

TAHKO TOURS OY –FINLAND

KEEP IT LOCAL, KEEP IT GOOD.

Work Package 2

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A – EXECUTIVE SUMMARY

Case explained here is written for educational and learning purposes in the EU project, INNO-case in 2013. It is aimed at post graduate students, teachers and entrepreneurs, which may be interested in the following information in educational or teaching purposes. The case is about Tahko Tours Oy (TT later), a micro-sized local Finnish company, which operates in a tourism sector. It is a young business with its headquarters in Moscow, Russia. The company is searching for new and better performance without geographical expansion of its operations. The main methodology proposed in the case study is based on product development process model introduced by Komppula and Boxberg (1995).

The case highlights the characteristics of tourism sector in general and in Finland as well as reveals the latest trends in the industry. The core of the case study is about services production development or, in other words, guidance on how to make services more product-like to bring stability and competitive advantage to an enterprise. This process hopefully benefits and gives "how-to-do" tips also to the subject company.

In order to create the following case, the management director of the company was interviewed.

The expected solutions for the company comprise several aspects: First, a new, innovative view on the essence of service within the company, secondly clear definition of company's clientele and market segment, thirdly introduction of new services and fourthly improvement of existing products and services.

Above mentioned actions aim to bring company a strong competitive advantage, better understanding of its consumers and also growth and brand awareness.

B – BASIC INFORMATION ABOUT THE COMPANY

Tahko Tours Oy was founded in 2002. It is a joint-stock private company with headquarters in Moscow, Russia. It operates in tourism field, on B2C market, and its main activity is organization of recreation facilities in a cottage village in Tahko resort, in Eastern part of Finland. TT is a micro-sized company having five employees (4 full time and 1 part-time) and operating on a local level.

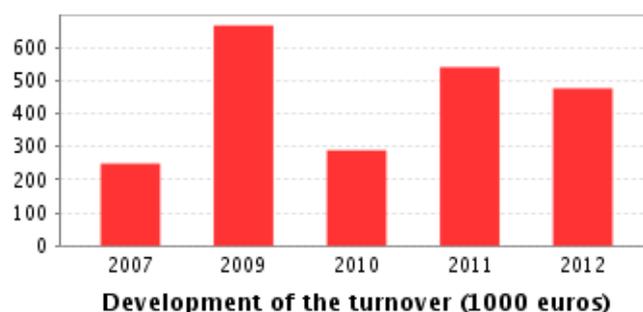
The basic service of the company is to provide accommodation for tourists. Company possesses a great variety of living facilities to satisfy any need irrespectively of one's taste or income. Tahko village comprises 26 accommodation amenities: 16 separated high-quality cottages (VIP, SUPERIOR, LUX) and 10 townhouse apartments. The cottages were built by Finnish and Russian architects using natural and safe materials both for exteriors and interiors. Each house is fully equipped with exclusive furniture and English plumbing and has warm floors, a sauna, Internet, satellite television and fire alarm system, which means a guaranteed comfort and safety of stay. Moreover, the village has a VIP sauna and a reception building which includes a small café bar. The company is planning to construct a restaurant, sport playgrounds and Orthodox Church on the territory of the village in the nearest future.

Besides providing a wide choice of accommodation options, TT creates tourists' holidays by offering a variety of different services from arranging client's transportation to the settlement to organizing one's sport & leisure agenda. The latter includes spas, golf, horse-riding, bowling and several possible kinds of safaris: snowmobile, beach buggy, walking, huskies, canoeing and bicycle. Tahko region's rich, pure nature also gives great opportunities for hunting, fishing, and mushroom & berry picking. Thanks to TT's extended network of firms and agencies, almost any customer needs can be easily fulfilled, resulting into a tailor-made holiday package for any single client.

As mentioned before, TT operates in tourism sector, on B2C market. Thus, customers are primarily foreigners, even though Finnish tourists tend to appear as well. Amongst foreign clients, the majority are Russians. However, the number of European clients from Sweden, Estonia, German and GB is constantly growing.

The complete financial situation of TT is not available, given it is a private company.

However, <http://en.finder.fi> provides the following information:



It is clearly seen, that turnover fluctuates significantly, and, unfortunately, not always positively for the company. This trend can be explained by crisis or any external factor; however, it may also suggest that company's operations are not stable and efficient yet.

The company's strengths lay primarily on a high-quality and diverse basic product – accommodation facilities and a complex service offer, which guarantees a personalized package for every customer at the end. Furthermore, TT keeps its operations on a local level, which may be not always favorable, but in this case it brings concentration of entire company resources into one area to make it grow consistently and constantly. To continue, a rapid development of technology in the region and Finland overall and a big number of well-educated young people cannot be taken for granted.

Location is one of key factors in tourism for a successful business, and at this point TT has barely anything to complain about; situated in a compact both modern and still environmentally pure part in Finland, the company enjoys all the benefits of Northern Savo region. Region is known for its "variety of natural settings including many lakes and excellent opportunities for various recreational activities". Region offers also developed tourism complex in Tahko area with its beautiful Syväri Lake. Also an important role of Northern Savo area is in the transit route for trade and traffic to Russia, wherefrom majority of tourists arrive. Good roads and train/airport connections from Lakeford settlement also are beneficial for the TT.

Despite strengths, also Tahko Tours has its weaknesses, coming mainly from two factors: its size and age. Micro size means rigidly limited amount of resources for marketing. HR budgeting as well as difficulty in making large investment projects, makes the company vulnerable in the face of bigger competitors. In addition, limited financial capacity leads to a need for outsourcing, in this case, to different agencies, instead of building company's own facilities to offer direct services for its customers. Being a new company, may affect decision-making processes due to lack of experience and competences in the field. Moreover, combined with modest marketing expenses, a short-time presence in the market doesn't help in gaining a brand-awareness and visibility to TT in the shadow of bigger and more famous rivals.

TT faces a strong competition since the tourism sector in Finland is developing rapidly, and more and more - single and chain - national and international companies are heading to occupy its niche in Northern nature paradise. The competition starts already on international level, when a customer decides about destination, and continues on national and regional level. Reaching Tahko tourist center is still not evident as there are many competing accommodation and recreation facilities available. The main advantage of TT,

compared to rivals in Tahko Resort, is availability of the reception desk, where people are welcomed, where they receive easily all the instructions and are assisted along their stay. In most cottage settlements guests are autonomous, so to say all the duties like picking up keys, accommodation in the rooms, managing of all necessary papers etc. are done by the clients alone.

Tough competition is not the only challenge TT faces. The main problems are typical for any companies operating in a tourism sector:

1. Significant fluctuation of demand and, consequently, supply throughout the year
2. Heavily-taxed industry
3. Strong dependence on external factors (weather, market fluctuations and currency exchange rates, politics, economics etc.)
4. Legislations for tourists (Visa requirements)
5. Safety and security maintenance
6. Environmental responsibility
7. Product and service adaptation for different customers (countries, languages, religions, cuisine).

Particularly for TT, the main difficulty - given its limited budgets and small number of employees -is to manage seasonal fluctuations and attract customers during low season to keep business running without interruptions. The situation becomes more challenging due to the fact that TT is strongly connected to the whole Tahko tourist complex and depends on its actions and, thus TT cannot operate on its own. Fluctuation problem can be solved or managed better only on condition where Tahko tourist center functions as a body and takes integrated decisions from its parties.

Another problem is marketing and communications. Nowadays the overall trend for companies is investing more and more in marketing, especially in on-line marketing. According to the CMO Survey, "marketing budgets as a percent of firm budgets increased 40% from 8,1% in February 2011 to 11.4% in August 2012.(<http://www.forbes.com/>). Unfortunately, TT cannot afford heavy marketing investments and mostly uses the benefits from e-marketing and social media.

C – ENVIRONMENTAL ANALYSIS

Tourism industry in Finland has a strong potential, and understanding of this fact by the government leads to capacity development. It is a perspective area, which boost employment rates, GDP and national image. The major strength of tourism in Finland lay in proximity to Russia, attractive tourist destinations and diversity of tourist centers. The main weaknesses, however, are low awareness of Finland as a tourist destination, its difficult accessibility and high prices.

The latest Government Resolution on Finnish Tourism Policy was adopted in the spring of 2011. It includes proposals for the following measures: investigation of the possibilities of launching a comprehensive strategy program for tourism in Finland, developing the tourism sector, strengthening the image of Finland as a tourist destination, and improving of the prerequisites for business in the tourism sector (<http://www.tem.fi/>) The objective of the program - based on the partnership between the tourism trade and public sector - will be to foresee and monitor the industry's development as well as direct and coordinate operations within it. Evidently, the introduction and implementation of Finnish tourism policy will have a positive impact both on the tourism industry and companies operating in it. Thus TT has a favorable environment for its business apart from the fact that Finland still imposes has taxation and has high labor costs.

The latest trends in tourism industry comprise the following:

Increasing environmental awareness.

Not only has it suggested that companies' performance affect the environment, but also that consumers start making more environmentally-friendly choices, which obliges businesses to take environmental issues into account. Specifically, Tahko Tours utilized eco-friendly materials in its facilities construction as well as is involved in recycling program.

Fragmentation of customer group

To stay successful not only the company should differentiate itself from other companies but it should differentiate one customer from another in order to be demand-oriented. Different age groups, life styles, cultures and languages, incomes, values – all this must be taken into consideration when building up products and services. In its case, TT has Russian-speaking employees and partners, which can respond to spontaneous requests at any time of the day, to make a Russian clientele satisfied. TT also offers opportunities for individual or family vacation and informal or corporate occasions.

Increasing role of internet

Integration of internet in all spheres of people's lives also resulted in changing methods of marketing, comparing and purchasing tourism services. Customer has become much more autonomic as well as connected to other customers via social media. Companies got a chance to get a direct feedback and trace consumer's behavior thanks to IT technologies and Internet. TT has just started implementing internet and IT into its daily and marketing operations by creating Facebook and "vk.com pages", doing e-advertising and accepting on-line bookings.

TT market segment is represented primarily by people who love nature and have an active life style. It comprises families, couples, corporate clientele and individuals. Most of the customers have an average or higher income and appreciate high-quality and diverse service. Market segmentation can also be done according to culture and language groups, which influence significantly customer's attitudes and demands.

D – DEFINITION OF THE PROBLEM

Service companies achieve and then maintain a successful performance through two main activities: constantly improving quality of existing services and widening (sometimes, shrinking) the existing service range. In other words, it is about "productization". Investopedia gives the following definition of the word "productize": to take a new service, product or product feature - that a company has provided to a single customer or a few customers on a custom basis - and turn it into a standard, fully tested, packaged, supported and marketed product. So to say, "productization" is about turning what one makes or wants to make into safe, profitable and durable service, which a customer will want or need to buy. "Productization" of service is about making it a "product-like" i.e. all the stages of service and outcomes are clearly defined and predictable, which help producer be confident in what he is selling and customer - in what he is purchasing.

The service productization (SP) is needed in tourism. There are numerous external and internal factors, which encourage companies move towards SP: *First, external* Global competition of commoditized services, sophisticated procurement practices for demanding clients and rapidly changing technology environment towards increased project complexity. *Secondly internal* Sales and client demands for to deliver more, charge less Finance and operations directives to reduce costs, increase efficiency SP resource requirements for career paths/ work/life balance.

The benefits that SP can bring are difficult to underestimate:

- clearly defines client 'pain', business value and deliverables
- makes service more tangible
- helps tight scope/ assumptions – easier to create estimates and proposals
- improves consistency, repeatability and quality
- reduces delivery costs, time and risk
- is able to use less-experienced resources
- improves revenue recognition

As a service company, TT also faces the problem of productization: what to offer to a consumer? Which services does/doesn't consumer need/want? How to make a service/product low-cost and profitable? How to make a service product a standardized, replicable and stable operation? These problems have existed since the foundation of the company and will exist until the business stops. Product development is constantly on-going process, where there is always a place for improvement and changes. This problem is crucial for TT, as its successful solution will lead to increasing number of customers and, thus to revenues, to more efficient operations, to more satisfied clientele and to a stronger position amongst the competitors.

E – GUIDANCE TO SOLUTION

The process of productization varies from company to company, depending on business' needs and strategy. According to Jaakkola et al., the productization process consists of seven different stages: assessing the clients' needs and the ways in which they are answered; defining the structure, contents and process of the service; specifying the degree of standardization; concretizing the service (service description, brochures etc.), selecting the principles of pricing; following-up and measuring the success of the service; anticipating the needs for continuous development.

Sipilä has emphasized marketing and piloting as additional stages that should be included in a productization process: A final result, a completed productized service should consist of the following "ingredients": instructions, delivery guides, tools, templates, practices, methods & processes, links to supporting systems, FAQ's and best practice examples and instructions.

The package should respond to the following requirements: content for each service product reinforces engagement framework, it is easy to navigate and easy to consume.

Productization is a complex process, which requires a great deal of competences, knowledge and ambition from the company. TT, given its very limited financial and human resources, may find it challenging to exercise this technique. However, even in a simplified way, it is worth trying. As a base for a service/product development, the model suggested in Komppula and Boxberg (2002, 99) could be used. They suggest continual development of the service system: developing the personnel, investment in the place and machinery and equipment.

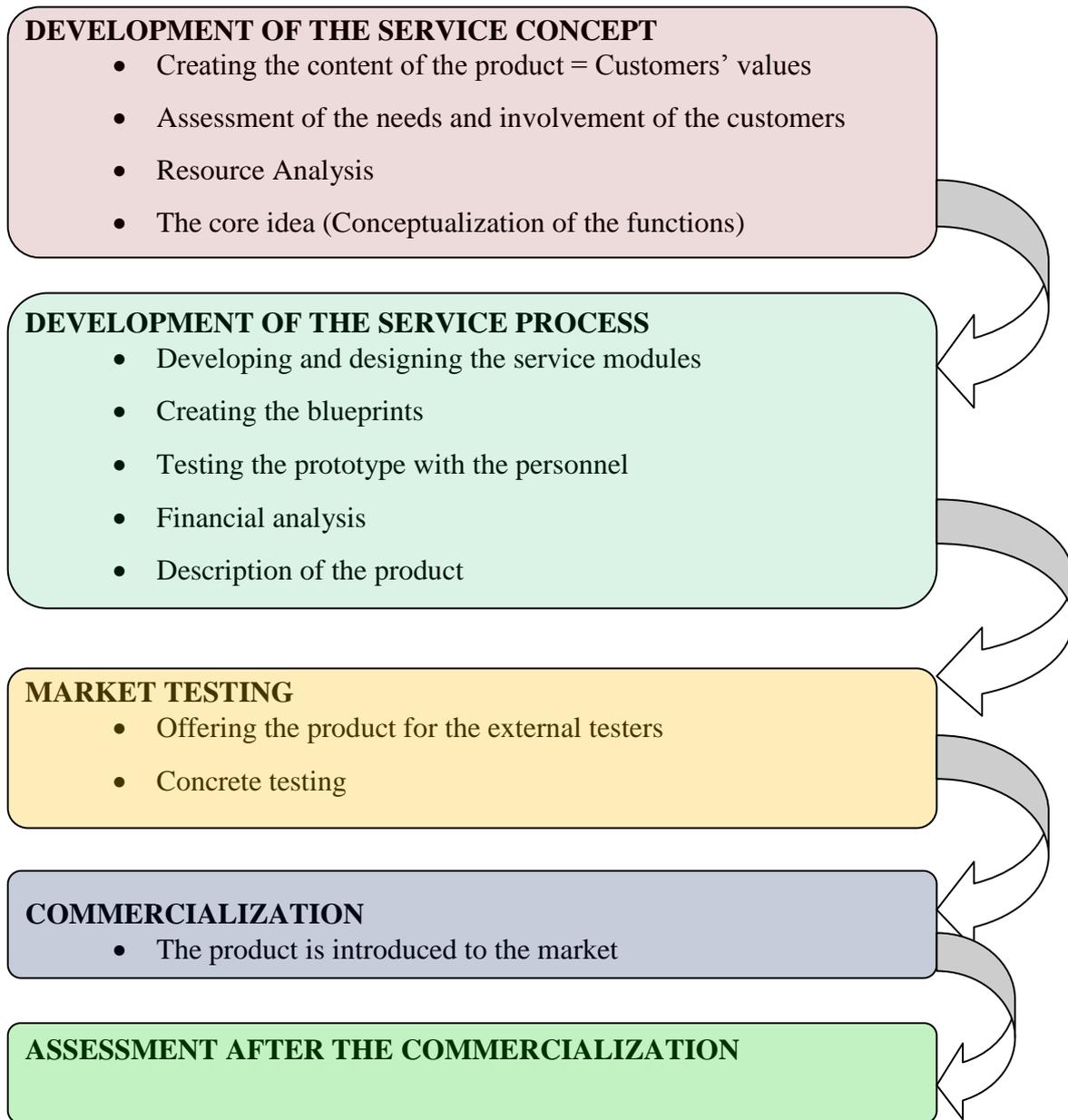


Figure 1. The model suggested by Komppula and Boxberg (2002, 99)

As a starting point, TT should analyze its clientele and work out clear clusters according to age, nationality, life style and income. Further on, gather a data on each clientele cluster: needs, desires, threats and suggestions. These steps could be the starting point for introducing new service concepts as well as improving the existing ones. Afterwards,

the above mentioned steps are to be followed for their development and implementation. The most critical resources in productization process will be capital, human and technological ones. One more aspect, which should be considered, is time, as not only it takes a great deal to introduce productization process but also – get measurable and rewarding results.

F – ANALYSIS/DISCUSSION/REFLECTION

This case revealed the problem of productization of services for a company, operating in a tourism industry. It succeeded to highlight special features of this business area and show the importance of productization within it from a perspective of a local Finnish company, Tahko Tours Oy (TT). The case clearly identifies the necessity of implementing productization into company's operations and gives detailed guidelines on its implementation. Unfortunately, presented solutions in the case have not been yet introduced and, evidently, implemented by the young company. However, they have all the chances to be taken into consideration and boost company's performance. Despite all the potential effectiveness of proposed solutions, Tahko Tours Ltd. may be constrained by lack of financial, human and technological resources for their implementation.

G – REFERENCES&LITERATURE/RECOMMENDED READING

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