаемый клиент!

Puukeskus в Лаппеенранте стремится улучшить обслуживание русских клиентов, а также привлечь новых покупателей. Исследование является частью дипломного исследования Сайменского университета прикладных наук. Пожалуйста, отметьте вариант ответа или напишите свой ответ.

1. Ваш пол? женский мужской**2. Ваш возраст?** моложе 20 лет 40 – 59 20 – 39 старше 60**3. Место Вашего проживания?** Выборг Москва Санкт Петербург Другой, что? _____**4. Откуда Вы узнали о магазине Puukeskus в Лаппеенранте?** Советы знакомых Газета (какая?) _____ Случайно Интернет (какой сайт?) _____ Радио другой, что? _____**5. Как часто Вы бываете в магазине Puukeskus в Лаппеенранте?** первый раз 1- 6 раз / в год 1- 4 раза / в месяц реже**6. Можете ли Вы рекомендовать друзьям магазин Puukeskus Лаппеенранта?** Да Нет, почему? _____**7. По какой причине Вы выбрали магазин Puukeskus Лаппеенранта?**

(1=не имеет значения, 2=имеет небольшое значение, 3=имеет важное значение, 4=имеет очень важное значение)

	1	2	3	4
место расположения	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
режим работы	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
широкий выбор товаров	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
качество товаров	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
соотношение цена/качество	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
доступность обслуживания	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
уют магазина	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
обслуживание на русском языке	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
хорошая репутация магазина	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
оформление инвойсов	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



8. Отметьте три самые важные для Вас группы товаров

- | | |
|--|--|
| <input type="checkbox"/> двери | <input type="checkbox"/> полки для сауны |
| <input type="checkbox"/> окна | <input type="checkbox"/> наружная и внутренняя вагонка |
| <input type="checkbox"/> паркет и напольные покрытия | <input type="checkbox"/> террасная доска |
| <input type="checkbox"/> домики | <input type="checkbox"/> изоляционные материалы |
| <input type="checkbox"/> каменки | <input type="checkbox"/> гвозди и шурупы |
| <input type="checkbox"/> пиломатериалы | <input type="checkbox"/> строительный инструмент |
| <input type="checkbox"/> фанера | <input type="checkbox"/> наличники, плинтуса и пороги |
| <input type="checkbox"/> лестницы | <input type="checkbox"/> гипсокартон и комплектующие |
| <input type="checkbox"/> столешницы | <input type="checkbox"/> кровельные материалы |
| <input type="checkbox"/> краски | <input type="checkbox"/> другой, что? _____ |

9. Какие ещё товары Вы хотели бы увидеть в ассортименте?

10. Какие другие магазины строительных материалов Вы посещаете/планируете посетить в Лаппеенранте?

- | | |
|----------------------------------|---|
| <input type="checkbox"/> K-rauta | <input type="checkbox"/> другой, что? _____ |
| <input type="checkbox"/> Starkki | <input type="checkbox"/> Я не посещаю другие магазины |

11. Как влияет ограничение веса (50 кг) на Ваше количество покупок?

- | | |
|--------------------------------------|---|
| <input type="checkbox"/> не влияет | <input type="checkbox"/> немного влияет |
| <input type="checkbox"/> мало влияет | <input type="checkbox"/> значительно влияет |

12. Товар который Вы покупали, был на складе или под заказ?

- | | |
|------------------------------------|------------------------------------|
| <input type="checkbox"/> на складе | <input type="checkbox"/> под заказ |
|------------------------------------|------------------------------------|

13. Принимали ли Вы решение о покупке дома или в магазине? Если дома, откуда Вы получили информацию о товарах?

- | | |
|-------------------------------------|---|
| <input type="checkbox"/> в магазине | <input type="checkbox"/> дома, источник информации? _____ |
|-------------------------------------|---|

14. Где бы Вы посоветовали бы разместить рекламу для русско-говорящих клиентов?

15. Вы планируете приехать снова в Puukeskus Лаппеенранта?

- | | |
|-----------------------------|------------------------------|
| <input type="checkbox"/> Да | <input type="checkbox"/> Нет |
|-----------------------------|------------------------------|

16. Что, по Вашему мнению, необходимо улучшить в магазине Puukeskus в Лаппеенранте?

17. Можно ли Вам отправлять рекламу и/или специальные предложения по электронной почте?

- | | |
|------------------------------|--|
| <input type="checkbox"/> Нет | <input type="checkbox"/> Да, e-mail: _____ |
|------------------------------|--|

Спасибо за ответы!

Semi-structured interviews / Questions

1. Why do you purchase building materials from Finland?
2. If you visit other building material stores in Lappeenranta, why is that?
3. If Puukeskus Lappeenranta wouldn't make VAT 0 (invoice) sales, would you do purchases in other store? If yes, where?
4. What Internet website(s) you use when looking for information on building materials?
5. What is particularly good in Puukeskus Lappeenranta?
6. What is particularly bad in Puukeskus Lappeenranta?
7. Have you seen advertisements of Puukeskus Lappeenranta? If yes, where?
8. If you have seen advertisements of Puukeskus Lappeenranta, what did you think about them? Were they attractive?
9. If you are registered in social network, have you seen any (building material) ads there? Have they affected you?
10. What you think that Puukeskus Lappeenranta should take into account when trying to develop sales for Russians?