Worldwide Hospitality and Tourism Themes

The main trends, challenges and success factors in the Russian hospitality and tourism market

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Abstract

Purpose – This paper aims to discuss the main trends, opportunities, challenges and success factors in the Russian hospitality and tourism market.

Design/methodology/approach – The study sets the tone for the theme by evaluating the overall economic situation in Russia and the prospects of the tourism and hospitality market by taking into account the existing institutional environment, as well as the natural resources and cultural heritage of Russia. The articles in this theme issue are drawn both from academia and industry.

Findings – This paper sheds light on the key trends and challenges with respect to leveraging the cultural and economic potential of the Russian hospitality and tourism market. The opportunities for Russia's hospitality and tourism market are reviewed, and the success factors relating to the Russian hospitality and tourism market are explained.

Practical implications – This study identifies a number of implications for practitioners and policymakers that will allow Russia to leverage its huge but greatly under-rated and untapped potential as an attractive tourist destination. This requires a clear understanding that networking is crucial in the experience economy era to ensure that the aspirations and concerns of all key stakeholders are taken into account given that a lot of different resources and competencies are needed to provide tourists with a combination of experiences, and thus to make a destination attractive for target audiences. It will help Russian practitioners to understand better which factors are crucial for gaining competitiveness in the experience economy era and to find new ways of business improvement. It will also assist practitioners from other countries to understand local environment and find new perspectives of doing business in Russia. Whilst not all key stakeholder voices are represented in this theme issue, the discussions and implications that are drawn out are of importance to all stakeholder groups.

Originality/value – This is the first time a journal issue has focused on the challenges and prospects of the Russian tourism and hospitality market. The research through this theme issue contributes to the literature on BRICS markets by highlighting the specifics of the Russian market. It also provides an understanding of the ways in which Russian cultural heritage and natural resources can be deployed effectively for a positive impact on inbound and domestic tourism and hospitality and on the prosperity of Russian regions and local communities.

Keywords Russia, Hospitality, Tourism, Experience economy

Paper type General review

Worldwide Hospitality and Tourism Themes
Vol. 8 No. 3, 2016
pp. 260-272

1755-4217
DOI 10.1108/WHATT-02-2016-0004

Introduction

Nowadays, it is broadly recognized that emerging markets, such as Brazil, Russia, India, China, etc., are becoming catalysts for accelerated growth and that international and local businesses will be required to develop new management concepts and practices to be successful in these markets (Sheth, 2011; Russo, 2012; Khanna and Palepu, 2013). There are a lot of papers that discuss a broad variety of hospitality and tourism issues in emerging markets (Legrand *et al.*, 2012; Chon *et al.*, 2013; Ghimire, 2013; Ajagunna, 2014; Hussain *et al.*, 2015). Positive effects attributed to tourism are pointed out:

- it increases employment, investments and tax revenues;
- requires high standards for roads and public facilities; and
- further encourages the development of a variety of cultural activities by local residents aimed at creating a positive impact on the cultural identity of the community (Sharma and Dyer, 2009).

However, to harvest these positive effects, a lot of different resources and competencies are needed to provide tourists with a combination of experiences, and, thus, to make a destination attractive. Therefore, a transformation in organizational structures accompanies the worldwide expansion of service industries, including hospitality and tourism. Networking is crucial in contemporary tourism to ensure that the aspirations and concerns of all key stakeholders are taken into account. Firms that formerly managed wholly owned establishments now operate in complex networks of arrangements that include hotel chains, restaurant chains, tourism clusters, etc. (Baggio and Sheresheva, 2014).

Though there are some recent publications about the challenges and prospects for the Russian tourism and hospitality market (Tarasova, 2013; Silaeva *et al.*, 2014; Dimanche *et al.*, 2015; Ovcharov *et al.*, 2015), it is the case that little research has been undertaken on this topic. In this context, this theme issue helps to understand major trends, challenges and factors for success in the contemporary Russian tourism and hospitality market and yields insights into the mechanisms of value creation. It also offers some propositions concerning strategic decisions in this market; so, the outcomes are of interest to both academics and practitioners.

Although there is steady growth in the volume of travellers to Russia and also growth in traveller spending in Russia, Russian outbound travellers spend much more abroad. This means Russian inbound tourism is in its early stages (Vincent, 2012), and there is still room for improvement.

The key question is what are the challenges and problems facing the Russian hospitality and tourism market? The answer to this question is discussed in this theme issue, and the main considerations are summarized in this paper.

To provide an overview of the Russian hospitality and tourism market and to better understand its current situation, the paper is structured as follows. First, the major trends are examined. Afterwards, the major challenges of the market are investigated. Additionally, the opportunities of the market, as well as the key success factors, are explained. At the end, a conclusion is given.

Major trends

Tourism is growing in importance as a strategic sector of the Russian economy, being one of the most promising areas in terms of reducing oil and gas dependence in the national economy. In the past decade, the Russian market has undergone numerous changes which triggered a strong trend towards a more prominent role for the service sector in Russia, including tourism and hospitality services (Balaeva *et al.*, 2012).

The Russian tourism industry has been experiencing impressive growth in the first decade of the twenty-first century. At the turn of the century, the Russian borders began to open, and this changed international travel opportunities for Russian citizens and increased international tourism (Annaraud, 2010). After the fall of the Iron Curtain, many Russian tourists were eager to travel abroad and to seek new experiences. There was a steady growth in the number of travellers to and from Russia. Outbound tourism growth has been especially impressive, Turkey and Egypt being the top destinations for outbound holidays (NETOUR Report, 2014). As a result, international tourism was mainly oriented towards foreign destinations, and the discrepancy between outbound and inbound expenditure was significant (Vincent, 2012). For example, Turkey used to receive more than 4,400,000 Russian tourists, and Turkey's related annual income reached approximately $10bn (INTERFAX, 2015).The number of tourists served by travel agencies increased from 2.8 million in 2002 to 7.7 million in 2008. The number of travel agencies operating in Russia has grown from 3,300 in 2002 up to more than 4,500 in 2010 (Table I).

In addition to the government's efforts that are discussed below, current Russian tourism success is mainly attributable to a new model of consumer behaviour that is forming in the country. Although 20 years ago, the base consumption model of households was the strategy of survival, currently, many households invest resources in their quality of life improvement. Combating poverty is no longer the main target of social policy (Ovcharov *et al.*, 2015). Nowadays, instead of focusing on advancing in their careers by forsaking holidays and other forms of recreation, Russians are seeking a more balanced work–life combination and thus spend more time on leisure and tourism. This is especially true for mid-income consumers in large cities (Vincent, 2012).

As a result, in the World Economic Forum (WEF) Travel and Tourism Competitiveness Report, Russia placed 45th out of 141 countries in 2015 (as compared to the 59th place out of 133 countries in 2009), with the same Travel and Tourism Competitiveness Index [1] score (4.1) as for Turkey, Hungary, Poland and South Africa (World Economic Forum, 2015). Health and hygiene (6.7) and price competitiveness (5.0)

Indicator	2010	2011	2012	2013	2014
The volume of paid tourist services, million rubles	*998,790*	*1128,294*	*1215,450*	*1479,960*	*1475,408*
In the percentage of the previous year (in comparable prices)	127.7	112.9	107.7	121.8	99.7
The share of tourist services in the total volume of paid services (%)	2.02	2.04	2.01	2.14	1.36
The number of tour operators	*4,593*	*4,718*	*4,685*	*4,608*	*4,275*
Domestic tourism	1,858	1,833	1,889	2,421	2,626
International tourism (in- and outbound)	2,169	2,885	2,796	2,187	1,649
International tourism (outbound only)	566	656	580	225	161

Source: Russian Federation (2015)

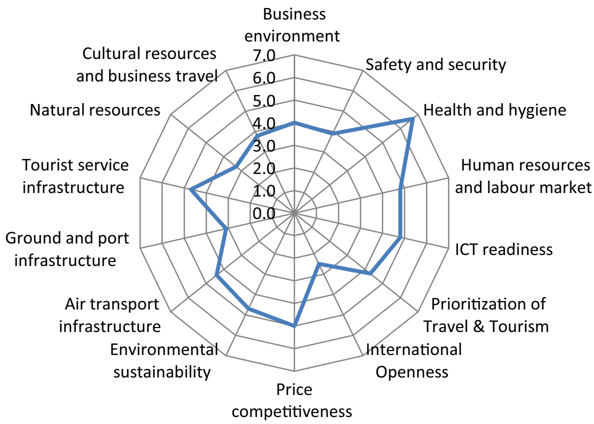
Table I.
Major indicators of tourist services development in Russia, 2010-2014

are quite high-value components for Russia, as well as ICT readiness (4.8), human resources and labour market (4.8) and tourist service infrastructure (4.1).

At the same time, the WEF report marked a number of challenges, including safety and security issues, international openness, environmental sustainability, business environment and lack of transparency, particularly in the field of visa requirements for travellers from abroad (Figure 1).

The natural and cultural resources of Russia are given a relatively low evaluation (3.5) in spite of the fact that the country hosts a great number of cultural and natural attractions, including 2,368 museums in 477 historic cities, 590 theatres and 140 national parks and forest reserves situated in different climatic zones, with extremely diverse flora and fauna. There are numerous lakes, such as Karelia and Baikal (the deepest lake on the Earth); Taiga forest; and the mountain ranges of the Ural, Sayan, Altai and Hibin. Mineral springs include the Caucasian Mineral Waters; geysers can be found in Kamchatka, and there are numerous mountain rivers for kayaking, as well as famous and impressive navigable rivers (Volga Yenisei and Ob, each of them being 3.500-4.500 km in length) – these are among the most notable of many other natural attractions (Balaeva *et al.*, 2012; Morozova *et al.*, 2014). In view of this, one can conclude that the potential of the Russian hospitality and tourism market is huge yet only partly recognized, but in comparison to international standards, the industry is undeveloped (Geieregger *et al.*, 2009).

Moreover, the market is now undergoing significant changes and for a number of reasons. The image of Russia has been damaged by Western media whose reporting is focused on negative information about the country since the revolution and the civil war in Ukraine, especially after the return of Crimea to Russia. This sharply reduced the flow of tourists from Western countries. For example, in 2014, the volume of tourists arriving in Russia decreased by 30-50 per cent (Ovcharov *et al.*, 2015; Vuorinen, 2015). However, as a counter balance, the volume of Asian travellers, especially Chinese, now visiting Russia (Russian Federation, 2015) has increased sharply, which is consistent with the global trend of unprecedented growth in outbound travel from Asia (Dioko, 2016).



Source: http://reports.weforum.org/travel-and-tourism-competitiveness-report-2015/economies/#economy=RUS

Figure 1. Russian Federation performance overview

Moreover, everything has changed in the preferences of Russians and in the government policy after the crash of an A321 passenger plane over Egypt's Sinai Peninsula, killing all 224 on board, and Ankara's decision to shoot down a Russian Su-24 aircraft in Syria, which lead to the death of the pilot. Soon after the ban on flights to Egypt – one of the most popular vacation destinations for Russians in the past two decades – recommendations were made by Russia's federal tourism agency (Rosturism) to stop sales of holiday packages to Turkey. Rosturism has also revoked the licenses of 19 Russian tour operators associated with the Turkish tourism market. Given these issues, the development of domestic tourism has assumed strategic importance for Russia, and Russian outbound tourism is expected to decrease by more than 40 per cent in 2016. At the same time, many experts have suggested that the decline in travelling abroad could translate into a boost for domestic resorts. Rosturism forecasts an increase in domestic tourism by 16-30 per cent, up to five million people next year (Rosturism, 2015).

So, both the market and its image badly need improvement – a crucial task for Russia. In this context, what are the main challenges to be addressed?

Challenges

To begin, the Russian tourism market suffers from the poor development of the country's tourism infrastructure, including a shortage of accommodation and entertainment resources and the poor state of many local attractions and road networks. The infrastructure is also poorly adapted for people with disabilities, as well as for foreign tourists, because of a lack of supporting information in English. The discrepancy between outbound and inbound expenditure suggests more can be done for travellers visiting the country (Vincent, 2012).

Next, domestic tourism in contemporary Russia it is too expensive. Internal transport costs are too high. Also, accommodation costs and excursion themes are usually the same, repetitive and boring. Infrastructure is costly and because of distances, time is also an important factor. From 2011 onwards, the Russian authorities started to implement a special programme: "Development of the inbound and outbound tourism in the Russian Federation (2011-2018)". This should result in changes in various areas, including city infrastructure, tourist attractions, transportation and others. Nevertheless, the problem of this programme is that the main idea is to stimulate tourism in Russia but not throughout the country – only in the most promising regions in the context of inbound and outbound tourism development (Ovcharov *et al.*, 2015).

In addition, there seems to be no architectural building control to create harmony of being in Russia and identity is being lost (Merzlov and Karpov, 2016). As a result, during the past two decades, many billions of foreign exchange were spent on tourism, but Russians tended to spend their holidays outside of the country. Up until the second half of 2016, it was cheaper to pay $700 for a two-week holiday in Turkey or Egypt with much better infrastructure, travel and service than in Russia. Crimea now adds a better choice, but in reality, choices internally are limited and getting there is expensive.

Internal transport takes rather long time (up to 6-7 h to Suzdal from Moscow) or involves overnight stays in mediocre hotels. Finance is required for long-term investment in smaller hotels (50-100 beds) to make internal travel more comfortable and to provide a greater choice of regional destinations. Subsidized 10 to 15-year finance, such as for hotel development, would create growth in this sector, raise regional employment and allow for a greater diversity of choice and many different views of the Russian country and culture.

Even with the current favourable exchange rates, costs are high, and this is also the case for foreigners (Sheresheva *et al.*, 2016). This is primarily due to the fact that there seems to be no assistance or subsidy for investing in tourism. State funds are ploughed into the old centres that are tired and exhausted. However, in reality, because the centres are catchment areas, they do not need these extra funds. In many cases, the people managing these funds are not so in touch with the modern world of tourism.

It seems that events such as Summer Universiade in Kazan 2013, Sochi 2014 Winter Olympics, FINA World Championships 2015 in Kazan or FIFA Football World Cup 2018 are considered worthy of huge financial investments and of course are hugely important in terms of projecting a positive image of our country. But do these events really assist long-term sustainable tourism? These events do of course have a positive impact on local infrastructure and regional domestic development but offer limited support to traditional long-term foreign or even domestic tourism.

As the vast majority of foreign tourists do not speak Russian, language is another challenge to be addressed. In many Russian regions, though potentially very attractive, it is virtually impossible to find anyone who speaks English. Those who do are rarely knowledgeable about or able to explain Russia's rich culture and history.

Generally speaking, foreign tourists are seen as business and income but not as guests. Russian hospitality seems to be lost on them and this needs attention – even though there is a mystic about Russia to foreigners. The current image of Russia is historic, but in reality, it is unattractive to potential visitors. The old image of a drunken, starving Russian bear still exists, and this represents a significant challenge to Russia's tourism industry.

Unfortunately, there is still no Russian Federal programme to promote tourism, Russian hospitality and diversity. There are some good local websites, but there seems to be no virtual image making or advertising to promote a "Welcome to Russia" theme. The attitude seems more to be "if you wish to come – come. If not – no problem". We do not broadcast internationally the positive changes occurring in Russia (which are in reality impressive) or our image. Advertising is more often spent on adding to old centres and not creating new vibrant, but still Russian centres! In contrast, Azerbaijan, Ukraine and Macedonia do have programmes geared towards overseas visitors who are invited to arrive and experience. These tend to parallel sites such as "Visit Scotland" – a federal organization that recognizes the need of the state to encourage tourism. So, Russian tourism needs strategic improvement, especially in relation to advertising, particularly at the federal level.

Inbound tourism is still at an incipient stage of development, particularly for leisure purposes. In 2008, among those who visited Russia, 2.2 million came as tourists and 2.9 million came for business purposes (Russian statistical yearbook, 2009). In this decade, the trend has remained the same, with the highest relevance for visiting friends and relatives (VFR) visits and a growing role for business trips (Tarasova, 2013). Leisure trips account for about 20 per cent of the internal tourist traffic, and incoming tourism with cultural purposes is usually limited to visits to Moscow and St. Petersburg or quite traditional routes (the Golden Ring and cruises on the River Volga), which are the most famous cultural destinations in Russia.

In reality, the old images anticipated by most visitors of coloured domes, bears and communism reflect an out-dated mindset and tend to attract tourists interested in making a single visit. Typically, there is little or no wider exploration of sites in Russia other than the well-trodden sites of the main centres for tourism. Furthermore, after a few days, these sites are quite repetitive. After seeing four to five churches, guests become bored regardless of whether this is Moscow, Suzdal or any other city. From contact with over 10,000 tourists this year, we know that they think the main tourist attractions are too similar. Because of infrastructure problems, shortage of time and highly concentrated programmes, tourists are rushed from one place to another and rarely have time to fully absorb the sites and "touch the soul of Russia". Hence, a tourist sees a number of well-identified sites and departs with many nice photos but not any real feeling about our country – and in most cases, never returns.

Tourism is a long-term business and takes time to build a reputation, and an expectation that the Russian private sector can do this alone is not realistic. Moreover, funding applies to not only the hotel, or tour resort, or complex but also the local environment and infrastructure. International tourism in many other countries has received assistance with finance, advertising and infrastructure from federal sources. Nowadays, the kick-start concept at any conference on tourism in Russia is to "find investors". If billions of dollars can be found to support tourism outside of Russia, business people in Russia tend to ponder why it is so difficult to find assistance to build it inside Russia.

Opportunities

First, despite the challenges mentioned above, Russia's potential for tourism growth and the current under-capacity in lodging still make the country a very attractive market for international hospitality investment (Annaraud, 2010). Furthermore, there are several types of tourism growing at high rates but would benefit from further development in the context of Russian Federation tourism (Vincent, 2012; Morozova *et al.*, 2014):

- Excursion and educational tourism is oriented towards maximum audience coverage, although it also attracts tourists from other tourism niches including beach, relaxation, active tourism and business. The distinctive feature of this tourism type and of its possible options is the mobility of tourists who aim to visit the maximum number of new places of interest within a short period. For Russia, excursion and educational tourism is the only working type that attracts large numbers of foreign visitors. So, it is essential that the contemporary market concentrates on this kind of customers.
- Russia's event tourism demonstrates a positive current trend with potential. This tourism type has very good prospects especially considering the changing geopolitical landscape. Further, as Russia prepares to host the FIFA Football World Cup in 2018, there are high hopes that this tournament will help to improve the country's image and attract new foreign visitors.
- Entertainment tourism is associated with visiting for leisure purposes; currently, this type of tourism is only popular in Moscow and St. Petersburg and among the managers of large foreign companies who have business contacts with Russia. As long as Russia is integrating with the global economic community and, with it, changes in the visa regime, these types of tours can gain popularity.

There are also opportunities to develop regional, small-scale unconventional forms of tourism. The Karelia and Baikal regions could, for example, attract lovers of outdoor activities such as hunting, fishing, kayaking and rafting among others (Vincent, 2012). Also diving, tracking, cycling, mountain climbing and downhill skiing could be attractive to active tourists. In Russia, all these types of tourism are poorly developed at the present time.

The expansion of new kinds of tourism could also help to counteract the current problems of seasonality.

It is worth noting that industry development has been boosted by recent government programmes and the establishment of special economic zones in tourism and recreation, for which an appropriate infrastructure is being planned (Sheresheva *et al.*, 2016). Moreover, the simplification of Russia's visa system is also been planned to contribute to the growth of tourism in Russia, and this is an important development. For example, the Ernst & Young report on the Russian hospitality sector cites research indicating that 30 per cent of respondents consider the simplification of the visa regime as the change that will have the most positive impact on hospitality business development (Ernst and Young, 2014).

Success factors

Tourism development in Russia is largely dependent on the natural, social and cultural environment. Thus, it is important to maintain or improve the quality of the tourism framework (Ignatiev, 2015).

An important step is the identification of the target market. It is necessary to clearly identify those for whom the process of the country's marketing promotion is directed and the ones who are potential consumers of the tour product "Russia" and to develop several alternative national tour products oriented for different audiences, thus contributing to the decrease in production and entrepreneurial risks (Morozova *et al.*, 2014).

Additionally, the development of the positioning system is necessary. Positioning of a territory is associated with choosing those peculiarities of a country that are likely to be perceived as high value for consumers. For this reason, the national authorities and agencies in charge of the development of the country as a tour direction should define the direction of positioning prior to its launch.

It is also important to use the most popular types of tourism (i.e. excursion and educational tourism) as umbrella brands recommendable to develop promising tourism directions (i.e. active, entertainment and event tourism).

To improve the experience for travellers, the permanent development of new products, such as tours or packages, and organized visits to places of interest is important. Tourists prefer pre-set services and packages and want to travel as conveniently as possible, see a large number of places and enjoy good quality service (Vincent, 2012). The improvement of the state of some attractions should also be considered (by the government). Additionally, efficient marketing programmes are needed to communicate the country's offerings in the hospitality and tourism sector (Ovcharov *et al.*, 2015).

Further, as the online sales in travel and tourism are demonstrating rapid growth in Russia and the internet has become the main source of information for potential tourists, it is important for the hospitality and tourism industry to increase its online presence and online promotional effort. Russia has invested little in creating an attractive image for itself in comparison to many other countries, so one also can see here scope for improvement. The event tourism in Russia requires serious development. Previous events did not become economically profitable because of a lack of promotion and advertising; so it is important to utilize future "big" events hosted in Russia, such as the FIFA Football World Cup 2018, to improve the country's image and to attract new foreign visitors. Also, other future opportunities to improve the image of the country as a travel destination are essential too.

There is an assumption that low-cost air carriers will increase the number of travellers within Russia among all consumer groups, but prior to this, further infrastructure development and improvement is needed to improve tourists' experience, including roads, airports, intercity links, road and city signs, shuttle buses and historical attractions. This includes making the infrastructure available for people with disabilities as well as making information available and understandable for foreign travellers. Moreover, as the number of tourists coming from China grows rapidly, it is important to establish a greater physical and digital presence in China. Information about Russia should be made easily available in Chinese to potential tourists from China.

As Russia is one of the most expensive countries in terms of accommodation, inbound and domestic tourism in Russia is constrained. Therefore, it is crucial to develop affordable and user-friendly accommodation with fixed quality standards for low- and mid-income tourists (Vincent, 2012; Sheresheva *et al.*, 2016). It is also important to provide low-budget hotels in popular cities such as Moscow and St. Petersburg and to expand hotels to other regions so as to provide new possibilities for tourism development.

Last but not least, human resources are one of the primary success factors. Improvement is needed in the system for educational training facilities and industry training, re-training and advanced training of specialists for the tourism and hospitality industry. Additionally, a modern system of training for professionals should comply with the requirements of the industry by continuously monitoring the market situation (Ushakov, 2013). Contact between universities and employers in the hospitality industry should be closer to facilitate and improve recruitment and thus ensure higher service standards.

Finally, having discussed all the previous insights, it is clear that hospitality and tourist services consist of different elements, such as transportation, accommodation and activities at the place of destination. One of the major challenges is to integrate these services, resources, core competences and capabilities so that the customer is rewarded with an unforgettable travel experience (Chen *et al.*, 2009). This prompts the question:

Q1. Is it possible simply to extend the existing business network concepts on an international basis to ensure success in the Russian hospitality and tourism sector?

Based on the current service problems, the following issues regarding tourism and hospitality market development in Russia are of high importance and are therefore addressed in this theme issue:

- Tambovtsev (2016) attempted to reveal institutional restrains impeding tourism development and to create a theoretical basis for institutional development that could provide positive tourist experience production in emerging markets;

- Kalabikhina and Shishalov (2016) examined more precisely the socio-demographic portrait of Russians engaged in travelling both in Russia and abroad;
- Kazakov (2016) shed light on the market orientation concept and the implementation influence on company business performance in a local service industry on emerging market;
- the articles by Sheresheva *et al.* (2016) and Oyner and Korelina (2016) are focused on Russian hospitality challenges and opportunities in more complicated environments, examining the general market situation, the strategy of international and local operators and new forms of customer engagement in value co-creation, leading to better customer satisfaction;
- the articles by Aleksandrova and Vladimirov (2016) and Polukhina (2016) are dedicated to the problems associated with boosting tourism cluster development and network interaction in Russian regions, including requirements for state support of cluster initiatives in the field of tourism. A number of cases are provided to illustrate and analyze perspectives of clustering and networking in the Russian hospitality and tourism market; and
- finally, Merzlov and Karpov (2016) present a case of the association of the most beautiful villages of Russia and assess the experience economy approach as a base for successful association development.

Conclusions

After an examination of the main trends of the Russian hospitality and tourism market and its major challenges, as well as opportunities and key success factors, we can conclude that the market faces many challenges. At the same time, there are a lot of opportunities, as the availability of different tourist and recreational resources in the country offers scope for developing almost all kinds of tourism. There are also important success factors which should be considered to positively change the current state of the Russian tourism and hospitality market.

Further, it is essential to understand that no federal programme will be successful unless the local authorities also see the development as their goal and start to work on it by networking with touristic authorities in Russia. It is obvious that enthusiasm for tourism development on a regional basis is important to ensure future success, including competition, building inter-firm relationships and working with local communities to ensure that tourism development is consistent with their positive development goals.

Note

1. Travel and Tourism Competitiveness Index 1-7 (best).

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