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E-commerce value chain in Russian markets – The role of market specific factors

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ABSTRACT

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International e-commerce is still rather new concept and therefore lacks comprehensive research. Different nature of markets and companies has challenged the traditional theories as well as redefined traditional operations. Prior research has mainly concentrated on studying the specific topics as barriers and the choice of international strategy. For this reason, there is a lack of research that comprehensively analyzes the operations of international e-commerce companies.

The aim of this study was to increase knowledge on operations of Finnish e-commerce companies in Russia. In order to receive comprehensive knowledge of the operations, research analyzed the internationalization process, the effects of market specific factors to e-commerce and the implementation of various value chain activities of e-commerce. Research focused on examining how companies have seen the peculiarities of Russian markets and how to respond to them. The empiric part of the study was conducted as a qualitative research by interviewing five company representatives and three specialists of international e-commerce and Russian business.

The results of this research revealed that having e-commerce in Russia is challenging and requires long term, strategy-based work. E-commerce is assumed to be inherently global business model, but in the case of Russia, numerous e-commerce activities require localization. The most crucial activity to localize is a content and language of content. Even though e-commerce market in Russia has a lot of peculiarities, operating via market space decreases the level of bureaucracy and market risk. Despite the challenges, developing e-commerce market in Russia offers a huge potential for companies, whose international strategy needs Russian operation to achieve company goals.

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Kansainvälinen verkkokauppa on akateemisena käsitteenä suhteellisen uusi, eikä kovin kattavaa ja laajamittaista tutkimusta vielä ole. Verkkokauppojen uudenlainen organisaatio, kuten myös täysin erilainen toimintaympäristö on haastanut perinteiset kansainvälistymisteoriat ja yritysten kansainväliset käytännöt. Aiempi tutkimus on lähinnä keskittynyt pienempien ilmiöiden tarkasteluun, kuten markkinaesteiden tulkitsemiseen tai strategian valintaprosessiin. Tämän takia tutkimustietoa verkkokauppaa harjoittavien yritysten toiminnasta kansainvälisillä markkinoilla on suhteellisen vähän.

Tutkimuksen tarkoituksena oli lisätä tietoa siitä, miten suomalaiset verkkokauppa yritykset toimivat Venäjän markkinoilla. Laajamittaisen kuvauksen saavuttamiseksi, tutkimus analysoi kansainvälistymisprosessia, markkinoiden erityispiirteitä, sekä verkkokaupan eri toimintojen toteuttamistapaa. Erityistä huomiota kiinnitettiin yritysten suhtautumiseen Venäjän markkinan erityispiirteitä kohtaan, sekä miten niihin on reagoitu. Tutkimus toteutettiin haastattelemalla viittä yrityksen edustajaa, sekä kolmea Venäjän kaupan ja verkkokaupan konsulttia.

Tulokset osoittivat, että verkkokaupan harjoittaminen Venäjällä on haastavaa ja vaatii pitkäjänteistä, strategiaan pohjautuvaa työtä. Yleisesti verkkokauppaa pidetään hyvin globaalina toimintamuotona, mutta Venäjällä verkkokauppakarkkina vaatii suhteellisen paljon toimintojen lokalisointia. Tärkein lokalisoitava toiminto on sisältö ja verkkokaupan kieli. Vaikka Venäjä markkina-alueena aiheuttaa verkkokaupalle lokalisointipaineita, vähentää verkon kautta toimiminen muun muassa byrokratiaa ja markkinariskejä kuten poliittista ja lainsäädännöllistä riskiä. Haasteistaan huolimatta, Venäjän kehittyvä verkkokauppakarkkina on potentiaalinen yrityksille, joiden kansainväliseen strategiaan Venäjällä toimiminen sisältyy.

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1. INTRODUCTION

The purpose of this chapter is to comprehensively introduce this research. First, the background of this study is presented to highlight the importance of this study. Then research aim and research questions provide information about the goals this study has. Definitions of key concepts offer information about frequently used concepts and theoretical framework reveals how the main concepts are linked to each other. Preliminary literature review introduces the methodological choices and discussion about delimitations will finish the introduction chapter.

1.1 Background of the research

Fast technology developments have changed the way the whole world operates. Increasingly, everything is going to be more digital and free from traditional boundaries. Already in 1983, Levitt stated: “technology is the underlying force that is driving the world towards one convergent unit”. Now, more than 30 years later, we notice that those boundaries of specific national markets are disappearing and one big market area is forming, where the flow of people, goods and money is easier than ever before.

E-commerce has developed from the EDI (Electronic Data Interchange) system, which was intended to make transactions faster, easier and more efficient. Those adjectives are more than relevant to describe what e-commerce has done to traditional commerce. As Yamin & Sinkovics (2006) have stated, e-commerce has an incredible ability to break through the limits of time and space, and to reach a large number of people by one click.

Today, e-commerce business is more popular than ever. So far, USA and other developed countries have been the forerunners of e-commerce development and usage. However, now

the biggest growth potential of e-commerce can be found from the developing and Asian markets. Fast improvements of Internet technology and the increase of wealth have increased the interest towards e-commerce solutions. (Kshetri, 2007)

Simultaneously as we are talking about the benefits e-commerce has offer to consumers by expanding the amount of offering capacity, it is more than important to analyze potential of e-commerce to companies. As Grochal-Brejdak & Szymura-Tyc have stated (2013), e-commerce is not only an alternative or supplementary form of operations, but also a way to establish new business models, both domestically and internationally. Because e-commerce also reduces the importance of intermediaries, smaller companies with resource constraints can compete on international markets too.

At the present time, Finland is suffering from challenging economic situations, and the consumption of domestic consumers is decreasing. When domestic markets are weak, it is highly recommend that even smaller companies internationalize their business and try to find new potential markets to generate profits. According to Yang, Yang & Yang (2014) cross-border e-commerce is not only offering a great possibility for enterprises, but also for nations to develop their economy and competitiveness.

Finland has a long historical background of doing international business with Russia. A good geographical location of Finland has opened markets of 147 million people. After the collapse of Soviet Union, economic development in Russia has been really fast. Until the year 2009, when the first wave of economic crisis hit, Russia's GDP was increasing 7% per year. (Word Bank, 2014) Even though the pace of economic development is slower now, Russia has a lot of potential, especially in e-commerce markets.

Russia's 72,3 million online users represent the largest Internet base in Europe, even though it is just 62% of the populations. (East-West Digital News, 2015) Internet penetration has been rapid, in 2003 only 10% of the population had access to Internet. If current growth rate continues, Russia's Internet penetration rate could reach 75% by 2020. The number of online shoppers has increased the same way. In 2013, there were 30 million online shoppers and the size of domestic markets was approximately \$16 billion. Best

estimations predict that domestic online retail markets could amount to at least \$27 billion in 2015. (East-West digital news, 2014)

Although, Russian online stores dominate the market, growth rates of cross-border e-commerce are considerable. In 2013 cross-border e-commerce in Russia was \$3 billion and annual growth has estimated to be between 50% to 100% growth in each year. Top three countries in Russia's cross-border e-commerce are USA (40%), China (40%) and UK (8%). In spite of the good location of Finland, it is not in the TOP 10 list. (East-West digital news, 2014) Even though Russia offers a great potential to foreign e-commerce companies, markets have numerous challenges and barriers, which impede cross-border business. Especially unstable political and economic situation increase the uncertainty of the market potential.

During the last year a couple of Finnish companies, Hong-Kong and Reima, have opened cross-border e-commerce in Russia. The results have been rather good, despite of the current challenging economic situation in Russia. (Turun Sanomat, 2014) However, Finnish companies in general do not consider Russian online markets to be very attractive at the time. According to the survey of Finnish Post Office, only a fifth of Finnish e-commerce companies consider expanding to Russian markets. General infrastructure, logistical processes, unpredictable legislation and weak ruble are the most critical factors when considering Russian markets to be too challenging to companies. (Markkinointi ja Mainonta, 2015)

As it's known, knowledge decreases the uncertainty. In order to get more e-commerce to internationalize their business to abroad and especially to Russia, markets need more information about the process of internationalizing e-commerce business. Academic research has shown how market environment and local factors, such as legislation, culture and economic situation forces companies to rethink their strategies. (Singh, 2012; Kshetri, 2007) However, there is a lack of comprehensive research and knowledge, which would combine market environment factors, e-commerce internationalization process and localization debate. In the field of e-commerce, development process is so fast that even 10

years old research is out of date. This thesis is going to participate in debate and offer an analysis, which will be based on the situation today.

1.2 Research aim and questions

The aim of the thesis is to improve knowledge on how Finnish e-commerce companies are operating in Russian markets. In order to receive a comprehensive picture of the operations, three various aspects are evaluated. Firstly, the internationalization process is analyzed. The choices that companies do during the internationalization process of e-commerce are strongly affecting further operations. Secondly, it is important to analyze the market and how market specific factors affect international e-commerce companies. Thirdly, e-commerce value chain is analyzed. It is important to find how much market specific factors affect the choices that companies make.

The main research question:

How are Finnish e-commerce companies operating in Russian market?

Sub questions:

How do Finnish e-commerce companies internationalize their operations to Russia?

How do Russian market specific factors shape the operations of Finnish e-commerce?

How can Finnish e-commerce companies adapt their value chains in Russian market?

1.3 Definitions of key concepts

E-commerce

Company's digitalized way of selling products to customers using information and communication technology (ICTs). Concept of e-commerce is not only limited to transactions, but also involves various factors of firm's value chain, such as promotion, invoicing and payment systems, secure transaction and customer services. (OECD, 2000; Vaithianathan, 2010)

E-commerce value chain

The form of e-commerce value chain is dependent on the products. Normally it is a combination of virtual and physical activities. Value chain activities are usually divided into pre-transaction, transaction and post-transaction functions. (Bhatt & Emdad, 2001)

International e-commerce

“Online transaction of buying and selling products by using information and communication technology (ICTs), where buyers and sellers are located in two different countries and jurisdictions”. (Abdallah, 2014)

Internationalization process of e-commerce

Process, where company actively wants to expand markets to abroad. During the process, company has to decide the form of content, payment systems and distribution. (Yamin & Sinkovics, 2006)

Online markets in Russia

Russia has the largest European Internet base with its 72.3 million Internet user, which is only 62% of the population. Nearly 31 million Russians shopped online and total markets size in 2014 was \$16billion (domestic sales). In 2014 online markets grew 25% compared to year 2013. (East-West Digital News, 2015)

1.4 Theoretical framework

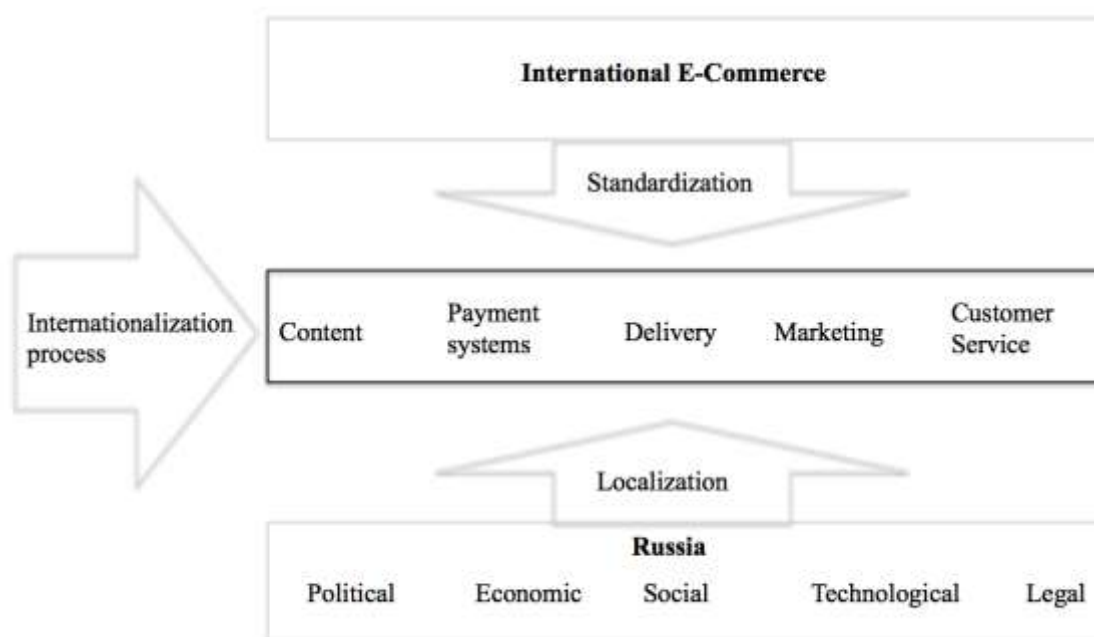


Figure 1. Theoretical Framework.

Theoretical framework illustrates the main concepts, which are internationalization process, international e-commerce, elements of e-commerce (content, payment systems, delivery, marketing and customer service) and Russia with five market specific factors; political, economic, social, technological and legal.

As can be seen from figure 1, the value chain of international e-commerce is a result of e-commerce internationalization process, market specific factors and the common international e-commerce factors. This thesis is first going to analyze all factors mentioned above followed by empirical research, that will evaluate how various factors are actualizing in the company operations.

1.5 Preliminary literature review

Internationalization process of companies is a widely studied topic, and has numerous different theories and models such as Uppsala model, eclectic paradigm and resource-based view. However, there is a lack of research, which examines the internationalization process of e-commerce companies (Grochal-Brejdak & Szymura-Tyc, 2013; Gomez-Herrera, Martens, Turlea, 2014). Numerous studies have focused to analyze companies in industrial or manufacturing industries. Also, theories are from an era, when communication possibilities and knowledge of foreign markets were at totally different levels than they are now. Fast changes in business environment, capabilities of companies and the speed of internationalization have set limitations to traditional theories (Zohari, 2008). Moreover, the increase in the number of e-commerce companies, have started a conversation of how well traditional international theories are suitable for e-commerce companies, which are operating at marketspaces not marketplaces. (Yadong, Hongxin, Jianjun, 2005)

Even though the number of global and cross-border e-commerce companies has increasingly grown, comprehensive academic research is lacking. Business life has numerous examples on how e-commerce companies have globalized their operations, but there is no theoretical framework or process model of operations that companies have faced. Moreover, researches of e-commerce have mainly focused to recount case studies of US companies and analyzed what has happened and why (Dunning & Wymbs 2001).

A great amount of research has focused to identify challenges and barriers that e-commerce companies face during the internationalization process. Argument of Bingi, Mir, Khamalah (2000), which states that successful international expansion is possibly only after identification of challenges and limitations that company or market have, might support the researchers' concentration. Normally, barriers and challenges are categorized into micro-economic factors and macro-economic factors (Savrul, Incekar, Sener 2014). Despite the understanding of the challenges that companies have, there is a very few research of how to support companies to avoid or handle different barriers and challenges. According to Yang

et al. (2014) a full understanding of the need of networks and operations in the internationalization process of e-commerce companies is lacking.

1.6 Methodology

The research design of this thesis can be seen from the figure 2. Yin (1994, 14) describes research plan to be “an action plan for getting from here to there, where ‘here’ is the initial set of questions and ‘there’ are the set of answers “. Research design is formed from various aspects that have chosen to analyze the research topic and selected research questions.

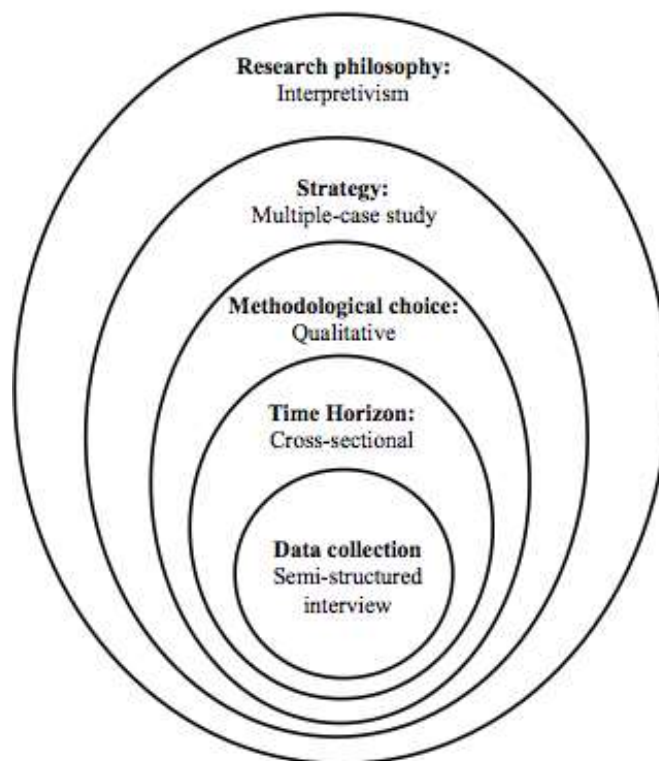


Figure 2. Research design.

Research philosophy guides how the world around the research concept is understood and adopted. Research philosophy of the thesis is interpretivism, which sees the nature of reality as socially constructed and subjective. According to advocates of interpretivism, researcher is part of the phenomenon that is researched and therefore cannot be separated to be totally objective. (Saunders, Lewis, Thornhill, 2009)

The purpose of this research is exploratory, which means that the focus is initially broad and becomes narrower during the research process (Adams & Schvanevedt, 1991). Flexible nature of the research is useful for clarifying an understanding of concepts that are complex and difficult to clarify at the beginning like international e-commerce is at this research. The main ways of conducting exploratory research is a search of literature, interviewing experts and conducting focus group interviews. (Saunders et al., 2009)

The strategy of this research is the multiple-case study method. Yin (1994, 13) states case study to focus to analyze “a contemporary phenomenon within its real life context...”. Case study, single or multiple, provides a detailed analysis of the context and phenomenon under the research topic. There is no need to isolate context and phenomenon to be separate elements. In contrast, analysis is based on to understand relation between context and phenomenon. Especially, when studying the phenomenon that takes place in the rich context, the separation of context and phenomenon may be harmful to the process of comprehensive understanding. (Yin, 1994) Case study method has received critic because the empirical findings base strongly on single cases. For this reason, multiple case studies with more empirical finding are more preferred. (Saunders et al., 2009)

Multiple case studies offer more perspective of the research topic because it enables analyzing differences within and between various cases. Particularly, the identification of interfaces between phenomenon and context and also the differences of relations is possible to analyze between various cases (Aaboen, Dubois, Lind, 2012). In order to achieve valuable empirical results, the selection and replication of cases is mandatory. According to Yin (1994) selection of cases should focus on replication not sampling logic. Selected five company cases and three specialist interviews for the research represent the same

phenomenon, international e-commerce, but the context of capabilities and practices differ. The set of cases allows analyzing the relation of phenomenon and the context from different perspectives.

Qualitative methodology was chosen, because it enables to gain a holistic understanding of the research phenomenon (Eskola & Suoranta, 2008). It focuses on understanding phenomenon in context-specific setting and produces findings that are not quantifiable or statistical (Strauss & Corbin, 1990). Rich nature of the various contexts results a non-standardized data where meanings are expressed through words. (Saunders et al. 2009)

The time horizon of the research is cross-sectional meaning that the phenomenon, international e-commerce, is studied at the particular time. Many phenomena, such as studied concept, develop fast and fundamental concepts can change or in extreme cases dissolve during the long research period. For this reason cross-sectional time horizon offers a possibility to receive a topical analyzes of the phenomenon and the context it occurs in.

1.7 Delimitations

The main theoretical delimitation is that thesis is not going to analyze internationalization drivers of e-commerce companies. Companies' willingness to internationalize their business is the basic assumption. Because of the special path of internationalization process of e-commerce, theory is not going to introduce traditional phases of internationalization process as market selection process and entry mode selection. Moreover, this thesis is going to focus on external market factors and their influence on the value chain, not the internal factors of E-commerce Company.

Empirical part is going to focus Finnish e-commerce, which operates in B2C business. For this reason B2B- and C2C e-commerce operations are limited out of this research. In this thesis international e-commerce is defined to e-commerce which deliver product to Russia, resulting international orders that customer pick up from Finland are limited out. All e-

commerce companies sell physical products that require traditional logistic and distribution solutions in Russia. Moreover, empirical part is going to analyze only Russian markets and its peculiarities, so special factors of other markets are disregarded.

2. E-COMMERCE

In order to understand the operations of international e-commerce, it is highly important to comprehend the nature of e-commerce. The following chapter will provide information about the characteristic, business models and value chain of e-commerce and the future of e-commerce finish the chapter of e-commerce.

2.1 Characteristics of e-commerce

E-commerce has developed to make traditional business more efficient, easier and faster. The prototype of e-commerce was EDI (Electronic Data Interchange) based commerce, which allowed companies to do business without hardcopy papers and manual processes. Owing to special nature of e-commerce, it has always been dependent on developments of technology and legislation. The first significant progress towards current e-commerce occurred in early 1990s when US abolished the ban on the commercial use of the Internet. In 1995, IBM was the first company, who actively promoted e-commerce solutions and also attracted the interest of researchers. The success of Amazon (world's leading online bookstore) started the global boom of e-commerce in 1999, but like always with new technology development, first wave of e-commerce revolution failed due to weak business models and unprofessional implementation process. The popularity of Google and new technology possibilities started the new phase of e-commerce, which is still continuing. (Qin, Chang, Li, Li, 2013)

E-commerce does not have one qualified definition because of the rather short history of concept and fast ongoing development. Broad and the focus of definition depend on the interest of analyst. OECD (2000) defines e-commerce very broadly to be “an electronic transactions, which is the sale or purchase of goods or services between business, households, individuals, governments and other public or private organizations, conducted

over computer mediated networks”. However, this thesis is going to concentrate on electronic transactions between business and individual households only, therefore business to business and business to government transactions are limited outside of this research.

According to Vaithianathan (2010), concept of e-commerce is not limited only to selling and buying, but also involves various factors of firm’s value chain, such as promotion, invoicing and payment systems, secure transaction and customer services. Therefore, e-commerce can be understood as an umbrella concept, which integrates different functions to digital form.

E-commerce can also be defined as a disruptive innovation, because it has revolutionized and transformed traditional commerce (Lee, 2001). Disruptive innovation is defined to degrade the current performance, but promises greater long-term potential (Bower & Christensen, 1995) as e-commerce has done to traditional commerce. Possibilities to break through limits of time and space, change trade patterns and diversify logistic solutions have been so impressive, that numerous scholars have stated that expansion of e-commerce is the most significant industrial revolution since the first industrial revolution. (Qin et al., 2013; Xu, Wilkinson, Brouthers, 2002)

The most significant property of e-commerce is its ability to reach numerous people quickly and in cost-effective way regardless of their geographical location (Yamin & Sinkovics, 2006). Electronic marketplaces has lowered borders of nations and eliminated barriers of cross-border business. Cairncross (2001) talks about “death of distance” while examining the properties of e-commerce to expand geographical coverage easily. This has especially helped small businesses to expand their markets, without significant financial or organizational resources.

Simultaneously as the number of potential markets has increased, the nature of transaction cost has changed. Organizations of e-commerce companies are more agile, and do not need massive international organizational structures. Virtual character of commerce has removed number of traditional costs as concrete commercial place. Significant change has been also

the lack of numerous intermediaries. In many cases, the customer can be more directly connected to company. (Damanpour, 2001)

According to Rayport & Sviokla (1995), virtual value chain and e-commerce has redefined the concepts of economies of scale. Economies of scale occur, when increase of production or scale of operation decreases the unit cost of the product/services. In traditional business, usually only larger firms have managed to achieve economies of scale due to massive capacity of production or sales. Economy of scale has allowed companies to decrease prices and to compete on them. However, virtual value chain and border free markets have equalized the market possibilities by enabling economy of scales also to smaller firms. E-commerce users can enjoy of a wide selection of products, because fixed cost have been spread over a large customer base. Besides of competitive prices, wide product range offers competitive advantage to e-commerce companies compared to traditional commerce. Moreover, the possibilities to offer specialized products to narrow customer segments is possible because of effective spread of fixed cost among the all customers. (Lee, 2001)

The strong existence of technology during the transaction situation allows companies to receive better market understanding and ability to response faster to the customer behavior. E-commerce platform gathers numerous statistics on how customers come to the site, how they choose or compare different alternatives, and what is the logic of purchase situation. According to Lee (2001), e-commerce has increased the connectivity and interactivity of companies, as well as the generalization of real-time pricing. (Damanpour, 2001)

Besides of increasing business potential of companies, e-commerce has also increased the power of customers and hence increased the competition at markets. Nowadays, consumers have endless possibilities to compare products, prices and distribution alternatives, which have increased the bargaining power of customers. (Tiessen, Wright, Turner, 2001) Porter argues (2001) the low prices have replaced traditional competition factors, as quality, features and services away, affecting that now profit making is hard to all in the industry. As a result, many local and national retail companies are struggling, because competing

with global e-commerce companies with low cost is really challenging and practically also impossible.

Porter's five forces is a traditional way to illustrate the situation of industry and correlation between important factors of the market. Rivalry among existing competitors can be understood to form in relation to other four factors that are: threat of substitute products or services, bargaining power of buyers, barrier to entry and bargaining power of suppliers. (Grundy, 2006) Figure 3 shows how Internet has affected the various factors of industry structure. Because Internet and its possibilities are important part of e-commerce, figure 3. can be seen as a summary of how the main characteristics of e-commerce has changed the traditional commerce markets.

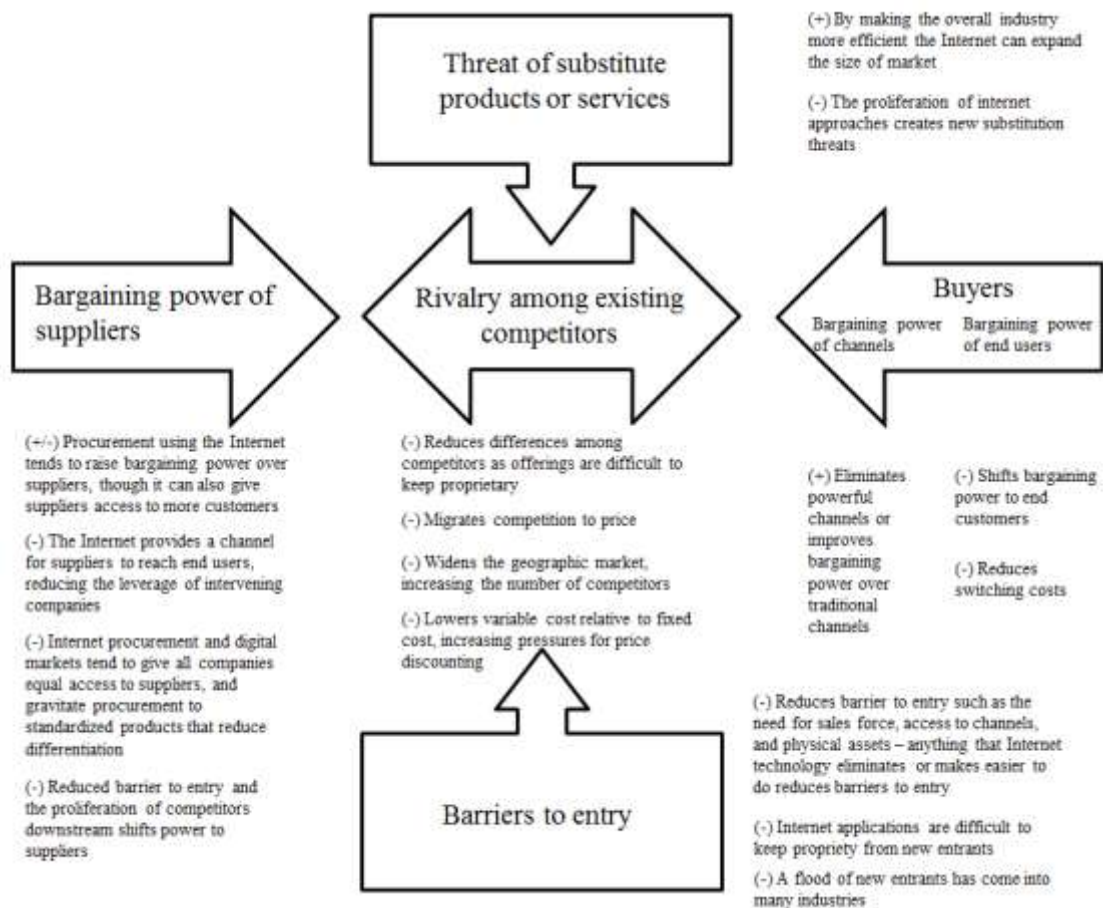


Figure 3. The Internet's influences on industry structure (adapted from Porter, 2001)

2.2 E-commerce business models

Among the researchers, there is not a fundamental agreement on what a business model is. Mainly the focus has been on the usage of information technology in organizations, strategic issues or innovation and technology management. Amit & Zott (2001, 511) define business model to “depict the content, structure and governance of transactions designed so as to create value through the exploitation of the business”.

The possibilities e-commerce has offered to companies, has changed the traditional design of business models. The way companies can organize and engage in economic transaction has received new forms. Above all, the way company can target customers all over the world has forced companies to reanalyzed business models (Mendelson, 2000). E-commerce business models are strongly focusing to analyze the new roles that firms play in the digital markets. Although, business model is not only concentrating on the one single aspect, but the architecture of the network between the firm and exchange partners, as delivery channels, logistical streams and infrastructure is highly important. (Zott, Amit, Massa, 2011)

E-commerce is a combination of various phases, parties and processes, which needs seamless cooperation to succeed. For this reason, companies even the same industry, of the same size or with similar cultures cannot use the same business models. (Lee, 2001) Doern & Fey (2006) stated that the choice of business model is a crucial factor that will contribute the success of e-commerce. Consequently, it is highly important to analyze success factors and best practices. Amit & Zott (2001) found that efficiency, complementarities, lock-in and novelties, were four important sources of value creation in the e-commerce business model. Nevertheless, model neglect the effect of external factor and business environment. Overall, it seems that research of successful e-commerce business model have given a little attention to external environment factors (Doern & Fey, 2007).

2.3 E-commerce value chain

Value chain can be defined as a set of strategically important activities through which a firm produced and delivered to customers. Porter (1985) divided value chain into core activities: inbound logistics, operations, outbound logistics, marketing and sales, and services; and support activities: firm infrastructure, HRM, technology development and procurement. Concept of value chain was primary dedicated to manufacturing firms to analyze physical flows of materials. Analyzing the different stages allowed managers to redefine processes and improve efficiency and effectiveness. (Porter, 1985)

Development of communication technology and increased importance of information flows, have changed the value chain. Most significant factor has been the Internet, which is the most powerful tool for enhancing operational effectiveness by speeding and easing the exchange of real time information (Porter, 2001). Traditional, physical value chain sees information as a supporting element of the value adding process, while information is the main object in the virtual value chain concept, introduced by Rayport & Sviokla (1995). According to them, “virtual value chain consists of gathering, organizing, selecting, synthesizing and distributing of information” (Rayport & Sviokla, 1995, 76). While the physical value chain is linear with a sequence of activities, virtual value chain is non-linear and enables potential inputs and outputs to access and distribute by a wide variety of channels. (Fletcher, Bell, McNaughton, 2004)

In most cases virtual value chain is more refined and efficient way to conduct value chain activities. Even though, information technology has made certain elements of physical value chains to be redundant, the complete cannibalization is not detectable. On the contrary, virtual and physical activities complement each other and amplify the importance to use different value chains side by side. Use of digitalized applications in one activity often places greater demand on physical activities elsewhere in the value chain. For instance, in the context of e-commerce increased orderings make warehousing and shipping more important. (Porter, 2001)

Frequently, the virtual value chain is developed from the former physical value chain (Fletcher et al., 2004). This can be seen in e-commerce value chain development process, where physical elements of commerce have digitized into virtual form. Value chain of e-commerce uses both, physical and virtual chains to create value through its processes. The combination of usage of both value chains is dependent on the characteristics of products and services. E-commerce of intangible products as tickets and music can utilize mainly virtual value chain, while for instance e-commerce of books, requires physical production and distribution channels. It is important to remember the equal importance between back-end supporting physical activities as the from-end digital activities. Therefore, the success of e-commerce will be depending on the ways the virtual value chain and physical value chain activities are integrated and matched. (Bhatt & Emdad, 2001)

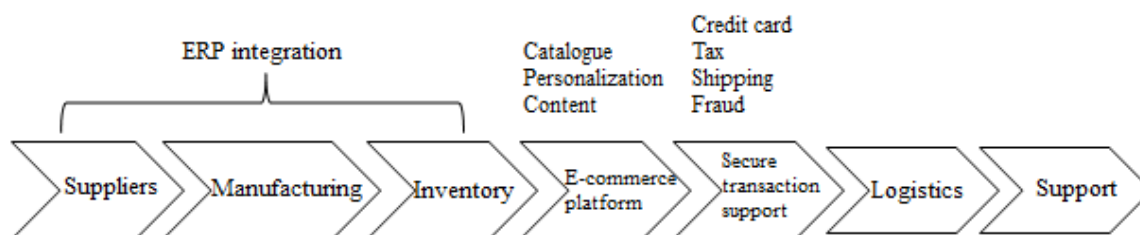


Figure 4. E-commerce value chain. (adapted from Plumley, 2000, 21)

Figure 4 illustrates the value chain of e-commerce, which presents the whole process from manufacturing to support functions. In the context of e-commerce, process is usually divided into three phases; pre-transaction, transaction and post transaction functions. Model helps to visualize different phases and operations during the e-commerce process as well as their relations to each other. Moreover, it provides a possibility for identifying potential weaknesses and factors that need adaptation, for example, due to changed environment or technology. Particular model of e-commerce value chain does not specify virtual or physical elements. (Kao & Decou, 2003; Kshetri, 2007)

According to Grant & Bakhru (2004) the ability to digitalize different e-commerce value chain functions seems to be emphasized during the e-commerce internationalization

process. The more digitalized functions companies have in their value chain, the less local investments e-commerce needs to do in the international markets. Different international strategies and value chain digitalization is analyzed more at the chapter 3.4.4 *International e-commerce strategy*

2.4 Future e-commerce developments

Fast technology development and the intensive competition at e-commerce markets have forced companies to continuously develop e-commerce. Ballard (2015) notes that: “days of easy e-commerce growth are over”. Today customers have experience to use e-commerce, resulting that competitive advantage is more difficult to achieve. Customers expect online shopping to be more interactive, social and comprehensive experience, where company is not only selling the product, but also solving problems and predicting the needs of customer. (Dennison, Bourdage-Braun, Cheteparambil, 2009)

The fast proliferation of social media and Web 2.0 has challenged e-commerce to transform its traditional product-oriented nature to be more social and customer-centered one. Social commerce or s-commerce can be understood as an e-commerce that use social media application to support social interaction and user generated content in order to help customers in their decision making and acquisition processes (Huang & Benyoucef, 2012). Social commerce or social features at e-commerce allow consumer to share their experiences and information with other customers and also with company (Dennison, et al., 2009). Two-way information flow benefits both customers and company. Customers receive more comprehensive information and have opportunity to give feedback. In turn, companies receive first-hand customer experience knowledge and possibility to strengthen customer relationship and brand image. (Huang & Benyoucef, 2012)

Due to high competition between various e-commerce companies, all companies are seeking effortless purchasing experience. Because there are numerous Internet based e-

commerce shops, switching cost for customer to use other e-commerce is almost non-existing (Porter, 2001). For this reason e-commerce has to follow trends that consumers create and follow.

In 2014, web traffic driven by mobile devices rose 120% compared to year 2013. The same increase can be seen at the numbers of e-commerce purchases made by mobile devices. (Monetate, 2015) When the signal from markets is this strong, e-commerce companies have realized the importance of mobile friendly e-commerce platform and purchasing process. (Davey, 2015) All developments as the use of social media applications and the possibility to use e-commerce at mobile devices focus to offer as good as possible user experience to customers. The main question is not anymore to understand what to offer, but how to offer.

3. INTERNATIONAL E-COMMERCE

International e-commerce is a multi-dimensional concept that is a result of internationalization process. In addition to the process, markets specific factors and the strategy choices that company is selecting are together defining the form of international e-commerce.

Langhoff (1995) has stated that because e-commerce companies operate in real-time and in workplace with “no walls, no boundaries”, internationalization paths are different than traditional companies have. (Yadong et al., 2005) To be able to understand the peculiarities of internationalization process of e-commerce companies, knowledge of traditional international theories is valuable. In this thesis Uppsala model and conversation around a process models of internationalization theories represents the traditional theory of internationalization.

3.1 Internationalization process

The theory of internationalization has been studied and developed in the context of temporal and geographical expansion of international activities of firm (Kim, 2003). Welch & Luostarinen, (1988) have defined internationalization to be “the process of increasing involvement in international operations”, whereas Calof & Beamish (1995) have emphasized the link between new environment and strategy by saying that internationalization is: “the process of adapting firms’ operations (strategy, structure, resources etc.) to international environment”.

Debate of internationalization process of companies is most often associated with research of Johanson & Wiedersheim-Paul as well as Johanson & Vahlne (Andersen, 1993). Models see internationalization process as an incremental, evolutionally growing commitment of company on the international markets (Grochal-Brejdak & Szymura-Tyc, 2013). Process model, also known as an Uppsala model, can be considered as a model of rational

internationalization, which has a positive impact on performance (Johanson & Vahlne, 2009). The general assumption is that the main obstacle to the development of international operations is the lack of knowledge and the knowledge can be mainly acquired through international operations (Johanson & Vahlne, 1977).

There are two patterns, which explain the internationalization process mode (Johanson & Wiedersheim-Paul, 1975). First is an establishment chain of commitment. At the starting point, company does not have any regular export activities. Export is starting via independent representative, later through sales subsidiaries and eventually by manufacturing products. As can be seen from the figure 5, the level of market knowledge determines the amount of market commitment. At the same time than knowledge increases through the experience, company also takes bigger risks. Second pattern explains that companies enter first markets they can most easily understand, in other words, psychic distance is low. Psychic distance is defined to describe the differences in market conditions that disturb the flow of information between the firm and markets. The basic assumption that companies expand first to neighbor countries is controversial topic among researchers. According to Johanson & Wiedersheim-Paul (1975) and Welch & Luostarinen (1988), psychic distance is correlated with geographic distance, while Buckley (1989) did not find any correlation between psychic distance and geographic distance. (Johanson & Vahlne, 1977)

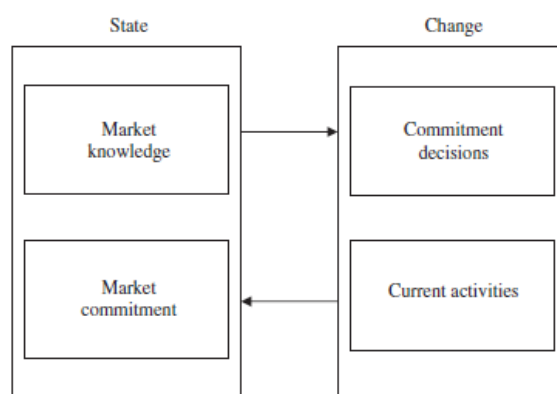


Figure 5. The basic mechanism of internationalization: State and change aspects. (Adapted from Johanson & Vahlne, 1977, 26)

Even though, the Uppsala internationalization model has been the inspiration to further theoretical models and also a good source to evaluate different aspects of internationalization process (Andersen, 1993), it has received a lot of criticism. Especially, the change of company behavior has been a significant source of criticism (Johanson & Vahlne, 2009). First, model is too deterministic and does not notify unique strategies of companies, where companies can leapfrog over stages (Hedlund & Kverneland, 1985). Second, internationalization processes are more rapid and might be started soon after the birth of the company (Oviatt & McDougal, 1994). Third, significantly homogenous markets have decreased the psychic distance and companies take bigger risks at early stages of internationalization. (Grochal-Brejdak & Szymura-Tyc, 2013)

The research of Coviello & Munro (1997), which highlights the importance of networks during the internationalization process, has updated the traditional Uppsala model. Markets are not formed by individual actors, but networks of relationships in which firms are linked to each other. Internationalization process is seen as an action that strengthens firm's network position. In order to succeed in the internationalization, company should have a good position in relevant network(s). Learning and process to build trust and commitment is now occurring among the networks and between relationships. (Johanson & Vahlne, 2009)

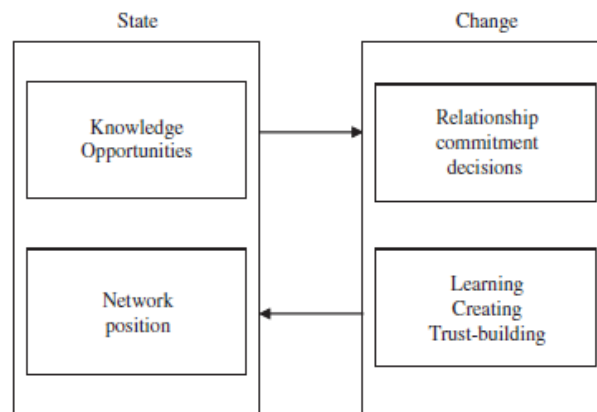


Figure 6. The business network internationalization process model (the 2009 version),
(Johanson & Vahlne, 2009)

Figure 6 illustrates the revisited model of internationalization process. The common structure of the model is the same as the original (1977), but the elements that form the “state” and “change” include new ideas of networks and the establishment process of knowledge. While original model highlighted the individual work that company does to receive the required market knowledge and increase the market commitment, the revised model focus to analyze partners and networks, where company can receive that information without own experimental learning process. In other words, revised model highlights the importance to find partners that have the knowledge company needs. (Johanson & Vahlne, 2009)

3.2 E-commerce internationalization

The distinction between default e-commerce internationalization and active e-commerce internationalization is important to understand. Default e-commerce internationalization is a cause of global Internet. Today creating websites or e-commerce causes the company to become international “whether it planned to or not” (Lituchy & Rail, 2000, 90), resulting to site may attract customers from anywhere abroad and generate unsolicited orders. However, expanding the business is not the main goal in the context of default e-commerce internationalization. (Yamin & Sinkovics, 2006) This thesis concentrates on active e-commerce internationalization, which involves considered usage of different actions in order internationalize e-commerce.

As can be noticed from the traditional internationalization models, general assumption is that companies first build a strong domestic market base before entering foreign markets. For this reason, internationalization can be seen as an experience-accumulative, time dependent, incremental and slow. According to Bell (1995), in some cases markets are developing so fast that slow process with different stages is not possible. Especially, internet-based economy and new technology devices have changed the rules of

internationalization. Conventional barriers and challenges have decreased and companies can leapfrog traditional internationalization phases. (Johanson & Vahlne, 2009)

Common consensus is that traditional internationalization models may not be sufficient to explain the internationalization process of e-commerce companies (Yadong et al., 2005; Yamin & Sinkovics 2006; Berry & Brock, 2004). There are numerous factors why internationalization process of e-commerce companies differs from internationalization process of traditional companies (Yadong et al., 2005). Probably one significant factor is the different business environment.

While traditional business is speaking about marketplaces, e-commerce companies are talking about marketspaces. Marketpace is location-insensitive market that enables free information flows without traditional boundaries (Berry & Brock, 2004). Usually marketpace is intended to describe the markets that Internet enables.

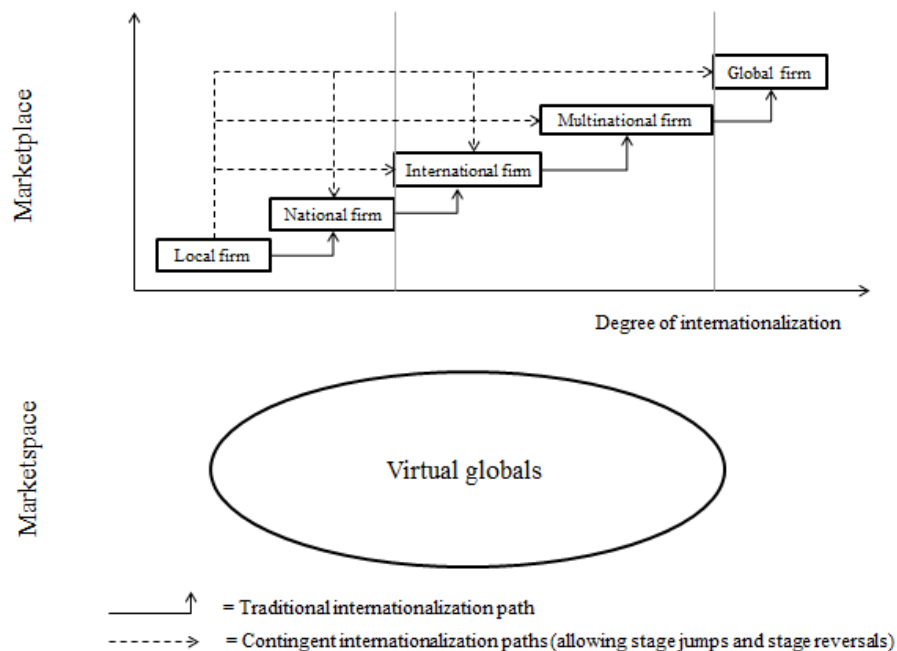


Figure 7. Marketplace vs. marketpace (adapted from Berry & Brock, 2004, 190)

According to Arenius, Sasi, Gabrielsson (2006), the use of Internet related solutions as e-commerce, can simplify the internationalization path by decreasing the effects of liability of foreignness and resource scarcity, which are normally hindering the speed of internationalization process of companies. Liability of foreignness can be considered as a cost of doing business abroad, which emerge only to foreign companies and affect competitive disadvantage compared to local companies (Hymer, 1976). Whereas resource scarcity reflects the problem of finding needed resources to survival and conduct international operations (Barney, 1991 in Arenius et al. 2006). The same notion of simpler path of internationalization can be seen from the figure 7, which compares the internationalization processes at the marketplace and marketspace. Concepts of virtual globals in the marketspace confirm idea of the Yamin & Sinkovics, (2006) that e-commerce companies have global presence from the first point when they have opened online stores, resulting that typical stage-based internationalization is rare. However, case study of Kim (2003) argues against the general notion of stage less internationalization process. Gradual internationalization process with some limitations exists among the companies, even though the pace of the process is rapid. Gradual implementation process can especially be seen the levels how well e-commerce is adapted to local needs and requirements of environment.

To e-commerce companies the rapid speed of internationalization is general. Yamin & Sinkovics (2006) states that sequence of entries into foreign markets is really time-compressed, and typically can be spoken rather in months than in years, which is the normal time gap to traditional companies (Kim, 2003). Multiple information channels of virtual value chain enable e-commerce to analyze new markets effectively and do fast decision. Moreover, activities in digital format reduce the need of physical workplace or subsidiaries in foreign market, allowing lower market entry investment. By reshaping the value chain to be more digital, e-commerce companies can leapfrog some intermediary stages such as sales, marketing and distribution, controlling those by themselves from the home country of the company. (Yadong, et al., 2005)

When comparing traditional internationalization process to e-commerce internationalization, Yamin & Sinkovics (2006) found significant difference in the nature of local investments. E-commerce internationalization process can be considered as a home-centered phenomenon, where most operations in foreign country are dominated by the parent company located in home country. Moreover, Yamin & Sinkovics (2006) states the process to be more “tightly coupled” than traditional process, because all activities are under the control of parent company. Even though digital activities of the value chain reduce the need of local investment and market specific activities, one cannot talk about complete market commonality. The need of local investments and resources increases at the same time than the need for local adaptation of activities like distribution and payment systems. (Grant & Bakhru, 2004)

During the research history of internationalization process, psychic distance has been an important factor to explain the international behavior of companies. Differences in language, culture, business environment, political and social systems have been disturbing the information flow between companies and foreign markets. (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975) Psychic distance can be seen as a perception of how different or similar the new markets are compared to markets that the company already knows, usually domestic markets (Evans & Mavondo, 2002, 523). However, virtual value chain enables increased information flows between the company and its customers, which expands the amount of information and knowledge that companies can receive from the foreign markets. For this reason, Yamin & Sinkovics (2006) present arguments to emphasize that e-commerce internationalization has reduced the perception of psychic distance. Also, Berry & Brock (2004) have proved that internet-based solutions as e-commerce can accelerate internationalization because information barriers are lower.

Even though the increased knowledge of customers and customers’ behavior has increased benefitting international e-commerce companies in their international activities, it might also lead to the distortion of information. Companies that have fully digitalized their activities and minimized their local presence might face a virtual trap when information and knowledge that customers produce, can significantly differ from the actual market

knowledge. Using non-authentic market knowledge might be harmful in the long run compared with competitors using the specific market knowledge. (Yamin & Sinkovics, 2006)

To sum up the debate on the differences between internationalization process of traditional companies and e-commerce, Table 1 illustrates the main characteristic featured in both processes.

Table 1. Summary of internationalization process of traditional and e-commerce company

Factor	Traditional company	E-commerce company
Type of market	Marketplace	Marketspace
Sequence	Distinct	Indistinct
Scope	Unidirectional	Multidirectional
Speed	Incremental	Rapid
Amount of local investment	High	Low
Location of control	Home and host centred	Home-centred
Effect of psychic distance	High	Low

3.3 Market specific factors

Market conditions are important factors of international e-commerce, even though geographically free business does not occur in traditional markets. Market specific peculiarities force e-commerce to shape the value chain to respond to the requirements of markets (Grant & Bakhru, 2004). Especially, legal and cultural characteristics have a rather strong influence on the execution of international e-commerce.

International e-commerce literature has strongly highlighted the barriers that international or global e-commerce faces in foreign markets. For instance, Kshetri (2007) lists three main barrier categories: economic barriers, sociopolitical barriers and cognitive barriers, while Savrul et al., (2014) categorizes six different barriers: social & culture, technical, economic, political, organizational and legal & regulatory barriers. In turn, other schools of researchers rather talk about the factors that affect e-commerce. For example Gibbs, Kraemer, Dedrick (2003) have found three main factors; global environment, national environment and national policy, to analyze when evaluating the market. As can be seen, all different factors/barriers highlight the importance of evaluating the market comprehensively.

E-readiness of a country is an umbrella concept, a collection of different factors that affect country's possibility to support and host digital business and ICT services. (Berthon, Pitt, Cyr, Campbell, 2007) The Economist Intelligent Unit in co-operation with IBM's Institute for Business Values analyzes the e-readiness of nations by using weighted functions of six categories: connectivity and technology infrastructure, business environment, consumer and business adaptation, legal and policy environment, social and cultural environment and supporting e-services. E-readiness analysis offers comprehensive and detailed information of the country's possibilities to host digital services. Fast development of technology and markets can be seen as modification of the important factors. For example, research in the 2000's highlighted the penetration rate of Internet, while now the important factor is the quality of Internet connections. (The Economist Intelligence Unit, Limited 2010)

Because the empirical part of the thesis concentrates on international e-commerce in Russia, the following sub-chapters evaluate the specific topic using the knowledge and facts from Russian markets.

3.3.1 Political factors

For as long as there has been trade, the role of political system has been important. Through various legislation and regulations, nations have improved the business of domestic companies either to help own companies to internationalize or by regulating the actions of foreign companies (Singh, 2012). For this reason, important external factor that is affecting international companies is the political environment of both home and host country. For example, economic and socio-cultural environment and the development of technology are dependent on the political decisions. However, because of the cyclical political environment with democracy, forecasting of changes is highly demanding. (Makos, 2015)

Particular historical, economic and cultural context have built each country's political system to be unique. A political system can be understood as a set of formal institutions that constitute a government. Legislative bodies, lobbying groups, political parties and trade unions form the core of political systems. The main focus is to provide protection from external threats, allocate the resources of the country and maintain the stability of the society through different laws and regulations. (Cavusgil, Knight, Riesenber, 2012) For example, typical political factors that influence business are bureaucracy, corruption level, trade control, tax policy, laws regulating commercial activities, policy toward private property, foreign policy, government stability and overall political environment. (Berthon, et al., 2007) When evaluating the political environment of a country, political risk is a term, which describes a subjective perception of how political decisions and environment might affect the company now and in the future. (Frynas, 2006)

Although Frynas (2006) notes that internet-based e-commerce companies are less vulnerable to host country's political environment, due to more digitalized value chain decreasing the need of physical investments, the influence of political decisions and atmosphere still exists. On the contrary, more complex business nature requires more support from the government to ensure market possibilities for digital business.

During the whole history of Russia, political instability has caused problems for domestic and foreign companies. Policy-makers have a strong influence on big companies, resulting that politics and economics are tightly coupled. Corruption is a major problem in Russia. According to Corruption Perception Index 2014 by Transparency International, Russia is ranked on place 136 out of 175 countries, resulting Russia's corruption at the same level than corruption is in Nigeria. Even though, the decreasing of corruption has been the one of the main priorities in Russia, nearly 52% of Russian citizens feel that government's efforts have been insignificant. In addition, 53% of the citizens in Russia believe that level of corruption has increased during the time period of 2007-2010. (Transparency International, 2014)

In Russia, corruption has a long history and it is a questionable part of business practices. Corruption is intended to faster various business processes and make them easier to handle (Forslund et al., 2014) Besides of corruption, massive bureaucracy is a problem in Russia. According to Easy of Doing Business index by World Bank Group (2015b), Russia is placed on the 62nd place out of 189 economies. Index reveals that various official operations are complex to execute and they take more time compared with OECD countries. Through the results of above-mentioned indexes, it can be said that corruption and bureaucracy are negatively reinforcing each other.

In general, attitude toward foreign companies has varied depending on the political situation of the country. Today, because of various trade unions, trade is rather free especially in western countries. However, the study of Yadong et al. (2005) points out that especially in emerging markets, where government regulates the market more, e-commerce companies faces even stronger interventions by host governments than traditional multinationals. One reason could be that it is more difficult for governments to control commercial activities, which happens on marketpace and not within its borders. (Fletcher et al., 2004)

During the presidency (2008-2012) of former president Medvedev, the political and economic development indicated towards Western attitudes. Medvedev had a

modernization program, which focused on decreasing corruption, diversifying domestic economy and reforming the legislation. (Konecny, 2013) However, when Putin returned to power, open development has stagnated and popularity of nationalism has increased. Russian's actions in Ukraine have strained relations between Russia and Western countries. USA, Japan and EU have imposed economic sanctions on Russia, to which Russia has responded by limiting the import of Western products. Simultaneously, numerous new legislations and regulations have diminished the freedom of press, opposition and foreign organization and companies. (Forsslund et al., 2014) Former Minister of Foreign Affairs of Finland, Mr. Erkki Tuomioja, has commented that at the moment trade and business in Russia is more complex than in the past. General atmosphere has tightened and political instability influences the practices of Western companies. (Nalbantoglu, 2015)

3.3.2 Economic factors

When evaluating the implementation of e-commerce, business environment of a country is a crucial factor. Sufficient or tolerable business environment acts as enabler or inhibitor for e-commerce success. (Gibbs et al. 2003) Factors to evaluate can be divided into categories of national economy, market specific information and e-commerce related environment.

Even though e-commerce has numerous differences compared with traditional business and commerce, same economic phenomena affect its operations. Factors as inflation and currency rates, tariffs and customs, demand and supply trends, tax structures and growth rates are important to evaluate. To evaluate the potential and the customer base of the market, factors like income distribution, purchasing power, market size and market potential advices e-commerce companies to adjust its operations. (Singh, 2012)

The economy of Russia is highly dependent on the natural resources such as oil and gas. Russia has one fourth of the world's proven natural gas reserves and it has the sixth largest proven oil reserves. According to BP (2011), Russia is the second largest oil exporter and

the largest exporter of natural gas. In 2013, export of natural resource products constituted 68% of Russia's total export revenues (EIA, 2014). For this reason Russian economy is highly dependent on oil exports and vulnerable to fluctuations in oil prices. As can be seen from the figure 8, during the time period of 2007 to 2015 the price of oil has had a high volatility, resulting forecasting the economy of Russia being difficult.



Figure 8. Price of crude oil Brent (Nasdaq, 2015)

Last few years has been challenging for Russian economy. The decrease in oil price has weakened the ruble and the whole Economy of Russia. Because of the economic growth, that has mainly been dependent on the price of oil, has slowed down and uncertainty of consumers and investors has increased. The volatility of ruble has also placed challenges on stabilizing the economic situation in Russia. During the time period of July to December 2014, ruble lost 46% of its value against the US dollar, resulting in short-term economic crises. In the background of the collapse were the low oil price, but also geopolitical tension that began in March 2014. European Union set various sanctions on Russia that has among other things increased the cost of external borrowing for Russian banks and firms as well as increasing the risk to investment in Russia. (World Bank Group, 2015a)

In the context of e-commerce, the currency rate of ruble is an important factor, because it is strictly connected to the purchasing power of customers. In other words, if the ruble is weak, foreign products are more expensive and it decreases the amount of potential customer segment. To understand the current situation of market, table 2 summarizes the development of most valuable market factors.

Table 2. Key economic factors of Russia (OECD, 2015; Trading economies, 2015; World Bank, 2015)

	2011	2012	2013	2014
GDP per capita () (TE)	6131,08	6631,48	6848,7	6923,45
GDP per capita PPP () (TE)	21 734,22	22 750,5	23309,8	23564,21
Annual GDP growth % (World Bank)	4,3	3,4	1,3	0.7
Inflation rate % (OECD)	8,4	5.1	6,8	7,8
Unemployment rate % (OECD)	6,5	5,46	5,49	5,16

Besides of economic situation overall, e-commerce specific factors are useful to evaluate. Especially important is to analyze payment methods, the level of logistic infrastructure, customs and tax practices and the impact of regional economic agreements on trade and e-commerce. Merely a few years ago undeveloped payment methods and unavailability of credits cards caused numerous problems to international e-commerce (Kshetri, 2007). Even though global credit cards and payment methods have become more common around the world, differences between markets can be seen. For instance in China money transfers are the most common online payment methods, while in Germany credit cards and direct debit cards are popular. (Singh, 2012)

During the whole history of e-commerce in Russia, payment methods have been a problematic issue (Kshetri, 2007; Doern & Fey, 2007). Even though Russia has more credit cards (200.2 million) than inhabitants, cash has remained the predominant payment method.

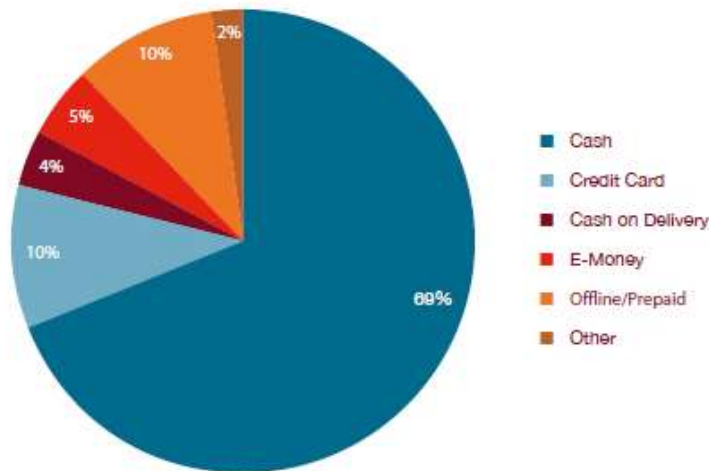


Figure 9. Preferred online payment methods in Russia, (Paypers, 2014)

As can be seen from the figure 9, 69% of the online shoppers prefer to use cash on e-commerce. However, according to trend, the share of cash is slowly decreasing and popularity of various electronic payment methods is rising.

Logistic and logistical infrastructure is one of the most important factors of success of e-commerce. Same-day shipment requirements, small order sizes and increased daily orders have challenged the traditional international logistic practices. International logistic channels have to be efficient, fast and broadly adapted to meet the requirements of e-commerce companies and end-customers. (Cho, Ozment, Sink, 2008) The lack of sufficient logistical infrastructure in the market can create problems for companies.

Vast geography of Russia combined with uneven quality of road and rail infrastructure poses challenges for companies when delivering products to or within Russia. Moreover, various local logistical providers are just developing or undergoing the modernization process. In general, Russia's Official Post does not have a good reputation among ordinary consumers.

Most Russians feel that official post is unreliable and slow. However, it has more than 42 000 post offices around the country and the real working capacity is improving all the time. (East-West Digital News, 2015)

At the same time as the popularity of e-commerce has increased, the amount of private logistical and courier companies have also increased. Most often, the price of delivery to Russian has been rather expensive and created a barrier to cross-border trade, however the growth of competition has decreased the logistical prices. According to survey of Posti Business Insight (2015), Russian consumers prefer fast delivery, but in the case of lower price, time is not that important. Local regulations and laws are influencing the logistical issues rather strongly. At the moment, a private person can receive packages maximum value of 1000 euros and 35 kg per month without customs clearance. (Posti, 2015; East-West Digital News, 2015)

3.3.3 Social factors

Culture is the key environmental characteristic to differentiate behavior and common social norms of various areas. Culture can be understood as a combination of social and economic systems, religion, family, educations, technology, language and communications. Listed components create an atmosphere where commonly shared values, internalized beliefs, logic and decision rules form. (Gong, 2009) Because culture is a learned phenomenon and shared across people of a same society, it can be described as a circular process, which is continuously changing and developing within a society (McCort & Malhotra, 1993).

In the research field of international e-commerce, culture is the most analyzed and researched factor that effects international e-commerce. Culture has a strong influence on B2C e-commerce, because it operates at consumer markets, which are shaped by local values and preferences (Gibbs et al., 2003). There are numerous of studies that have evaluated the relationship between cultural factors and e-commerce-related variables.

Therefore, it has managed to prove that cultural factors significantly influence the speed of diffusion, the need of localization and the success of different business models of international e-commerce. (Hwang, Jung, Salvendy, 2006) Essentially, culture has an influence on the content aspects such as language and design, common business practices such as trust toward credit and e-payments, as well as on buying behavior of consumers. (Bingi et al., 2000)

Language is the most visible element of culture and also an important tool for e-commerce (Hollensen, 2011, 239). Against globalization and dominance of English language, websites that are culturally and linguistically congruent receive more favorable attitudes and feel easier to use. (Singh, 2012, 10) However, merely translating the context is not enough in international e-commerce, understanding of local culture is needed too. Cultural differences have shaped people's way of thinking critically and people from various cultures approach similar content in different ways. (Liao, Procots, Salvendy, 2008) To highlight the importance of culture in the way people think, Hofstede (1991, 5) talks about "collective programming of the mind" that culture causes.

Research of international business and e-commerce has used a lot the cultural framework of Hofstede (2001) as a theoretical framework for cross-cultural studies. Framework has five dimensions: (1) power distance, (2) individualism/collectivism, (3) masculinity/femininity, (4) uncertainty avoidance and (5) long-term orientation. By analyzing the results of uncertainty avoidance, individualism/collectivism and power distance, e-commerce can adapt the content and actions to increase the trust, convenience and popularity. For instance, people from high uncertainty avoidance cultures require more information about the security, payment methods and logistics to trust the e-commerce, than consumers in low uncertainty distance cultures. Moreover, dimensions as individualism/collectivism and power distance offer information about buying behavior and cultural practices. (Liao et al., 2008)

Cultural diversity of customer needs and purchasing behavior causes problems to e-commerce companies. At the same time when cost saving efficiency is happening because

of global markets, e-commerce notices the need of localization. Nevertheless, local adaptation is expensive and requires a lot of financial and human resources. (Bingi et al., 2000) Additionally, sometimes evaluation of cultural factors can be challenging, because of the lack of local presence due to virtual value chain. Fast changing development of people behavior, has shaped cultures and fractured national cultures into smaller sub-cultures, resulting in countries having numerous languages, religions and shared beliefs (Steenkamp, 2001).

Russia is the world's largest country by landmass (World Atlas, 2015). The development of Russia has been really uneven, which have resulted in rather inconsistent nation. The wealth is centralized to cities and the small amount of people. Figure 10 illustrates the Hofstede's cultural dimensions from Russia, which explains rather well the main characteristics of Russia. The high number of power distance reveals the inequality of people and areas. Power holders are very distant in society as well as the people with wealth. The fact that 0.00008% of Russia's population owns 18% of the country's wealth, illustrates the situation quite well (Mathews, 2014).

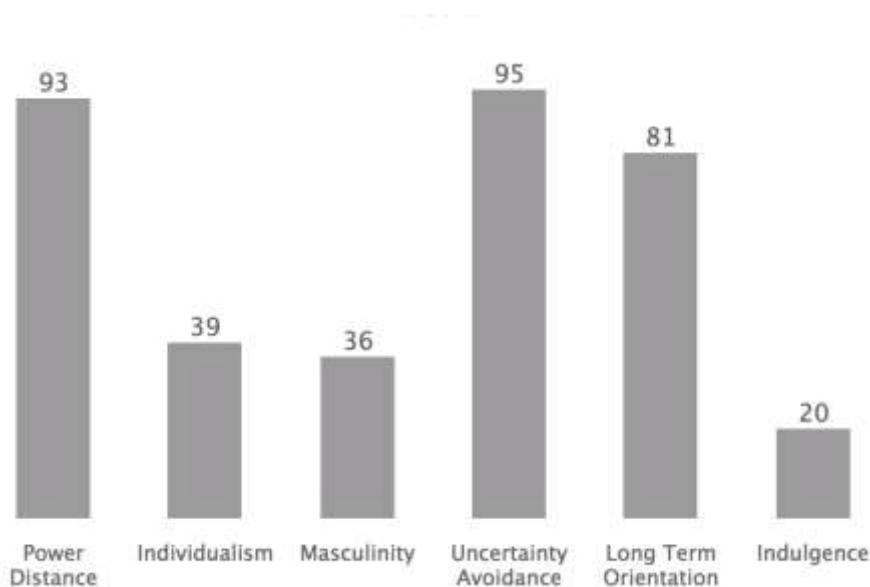


Figure 10. Hofstede's cultural dimensions from Russia. (The Hofstede centre, 2015)

The score of individualism is rather low in Russia, resulting in a strong community between people being important. In a business perspective, this can be seen as the importance of word of mouth. People rely on the recommendations of friends and family. As already known, the political and economic system of Russia is ambiguous and unpredictable. This can be seen as high levels of uncertainty avoidance. People feel very much threatened by ambiguous situations. (The Hofstede centre, 2015)

3.3.4 Technological factors

Grochal-Brejda & Szymura-Tyc (2013) have stated that technology is mainly independent from the cultural differences. However, the quality level of technology infrastructure varies a lot between markets and is dependent on the technology development of the markets. A decade ago, Internet penetration of the country was one of the most critical factors for international e-commerce companies to evaluate the market potential (Gibbs et al., 2003). Due to fast developments of communication and ICT technology, Internet penetration percent has increased a lot during the last decade. North America has the highest penetration (87,7%), second is Oceania/Australia (72,9%), and third is Europe (70,5%). Lowest penetration rate is at Africa (20,7%)(Statista, 2015; Internet World stats, 2015). Few countries, for instance Finland, have imposed a law, which defines the access to Internet as a human right, resulting that all regions, with small limitation, have to have access to Internet (The Economist Intelligence Unit, Limited 2010).

Now, when penetration rates have achieved satisfactory levels in most of the markets, attention has shifted to the quality of broadband services and security issues. During the whole history of Internet usage and e-commerce, security of Internet has been the main impediment to shop over the Internet. Simultaneously with better quality of Internet, also Internet security has increased. (Udo, 2001)

Low Internet penetration rate has been a hindering factor in Russian e-commerce market development. In Russia, Internet became popular much later than in other European countries, and in 2003 only 10% of the adult population was connected to Internet. During the last decades, development has been fast resulting that 62% of the adult population was connected to Internet in 2014 (figure 11). Even still Russia is lagging behind other European countries, as Germany 84%, 72.3 million people represent the European largest Internet base. If growth continues at its current rate, it will take less than decade for Russia to reach the current levels of Europe's most connected countries. (East-West Digital News, 2015)

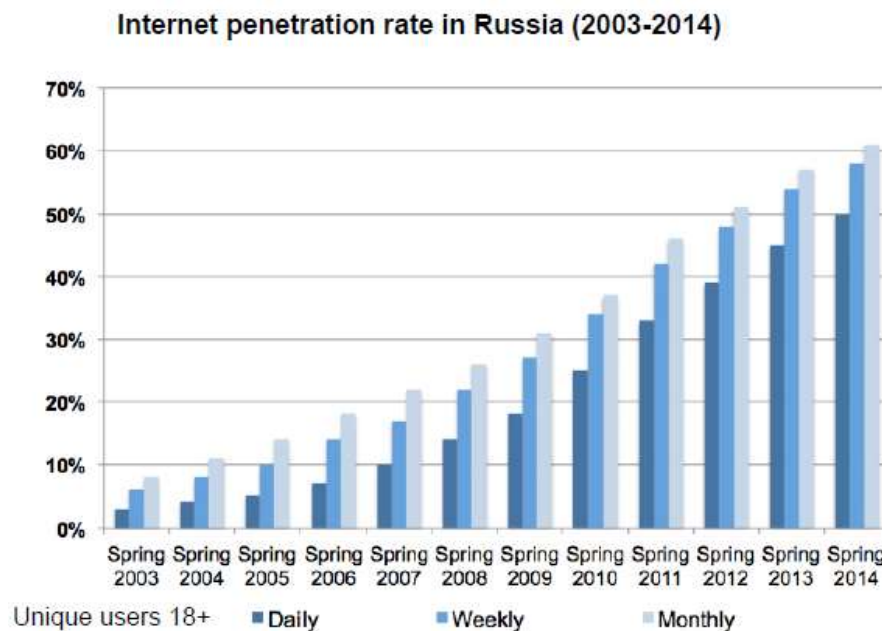


Figure 11. Internet penetration in Russia (FOM in East-West Digital News, 2015)

Internet penetration in Russia is uneven, as is the whole development between different regions. In cities like Moscow and St. Petersburg, which also have the highest standard of living and purchasing power, Internet penetration is over 75%, while areas like Dagestan and Mordovia the rate is approximately 42%. (East-West Digital News, 2015)

3.3.5 Legal factors

Development and flow of e-commerce is rather dependent on the progress of legislative atmosphere. E-commerce has challenged the traditional trade laws, because the markets occur in marketspace, which are free from geographical borders. Countries have faced the situation, where they are forced to enact the laws to correspond the needs of e-commerce companies and users. (Singh, 2012)

The legislative development started from Utah State, USA, in 1995, when the first digital signature law came into practice. Various countries and regions like the EU, Russia and Singapore promulgated similar legislation and accelerated the e-commerce development to be in today's situation, when the e-commerce legislation of countries has been gradually perfected. However, despite the work of global trade organizations, countries have rather much of their own regional and national laws regulating e-commerce and Internet use. Legislative inequality between countries challenges companies to act simultaneously on global scale while adapting the actions to comply with local laws and regulations. (Qin et al., 2013, 13) Study of Gibbs et al. (2003) shows that cultural values and interest of countries can be seen also from the legislation sector. For instance, e-commerce legislation in France and Germany is advanced in topics of consumer protection and privacy, while China has focused on content regulation.

The core topics of e-commerce legislation are digital signature, payment security, intellectual property rights, content regulations, consumer protection and privacy. Fast developments in secure transactions through the Internet have harmonized the use of digital signature and payment methods, resulting in more secured payment connections and methods, provided by global payment companies. Greater risk than payment situation is the storage of payment information. (Singh, 2012)

Internet, which was originally designed to be open and transmit information between various parties, has raised the questions about the intellectual property rights of e-commerce companies. Intellectual property rights are legal rules regulating ownership of

creative ideas as copyright, trademark or patent (VanHoose 2011, 223). Bingi et al. (2000) have observed, that in the digital era and the Internet environment, defining the patentable or copyrightable issues are difficult. On one hand, the pace of development is so fast and on the other hand the amount of information is so great that it is difficult to protect original innovator. However, e-commerce has challenged the traditional idea of patent –concrete mechanism. Especially in USA, business method software has received patents. An example of this is “One-click” payment method by Amazon, which is patented in USA. (Fletcher et al., 2004, 153)

When operating in cyberspace, where traditional geographical national boundaries do not exist, it is highly important to define the place of jurisdiction. Traditionally, the exact transaction place determines the country of jurisdiction, but in the context of international e-commerce, there is no exact rule (Fletcher et al., 2004). Therefore, according to Singh (2012), e-commerce must have mediation law and legal guidance for an each market, and clearly specify legal jurisdiction in all customer agreements.

When making purchases over the Internet without a real connection to product, consumer protection law secures the rights of the customer. The basic assumption is that return of defective product is always possible and free of charge to the consumers. (Fletcher et al., 2004) More complicated are situations when the product does not coincident the image of customer and consumer and the company are located in the different countries. In Russia consumer protection law allow consumers to return products within 7 days (Lahtinen 2013, 69), while in the EU consumers have the right to withdraw the product during 14 days after receiving the product. Within that timeframe withdraw is possible for any reason. In June 2014 the customers’ rights to free returns in EU countries was removed by law. (EU, 2015) However, many companies maintain free returns to offer better customer services to their customers.

The nature of Internet poses problems with customer privacy issues. Internet-based solutions such as e-commerce can gather an endless amount of information from the behavior of its visitors. By visiting the e-commerce site, customer leaves a digital footprint,

which enables companies to analyze customers and their preference. (Fletcher et al., 2004, 153) The issue of customer data privacy is particularly critical in the context of e-commerce, because during the transaction process a lot of personal data and credit and payment information is gathered. Privacy law defines how consumers' information is used, stored and disseminated (Singh 2012, 18). Legislation of data privacy varies quite a lot between markets. While U.S. legislation limits the use of data about consumers, EU privacy rules prohibit the unauthorized transferal of online consumer data. (VanHoose, 2011, 256)

In July of 2014 the Parliament of Russia enacted a piece of legislation regarding new personal data rules, which requires that starting in 2016, any personal data about Russian consumers can only be stored in Russia. If the new law come into effect, it will hamper not the only companies in Russia, which handle the personal information, but also Russian consumers. According to the data protection law, for instance, booking online tickets or the use of Facebook would be impossible, because nearly all, also Russian companies, use cloud servers or foreign data servers to store information. If the content stays as it is at the moment, the law will also have an effect on international e-commerce companies. In practice, e-commerce companies would need local servers in Russia, where they would store the personal data of Russian consumers. (Henni, 2014; Kulikova, 2014)

Even though the popularity of e-commerce has increased a lot, Russia does not have special e-commerce legislation. At the moment, e-commerce companies obey the law of Russia's Civil Code and a range of federal laws. The laws used now are dedicated to regulate matters outside the electronic context, and therefore are not working properly. Insufficiently regulated e-commerce legislation is not only increasing the risk of misunderstanding of law, but also increasing the operational risk to do business in Russia. (East-West Digital News, 2015)

3.4 International strategy

E-commerce is inherently a rather international concept, because Internet and Internet-based communication allows e-commerce to reach customers worldwide (Yamin & Sinkovics, 2006). Quite often we are talking about global e-commerce and global customers as one unit, which represents the whole world. However, as already mentioned in the chapter 3.3 *market specific factors*, researchers (Kshetri, 2007; Alhor, Singh, Kim, 2010; Gibbs et al. 2003) have found that various factors as political, legal, cultural, technology and economic conditions of the market influence e-commerce and the success of selected business model and activities. For this reason, international e-commerce companies have to evaluate how international strategy is going to respond to the peculiarities of the market. Whether the strategy is going to focus more either on standardization or localization of operations? (Grant & Bakhru, 2004; Kshetri, 2007)

Debate on global strategy and adapted local strategy is a fundamental issue of international business theories (Segal-Horn, 1996). Debate is polarized into two rather opposite views, where an opinion of the level of market homogeneity and the need to adapt operation varies (Svensson, 2001). The debate started when Levitt (1983) argued that boundaries of specific countries are disappearing and there is only one global market and global customers, who want to buy standardized products. Technology and globalization are two main vectors to shape the preferences of people and the realities of economic. (Levitt, 1983)

3.4.1 Global strategy

Globalization can be understood as a process where national markets merge into a single worldwide market, causing the dissolve of national market boundaries (Grant & Bakhru, 2004). Figure 12 illustrates how globalization is outcome of political, technological, social and competitive factors that have evolved over time.

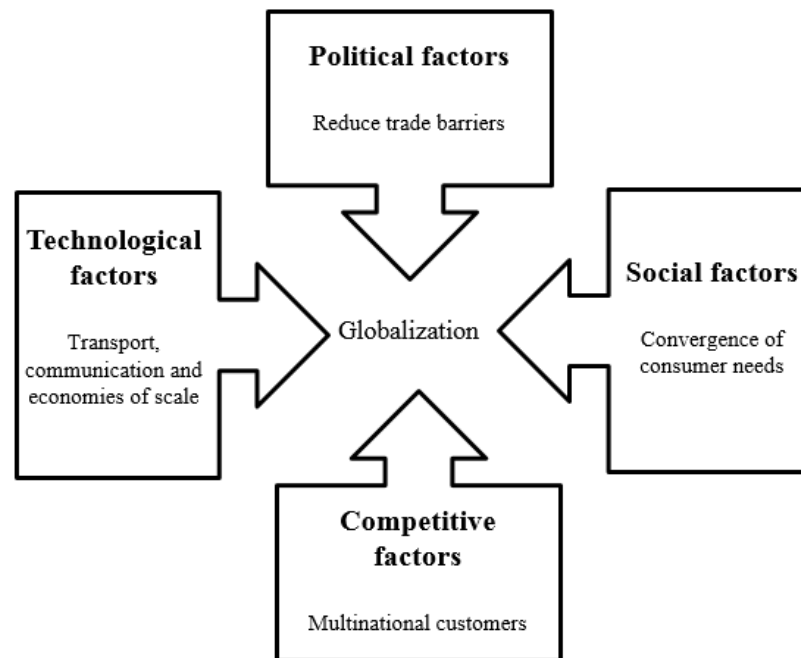


Figure 12. Globalization drivers. (Adapted Lasserre 2012, 7)

The development of free trade among nations has been a crucial political factor. The work of European Union and WTO (former known as GATT) has lowered the trade barriers resulting in reduce of cost, time and complexity. Another vital driver for globalization has been the development of various technology factors such as transportation and communication. More efficient technology innovations have reduced the cost and time of transportation and communication, which have enabled more companies to operate worldwide. Better network of air, rail and road transport has reduced the cost of shipping goods from country to country, which have been the enabler of e-commerce development. (Lasserre, 2012; Hollensen, 2011)

When analyzing the development of communication technologies, Internet and internet-based communication methods have revolutionized how people communicate, also worldwide. Global communication has shaped customer behavior and the needs to be more homogeneity despite of the geographical area. Global village refers the phenomenon in which the population all over the world identifies commonly shared cultural symbols and

trends. Global trends and brands have forced companies to act more at the global scale, resulting in competition in markets is not only between local companies but also between global companies. (Fletcher et al., 2004; Hollensen, 2011)

Changed global environment has modified the markets forming new requirements for companies to success. Levitt (1983) has stated that companies that ignore the development of globalization and global markets, will be the victims of others who follow the trend. Yip (1989) has categorized four main drivers (market, cost, government and competitive drivers) that propel companies to globalize their actions. Table 3 summarizes the main globalization drivers and sub-drivers.

Table 3. Globalization drivers (Yip, 1989)

Market drivers	<ul style="list-style-type: none"> • Homogenous needs • Global customer • Global channels • Transferable marketing
Cost drivers	<ul style="list-style-type: none"> • Economies of scale and scope • Learning and experience • Sourcing efficiencies • Favorable logistics • Differences in country costs and skills • Product development cost
Government drivers	<ul style="list-style-type: none"> • Favorable trade policies • Compatible technical standards • Common marketing standards
Competitive drivers	<ul style="list-style-type: none"> • Interdependence between countries • Global competitors

Global strategy can be understood as a response to globalization. Global strategy sees the world as a one coherent market instead of collection of national markets (Hout, Porter and Rudden, 1982). Svensson (2001) states that global strategy is a holistic approach of execute international activities. Focus is on standardization, similarities, homogenization, concentration and worldwide coordination.

Most often cost savings resulted by economies of scale and scope are the most desirable benefits of global strategy. Standardization allows companies to duplicate best practices to all markets, which decreases the need of extra work at the markets (Alhor et al., 2010). By using already existing materials and operations, companies can also improve quality and enhance customer satisfactions. (Yip, 1989) Cost savings with high quality and customer satisfactions form the competitive advantage of a company.

The nature of the international e-commerce is theoretically optimal to global strategy. Firstly, e-commerce is automatically global. Consumers all over the world can visit and find familiar products and brands. Secondly, fast developments of international logistical network allow e-commerce companies to ship products rather cost-effective to their global customers (Lasserre, 2012). And thirdly, researchers as Yamin & Sinkovics (2006), have found that Internet lowers the psychic distance and differenced between countries, which facilitates the international business operations.

3.4.2 Local strategy

As already mentioned, global and local strategy represents quite opposite view on understanding the international markets. While global strategy sees all national markets as a homogenized unit, local strategy highlights the inherent diversity that exists in various markets (Alhor et al., 2010). Local strategy recognizes the importance to consider locally related factors in the performance of marketplace resulting local adaptations and tailoring of operations (Svensson, 2001). Proximity of market, flexibility to adapt and quick response time form the competitive advantage of local strategy (Lasserre, 2012).

Local strategy focuses mainly on responding to the drawbacks that the use of global strategy is effecting. According to Yip (1989), problems occur because local market specific factors are neglected. Planned market operations that ignore the market specific factors might result in decrease of local competitiveness, increase of distance between

company and customer, as well as various market risks. Figure 13 presents four main factors that highlights the importance of localization of markets.

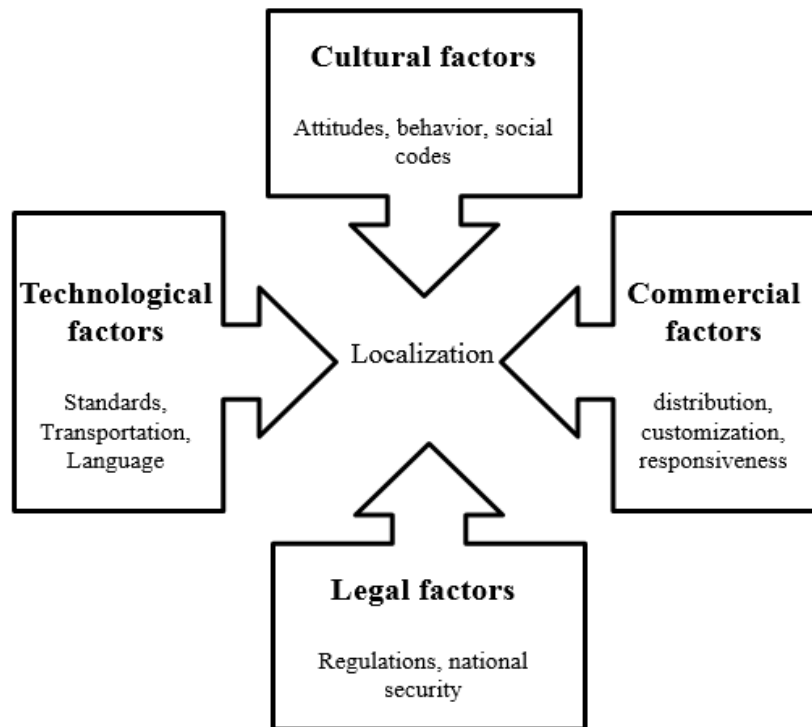


Figure 13. Localization drivers (Adapted from Lasserre, 2012, 15)

Despite the concept of global village and the convergence of customer needs, cultural diversity still exists. Different attitudes and cultural norms can be seen as an important factors shaping consumer behavior and responsiveness towards new product and services. (Gong, 2009) Commercial factors are crucial especially in B2C- markets. Distribution networks and common methods might vary country to country and need profound knowledge. Particularly in e-commerce, it is highly important to understand the local distribution behavior. Ability to respond to country specific demand as well as to

customization of operations does not work by using the standardized business processes. (Lasserre, 2012; Hollensen, 2011)

Even though various political trade barriers are continuously lower, countries have national laws and regulation constraints that often work against globalization. Numerous trade unions like the EU have harmonized legislation to be more coherent and facilitate international trade. However, regulations and laws related to products, customer protection and marketing, force companies to localize their operations to be in line with national laws (Bingi et al., 2000; Singh, 2012)

One significant factor against globalization is language. Even though English is more and more a global language, consumers prefer to use their native languages. The importance of native language increases especially in cases when purchasing process requires understanding of contractual clauses. Moreover, the use of local language shows the company's connection with the local community. (Halliburton & Ziegfeld, 2009) However, in the context of e-commerce, effort and cost of maintaining several different multilingual sites is notable more than the use of global approach (Alhor et al., 2010).

As stated earlier, the nature of international e-commerce is optimal for global strategy because of numerous functions, it is also optimal to local strategy. Firstly, considering e-commerce overall, it is rather dependent on legislation concerning commerce and products (Singh, 2012). Secondly, the importance on language is crucial due to the lack of concrete purchasing moment, text and pictures to convince the customer (Alhor et al., 2010). Thirdly, if e-commerce has tangible products, it needs local distribution channels. (Grant & Bakhru, 2004).

3.4.3 Glocal strategy

Glocal strategy can be seen as a compromise, which combines the best practices of global and local strategy (Figure 14.) Glocal strategy recognizes the need to find an optimal

balance between standardization versus adaptation, and homogenization versus tailoring. (Svensson, 2001) Wind (1986) states glocalization as “thinking globally, acting locally”.

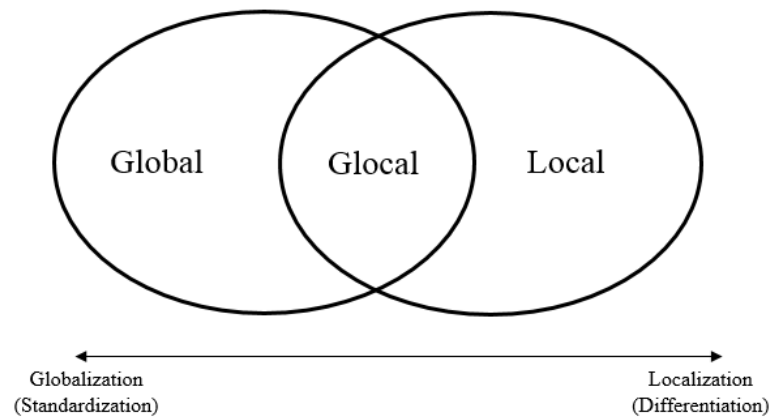


Figure 14. Localization drivers. (Adapted from Hollensen, 2011, 20)

Concept glocal strategy was evolved to be more realistic to use than global or local strategy. Svensson (2001) explains global strategy to be a managerial utopia - perfect theory, but rather challenging to implement. Real market actions proved that pure standardization toward global strategy led to poor performance due to lack of flexibility in foreign markets. Conversely, pure localization also has problems such as high costs, which are detrimental for a company. (Jain, Khalil, Le, Cheng, 2012; Alhor et al., 2010) Optimal combination of glocal strategy highlights the importance of globalization of business activities, simultaneously with sensitivity of cultural characteristics (Rabstejnek, 1989). Koller (2007) has summarized the relationship of global and local by saying: “The global and the local are seen as reinforcing and shaping each other as the global will always be interpreted and integrated locally, and vice versa”.

3.4.4 International e-commerce strategy

When talking to drivers of globalization and how the Internet is the enabler of international e-commerce, it is important to remember that “Internet and its particular economic characteristics is only one element of e-commerce” (Porter, 2001). Internet is an enabler of strategy not always the key function. For this reason, e-commerce has numerous elements that are vulnerable for local adaptation. Depending on the chosen business model and requirement of products, e-commerce uses also other activities as distribution and logistics channels, customer service and payment solutions. (Grant & Bakhru, 2004)

International value chain that includes digital and traditional physical activities challenges companies to evaluate the need of local adaptation. Figure 15 illustrates four internet-based internationalization strategies, which varies on the degree of national adaptation and digitalized operations. The nature of the product is the most critical factor in the decision making process of the required strategy. For example, products such as books and clothes need physical activities, which eliminate global e-business model and multinational e-business model. (Grant & Bakhru, 2004)

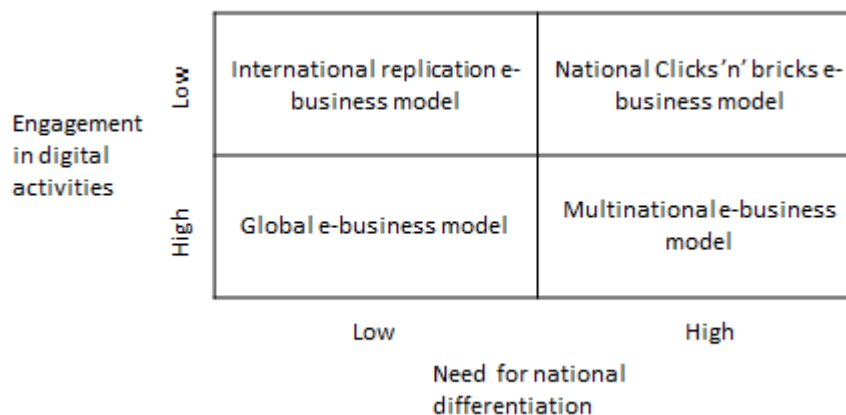


Figure 15. Digital versus differentiation matrix (Grant & Bakhru, 2004)

The model of Grant & Bakhru (2004) offers rather simplified solution to evaluate international choices. Two factors, the need of national differentiation and engagement in

digital activities, are determining aspects. The nature of product is seen as more important evaluating criteria for international model than for example the resources or international experience of company. Different categories represent independent strategy models, and there is no flow between models during the development process of international operations.

In turn, Plumley (2000) states that there is no possibility to categorize various strategies using affecting factors. The strategy of international e-commerce and the level of localization are evolving during the existence and actions in the market. Also, the resources and knowledge of the company are important factors to determine the complexity and pace of strategy. Figure 16 illustrates the evolutionary process of international e-commerce strategy. The more time company has been on international markets the more complex strategy it uses.

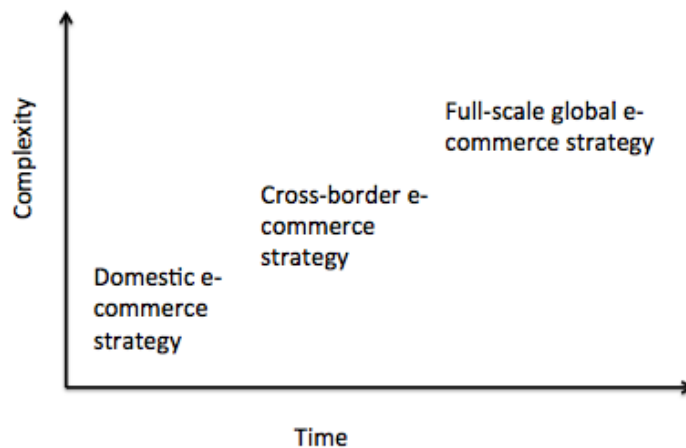


Figure 16. Evolution of international e-commerce strategy (Adapted from Plumley, 2001)

In spite of the chosen international e-commerce strategy, some localization is always needed. The extent and pace of the localization process is difficult to define and challenge companies to evaluate their own resources and capabilities. The more markets have international e-commerce companies, the more various strategies are used. Today in particular, when internationalization is easier also for smaller companies and the pace is

faster. Companies with limited financial resources and knowledge may use incremental approach strategy for localizing their global e-commerce. Incremental approach means that company first localizes the most important parts of e-commerce, for example customer service, shipping or payment methods. Numerous large e-commerce sites use this strategy by having limited language support in new markets before creating fully scaled multilingual sites. Incremental approach enables company to achieve meaningful connection with international users without heavy investments in localization and translation. (Singh, 2012)

4. EMPIRICAL RESEARCH METHODOLOGY

The following chapter will introduce empirical methodology used in this research project. First, the data collection process is introduced, which reveals how informants were selected and interviews carried out. Then data analysis of sub-chapter provides information on how analysis process was made. The evaluation of this research finished the discussion about the empirical methodology.

4.1 Data collection

As mentioned in chapter *1.5 methodology* the methodological choice of this research is qualitative. Qualitative research enables to gain holistic understanding of the research phenomenon (Eskola & Suoranta, 2008). It focuses on understanding phenomenon in context-specific setting and produces findings that are not quantifiable or statistical (Strauss & Corbin, 1990). Rich nature of the various contexts results in non-standardized data where meanings are expressed through words. (Saunders et al., 2009)

In this thesis, interviews were chosen as the primary data collection method, because face-to-face interaction during the interview enables to achieve rich and unexpected information about the topic. Real time conversation provides possibility to ask clarifying questions and find new dimensions about the research phenomenon. Moreover, with interviews it is possible to receive real life examples and stories, which are important factors in this thesis. (Hirsjärvi & Hurme, 2008)

At the starting point, purpose was to find only Finnish case companies, which have either internationalized their e-commerce to Russian market or are planning to do so in the near future. However, during the research project, researcher noticed that external perspective (consultants and specialists of international e-commerce) would increase the understanding of researched topic. Metsämuuronen (2008) presents argument to emphasize that results are

more valid when the same phenomenon is researched from various perspectives. In consequence, empirical data is being collected using interviews of representatives of companies and various specialists.

The selection of case companies and specialist was done by using the secondary information sources, as search engines, news, articles and LinkedIn communities. Important source of information was The Finnish Post Office, which offered contact information of their clients and specialists. The purpose was to find companies with various backgrounds and resources to do international e-commerce business. By using companies with different stages of international e-commerce, researcher managed to receive a holistic understanding of the researched topic and its various aspects. Also, the selection of specialist highlighted the difference of positions and experiences.

The interviews of overall eight informants were conducted during the time period of May to June in 2015. Five of the eight interviewees were representatives of companies, and three interviewees were specialists. Company representatives worked as an international managers or e-commerce managers and were responsible for e-commerce operations for Russian markets. In turn, the range of specialist varied from marketing consultant to consultant of e-commerce export. All informants were closely related to international e-commerce and Russian e-commerce markets. A summary of the interviews can be found in table 4.

Table 4. Background information on the interviewees

Interviewee	Informant 1	Informant 2	Informant 3	Informant 4	Informant 5	Informant 6	Informant 7	Informant 8
Company/Specialist	Company	Company	Company	Company	Company	Specialist	Specialist	Specialist
Status of the operations	Active	Active	Now passive	Planning suspended	At the beginning	Working	Working	Working
Data collection method	Face-toFace	Face-toFace	Face-toFace	Face-toFace	Phone	Phone	Face-toFace	Face-toFace
Date	May, 2015	May, 2015	May, 2015	May, 2015	May, 2015	May, 2015	May, 2015	June, 2015
Duration	70 min.	65 min	60 min	45 min	40min	55min	60min	42 min

All the informants were invited by e-mail, which summarized the aim of the research as well as the nature of the interview. Invitation e-mail can be seen from appendix 1. Researcher told interviewees the interview does not contain specific questions, but is based on themes and open discussion. Interviews were made with semi-structured form, when interviewer has a list of themes and topics to cover. The content of the interview can vary from interview to interview. (Saunders et al. 2009) Kvale (1996) has divided interview questions into nine groups; introducing, follow-up, probing, specifying, direct and indirect, structuring and interpreting questions. The question types used in this research interview were mostly introducing, specifying and direct questions. Themes during the interview were planned to cover as much as possible regarding the international e-commerce at Russian market and the market specific factors. Used themes are presented in appendix 2.

Six of the eight interviews were conducted as face-to-face interviews, which offered possibility to analyse also non-verbal signs. Two interviews were carried out by phone due to location challenges. Most of the interviews were recorded with a permission of the interviewee. Interview situations followed same structure but the focus areas varied depending on the experience and expertise of interviewee. Company interviews took on average 60 minutes and specialist interviews on average 45 minutes. Table 4 summarizes all information about various interviews.

4.2 Data analysis

The aim of the qualitative data analysis is to bring clarity into research data. During the analyses process, fragmented data is processed to be coherent and compact, which enables the creation of new information. The challenge is to simultaneously compress data without losing the information inside of it. (Eskola & Suoranta, 2008)

It is characterized for qualitative research that collection and analysing process of data occurs, at least partially, at the same time (Metsämuuronen, 2008). Researcher's opinions on how separate operations like going through the data, coding/classification and analysing are vary. Eskola & Suoranta (2008) introduces three different variations to handle operations:

1. After going through data, analyses starts immediately by trusting the intuition of researcher
2. After the going through data, data is coded before analyses
3. Coding is combined with going through the data process before analyses

In this thesis, analysing process started at the same time with data collection. Pre-level analysis helped researcher to identify significant factors of the studied topic and highlight them during the remaining interviews. For this reason, researcher managed to find and study topics that were unknown at the starting point.

At the beginning of analysing process, data from interviews was organized into various categories. Eskola & Suoranta (2008) notes that categorization groups can be formed from the semi-structured interview frame, as is the case in this thesis. Interview frame was planned to cover various factors that are influencing international e-commerce. As already said in the theory part, international e-commerce is a result of e-commerce related factors, internationalization related factors and market specific factors. For this reason, above-mentioned factors formed themes, which were divided into sub-themes. During the analysing process themes formed analyse categories. Researcher went through data many times to secure all the significant parts of the data were noticed and categorized well.

Development of analysis can be divided into two phases. At the first phase, the data inside the various categories was analysed to form a holistic view of the category as well as to find similarities and differences between different pieces of data. At the second phase, the linkages between categories were analysed. Purpose was to evaluate if categories are linked with each other, and if they are, how do they interact with each other.

Even though the selected research strategy was multiple-case study, analysis was done at general level, where various company case examples and expert opinions remained anonymous. The purpose of the analysis was to achieve abstraction, where analysis and conclusion cannot be connected to the opinion of individual person, occasion or statement and rather process at the general or theoretical level (Grönfors, 1985).

4.3 Evaluation of the research

Due to the nature of the qualitative research, there are no clear methods to evaluate the quality of the research like quantitative research has (Metsämuuronen, 2008). In qualitative research, analysis process and the evaluation of the quality cannot be separated as clearly as in quantitative research. For this reason, the evaluation of the research is occurring at the every stage of research process and is focusing on the actions of researcher (Eskola & Suoranta, 2008). When evaluating the quality of the research, reliability and validity are the concepts to focus on especially (Patton, 2002).

Reliability refers the ability to achieve the same results if the study would be repeated by using the same research materials (Yin, 2009). Comprehensive documentation of various processes and procedures strengthen the reliability of the study by enabling to repeat the research again. To add reliability of this thesis, researcher put effort in documentation of interviews and the analysing process.

Validity evaluates whether the research is measuring what it intended to measure. However, in qualitative research, where the purpose is not to measure anything but often increase understanding, the evaluation of validity is more complex. For this reason, the validity of qualitative research depends on the purpose of the study. (Yin, 2009)

Construct validity refers to the appropriateness of the meters that are selected for measuring the studied topic (Yin, 2009). In this thesis, construct validity was added by using a number of different tactics. Empirical data was collected from multiple sources and from people

who were obviously part of the phenomenon. Because of the chosen interview method (semi-structures interview), informants had opportunity to freely talk about the topic and share their own thoughts. General atmosphere during the interview situation was informal and non-forcing interview methods were used. Moreover, supervisors from university and external organization (Finnish Post Office) had the possibility to read uncompleted versions of the study, and evaluate the progress and validity of chosen methods.

External validity can be understood as a level of finding that can be generalized (Yin, 2009). In most cases, the nature of the research determines the level of generalized results. In this thesis, geographically focused research area partly limits external validity. Because the empirical study highlighted international e-commerce in Russian markets, the results of this study cannot be directly applied to other markets due to markets specific factors. In spite of limitations, external validity was added by using multiple-case method with various company cases and specialists. Moreover, as already mentioned in previous chapter 5.3 *Data analysis*, the goal of this thesis was to produce analyses at the general level not at case level.

5. EMPIRICAL FINDINGS

The following chapter will represent the empirical results of the research. Results are gathered from the semi-structured interviews, where various companies and specialists offered their opinions and knowledge about internationalization process of e-commerce and international e-commerce in Russian market. Findings are divided into themes that follow the structure of the interviews. The discussion of findings starts from the overall outlook of e-commerce markets in Russia, then the opinions regarding internationalization process of companies are discussed and finally, the opinions of the various e-commerce value chain activities in Russian markets finishes the discussion about the findings.

5.1 Russian e-commerce markets

In order to create a comprehensive overview of the current situation of the Russian e-commerce markets from Finnish companies' point of view, first questions during the interview focused on the markets itself. Discussion covered topics such as market specific factors, competition between companies and customers of e-commerce.

When asked to describe e-commerce markets in Russia, all interviewees used “challenging” to be best adjective to describe markets. Markets were perceived to be challenging because it is nearly impossible to predict future, both in a short and the longer term. The most of the factors increasing the uncertainty were related to unstable political and legal situation.

“Russian market is really challenging, and there are always a lot of problems that companies face” (Informant 4)

“Russian market is mysterious and erratic, everything can happen. Interesting in positive and negative means.” (Informant 5)

“To me Russian markets are combination of normal international business with a wild card. Normal international business represents the positive development that has happened toward Western markets, and the wild card means the uncertainty. However, if you can handle the wild card situations, success is more than possible”. (Informant 7)

As already said, informants emphasized that market is challenging because it is difficult to predict the future of the whole country. Most of the informants named Russia’s unstable political environment to be in the background of the uncertainty.

“Political situation is really unstable. At the moment we feel that it is impossible to predict the future. It is scary that everything can happen, and nobody knows how Russia is going to treat foreign companies in the future.” (Informant 4)

The opinions on how the unstable political situation has influenced operations of foreign e-commerce companies varied slightly. One company representative said that the big picture has stayed the same, but sometimes he hears that customers do not want to buy from foreign companies. One consultant emphasized that normal people are not that interested in the political situation. To them concrete consequences are changes in legislation and in currency, ruble.

During last year, the volatility of ruble has challenged companies and customers. All informants named that the changes of ruble has increased the risk of doing business in Russia. In summer of 2014, ruble lost nearly 50% of its value. All companies that actively did e-commerce business in Russia, noticed that the consequences were seen immediately. One company said that the entire business stopped, because the low currency rate of ruble nearly doubled the prices. According to company representative, nothing was possible to do, because of the low margins. Two other companies, which had bigger sales volumes, said to consider various tactics to keep the sales at the same level. Informants explained that when market situation is difficult, companies that survive could succeed in the future even better.

“We considered decreasing our margins to help customer and secure our sales volumes Fortunately it was temporarily”. (Informant 1)

“When ruble was at its lowest rates, we decreased our margins, in order to be able to keep prices at the moderate level. Our aim is to increase market share in Russia and we have to retain certain sales volumes all the time.”
(Informant 2)

A few informants noticed that when companies are doing business with various currencies, the currency risk is always potential. However, to be successful, especially in Russia, companies need to take risks. Companies should evaluate how much risks they can handle and how they are going to survive the risks. Two consultants highlighted the fact, that pricing philosophy in Finland is too slow for the international e-commerce markets. Companies should more actively follow the currency rates and be ready to change prices. To illustrate the situation, one informant said that in Finnish e-commerce, it is normal that prices are updated every 3 months. In international markets, companies should check their prices every day.

During the interviews the instability of legislation was pointed out several times. Informants stated that in general it is very difficult to understand the right way to interpret laws.

“Legislation is confusing, and it is difficult to receive official information about the updates.” (Informant 3)

“The risk is that at the any moment, important laws can change or even worst that someone just comes to tell us that the interpretation has changed”. (Informant 4)

When the law has possibilities for different interpretations it challenges companies to choose how strictly they are going to comply with the law. According one consultant, to Finnish situations is particularly difficult, because people have used to do exactly what law says. All interviewees highlighted the new legislation reform about personal data rules.

According to one informant, personal data law is a good example of legislative atmosphere in Russia. Unexpectedly government can adopt a law, which is going to hinder the business of foreign companies. However, now no one knows how to interpret the law. Only one company said they are prepared for the new personal data law, by having servers in Russia.

Although, the future of the legislative atmosphere was questionable according to all informants, none of the companies had faced problems with the law. Similar situation was with bureaucracy. All interviewees said that at the beginning they were afraid of the high level of bureaucracy. However, in reality the level of bureaucracy has been moderate. One informant noted that when company is doing business via e-commerce and registered in Finland, the Russian business practicalities are easier to handle.

Even though, all the informants thought that Russian e-commerce markets are challenging, they also mentioned the potential that Russian markets has to offer. According to interviewees, significant sources of potential were the size of the market and good reputation of Finnish companies.

The discussion about the actual size of the market generated various opinions. Four of the eight interviewees assumed the large size of the market to be an enabler for success. When market is wide, there is a possibility to create niche segments and still be profitable. Because of the importance of markets size, most of the company representatives said having a narrow niche segment is impossible in Finnish markets due to small market size and that is why Russian markets are an interesting opportunity.

However, there were also divergent opinions on the market size. One informant highlighted that it is wrong to talk about Russian e-commerce market as a one coherent market. For international e-commerce companies, Russian e-commerce markets are usually markets in St. Petersburg and Moscow. In big cities, Internet penetration is the highest as well as the level of income. Moreover, it is important to remember that the size of the market does not represent the purchasing power of the consumers.

“Large number of population does not tell the whole truth, because internet penetration in most of the regions is rather low. (Informant 8)

“It is a Finnish fallacy, that at the moment there is a gigantic e-commerce market of 143,5 million people. E-commerce market in Russia is continuously growing, but now purchasing power of the Russian people is at the same level than purchasing power of London city.”(Informant 7)

Companies and specialist agreed that Finnish country of origin is an important advantage for the Russian markets. In generally, Finnish products and brands have a good reputation in Russia, which is also reflecting to e-commerce. Russian consumers trust that products are authentic and the quality is good. Moreover, one informant highlighted the better experience Finnish e-commerce companies have compared to Russian e-commerce.

“Russian e-commerce sites are really confusing. Sometimes it is difficult to know if you are on e-commerce or blog site. Most of the Finnish e-commerce sites look really professional and reliable, which differentiate them in a positive sense.” (Informant 6)

All informants highlighted the possibilities developing markets offer. Due to short history of e-commerce business, markets are young and under the developing process. During the last few years, a lot of development has happened and the pace of growth is fast. In spite of the large number of e-commerce sites, there is notably less competition than for instance European market has. E-commerce markets in Russia do not have gigantic actors like Amazon or Asos, which are dominating other markets.

When asked to describe the typical Russian e-commerce customer, the level of income, language skills and skills to use e-commerce was topics that all interviewees highlighted. Almost all companies and specialists presented argument to emphasize that the lack of western credit cards eliminates a group of potential customers. However, the customers with required payment possibilities represent the affluent middle class.

"In order to buy from the most of the international e-commerce, customer needs a western credit card, which requires the certain level of incomes. For this reason, the income level of e-commerce customers is higher than average income level of Russian consumer." (Informant 8)

While all interviewees agreed that income level of customers is rather high, the question of the language skills divided responders into different groups. Five of the eight informants highlighted the fact that most of the consumers do not speak English at all. The lack of English skills challenges e-commerce companies to offer sites and services in a foreign language. Three respondents said that among their customer segment most of the customers can speak English, although the language is not good. A narrow customer segment can explain different point of view to the language skills that companies had. If companies sell expensive products that are targeted to niche segments, buyers usually are really dedicated to the field of the product. English speaking skills increased at the same time with age of the consumer decreases and income level increases. According to interviewees, the extent of the segment is one of the most significant, which affects the characteristics of customer segments. The narrower the segment is the more specified the customers are.

All informants agreed that skills to use e-commerce sites are rather low among the Russian consumers. They are uncertain about the general safety issues as reliability of transaction and delivery process. People do not trust the commerce process, which is happening without human contact.

"Low skills to use e-commerce are on the one hand due to the lack the experience to use digital services, and on the other hand because of the low quality of Russian e-commerce sites. Most of the Russian e-commerce are unreliable and poorly developed. We have to teach people to trust our processes and show how well-designed e-commerce works". (Informant 1)

Internet penetration has increased during the last few years but digital development of Russia is lagging behind. While in most of the European markets, e-commerce has stabilized its positions, for Russian markets it is rather new concept. People just do not have

the experience to use e-commerce and therefore have numerous of problems with basic issues such as payment process. The general opinion however was that during past two years, a lot of development has occurred concerning of consumer skills and the general atmosphere at the market.

Even though, it was rather easy for companies to analyze their customers by highlighting the above-mentioned factors, many companies said that they would like to know more about customers and their preferences.

"We are conscious of the current situation, when we don't have enough information about customers. The knowledge is really general and based on gut feelings. The specific information on ages, and income levels is missing. The challenge is that Russians are really reluctant to give personal information to foreign companies". (Informant 2)

Companies also said that they do not have enough resources to analyze Russian customers' as much as domestic (Finnish) customers. Even though, companies had invested in Russian e-commerce, it is secondary when allocating resources.

5.2 Internationalization process

Four of the five companies had already domestic e-commerce and the possibility to choose English language on their e-commerce sites. All companies had received occasional contact requisites and orders without any marketing or sales operations to Russian markets. The continuous growing amount of contact requests from Russia was the stimulus for most of the companies to start an active internationalization process. At the time of the interviews, three of the five interviewed companies had already fully internationalized their e-commerce. Two companies were on the progress, but one had temporarily stopped the process, because of the challenging economic and political situation.

“Before the problems of ruble, we were really motivated to expand our e-commerce business to Russia. Because we are a rather small company, we didn’t have resources to continue at the moment, when situation is like this. When we can see that the purchasing power of customer has recovered, we continue.” (Informant 4)

All internationalized companies had different paths and ways to gain market information. One company found a small consultant company from Finland, which was specialized for Russian business. Consultant company assisted in all the phases of the process to get market information and to find right partners with whom to cooperate. In turn, one company deployed their Russian subsidiary to collect required market information and to create needed networks. There were two companies (one internationalized and one in progress), which had done the process without consultants or local partners. There was not a common agreement on whether the local or Finnish consultant is a prerequisite for companies. One consultant highlighted that if a company does not have the necessary know-how, then it is important to find that resource. During the discussion when companies analysed the selected way to internationalize, none of the companies mentioned that the cost of selected mode would have been an important criteria. It was more important to find a source of information and find skills or resources that the company did not have. All the company representatives highlighted the difficulty of receiving information about the markets. For this reason, partners were highly important to most of the companies

“When we found the right co-operation partner from Russia, the face of the Russian business become more international and human” (Informant 2)

“E-commerce expansion to Russia was definitely the most time-consuming. The difficulty to get information and language problems took much more time than in other markets.” (Informant 1)

“Even though we [Finland] have numerous organizations to promote internationalization process, it felt that there was nobody with information of e-commerce related issues” (Informant 4)

When asking the representatives of companies to evaluate whether the internationalization process is faster when using e-commerce instead of traditional internationalization, they had rather mixed feeling. On one hand all informants agreed that internationalization process is faster, because operating in a marketspace eliminates serious functions, for instance, the need to establish a local sale's department. Also the level of bureaucracy is totally different when a company is registered in Finland and there is no need to do massive investments to markets in Russia. On the other hand, none of the informants believed that e-commerce could totally remove the challenges of various conditions. All of the company representatives admitted that because Russian market had so many peculiarities like different language, process took a lot of time. Both digitalized and traditional e-commerce activities need localization. Companies with e-commerce in other foreign markets said, that Russia took definitely the longest time period, because language, and market specific practicalities. One informant added that if e-commerce has to do translations, internationalization process always takes a lot of time and is a separate project.

Companies with other foreign e-commerce did not agree that in the case of Russia, the work done with other countries would be possible to replicate to Russian markets without extra work. However, only company created totally new brand and name to Russian market. Other companies trust that they can receive benefits from the popularity and good reputation of Finnish brand.

All company representatives and specialist highlighted the fact that operating business in the Russian marketspace is much easier than in at ordinary marketplace.

“I can see that because of globalization and Internet the cultural differences are lower. However, we have done extensive market researches to analyze the purchasing behavior of customers and e-commerce business culture of Russia. All over the world people want the same products, but the way to want is different.”(Informant 2)

“When we are operating online, we can use Finnish law and feel that country risk is lower. Also, the level of bureaucracy is much lower. We haven’t even thought to go to “normal” Russian markets.”(Informant 1)

“There are no conditions establishing the ordinary business to Russia would be reasonable for us. It would need a huge work and investments. E-commerce offers a great possibility to expand markets without heavy investments.” (Informant 3)

The time companies spent from the starting point to the launch of Russian e-commerce varied from 8 months to 24 months. The reason for different times was the amount of resources needed for translation process. When asked if it is important to have fully translated Russian e-commerce, all company representatives strongly agreed.

“We even didn’t consider any other possibilities than fully translated and localized e-commerce. The launch of the site is important. We didn’t want to take risk that we got a bad reputation because first customers can’t use our e-commerce because of language problems. In Russia word-of-mouth is highly important.” (Informant 1)

Only one company had operations in Russia, because of the Russian subsidiary. All other companies did not have their own direct connection to market. According to the company representative, the local presence at the market has been more than important. Good and reliable co-operation partners can replace the local presence of the company. Other companies did not notice the problem of trusting the information that other parties have produced. One specialist highlighted that at this day and age of Internet, important information is available online, also without own local connections.

“Because we are constantly receiving local market information form the people at the market, we have managed to do heavy investments also in the challenging times.”(Informant 2)

When asked to list important factors to focus on when e-commerce is internationalizing its business, all informants emphasized the fact that internationalization is too expensive just to test the possibilities to success. Company representatives told that the position where they are now, have required a lot of systematic work. The internationalization process should be the way to gain future goals the company has. Two consultants highlighted the importance of strategy, especially when company is choosing the markets.

“Success or even the surviving at the markets needs a lot of work. There is no a fast track to happiness. It requires hard word, courage and a little bit of good luck. But if you succeed possibilities are nearly endless.”(Informant 6)

“Strategy and company goals are everything. In Finland companies too easily think that Russian markets are great possibility to everyone. That’s not true. E-commerce companies should really carefully think what they want to achieve, what the strategy is and how to implement the strategy. If after that Russia fits to the company strategy, internationalization process is more than good.” (Informant 8)

As already said, all companies had a working e-commerce in domestic Finnish markets. However the specialists did not see that the already existing e-commerce is a requirement to go to abroad, and vice versa, small Finnish markets can limit the thinking of companies. Informant highlighted the importance to change the scheme of things about internationalization. Companies have to realize the high level of competition that exists in the markets.

“Of course it helps if company has already experience to run an e-commerce. However, because of small Finnish markets, companies have learned totally wrong competition attitude.”(Informant 8)

“Finnish companies are 10 years late to internationalize their business and e-commerce. Companies are still competing against a neighbor company,

while they don't understand that now the competitors are international gigantic e-commerce companies.”(Informant 2)

5.3 The value chain of international e-commerce

In order to answer the main research question, it was highly important to evaluate how Finnish e-commerce companies operate in Russian markets. The third topic of the interviews explores the choices that companies have done in various areas of e-commerce.

5.3.1 Content

When talking about international e-commerce, the content and the language of the content are the main questions to analyze. All company representatives strongly agreed that in Russia, company has to localize its content and use Russian language. Because of the low level of English speaking population, the use of Russian language was the only option for the companies. Otherwise the customer segment would have been too narrow. One specialist highlighted that in almost all markets, people would like to use their native language even though they could speak and understand English or other foreign language.

Two consultants offered the divergent opinion of the language topic. According to them, at the starting point, companies can use imperfect translations but it very important to have all the information of how to buy and pay and receive a package available. Also one informant highlighted innovative ways to do translations. To illustrate the point, he explained how international e-commerce sometimes offers the possibility to use Google translator before own translations is ready. It assists the consumer to understand, but simultaneously customers are aware that the low quality is due to translating program, not the company.

All informants highlighted the fact that translating the texts only is not enough. Companies have to understand the local culture and the local way of speaking. If content is only translated without understanding local nuances, it might sound fake and unqualified. However, all informants admitted that translating has been a really expensive and challenging project. Especially to smaller companies, which do not have own translator resources, updating new product and news is difficult.

“We are not talking about translating, but localization. We have tried to think even the smallest choice of words. We want to sound a local, not just a foreigner, which have used Google translator.”(Informant 1)

“We know that the quality of our translations is low. The problem is that there is so much text to translate and the text is so specific that it is very difficult to find a person, who understand our products and is native Russian speaker.”(Informant 3)

Style in which to introduce products and practicalities is different in Russia than in other markets. In order to receive the attention of customers, companies use more vivid and daring language.

“In Finland, if you glorify our superior product, people will perceive it to be ignoble and embarrassing, while in Russia you have to use glowing and grandiloquent adjectives.”(Informant 1)

All company representatives agreed that Russians need more specific information about the products and practicalities. The style of language has to be easy to read and understand. However, one informant added that even though they have information about everything, customers call or send e-mails to ask more.

“In Finland it is enough if we tell the size of the jacket, while in Russia people want to know how long the sleeve in the size M is.” (Informant 1)

“In our Russian e-commerce, we have explained all law text, terms of delivery and transaction process in more details because Russians want to know every small aspect. “ (Informant 3)

5.3.2 Payment method

From the business perspective of e-commerce, fluent and safe flow of money is highly important. The lack of customers’ payment method is a clear obstacle to do business. Informants highlighted that right selected payment methods decrease the uncertainty of customers and increases the customer satisfaction. Many informants said that well designed payment methods are a competitive advantage and therefore a key factor of international e-commerce. However, it is challenging that payment methods vary from market to market and sometimes it is difficult for international companies to integrate local payment methods to their business.

“It is a combination of various factors, why certain payment method is popular in each country. Finland is famous, because a large part of the e-commerce customers like to use bank payments instead of credit cards. This is because banks have been more active than credit card companies to develop new payment methods for e-commerce. In Russia, cash is still dominating, because there have been difficulties to get western credit card”.
(Informant 8)

In Russia, local credit cards and cash still are dominant payment method. All informants said that it is not a problem, but it challenges them to find a balance with normally used western payment methods and Russian payment methods as cash on delivery or various combinations with cash and bank office payments. However, the pace of development is really fast. According to one company representative, even one year ago the payment

situation was totally different. The direction of development is right and the popularity of various electric payment systems is increasing.

“We know that customers would like to use cash for payments. However, now it is not possible because of challenges to combine international cash and our accounting.” (Informant 1)

“It is interesting topic to discuss, whether companies should have only Russian payment methods, only western payment methods, or both. Of course both would be best to for customers, but especially to smaller companies it is too difficult.” (Informant 8)

Only one of the fifth company offered cash on delivery payment method, which is the most popular method in Russia. Others recognized the demand to accept cash, but now it was not possible. All other companies used western and Russian credit cards. Informants told that they have used a lot of time to evaluate the best payment methods. Topic is not easy, especially at the time when Russia is under EU sanctions and companies have to follow the situation of Western credit card companies in Russia.

I can't see any cons to have Russian payment methods, instead, it tells to customers that e-commerce company really wants to serve customers at the local way.” (Informant 6)

“Interesting question is the role of international companies. Should they try to globalize local payment methods, or adapt their payment methods to serve local people? Russia is lacking other e-commerce markets, but the pace of development is fast. It is interesting which method is going to replace the cash, and what is the time horizon of the change.” (Informant 8)

“To be honest, we are worried, because we have only Western credit cards, if sanctions tighten, or western credit card companies retreat from Russia, we have a problem.” (Informant 4)

According to companies, there was a challenge to find information about payment methods that have services also in Russia. According to one specialist, because companies have to most often find international payment providers, many smaller companies discontinue the whole internationalization process. Thought, when right service producer is found, there have been no problems. Also, all companies emphasized the fact that there have been zero fraud situations in Russian markets, other markets have them continuously.

“Credit card culture in Russia is so young that the “fraud culture” does not have time to develop. In other markets payment frauds are a problem and require a lot of resources.”(Informant 1)

5.3.3 Delivery and Return

Delivery process is at least as important part of the e-commerce as payment methods. Successful delivery is a basic prerequisite of e-commerce and in the best case a competitive advantage, which differentiate company from competitors. For this reason, all company representatives said that logistical issues to Russia have challenged them to find a best solution. When talking to delivery to Russia, challenge is not only logistical issues but also custom, which have had rather bad reputation in Russia.

“Even thinking of custom regulations felt heavy.”(Informant 4)

“Before our own experiences, I understood Russian custom as an unequal and super bureaucracy institution. Now when we know the rules the image is more human.” (Informant 3)

Interviewed companies all had various methods of taking care of delivery and logistical issues. One company has a Russian subsidiary, which simplified the process quite a lot. Russian company declares products from factories and they are ready at the warehouses in Russia. Two companies use Finnish Post Office, which is responsible for declaring process and the final delivery to end customers. One company uses international logistic company,

which also does everything from the declaring process to logistical issues. One company is just evaluating the options.

To deliver products to the end customers, companies use Russian Post or private courier companies. All companies said that home delivery by using courier is the most common way to deliver package. In all cases delivery is chargeable to customers.

Even though, there was variety of chosen solutions; all companies and specialists highlighted the difficulty to receive information about the whole delivery process. Also many company representatives criticized the prices of logistics. High logistical cost eliminates cheaper products. Even though delivery is always chargeable, it does not cover the cost of company.

“There are a lot of practical difficulties, because of high number of instructions and regulations. It feels that no one has the official knowledge”
(Informant 1)

“At the beginning, we were concerned about logistical and custom processes, because we didn’t have own experience or anyone to ask. The only thing that we knew was the questionable reputation of Russian Post.”
(Informant 4)

“We tried to find a logistic company which would have offered “turnkey” concept, in other words logistics and custom practices. To us a selection criterion for logistical company was the good understanding of custom formalities.” (Informant 3)

Same than with payment methods, companies pointed out that starting point of delivery process was challenging. There were numerous problems, and it took much of resources to solve them. However, when processes with custom and logistics managed to learn, delivery has worked without problems. Company representatives said that all packaged that they have sent have found the end customers, even though at the starting point it took quite a lot

of time. Also Russian officials have improved their process resulting that delivery times are shortened.

“As long as everything is going as planned there is no problems, but if mistakes happened, then you can really feel what the bureaucracy in Russia is.”(Informant 3)

“Our customers really appreciate short delivery times. Short delivery times are possible because our processes also in Finland are well designed.”(Informant 1)

The complexity of returns is a challenging aspect for international e-commerce. One informant said that when company is doing international e-commerce to Russia, everything that is exported to Russia remains there, because of the complexity of declaring products again. All companies shared the same opinion of the difficult returns. However, in Russia all companies have lower return rates than for example in Finland. One company offers free returns, but according to company representative situation might change because of high costs.

“We have tried to invest in product information and customer service to ensure that product is what customer wants. For this reason return rates are tolerable.”(Informant 2)

“Compared with Finland, return culture in Russia is different than in Finland. In Finland it is normal to return products. In Russia people feel that wrong product selection was their own mistake and they sell the wrong and buy again new product.”(Informant 1)

5.3.4 Customer service

During the discussion with interviewees the importance of customer service was strongly highlighted. Even though the purchasing process occurs online, Russian purchasing behavior can be recognized. To Russians, commerce is always a social event despite the purchasing channel.

“Russian customer wants to talk and receive personal service, even though he/she is buying from e-commerce.” (Informant 2)

“Russian appreciate reliable guy, they want to create a relationship and have a number, where to call if problems occur.” (Informant 3)

“Customer service is one of the most important aspects of e-commerce in Russia. Via customer service, e-commerce can increase sales and customer satisfaction.” (Informant 1)

Common agreement was that customer service in Russia requires a lot of resources. Three of the five companies said that they receive a customer service contacts from almost all purchases. Customers want to ensure the details of product, transaction and delivery process. According to informants, Russian consumers do not trust the texts, but need a human to convince them. The high uncertainty toward e-commerce companies dates from the poor Russian e-commerce companies. Customers are used to ask same things numerous of times, because the basic assumption is that the system does not work. One informant believed that in the background of uncertainty, there is a Russian business culture, where misdemeanors are rather general.

Among the interviewed companies, there were various ways to execute customer service. One company had changed the whole logic of customer service, because the requirement was totally different than in other markets. In Russia, customers do not need to call the company because company calls the customer every time. Customer service is not just for solving problems or answering questions of customer, but selling more. According to the

company, this model requires resources but simultaneously decreases return rates and increases the sales volumes and customer satisfaction.

Company mentioned above outsourced customer service from Russian company. Now customer service is open every day from nine to nine, but according to company representative there is a need to extend opening hours. Other companies do not have special customer service people, but e-mail address and phone number. They have realized that they would need a special customer service people, but for now it is not possible. Specialist highlighted the fact that especially at the starting point, customer service does not need to be perfect. More important is that it exists. To illustrate the point, specialist told how companies can, for example, use virtual chat to replace telecommunications. When discussion is happening by writing, company can use translating programs.

“I am only person who can speak Russian in our company, even though my language is not perfect. Customers appreciate that we try to serve them in Russian. Sometimes I use Google translate to respond to emails. Maybe the quality is not perfect, but we can solve the problems and serve customers.”
(Informant 3)

“It is a Finnish attitude that everything should be perfect, and companies do not have customer service if it is not a perfect. That is a wrong attitude. I hope that companies would be more innovative. The lack of resources is often an excuse.” (Informant 7)

All companies and specialist agreed that customer service in Russia is not just a service, but also selling and marketing. For this reason companies were ready to put effort into answering the questions. Usually all contacts lead to sales.

“It is an important to remember that e-commerce is a service. Common fallacy is that e-commerce is a simple self-service place, where the only task that company has is the update the pages send products to the customer. Only the commerce place is different.” (Informant 6)

“Sometimes it took three hours to send emails of 200e purchase. However, we believe that when customer is happy, he/she will also recommend us to others. What could be a better marketing?”(Informant 3)

5.3.5 Marketing

As already discussed in the previous chapter 5.4.3 *Customer service*, good customers are important marketing tool for international e-commerce company in Russian markets. Russian culture is communal and the opinions of family and friends are important. For this reasons everything that company does is marketing.

“Word of mouth marketing is our most important marketing tool. Our customers have told that their friend has recommended our e-commerce to them. Customers are the best marketing envoys.” (Informant 2)

All of the company representatives highlighted the challenge to receive visibility. Because markets are big, it is difficult to find targeted segment and succeed to gain attention of wanted customers. One specialist noticed that e-commerce has the same challenge than traditional commerce, the location. E-commerce has to use various marketing tactics to assist customers to find e-commerce.

“When operating Online, it is important to do marketing which helps customer to find your e-commerce, when s/he is using Google to find information about product that you are selling. First come products that new customer wants, after that your brand”. (Informant 6)

Informants emphasized the large amount of marketing channels that Russia has. Traditional print advertising still exists and people read magazines, flyers and ads in subway tunnels and roadside. Unlike in Finland, Google and Facebook are not the only major players in the digital marketing sector. In Russia, Yandex (search engine) and VKontakte (similar to

Facebook) are really popular. Country specific marketing tools are challenging to international players, which do not have local insight. One company representative said that it is difficult to find best channel combination for company, because it is impossible to use everything.

Even though, there are a numerous marketing channels to be, many informants highlighted that marketing in Russia is cheaper than in other markets. One company, which was doing marketing in Russia rather actively, encouraged companies to use local marketing companies. According to informant, prices are cheaper and the channel selections are better. However, to smaller companies with scarce resources, the process to find marketing company abroad might be difficult.

In general, the opinions on marketing varied a lot among the interviewees. It was really difficult for informants to describe if marketing is difficult or easy, expensive or cheap. For example, opinions about the place to do marketing divided opinions into various groups. Specialist and one company representative were sure that from Finland you could find good partners to do marketing, if your own skills are not enough. While, a few company representatives highly recommend to have a local partner. The common problem was to find right ways to reach the wanted people, with reasonable cost. During the discussions, no one managed to tell how it should be done. Many company representatives told that they are aware that marketing would need more investment, but at the moment they do not have the resources or ideas.

6. DISCUSSION AND CONCLUSIONS

The following chapter will summarize the findings of this study. Theoretical contribution gives answers to research questions by combining the theoretical point of view and the results of empirical research. Managerial implications provide recommendation for e-commerce companies that are planning to internationalize their operations to Russia. The purpose is to highlight concrete actions during the planning and actualizing process. All recommendations are based on the theoretical and empirical research of this thesis. Research limitations and future research recommendations will finish this discussion about results.

6.1 Theoretical contribution

The objective of this study was to increase knowledge on the operations of Finnish e-commerce companies in Russian market. As already known, operations of international e-commerce are an output of various factors like internationalization process, market specific factors and the way how e-commerce reacts to the requisite of local markets. For this reason the answer to the main research question can be formed by the answers that sub-questions offer.

How do Finnish e-commerce companies internationalize their operations to Russia?

E-commerce internationalization can be seen as a very different process from traditional internationalization process. It differs in many aspects because of different market structure and the nature of the companies. (Yadong et al., 2005) Because of the global Internet and the possibilities that it offers to companies and customers, companies are actually international from the first moment when they have launched Internet sites. (Yamin &

Sinkovics, 2006) However, being available to international customers does not mean that e-commerce have internationalized its operations properly.

All informants noticed the phenomenon of default internationalization, where company can receive contact requests from abroad without any internationalization, because of global Internet (Yamin & Sinkovics, 2006). According to the company representatives, internationalization process was a natural continuum to the continuous growing amount of contact requests. To all companies internationalization meant the process of localizing e-commerce to fit the requirements of Russian market, not just to have international customers. All companies had various ways to internationalize their operations. Also the need to use external partners or consultants varied a lot. More important criteria than costs of the selected way were the level of own language and international skills as well as time resources to analyze markets. In other words, the more company already had own experience in Russia, the less it used external resources.

In the field of internationalization research, the differences of various markets have been seen as a hindering factor of internationalization process, because of the differences in language, culture, business environment and social system. (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975) However, Yamin & Sinkovics (2006) argued that when a company is internationalizing its operation via e-commerce, the differences of market factors are not that significant. For this reason the internationalization process is faster and the time gap between new market entries is smaller (Kim, 2003). All informants agreed that internationalization process might be faster, because operating in a marketspace reduces the level of bureaucracies and the need of local presence. However, none of the informants believed that e-commerce could totally remove the challenges of various conditions. Informants advocate the view of Porter (2001) which states the importance of remember that in addition to the digital functions, e-commerce has a lot of ordinary value chain activities such as distribution, which takes time to build up. Also in the case of Russia, digital e-commerce activities require a lot of localization like content, payment methods and customer service.

Internationalization process of companies took from 8 to 24 month, depending on the available resources. All companies agreed that all localization of activities should be done before the official launch of the site. Accordingly, empirical results of this thesis do not support the notion of Kim (2003), that e-commerce companies gradually adapt operations to meet the local needs and requirements. Companies emphasized that because word of mouth with recommendations is an important marketing method, e-commerce cannot risk its reputation by launching an incomplete e-commerce.

Yamin & Sinkovics (2006) argued that e-commerce is a home-oriented internationalization model, because the local presence of the company is rather minimal. The lack of local presence can affect negatively to information flows from the market. Empirical results of this study noticed the phenomenon of home-oriented internationalization, only one company coordinated its e-commerce from Russia, because of Russian subsidiary. According to the company, local presence decreased the uncertainty and was more than important source of information. However, other companies did not notice the lack of local presence being problem. Actually, companies were rather reluctant to go to the traditional market. Informants agreed that establishing a traditional business to Russian markets would have been rather impossible and not in the interest of companies. Operating via e-commerce perceived to be a safer option for companies.

The strongest opinion, that both the company representatives and specialists highlighted, was the importance of strategic and long-term work. In order to have a successful or even workable e-commerce, numerous resources and investments are needed. Because Russian market has that many peculiarities, unfinished forays are a waste of resources. Company must have international strategy where e-commerce business in Russian market is a way to achieve company goals. Moreover, informants emphasized that since the beginning of the internationalization process and the whole time of operations, companies need to be aware of market risks as well as the tolerance that company can take risks.

How do Russian market specific factors shape the operations of Finnish e-commerce?

Market conditions are important factors of international e-commerce, even though geographically free business does not occur in traditional markets. Market specific peculiarities force e-commerce to shape the value chain activities to respond to the requirements of markets. (Grant & Bakhru, 2004) However, the effects of some market specific factors are usually a little bit different compared with companies in traditional markets.

Frynas (2006) has noted that internet-based e-commerce companies are less vulnerable to host country's political environment, because more digitalized value chain decreases the need of physical investments. All informants agreed, that the level of bureaucracy is much lower when operating via e-commerce. When companies are registered in Finland, most of the political decisions do not influence them. To e-commerce companies, concrete consequences from the political decisions and situation are for instance legal decisions, unstable currency rates and the general attitude toward foreign companies. Even though only one company had physical activities in Russia, all informants highlighted that political situation in Russia is precarious and it makes predicting the future a challenge for companies. Opinions of the political situation were rather concerned, because of various new political and legislative decisions have hampered the operation of foreign companies. It can be said, that most of the companies do not want to invest all possible resources in Russian market, because it is more difficult to predict the future for Russian market than it is in other markets. Consequently, political situation restricts the operations of e-commerce companies already at the first phases of internationalization, when companies are evaluating the market risks, own risk tolerances and the amount of investment.

The general economic situation of the market has a direct influence on the purchasing power of consumers as well as the operation conditions that e-commerce requires. It can be said that economic situation is an enabler or inhibitor for e-commerce success (Gibbs et al. 2003). Also, when operating at international markets, the volatility of currency increases the challenge. The economy of Russia is highly dependent on the natural resources such as

oil and gas. Unstable political situation with continuously decreasing oil price has also weakened the value of the ruble. According to informants, the lower purchasing power of consumers was immediately notable after the collapse of ruble's value. The volatility of currency is a real challenge to international companies, because there are no concrete actions to avoid the disadvantages of harmful currency volatilities. Companies can only create strategies and calculations how much prices and margins can be elastic. For bigger companies with high sales volumes smaller margins occasionally are still possible, but smaller companies are really in trouble. Like the results of this research revealed, two biggest e-commerce companies were ready to change their prices to secure the sales volumes, smaller ones had to just follow the decreasing sales volumes because of too high prices. To sum up the influence of economic situation, all economic fluctuations at the market affect the business success of e-commerce either via purchasing power of consumer or via the value of currency.

During the whole e-commerce history of Russia, the lack of credit cards and especially the lack of western credit cards have been hindering the proliferation of international e-commerce. (Kshetri, 2007; Doern & Fey, 2007) Even though the development towards electronic payment methods has been fast, companies still face situations when consumers require the possibility on cash on delivery option. For most of the smaller companies controlling international cash is too resource taking and they offer the possibility to use western payment methods. The use of western credit cards eliminates a group of potential customer due to requirements to have a certain level of income. The difficulties with credit cards have not been the only challenging aspect of business environment for e-commerce. Also the lack of reliable and high-quality logistical infrastructure has challenged companies in Russia. In most cases, logistical companies are young and the whole sector of business is rather undeveloped resulting to e-commerce companies having to be really careful in finding the best co-operation partners. When certain parts of the business environment are undeveloped but still exists, it does not prevent the operations of international e-commerce, but increases the work that companies has to do in order to find good partners.

It's proven that cultural factors significantly influence the need of localization and the success of different business models of international e-commerce. (Hwang et al., 2006) Culture has a strong influence especially on B2C e-commerce, because it operates at consumer markets, which are shaped by local values and preferences (Gibbs et al., 2003). Essentially, culture has an influence on the content aspects such as language and design, common business practices such as trust toward credit and e-payments, as well as on buying behaviour of consumers. (Bingi et al., 2000)

In Russia, the dominance of own Russian language is undeniable and it is prerequisite of operating in Russian market. According to companies, simply translating the content is not enough, but the localization of content is also needed. Lia et al. (2008) have argued that cultural differences have shaped people's way of thinking critically and people from various cultures approach similar content in different ways. In order to receive the attention of Russian customer, e-commerce must use more vivid language while advertising their products. McCort & Malhorta, (1993) have defined culture to be a learned phenomenon where shared beliefs continuously change, develop and reinforce itself among people of the same society. In Russia, people have gotten used to receiving glaring marketing communication, in other word, markets have to teach people how to receive certain style of information and it is reinforcing itself all the time when people are waiting to receive information in learned way.

The same cultural learning might be at the background of the need to receive detailed informational about products and e-commerce processes. All companies highlighted how Russian consumers want to check each important detail about products, payment methods and delivery processes. Even though all company representatives said that they have put an extra effort on producing more information about wanted topics, much of customer service contacts are received. E-commerce culture is rather young in Russia and most of the domestic e-commerce are quite undeveloped and people are used to check all details twice.

Liao et al. (2008) have analysed the connection between Hofstede's cultural dimensions and the e-commerce related issues. Especially, dimensions like uncertainty avoidance,

individualism/collectivism and power distance can assist e-commerce to adapt their operations to meet the local requirements. For instance, people from high uncertainty avoidance cultures require more information about the practicalities to trust the e-commerce, than consumers in low uncertainty distance cultures. Uncertainty avoidance in Russia is really high (95). Therefore, it can be said that the need to have a lot of information can simultaneously be a cultural characteristics and a learned action, which is important to take into account during the operational process.

During the discussions with informants, it was also emphasized that Russians are really communal. This can also be seen from Hofstede's dimensions, where individualism is rather low (39). Recommendations are important and companies are doing their best to create the word of mouth. To sum up the discussion on importance of cultural factors, it can be said that local culture is really strongly influencing nearly all activities that e-commerce have. Even though the actual purchasing moment is occurring at the global Internet, culturally characteristic features are strongly available.

Grochal-Brejdak & Szymura-Tyc (2013) have stated that technology is mainly independent from the cultural differences, even though the level of technology infrastructure varies a lot between markets. Low Internet penetration rate has been as a hindering factor in Russian e-commerce market development. Even though market is wide, the actual amount of Internet users is rather low. None of the informants of this study mentioned that lower Internet penetration rate would have been a problem. On the contrary, Russian e-commerce market is perceived to be a full of potential, because at the moment there are no gigantic e-commerce companies and because of developing nature of the market, companies can teach people to use e-commerce services they are providing. Moreover, informants highlighted that when technological development has exceeded a certain limit, operating at the market is possible.

Last market specific factor that was studied in this research was legal environment. E-commerce has challenged the traditional trade laws, because the markets occur in market space, which are free from geographical borders. Study of Gibbs et al. (2003) have

shown that cultural values and interest of countries can be seen also from the legislation sector. For this reason, legislative inequality between countries challenges companies to act simultaneously on global scale while adapting the actions to comply with local laws and regulations (Qin et al., 2013, 13). Even though all companies felt that the instability of legislative environment and the possibility for various interpretations of law is challenging, none of the informants highlighted any legal problems. When operating in marketplace and company is registered in Finland, a lot of legal problems can be avoided.

To sum up the discussion about the role of market specific factors relating international e-commerce, it can be said that almost all market specific factors have a rather strong influence on the e-commerce operations. Especially the influence on cultural factors challenges companies to understand the local beliefs and way how people live.

How can Finnish e-commerce companies adapt their value chains in Russian market?

Even though internationality is rather inherent aspect of e-commerce, companies have to select the strategy on how to operate in international markets. It is not enough that e-commerce is just available to the international customers, but it requires numerous decisions regarding how various activities and operations are executed. The fundamental question is how international strategy is going to respond to the peculiarities of the market. Whether the strategy is going to focus more either on standardization or localization of operations? Both, global and local strategies have pros and cons in the context of e-commerce. (Grant & Bakhru, 2004; Kshetri, 2007)

The focus of global strategy is on standardization, similarities, homogenization, concentration and worldwide coordination. Most often cost savings resulted by economies of scale and scope are the most desirable benefits of global strategy. In turn, local strategy highlights the importance of inherent diversity that exists in various markets (Alhor et al., 2010). Local strategy recognizes the importance of considering locally related factors in the performance of marketplace resulting local adaptations and tailoring of operations

(Svensson, 2001). In real life, both models are really theoretical and companies did not recognize that there would only be two options to choose from. More realistic to companies was glocal strategy, which tries to combine the best practices of both, global and local strategy.

To all companies it was an obvious decision to localize various options during the internationalizing process to Russia. When we are talking about the e-commerce companies, which are originally from Finland, the nature of e-commerce is already localized to Finnish market, for example because of Finnish language. For this reasons none of the e-commerce had realistic chances just to ignore the need of localization. On the contrary, companies were aware that a lot of localization needs to be done.

Grant & Bakhru (2004) have argued that the level of how much e-commerce has to change or localize operations is dependent on the market and on the nature of the product. The more digitalized the product is, the less it need traditional e-commerce operations, which decreases the need of localization evaluation. Conversely, concrete products require traditional e-commerce operations as distribution, which implementation varied from market to market. In turn, Plumley (2000) did not believe that there is a possibility to categorize various strategies using affecting factors. In fact, the level of localization is continuously developing at the same time than company is receiving more experience.

According to companies, market and the various aspects of the market are the most important factors, which are determining the level of localization. Actually, the level of localization is slightly wrong expression, because companies are not thinking how much localization is needed, more important it is to find the best possible way to implement various e-commerce activities in Russia. Activity by activity, all aspects of e-commerce was evaluated in order to find the solutions, which would serve Russian consumers in the best possible way. The characteristic of a product as a determining factor of localization generated also dissenting opinions. It is true that if product is totally digitalized it requires less localization, because there is no need to have concrete distribution channels. However, distribution is only one activity of e-commerce and actually the buying decision is made

during the digital activities such as the functionality of content, language and customer service. In the context of Russia, the digital activities that are independent of the characteristic of product, also requires localization such as language translation, localization of content, local payment methods and customer service that is serving local people.

Opinions of company representatives did not fully support the opinion of Plumley (2000) about the continuously developing nature of localization strategy. To Russian markets, where many of the purchasing practices are totally different, it is rather useless to go with unfinished product. All company representatives agreed that e-commerce has to be fully localized before launching. In particular, fully localized in the level that company has planned to do. Reason for this is that there is a risk that e-commerce might receive a bad reputation if customers have difficulties using it. Bad reputation in a country, where people are communal and the word of mouth is important, is more than difficult. However, continuous development must happen. The more time e-commerce has been on markets, the more it has knowledge on how customers are acting and what are the best ways to serve customers. It is important to remember that e-commerce is a service, which offers customers digitalized way to buy products, not just a market place. In order to serve people well, e-commerce must know the practicalities of each market.

There was only one company, who created a totally new brand for Russian market. According to company representative, the name and brand that company used in Finland was not suitable for Russian market, because of the cultural differences. Other companies did not localize the brand but just operational activities. Companies were rather informed about the market situation and the requirements that customers have toward international e-commerce. All companies had the same premise, that localization is done that much that possible. The greatest restrictions on the level of localization were the financial, time and human resources.

The translation and localization of content was the biggest time and financial investment. However, all agreed that the use of Russian language is the most important localization that

companies must do. The level how much content was localized varied a lot. Companies with more restricted resources have content in Russian language, but the quality of language was rather poor. The opposite was companies, which used native Russian speakers to do translation process, also the style of the language and the content was thought really carefully. Companies wanted their e-commerce to be more professional and high quality than domestic competitors have.

Localization of payment methods varied between companies. In Russia, the cash on delivery is the most popular payment method. However, for international companies handling cash is challenging, and for this reason only one company managed to offer this option. Other companies offered possibility to use credit cards. The development of payment culture has been really fast in Russia. One of the informants highlighted that sometimes it is better for market if international companies are not localizing the operation but tries to change the local culture to be more advanced. When markets are developing, there is a possibility to change the dominant activities, as in this case foreign companies can teach Russian customers to use western credits cards or electronic money options.

Companies did not mention that delivery practices in Russia would be notably different than in other markets. Of course, companies had to find international or local operators, which deliver packages to the customer, but the process was perceived to be rather similar. However, finding the information about the customs and regulations was really challenging. According to informants, local or international partners were the best source of information about the practicalities how delivery must be organized in Russia.

In Russia, customers have totally different expectation of customer service than customers have for example in Finland. People are contacting customer service when they want more specific information about the product or e-commerce practicalities such as payment and delivery process. Customers want to know that in the background of the e-commerce there is a real person to whom they can trust. Companies highlighted that nearly every time when Russians are buying, they contact the company first. To foreign company this is rather a big challenge, especially if own language skills are imperfect. Companies were aware of the

requirements considering the customer service, however the lack of resources was rather significant limitation to fully localize the customer service.

All companies had a customer service possibility, but the implementation varied a lot. The simplest way to have a customer service was an email address. Email was chosen, because the language skills were incomplete to serve customers by phone. By sending emails, problematic situations managed to get solved and customers received the service. Companies with language skills have also possibility for customer service by phone, but there were no nominated customer service people. According to companies, special customer service would be needed, but it required high sales volumes to be possible. In turn, the most advanced customer service was conducted by using an external customer service company, which automatically called customers when they were at the e-commerce. External customer service was expensive for the company, but according to company representative, it generated savings in other activities. The general opinion was that especially at the starting point, the quality of customer service is not as important as is the availability of customer service. In most cases customers understand the language problems and appreciate if company is trying to serve customer in the best possible way.

Recommendation and reputation of e-commerce is highly important in Russia. Companies recognized the phenomenon and focused on improving the possibilities to use good word of mouth as a marketing tool. In general, companies felt that marketing and reaching wanted customers is rather difficult in Russia. There are a lot of various marketing channels, some of them totally different than in Finland. A wide variety of marketing possibilities increase the difficulty to find the right ones for the company. Partly for this reason, marketing actions of companies were rather small.

To sum up the discussion above, a lot of localization has been done. Even though e-commerce is inherently a global phenomenon, local activities have a strong influence on how customers want to use e-commerce. Companies trust the market knowledge and are willing to do localization as much as resources enable. For e-commerce companies the

biggest localization activity is the localization of content, which is highly important in Russian market.

6.2 Managerial implications

Russian e-commerce markets are challenging, but full of potential. Because markets are demanding it requires companies are doing everything to succeed. International e-commerce is not an easy alternative business option to operate on international markets, but a serious business that requires a long-term planning and ability to respond immediately to changes of the market. For this reasons, it is not reasonable to just try the potential of international e-commerce markets in Russia. In order to succeed in Russia, company must have an international strategy, where e-commerce in Russia is a way to achieve the goals that company have. Even though Russian market is full of potential with a large customer base, market is not suitable for all companies and products. Companies should carefully evaluate their products, skills, resources and tolerance for market risk. If after strategy planning and evaluation process, company still trusts its possibilities, success is achievable.

Usually challenges exists because there is not enough knowledge or information. According to interviewees of this research, Russian market feels more impalpable and challenging than the market actually is. Because e-commerce reduces the need of local presence and investments, numerous bureaucratic operations can be avoided. Companies should find co-operation partners, which have the information and skills that company do not have. As one informant highlighted, Russia is more human and international, when right partners have been found. However, company should have some own skills, experience or knowledge in Russia or Russian language. If company is completely dependent on the external resources, risks and costs are rather high. Market risk always exists when operating in international markets. In the context of Russia, unstable political, legal and economic situation challenge companies to plan their activities in the long term. Companies should definitely analyze their own tolerance to handle the risk.

Even though e-commerce companies operate in global marketspace, peculiarities of Russian market affect various e-commerce activities. It is important to notice that e-commerce is not just a place to sell products, but a service that assist customer to find wanted products in a comfortable way. In order to manage offering this kind of service, companies should analyze the market and adapt operations to meet the needs of customer and market. In the context of Russia, a lot of adaptation should be done compared for example the markets in Europe.

Russian language is an absolute requirement for content of e-commerce. Exceptions might occur if customer segment of the company is extremely narrow, and products are highly specialized. Company should find a translation resource, which simultaneously understands the product categories of the company and the local language culture of Russia. High quality of translated and localized content increases the signal for customers that e-commerce is reliable and also worth to recommend to others.

The popular payment and delivery methods are strongly culturally bounded. In Russia cash on delivery is still a dominant and most popular payment/delivery method, but only a few foreign companies can offer the cash on delivery option. However, the pace of development toward various electronic payment methods is fast, which is good for foreign companies. A positive aspect for companies is that according to empirical results of this thesis, after the first implementation challenges, the level of payment and delivery security is high. The most challenging aspect is to find good service provider. Companies should not hesitate to find international service providers, because there is a lack of domestic providers.

In Russia, people are really communal, and the word of mouth is one of the most important marketing methods. In order to reach the situation when customers are recommending e-commerce, company should focus to customer service. All eight informant of this research highlighted the importance of customer service. Russian consumers are not only contacting company when having a problem, but also to get the service and more information on products or practicalities. E-commerce companies should invest resources to customer service. While the translation process of content requires good language skills, having a

customer service allows more innovative solutions. More important resource than multilingual customer service people, is having the time to answer to contact requests. An example of innovative customer service solutions might be that phone line is replaced by chat, which allows the use of translation programs if own language skills are inadequate.

To conclude the recommendations for e-commerce companies, everything starts from the strategy and goals that e-commerce has. Russian market is challenging with own peculiarities and without hard work, success is difficult to achieve. Companies should be open-minded and ready to invest time and other resources in finding best ways to operate in Russia. However, the market is full of potential and because the developing stage of market, at the moment market share is easier to access than for example in European markets.

6.3 Research limitations

This study has certain limitations that need to be taken into consideration when evaluating the results of this study. The amount of interviewees is rather small. On one hand the international e-commerce to Russia is a rather new concept in Finland and there are only a few companies at the market. On the other hand some companies and specialists were reluctant to participate in interviews. For this reason, it was challenging to find even five e-commerce companies that have an international e-commerce or had started the internationalization process.

Secondly, because the development pace of international e-commerce is really fast, academic research is lacking all the time. There is a lack of updated research about the phenomenon. Five years old research already highlights the difficulties and challenging that are now solved because more developed technology.

6.4 Future research recommendations

When studying the operations of Finnish e-commerce companies in Russian market, the empirical findings highlighted the current situation, where it is really difficult to find official information about market practicalities and e-commerce operations in Russia. Russian markets are generally perceived to be a challenging, because of various market specific peculiarities. In most cases companies do not have any knowledge about language or practicalities of market. For this reason the external knowledge and services are more than important.

According to informants of this study, in Finland, there is a lack of both public and private actors, who would assist companies to internationalize e-commerce. Companies would need market knowledge during the planning process and operational services during the implementation process. Especially, services concerning customs and delivery practicalities as well as payment methods would be important. In most cases, at the moment companies have to find co-operation partners from abroad, which is hindering the willingness to go to Russian market.

At the moment, there is a lack of research on the need of support that companies require. It would be important to evaluate how the public and private sector can individually or together support e-commerce companies to internationalize their operations. The knowledge on how the market specific information should be created would also be important for companies that are providing internationalization services.

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APPENDIX 1 Invitation letter for an interview

Hei,

Teen yhteistyössä Postin kanssa graduani kansainvälisestä verkkokaupasta Venäjällä. Tällä hetkellä gradu kulkee otsikolla "E-commerce value chain in Russia - Role of market specific factors". Graduni tutkii, miten Venäjän lainsäädäntä, taloustilanne, poliittinen ilmapiiri ja kulttuuri vaikuttavat suomalaisen verkkokaupan toimintaan ja sen eri osioihin.

Tutkimusosiossani tulen haastattelemaan suomalaisia verkkokauppoja, jotka ovat jo menneet Venäjän verkkokaupparakkeinoille tai sitä yrittäneet. Yritykset tullaan esittämään täysin nimettöminä ja haastatteluissa saadut tulokset tullaan esittämään yleisinä ilmiöinä. Lisäksi gradu tullaan mahdollisesti salaamaan kahdeksi vuodeksi.

Olisin enemmän kun kiitollinen jos saisin yrityksenne tarinan mukaan tutkimukseeni. Haastattelu tulee kestämään noin tunnin, ja se voidaan toteuttaa joko skypen kautta, tai pääkaupunkiseudulla. Haastattelu ei sisällä tarkkoja kysymyksiä, vaan perustuu enemmänkin teemoihin, joista toivon kuulevani teidän näkemyksen. Lähetän vielä tutkimukseni frameworkin ja teemat ennen haastattelua.

Toteuttaisin haastattelut mielelläni viikolla 17 eli 20-24.4, käykö joku päiväistä teille?

Opiskelen viidettä vuotta Lappeenrannan teknillisessä yliopistossa kansainvälistä markkinointia. Olen opiskellut Venäjän kaupan sivuaineen ja ollut kevään 2013 Moskovassa vaihdossa. Kandityöni tein suomalaisten yritysten brändistrategioista Venäjällä. Graduni olisi tarkoitus valmistua kesällä, ja itse valmistun syksyllä.

Ystävällisin terveisin,

Rosa Rosenlund

APPENDIX 2 Semi-structured interview questions

Themes of interview

- **E-commerce market in Russia**
 - E-commerce customer
 - General feelings
 - Competition between companies

- **The role of market specific factors**
 - Political
 - Regime// Bureaucracy //Political situation
 - Legal
 - legislation
 - Cultural
 - Purchasing behavior // content
 - Economic
 - Ruble
 - Technological

- **Operations of e-commerce**
 - Content
 - Payment Methods
 - Delivery/ Returns
 - Delivery time// Costs// Customs
 - Customer Service
 - Importance// Implementation
 - Marketing
 - Implementation// Price

- **Process to internationalize**
 - Information and knowledge
 - Time span
 - The selection of internationalization method
 - Resources
 - Partners
 - Internationalization via e-commerce