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## Market Research of the Luxury Car Market in China

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<p>This Bachelor's thesis is a pre-market study of the luxury car market in China. The necessity for the study came, when the author was recruited to a Chinese company to start a new business sector that would import luxury cars to China. The author nor the company has experience on the market, which created the need to investigate the field. The goal of the research is to describe the main characteristics of the market. This would give the author and the company basic knowledge on the market in order to be able to start the business. The thesis writing process started in September 2015 and was finished in April 2016. The company is already in importing business, and thus has existing procedures for such operations as logistics and marketing. Due to that, these are demarcated.</p> <p>The thesis is divided into theoretical and empirical parts. The theoretical part describes the basis of market research including the micro and macro environment, and explains use of the tools, PESTLE and SWOT analysis, applied later in the empirical part. The empirical part follows the theoretical part's structure, and examines and analyses the luxury car market in China. In addition, a brief insight of the complex Chinese business culture is given. The market research findings are concluded with help of SWOT analysis.</p> <p>Both primary and secondary data were collected. The primary data collection consisted semi structured expert interviews and observation. The persons interviewed have long careers in international business field and either are Chinese or have long history with them. Observation was used to find out more information about the case company as well as the domestic competitors. The secondary data involves publications of recognised research institutes, journals and articles providing information of the field. The data used in this thesis is selected carefully.</p> <p>The conducted pre-study is helpful for planning the business model from scratch. The company has many strengths in the business, and the weaknesses can be overcome with right strategical planning. Plenty of opportunities and threats exist. The opportunities seem very appealing, and the threats can be more or less avoided with right strategical planning, too.</p>	
<b>Keywords</b> Market research, luxury cars, China, Chinese business culture	

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# 1 Introduction

The first chapter explains the background of the thesis, represents the thesis topic and the research questions, and demarcation of the topic.

## 1.1 Background of the study

This thesis is a market study of the luxury car market in China. It aims at contributing both the author of the research and the company where she recently started to work. She is hired by the general manager of the company, Mr. Chen, to start importing European luxury cars to China. Although the author has a little experience of living and working in China, she still has a lot to learn about the business culture and the luxury car market is totally new. Hence, a pre-study of the market is required for her to perform successfully in the job.

An overall pre-study of the Chinese luxury car market is necessary for the company, too. This is due to that the business is on its starting phases, and the business model is still under development. From the market research, the company gets valuable information of the field, thus having better background knowledge to form the business plan for its starting operations. For this reason, the research is written in English, even if the author's mother tongue as well as most of her studies are Finnish. The thesis is written according to the current information.

At the beginning, the requests of the cars come from the CEO of the case company, Mr. Qiu, and his wide contact network. These will be either individual consumers or suppliers interested in selling the cars to their end customers. In other words, the author's task is to find the requested cars. However, a market research is necessary, as the task will soon be broaden to search potential cars just to be sold by the company itself. (Qiu 17.3.2016.)

As mentioned above, the author has been living and working in China before. This refers to her five month internship as a marketing assistance in a Finnish e-commerce company based in Shenzhen in spring 2015. During the internship period, the author experienced, that living in China without knowing the language, Mandarin, was very difficult. Due to that, she attended a six month program of learning the basics of Mandarin in a Chinese university in fall 2015. Learning the language made it easier to manage the life in China, and she is now able to communicate better with Chinese colleagues, clients, and other stakeholders. In addition, the studies gave her better understanding of the Chinese culture.

The thesis writing process was started in fall 2015, at the same time with the Mandarin studies. This was due to that the author wanted to gain knowledge before starting to work. In addition, she was able to attend few company events and simultaneously observe and familiarise herself with the company culture and her soon-to-be colleagues. She was also able to start actively building her own network keeping an eye on the future business opportunities.

## **1.2 Company introduction**

The company in question is in this thesis called MID Co. (later MID). It is based in Shenzhen, China. Shenzhen is one of the first Chinese Special Economic Zones, designed to contribute China's market reform in early 1980s (World Bank 2015). MID's main business is importing lubricant from the Emirates to China. In addition, they have an automobile repair workshop chain that has three bases in Shenzhen. The business has been successful and fast-growing, and now the company wants to expand its operations to importing other goods, too. That would be starting by importing European luxury cars, and the author of the research was hired to start the new business.

The author was recruited in early summer 2015. The employment was scheduled for starting in winter 2016. The recruiter, Mr. Chen, offered the job to the author due to her studies on international business field, language knowledge, and European background, which gives her natural understanding of the Western culture, as well as her outgoing and genuine character, which he found sufficient for the work.

Due to the on-going importing business on the lubricants, MID has strong knowledge of the characteristics of international business and importing, marketing, and selling in China. The company has made contacts along the years in business, thus it also has contacts towards the car business. These will be essential contacts for finding the first suppliers of the cars. MID also has trusted carriers to deal with freighting.

Language barrier is one big issue in the company's daily life. The author speaks very basic Mandarin, but yet not strong enough for discussing about the next steps of the work, let alone business strategies with only Chinese-speaking CEO, Mr. Qiu. Furthermore, the company is initially making international business, which means speaking English with the stakeholders daily. To get over the evident language barrier, there are few people in the office, who are able to speak both English and Mandarin. Their work includes plenty of translation work between the languages.

### 1.3 Thesis topic and demarcation

The thesis topic is a market research of imported luxury cars in China. The topic is wide, and to be able to focus on the key issues, it needs to be specified. In order to do that, the following research question was formed:

What are the main characteristics of imported luxury car market in China?

In addition, these investigative questions were made:

1. Which external issues are typical for companies operating on the target market?
2. How do the recent events on the Chinese economy effect the market?
3. Who are the customers, and what do they want?
4. What issues does the Chinese business culture bring along?
5. Which resources the case firm has, and what it should still develop in order to succeed?

To answer these questions, the thesis uses core tools of target market studying, and offers an insight to the Chinese business culture. The tools are PESTLE analysis and SWOT analysis. These are selected based on their content and credibility in order to get comprehensive image of the current situation. The author is Finnish, and hence used to the Western culture, which makes it very difficult to understand the Chinese way of doing things. The sight of the Chinese business culture is included due to its importance on understanding the very different culture of the target market.

Demarcation is needed to make the thesis focused to answer the needs. Logistics, bureaucracy issues, marketing issues, and pricing are left out from this study. Main reason for that is, that freighting is outsourced to already existing reliable partners, and to accomplish bureaucracy and marketing, strong knowledge of Chinese language and culture is needed. In this case, these issues are under responsibility of the English speaking Chinese colleagues in MID. As stated before, the author knows the very basics of Mandarin, but in terms of marketing or bureaucracy, she has not enough language skills to succeed. The Chinese way of marketing is also very different from the Western style, which makes it hard for a Westerner to create functional and effective marketing, even if the language question was eliminated. Hence, these topics are not on the author's direct responsibility. To decide the pricing, also these expenses need to be counted in, and the CEO decides the profit marginal. Due to that, determining the pricing is left out from this thesis.

What is comes to the Chinese business culture, it is a broad and complex topic by itself. It would require its own research, to give a Westerner good understanding on it. However, to be able to include a glance of it, this thesis gives a basic characteristics of the Chinese business culture. Knowing the basics is essential for the author to be able to avoid obvious and crucial cultural mistakes, and when the time goes by, build strong knowledge constructing from future experiences of doing business in China.

In this research term luxury car is used frequently. Luxury brand is understood as something that has high brand awareness, is recognised having high quality, evokes exclusivity, and loyal customers (Phau & Prendergast 2000). In this research, we follow McKinsey (Sha & co 2013,4) by recognising following brands Acura, Aston Martin, Audi, Bentley, BMW, Cadillac, Ferrari, Infiniti, Jaguar, Jeep Wrangler, Land Rover, Lamborghini, Lexus, Lincoln, Lotus, Maserati, Mercedes, Mini, Porsche, Rolls-Royce, Smart, Volkswagen Phaeton, Volkswagen Touareg, and Volvo as luxury car brands.

## **2 Theoretical background of target market study**

This chapter starts with introducing the base of market research. The tools to study the market are discussed with help of a task list made by Cavusgil, Knight, & Riesenberger (2014, 327-328) for Global Market Opportunity Assessment. Initially, the task list was made for finding the most suitable market, but as in this case the target market is already decided, the task list is applied to extend it fit to the case in question.

At first, Cavusgil & co (2014, 327) encourage to examine the firm's strengths and weaknesses, as well as opportunities and threats in relation to international business. Then they advise to focus on the product and find the opportunities of the potential markets as well as examining about the products suitability for the market. As Cavusgil & co (2014, 334) state "No single market is attractive in all dimensions", it is important to examine the threats, too, to make the picture balanced. These all are covered in SWOT-analysis, which is explained in chapter 2.4. Cavusgil & co (2014, 327-328) also advice to examine macro as well as micro environment of the market. Macro environment is covered in chapter 2.2 with help of PESTLE analysis tool, and micro environment in chapter 2.3.

### **2.1 Market research**

Terms market research and marketing research are often mixed, and the words are used interchangeably. There are still some difference between these two terms: marketing research focuses widely on product and consumer preferences whereas market research is narrower, focuses generally on a specific industry, and is especially examining its customers and competitors. (Qualtrics 2010.) Market research is conducted by gathering and analysing information from market, and using the outcome in order to perform more successfully in the market (ESOMAR 2008, 39).

To study the target market, the key is to analyse the firm's operating environment. Environmental analysis is a wide topic and hence commonly divided into smaller parts. Havaladar (2005, 25) has divided the environmental analysis into three groups: ecological & physical, internal, and external. The external is further divided into micro and macro environments. Havaladar's theory is looking from industrial point of view, hence the ecological and physical parts are playing relatively big role. In this thesis we focus on internal and external analysis, and the ecological and physical aspects are included into macro environment research.



Making the market research may seem time and money consuming, but understanding the market you are working at is crucial for successful business. Cavusgil & Riesenberger (2009, 10) have listed five benefits of market research:

1. *Forecasting* – Firms' managerial decisions are mostly made by assumptions. By researching the market, firms may prevent making misassumptions but get recommendations for more accurate forecast.
2. *Planning* – Managers need to find out the risks, challenges, and undefeatable problems especially when entering a new or a foreign market.
3. *Competitive intelligence* – Analysing competitors helps the firm to determine and improve its strategical responses, and try to differentiate from the others.
4. *Monitor progress on organizational objectives* – A good market research helps to evaluate how effective the firm is on different parts of its value chain. It also gives the managers valuable knowledge about goals of the firm: which ones it has already achieved and which ones it is still reaching.
5. *Increase organizational skill and knowledge base* – Researching market increases the knowledge and skills needed when making successful business, such as interacting and negotiating with various stakeholders.

## **2.2 Macro environment**

This chapter is about examining the external environment, target market of the company, which will be the Chinese market. Cavusgil & co (2014) advice to examine the markets' different aspects, such as economy (size and growth rate of the market and of the middle class), social welfare (customers' buying power), and politics (degree of economic freedom). We can see how the all the topics belong to macro environment, and are similar to world widely known PEST analysis. PEST analysis is defined as "a form of environmental analysis in which environmental forces are classified as political, economic, social, and technological" (Wetherly & Otter 2011, 470). In this thesis, we conduct PESTLE analysis, where the added two letters are L for legal and E for environmental aspects, to broaden the analysis and bring out more important aspects of China. (Cavusgil, Knight & Riesenberger 2014, 325-339.)

### **PESTLE analysis**

PESTLE is the widely used tool for analysing firm's macro environment. It is an abbreviation of the words political (P), economical (E), sociological (S), technological (T), legal (L), and environmental (E) issues. Understanding macro environment is important, because all the factors effect on firms but the firms can't control them. PESTLE analysis gives a comprehensive bird view of the operating environment and guides towards making better strategic decisions. (CIPD 2015.) Next all the six factors of PESTLE analysis are explained in detail.

*Political* factors are about how stable the country's political environment is, and what kind of opinions or the political parties rule the country. This demonstrates on government's performance regarding to tax policies and the involvement in international trading affairs. This aspect is very closely tight to the legal aspect. (CIPD 2015.)

The political aspect include factors such as:

- trading policies: trade tariffs and restrictions
- employment laws
- environmental laws and regulations
- political stability
- economic freedom

(Cavusgil & co. 2014, 327, CIPD 2015.)

The *economic* aspect widely describes the situation of the target market's economy. This part can be divided into macro and micro economics, where macro includes the management and governmental issues, whereas micro economics focuses on the customers.

(CIPD 2015, Professional Academy 2015.)

The economic aspect includes the following:

- economic growth rate
- employment issues
  - unemployment percentage (local and nationwide)
  - minimum wage and wage rates
  - working hours
- raw material costs
- monetary policies such as credit availability and interest rates
- exchange and inflation rates
- living costs

(CIPD 2015, Oxford learning lab 2015)

*Sociological* factors, also known as socio-cultural factors, examines the culture and habits of the target market. This includes such factors as:

- demographics
- age distribution
- population growth rate
- equality of wealth and social classes
- education level
- lifestyle and living conditions
- cultural norms and expectations
- health and safety consciousness
- global warming

(CIPD 2015, Oxford Learning Lab 2015.)

The importance of the *technological* sector has been increasing continuously. Keeping up with the technology development is crucial, as it opens new opportunities constantly.

Good examples are mobile phone technology that has taken huge steps forward within the last five years, and generally internet and web 2.0 that have made e-commerce possible. But digital or internet-related development are not the only sides of technological sector. Also materials, manufacturing methods, and logistics have developed tremendously. (CIPD 2015, Oxford Learning Lab 2015.)

*Legal* factor is very important to investigate, as the law must be obeyed in order to maintain the business successful. If the organisation is running business abroad, this part becomes tricky, since every country has its own standards. (Professional Academy 2015.)

Legal factor includes such issues as:

- changes to legislation
- access to materials and resources
- quotas
- import/export regulation
- taxation

(CIPD 2015.)

*Environmental* factor is mainly about how much firms are respecting the nature in such terms as recycling methodology, disposing waste, and limited natural resources. Being ecological is rewarded by government as well as by customers. The awareness of the environmental issues has risen significantly, and hence it affects to their consumer behaviour. The customers increasingly require the product to be as environmental friendly as possible. (CIPD 2015, Oxford Learning Lab 2015.)

The governments have often stated some limits to the pollution, such as carbon footprint targets. If these limits are exceeded, the government fines the firm heavily. For example, Volkswagen's pollution scandal fall 2015 in a nutshell: it was figured out that VW had been cheating on emission tests since 2008. Altogether 482 000 cars must be withdrawn from the market to fix the emission false. On top of that the maximum fine for this is \$37 500 per a car, which equals to maximum \$18 billion – a vast amount of money even for such a huge company as Volkswagen. Also the consumers have given a punishment to Volkswagen: its stock value had sank 23 % in a day (Sjolin, 2015). (Neate 2015.)

### **2.3 Micro environment**

This chapter examines the micro environment, the environment of the particular company in question. The environmental factors are divided into customers and competitors, and suppliers (Havaladar 2006, 25).

What it comes to customers, the key is to find out the reason why they want to or do not want to buy offered product, and how attractive they find the product in relation to the other options in the market (Wetherly & Otter 2011, 173). In order to understand the customers' needs, it is vital for the sales department to talk with all the people dealing with the customers, such as customer service, production and finance. This way the managers get a clear picture of the current situation of the market and customer preferences. (Havalдар 2006, 27-28.)

Knowing the competitors is essential for the business. Examining the competitors' strategies and goals as well as strengths and weaknesses is a good way to get familiar with the current competition. Convenient methods to gather information of the competitors are to collect trade journals and newspapers, and talk with customers and dealers. These outcomes can be used when determining the firm's own marketing strategy, for example target market segments, offered products and product development, pricing, sales force, and distribution. (Havalдар 2006, 28.)

Suppliers play important role on succeeding in the market. For the both parts, the buyer and the supplier, to succeed, they need to take care of their interdependent relationship, understand the importance of each other's actions, and make sure they have similar mind set in terms of quality and service. If the supplier does not supply the products in agreed time, or the quality is worse than expected, it immediately effects on the firm ordering them. They cannot finish the production and deliver the products to their customers, or the product has worse quality than promised, which creates mistrust from the customers, even if the company in question could not effect on the issue. (Havalдар 2006, 29.)

In addition to Havalдарs (2006) theory, Schwarz't's (2010, xi) theory adds production and pricing on. Firms need to determine the most efficient output rate and, if possible, the best price to maximize the profits. Finding equilibrium between the firm's output and the market's demand is a big issue to solve. At the same time, firms are aiming to maximize their profits (Wetherly & Otter 2011, 173), and consumers are deciding which product is the most convenient to spend money to, i.e. which product gives them the best utility. Moral philosopher Adam Smith used a term "an invisible hand" to describe how prices lead a free market. (Schwarz't 2010, xi.)

In this thesis, suppliers and production are covered very narrowly. This is due to that the business is on its starting phase, and for the time being the suppliers come straight from MID's existing contacts, and the production, as in the amount of the cars imported, de-

depends on the demand. The demand comes straight from the CEO, and the cars are imported only after the company already has a buyer for them. However, when the business gets up and running, these aspects need to be taken under deep examination.

## 2.4 SWOT analysis

SWOT analysis is a simple but very useful tool for strategic business planning. The name SWOT is an acronym for its features: Strengths, Weaknesses, Opportunities, and Threats. SWOT analysis platform is commonly visualised accordingly with table 1. The analysis is divided into two parts: internal and external analysis. The internal part (yellow) consists strengths and weaknesses of the organisation, whereas opportunities and threats of the environment make the external part (blue). (Wetherly & Otter 2011, 24-25.)

Table 1: Visual SWOT analysis platform (Wetherly & Otter 2011, 25)

<b>Strengths</b>	<b>Weaknesses</b>
<b>Opportunities</b>	<b>Threats</b>

Over the years, SWOT analysis has established its position as the cornerstone tool of strategic planning. It is easy to use, and the results guide the firm's planning towards the right direction. SWOT analysis may also reveal some competitive advantages that should be added to the firm's marketing strategy. In order to avoid shallow and poor analysis and to get correct and the most efficient outcome of SWOT, it should be written with honesty and deep examination. To get the maximum benefits of SWOT analysis, it must be made by focusing on customers. (Ferrell & Hartline 2012, 86-87, 93.)

Ferrell & Hartline (2012, 88-93) have listed six directives for a productive SWOT analysis according to the following:

1. *Stay focused* – To avoid generalisation, every product-market combination should have its own analysis focusing on the characteristics typical to it.

2. *Search Extensively for Competitors* – The analyst should not look only the most obvious brand competitors, but also more marginal like total budget competitors and potential new competitors.
3. *Collaborate with Other Functional Areas* – SWOT encourages different departments to work together in order to find creative marketing solutions.
4. *Examine issues from the Customers' Perspective* – The opinions and beliefs of customers as well as other stakeholders are important.
5. *Look for Causes, Not Characteristics* – to list the characteristics is one thing, but looking for resources causing the firm's strength, weaknesses, opportunities, and threats is truly effective.
6. *Separate Internal Issues from External issues* – Good rule of thumb is that if an issue would be there even without the firm, it is an external issue. The external issues are presented on PESTLE analysis.

Strengths and weaknesses consist from the resources the firm owns (or doesn't), and the relationships it has with its stakeholders (customers, competitors, suppliers, etc.). As focusing on customers' needs, the strengths only matter, when the customers benefit from them. These strengths may be developed to the firm's competitive advantages. Alongside, the weaknesses may be decreased or conquered by developing the strategies accordingly. (Ferrell & Hartline 2012, 93.)

Opportunities and threats come from the firm's external environment. Typically environmental analysis (such as PESTLE) is conducted first, and the opportunities and threats are derived from the outcome. For firms to succeed, it is crucial to stay updated on the happenings outside the firm. Even if a firm cannot effect on the circumstances, it can adjust the strategies according to the changing world's demands to take advantage of the opportunities and minimize or defeat the threats. (Ferrell & Hartline 2012, 44, 95.)

Conducting SWOT analysis means examining vast amount of information. Ferrell & Gartline (2012, 96) have gathered a list of four important issues to keep in mind in order to take the best advantage of SWOT analysis:

1. When examining the strengths and weaknesses, looking at firm's products is not enough. The key is to find the operations that solve the customer's problems.
2. In order to succeed in the market, the firm needs to have better offerings than its competitors. By matching the firm's strengths with the opportunities, this is possible to achieve.
3. Weaknesses can be converted into strengths and threats into opportunities by investigating the key areas and applying right resources.
4. The weaknesses that are impossible to convert into strengths, become the limitations of the organization. However, by right strategic choices the limitations can be minimized.

### **3 Research process**

In this chapter the research methods used are introduced and the data collection process is explained.

#### **3.1 Research methods and data collection**

Market research methods are commonly divided into quantitative and qualitative methods. Quantitative research consist numerous samples and has very structured questionnaires. Qualitative research on its part is used, when the research methods are more focused on individuals such as personal interviews or group discussions. In the interviews there is commonly a loose structure to follow, but also a lot of room to go along with the discussion and up-coming ideas. When making qualitative research, the samples are fewer and carefully selected, since the method is relatively complex and heavy to analyse.

(ESOMAR 2008, 39.) In this research both methods, qualitative and quantitative, are used. It is beneficial to for marketing researches (Zinichiak 2014), and typical for case study researches in general. This research can be determined as a case study due to that it is made for a single organisation and mostly to a person rather as a pre-study to describe the market than explaining phenomena or testing hypotheses. (Saaranen-Kauppinen & Puusniekka 2006.)

Another way to divide market research methods is to divide them into primary and secondary data collection. Secondary data collection means gathering already existing information that is collected for different purpose, and reused for the current research. The secondary data may be collected from such sources as trade associations, government agencies, or be company-provided information like press releases or annual reports. Secondary data is often used due to that it is easy and quick to access, and it gives efficiently an image of the situation. Primary data on the other hand is collected by the researcher, for example by making surveys and questionnaires, observing, or by making interviews. As secondary data is initially made to answer another research question, primary data usually answers to such specific questions that the secondary data does not hve an answer for. (Cavusgil & Riesenberg 2009, 41-55.)

To answer the research question, both research primary and secondary data sources were used. The secondary data collected has been mainly quantitative, and the research is completed with primary data collected by qualitative research. In order to approach the research question (What are the main characteristics of imported luxury car market in

China?) closer, five investigative questions were formed. In the following table 2 the research methods for each investigative questions are presented.

Table 2. The research methods for each investigative questions

1. Which external issues are typical for companies operating on the target market?

- high-quality research papers (McKinsey Global Institute, Boston Consulting Group), company-provided information about doing business in China

2. How do the recent events on the Chinese economy effect on the market?

- Secondary data collection: high-quality research papers (McKinsey Global Institute, Boston Consulting Group), news paper articles

3. Who are the customers, and what do they want?

- Secondary data collection: high-quality research papers (McKinsey Global Institute, Boston Consulting Group), news paper article
- Primary data collection: interview (Mr Qiu, Mr Chen, Mrs Lee)

4. What issues does the Chinese business culture bring along?

- Secondary data collection: B2B organisations, TED-talks
- Primary data collection: interviews (Mrs Lee, Mr Chen)

5. Which resources the case firm has, and what it should still develop in order to succeed?

- Primary data collection: interview (Mr. Qiu), observation

The answers to questions 1 and 2 are based on secondary data, which is mainly collected from recognised research institutes, completed with company-provided information packages or newspaper articles. To answer question 3 and 4, both secondary and primary data were collected. Question 3 has similar sources than questions 1 and 2, high-quality research papers from recognised institutes. The question is completed with interviews, which are defined as primary data. To answer the 4<sup>th</sup> question, the secondary data is collected from B2B organisations and a TED-talk, and it is completed by primary data collected from an interview. The question 5 is answered by primary data which was collected by interviewing and observing.

The secondary data was collected in multiple sources such as reliable research institutions and internet databases, as well as journals and articles about the market's current situation. The core of the environmental analysis is based on a research made by a recognised institution McKinsey & Company (later McKinsey). In 2013 they made a quantitative survey regarding the Chinese premium car market's future. The survey was conducted by interviewing 1200 current premium car's owners in 12 biggest cities of China (Sha, Huang & Gabardi 2013). The research examines the exact target market of MID, and is therefore chosen to play such an important role in this research.

As primary data collection, two research methods were chosen: interviewing experts, and observing the case company and exhibitions of the field. Interviewing is used, when the



information is wanted from a specific person, who is expected to give valuable information about the topic. Observation method is used, when the researcher wants to find out how people act in the real world (such as group dynamics) or when the topic is difficult or unpleasant to explain to the researcher (competitor's position). In this research, the observation has been unstructured observation that gives diverse and general information. (Saaranen-Kauppinen & Puusniekka 2006.)

Three people were interviewed in order to get more detailed information for the research. The interviewees were chosen based on the knowledge and understanding of the market as well as the company. The interviews followed Bernard's (2011, 156-158) definition of semi structured interview: they followed an interview guide that had open-ended questions, which were prepared beforehand in order to cover all the major topics.

Mr Qiu is the chief executive officer of the case company MID. He has knowledge about the local luxury car market, and has a vision where and how he wants to develop his company. His interview was conducted at MID's office, and it was semi structured. The open-ended questions asked can be seen on appendix 1. Mr Qiu gave the interview on 17 March 2016 with assistance of the MID's employee Mrs Lin. Mrs Lin worked as a translator. She translated the questions into Chinese. The questions were given to Mr Qiu a few hours before the actual interview, giving him time to prepare his answers. On the interview, Mrs Lin was asking the questions in Chinese and the answers from Mr Qiu back to English, while the author of the research was writing them down on computer. At this point it is important to note, that the Chinese nature is closed and secretive, and hence business people are not willing to fully explain what they have in mind. Hence, the answers from Mr Qiu were relatively short and shallow, even if he was interviewed by his employees. However, the interview gave crucial information about the MID's operating policies.

Another person interviewed is the company's general manager and the supervisor of the author, Mr Chen. Despite his Chinese last name, Mr Chen is a Westerner, who has strong knowledge of import-export business and wide understanding of international business as a result of his long career around the world. Due to busy schedules and business trips, interview was impossible to arrange in person, and therefore he answered the questionnaire by email on 4 April 2016. The questions were open-ended and similar to the ones asked from Mr Qiu. The questionnaire sent to Mr Chen is attached to appendix 2. He has been extremely busy and hence was unfortunately unable to answer all the questions. However, his answers contributed the research considerably.

Mrs Lee was interviewed on 11 March 2016. She has made long career in big international firms before starting her own business on 2015. Her spa is targeting upper middle class, the same as MID, and therefore she is able to provide information about the target market. As a Chinese business woman, she also has good knowledge of the Chinese business culture. Her interview was conducted over a lunch meeting. The occasion was very unformal and relaxed. The author had made a few questions beforehand, with which she used for keeping the conversation somewhat structured. Mrs Lee provided important information about the target customers, and the Chinese business culture in practice. The questions asked from Mrs Lee are shown in Appendix 3.

Along the research process, two objects were observed: the case company MID, and possible competitors. In order to observe the competitors and the market, two exhibitions were visited. The first one was in Chongqing in September 2015, where the author travelled together with her colleagues. MID was attending the lubricant fair as an exhibitor. Unlike understood beforehand, the exhibition turned out not to have a section for imported cars, which was a big disappointment.

However, the author had four days to observe and get acquainted with her colleagues. She also familiarised herself with the company by constantly asking questions and observing how the things were handled and how the group dynamics worked. After the exhibition, the author kept regularly in touch with the company, and she finally started to work there in February 2016. Along the time, she has continued observing the company. Hence, she is now familiar with MID, and is capable to evaluate the strengths and weaknesses of the company as well as the threats and opportunities with adding notes from her supervisors.

The second exhibition visited was the 118<sup>th</sup> Session of China Import and Export Fair, widely known as Canton fair. Canton fair is the largest fair in the world: it has the widest scale, most complete variety and biggest business turnover in China. The fair is held every spring and fall in Guangzhou, the capital of Guangdong province, where also Shenzhen is also located. (China import and export fair 2016.) This exhibition was chosen because of its wide selection that gives a good insight of what's going on in the market, and the convenient location.

### **3.2 Timeline of the research**

This chapter explains the timeline of the research process. A visual timeline is shown in the figure 1 below, and it is explained in this chapter.

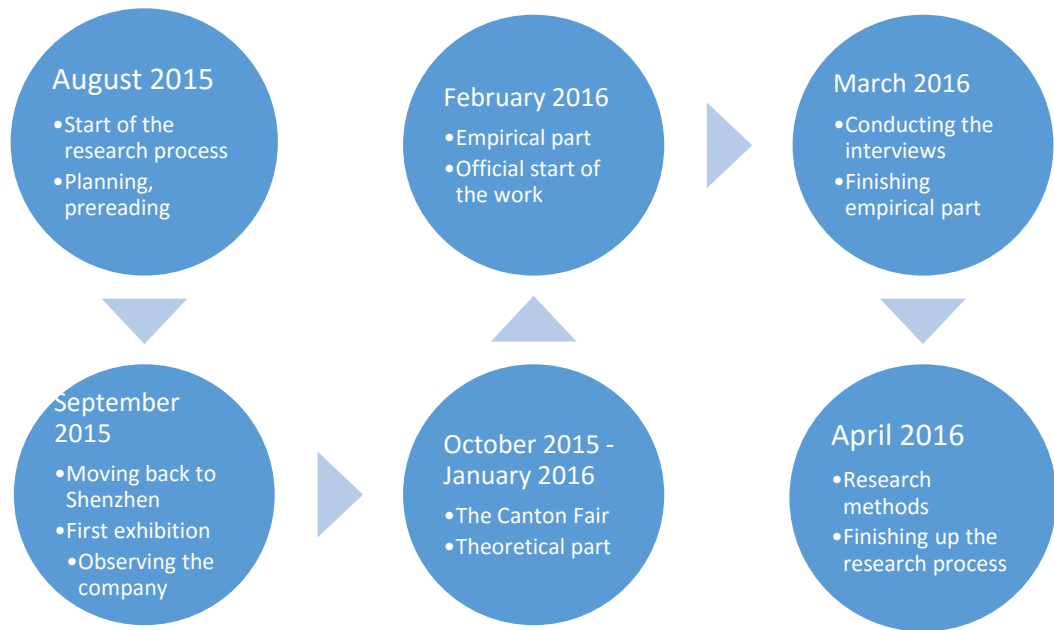


Figure 1: Visual timeline of the research

The thesis process was started in late August 2015 by making a research plan. This included planning and pre-reading of the topic. The research plan was discussed with the thesis advisor provided by the author's university of applied sciences Haaga-Helia. The topic was formed to fit better the purpose of a thesis.

In September 2015 the author moved back to Shenzhen, and started the Mandarin studies. She also attended the first exhibition in Chongqing with co-workers from MID, including the CEO and the general manager interviewed later for this thesis. In October 2015 the second exhibition, Canton Fair was visited. Apart from that, the time period from October 2015 to January 2016 was mainly writing the theoretical part, and keeping in touch with the MID's office. Emails were changed between the author and the thesis advisor regularly to receive feedback of the writing process and keep the advisor updated on the progress. The Mandarin studies were finished on January 2016.

On February 2016, the theoretical part was more or less ready, and it was time to move on to the empirical research. The author also started to officially work in MID. This enabled daily observation of the co-workers and the group dynamics, and getting deeper into the Chinese working culture. On March 2016 the interviews of Mr Qiu and Mrs Lee were conducted. The questionnaire was sent to Mr Chen, who gave his answer on April 2016. In late March, the author needed to return back to Finland to finish up the thesis process in order to be able to apply for a working visa. In April 2016 the chapter of research methods was written, and overall adjustments of the text were made.

## 4 Research results

This chapter presents the result of the conducted market research.

### 4.1 Analysing the environment of the market

In this chapter, the macro environment is examined with the tool PESTLE analysis.

#### Political

China has is a socialist state. The Chinese Communist Party (CCP) stepped in to rule the country on 1949 naming it the People's Republic of China (PRC). It has emphasised on strengthening its place as a leader of PRC. (CFR 2013.) According to the Economist's recent articles about China and its leader Xi Jinping, the people are not fully satisfied with the government's actions. It is said, that as a "chairman of everything" Mr Xi is able to do more or less what he wants. However, at the time being the demonstration has been mainly protesting on the internet despite the censorship, rather than rioting on the streets. Only the time will show how the things will turn out. (The Economist 2016a, The Economist 2016b.)

State-owned enterprises (SOEs) are still dominating the Chinese economy, but the private sector is increasing its share. This is due to that the Chinese government is opening the economy, and hence decreasing its own influence, giving more power to the market. The government wants to attract foreign firms to enter the Chinese market. China supports the foreign investments, has lowered tariffs and has removed other trade barriers such as import licences and quotas as well as taken measures to lighten considerably high bureaucracy. (HSBC 2012, 8-10.)

In imported car sector a significant political move was made on 2015. Before, automakers were able to put a bigger price label on the cars they sell in China than on the ones sold in US. Hence, on summer 2014 Automotive news reports that the US automakers such as BMW, Porsche, Mercedes Benz and Land Rover do not accept individual exporters to sell cars to China, due to the automakers massive loss of profits. They even fined their U.S. dealers with \$30.4 million from 2008 to 2013 to prevent exporting, and gave instructions how to recognise straw buyers that buy cars for exporters. (Bunkley 2014.) However, less than a year later news agency Reuters broke a news that China is allowing also unauthorised dealers to sell imported cars in order to contribute competition and hence cut the prices of premium cars (Shen 2015). According to Mr Chen (2016) the government has so

far allowed parallel import in four big harbour cities: Shanghai, Guangzhou, Tianjin and Fujian.

Chinese government has made 5-year-plans for over 60 years. The plans set goals for economic, demographic, and social sectors and decides which industries are supported within the period. (CFR 2013.) Recently, also environmental issues are taken under consideration. The 13<sup>th</sup> and latest 5-year plan is executed in 2016-2020. (The Economist 2015.) The plan is illustrated in the appendix 4. Some key points are picked up later in this research.

## **Economic**

As an important part of China's reform and opening-up to the outside world joined the World Trade Organization (WTO) in 2001. Ever since, it has gained several major achievements such as becoming the 2<sup>nd</sup> largest economy in terms of GDP, the 1<sup>st</sup> largest merchandise exporter, and 2<sup>nd</sup> largest merchandise importer, and the most important FDI investor as well as destination among developing countries. (WTO 2011, 5-7) On 2014, China's GDP reached 10 360 billion USD. European Union was its biggest importing partner and 2<sup>nd</sup> biggest exporting partner. Motor vehicles belong to the most imported goods to China in total (CIA 2015). (WTO 2015.) In the newest 5-year plan China wants to open up its financial markets further (China Daily 2015).

Within the recent years, the economic situation in the world has gone through a rough path creating concern among consumers. China's economic growth is slowing (WTO 2015), and recent devaluation of yuan is making people nervous about the future of the currency (Jianxin & Graham 2016). As the premium items are very volatile for market fluctuation, also the premium car market's continued growth is questioned. According to McKinsey's (Sha & Co. 2013, 7.) survey, 80 to 85 % of the Chinese premium car buyers are still positive about the future market growth, and were confident to continue buying premium cars.

Naturally, the economic situation is not the same from the McKinsey's survey, conducted in 2012. However, a recent consumer confidence report from 4<sup>th</sup> quarter of 2015, released by marketing research company Nielsen (2016) shows, that the confidence among the Chinese consumers remains high. In fact, the Chinese were slightly more confident on buying on the 4<sup>th</sup> quarter from the previous one. Also Mr Qiu (2016) is positive, that the demand will stay high as the amount of rich people in China is constantly growing. Mr

Chen (2016) pointed out that despite the slowdown, the number of new cars being sold in China has not declined in the same proportion.

Whereas the passenger car market has grown impressive 26 % a year, premium car's sales have grown significant 36 % annually within the last decade. China is an important player on the premium car field: in 2012, China was the second biggest passenger car market in the world, and 9 % of it was held by premium cars. Based on the survey, McKinsey predicts that Chinese premium car market will grow 12 % annually until 2020, when the sales of premium cars will reach three million units. This digit will equal to the sales in Europe and exceed the US sales. The growth is explained by the increase of the urban affluent and raising upper middle class households. (Sha & Co. 2013, 4-5)

However, by 2015 the direction has changed. In the late 2013 China's Communist Party Secretary Xi Jinping launched an anti-corruption campaign, aiming at reducing bribery and extravagance. The policy has reduced so called "conspicuous imports" considerably, approximately 55 %. In this case, conspicuous import means for example gifts that are possibly bought for corruption purposes. (Qian & Wen 2015.) 1.5 years after the campaign launch, on summer 2015, several business journals published articles stating that the golden times of the Chinese luxury car market are over due to the new corruption policy (Debord 2015, Rauwalt & Tian 2015). An anonymous BMW dealer operator tells in Reuters' interview, published in 2015, that the business has been slowing for the last 18 months (Shirouzu 2015).

This and the recent slowdown of economic growth have naturally impacted on the current development of the luxury markets. In premium car market it means that the consumers are more likely to buy smaller and less luxurious cars. The development makes sense and is already known from other markets. Premium market in general is very volatile, and as smaller cars are more affordable, they have more potential customers. (Debord 2015, Sha & Co. 2013, 7.) Audi's Chief Executive Officer Rupert Stadler said, that the competition is becoming more intense, meaning that due to the anti-corruption campaign, people have less money to use, and they become more conscious of what they are buying and how necessary it is. These changes have forced the market to develop the market more mature. (Rauwalt & Tian 2015.)

This argument is also supported by McKinsey's (Sha & Co. 2013, 7.) finding, that due to the opportunity given by rapid growth of the premium car market, more firms have entered to the field. This has led to increased competition, and the prices of premium cars have annually decreased 4-5 % reducing the profits, too. To attract the customers, the suppliers

need to offer more value to their customers, have more differentiated models, and increase the market share in fast growing cities targeting the upper middle class.

### Sociological

In their research Sha & Co. (2013, 4) were able to distinguish two groups among the potential premium car buyers: affluent, who already earn enough to buy premium cars, and new mainstream, who are confident that their income will increase enough to make them potential customers soon. Later McKinsey started to use a term upper middle class, which is also the term used in the thesis (Barton, Chen & Jin 2013).

According to McKinsey (Sha & Co. 2013, 5-12; Barton & Co. 2013), the number of people belonging to Chinese upper middle class is rising, and that is the most potential group for buying luxury items, including luxury cars in the near future. This statement is supported by Boston Consulting Group's research (Kuo & Co., 2015). The definitions of the classes slightly vary, but both institutions define the classes based on annual income.

Table 3. McKinsey and Boston Consulting Group's definitions of terms

<i>Term</i>	<i>McKinsey</i>	<i>Boston Consulting Group</i>
<i>Middle Class</i>	9 000 – 16 0000 USD / 60 000 - 106 000 CNY	16 001 – 24 000 USD (10001 – 16000 USD (merging Middle Class),
<i>Upper Middle Class (new mainstream)</i>	16 000 – 34 0000 USD / 106 000 – 229 000 CNY	240001 – 46 000 USD
<i>Affluent</i>	Over 34 000 USD / Over 229 000 CNY	over 46 000 USD

Upper middle class includes vast amount of people: Boston Consulting Group (Kuo & Co., 2015) predicts the upper middle class to consist of about 30 % of the urban households, whereas McKinsey's (Barton & Co. 2013) prediction reaches over half of the population. However, as the definitions of the terms aren't defined alike (see table 3), these percentages aren't comparable with each other. More importantly, the both studies show a trend of significant growth of the upper middle class. Boston Consulting Group says, that out of the urban households only 7 % were upper middle class or affluent, whereas in 2015 the amount had grown by ten percentage point to 17 %. Boston Consulting Group predicts the growth to continue in a way that by 2020, about 30% of the Chinese households are accounted as upper middle class or affluent households. McKinsey's study is similar: on 2012 they count 14 % of the Chinese urban households to belong to upper middle class,

and 3 % to belong to affluent. By 2022 they project the upper middle class be as many as 54 % and on top of that the affluent households to be 9 % of the urban households.

In addition, McKinsey (Barton & Co. 2013; Sha & Co. 2013, 6-7) as well as Boston Consulting Group (Kuo & Co., 2015) found out, that the urban private consumption is growing significantly fast. The urban consumption of the upper middle class is expected to grow from 20 % in 2012 to 56 % in 2022 (Barton & Co. 2013). Hence, both institutions agree, that the purchasing power of the Chinese lies on the rising upper middle class. Furthermore, this is the group most likely to buy luxury items, including premium cars.

On their behalf, Koch & Mkhitarian (2015, 46-57) examined consumer's brands choice behaviour for luxury cars in China. Along the studies, they investigated the demographics of the luxury car owners. The brands counted into luxury cars are similar to the ones in the research made by McKinsey (Sha & Co. 2013, 4.).

Table 4. Demographics of the luxury car owners (Koch & Mkhitarian 2015, 46-57)

<b>VARIABLE</b>	<b>MEASURING GROUP</b>	<b>% OF THE SURVEYED</b>
<b>GENDER</b>	Male	74 %
	Female	26 %
<b>AGE</b>	Below 30	41 %
	31-40	44 %
	41-50	15 %
<b>ANNUAL INCOME</b>	Below 200K	20 %
	200-500K	30 %
	Above 500K	50 %
<b>MARITAL STATUS</b>	Married	64 %
	Unmarried	36 %
<b>EDUCATIONAL STATUS</b>	School level	15 %
	Undergraduate	51 %
	Postgraduate	34 %
<b>OCCUPATION</b>	Government	20 %
	Private	30 %
	Business Owner	50 %

The survey shows (see table 4), that about three out of four of the premium car owners are men. The owners are relatively young, as the majority of them, 85%, are less than 40 years old. Half of the respondents earned more than 500 000 yuan per year, 30 % earned



200 000 to 500 000 yuan yearly, and one fifth had the annual income below 200 000 yuan. Roughly two thirds of the respondents are married, where as 36 % are unmarried. The owners are typically educated: over half of the respondents have undergraduate degree, and 34 % hold a postgraduate degree leaving 15 % being school educated. Out of the respondents half of them are business owners, 30 % are working on private business, and 20 % are working for the government. (Koch & Mkhitarian 2015, 46-57)

The Chinese culture is much about showing your social status, and buying a car accordingly is one way to show it (Mr Chen, 2016). On McKinsey's study (Sha & Co. 2013, 6) the results show, that 30% of the premium car owners named "reflection of the social status" as the main reason to purchase a premium car. Koch & Mkhitarian's (2015, 46-57) studies found out, that 84 % of the people they interviewed prefer to buy branded products from unbranded ones, and that 55% believe branded goods to determine the social status.

In average, the Chinese families buy a new car in every six to eight years, whereas the premium car buyers change their cars 2-3 years faster. About 25 % of the premium car owners have second car in the household. 80 % of these cars are also premium cars leaving only 20 % to have a mass-branded car as the second car. The reasons for having two cars in a family vary, but one popular one is to buy a car for a spouse. Thus, a raising trend is women buying cars. Female customers value exterior styling, comfortability, and safety, whereas men value big and powerful cars with socially recognised brand. (Sha & Co. 2013, 6-7.)

## **Technological**

The importance of the development of green technology has risen significantly, as environmental issues are now a big topic in China. McKinsey's research (Sha & Co. 2013, 12) predicts that green technology will become popular, and new energy vehicles will grow market share. McKinsey also assumes, that premium cars running with green energy will be in leading position in China's car market towards green technology.

According to Koch & Mkhitarian's (2015, 46-57) studies, car's technology credits to the sales of premium car by 21%. McKinsey (Sha & Co. 2013, 7-8) found, that especially affluent male customers value powerful cars and advanced powertrain technology, actually more than their German counterparts. These two findings combined, high-technological and ecological cars are predicted to have high demand among the Chinese customers in the future (Koch & Mkhitarian 2015, 46-57).

However, for the time being Mr Chen (2016) nor Mr Qiu (2016) do not have interest towards the new energy and battery-used cars. Mr Qiu wants to focus on cars with traditional fuel engines, as for now they are still more reliable. The Chinese infrastructure is not ready for the fully electric vehicles yet, and the sales of electric luxury car Tesla dropped after starting peak, when owners have realised, that charging the car is too difficult (Marro, Liu & Yan 2015). Mr Qiu also says, that the new engines running with fuel are focusing more and more on environmental protection by continually decreasing fuel consumption and emissions.

## Legal

The taxes consist normally from three tax types: value-added tax (VAT), consumption tax (CT), and customs duties. VAT is the same for exported and domestically produced goods. Consumption tax includes luxury products, passenger cars among the others. (Zhang 2013.) The custom duties are explained in table 5.

Table 5: The rates consisted by custom duties (Zhang 2013)

### Most-favoured-nation duty (MNF) rates

- Lower than the rates for non-MNF nations
- Apply to goods originating from China, WTO member countries, or countries that have made a separate

### Conventional duty rates

- For goods originating from certain countries that had made a trading agreement with China
- Contain preferential provisions on duty rates

### Special preferential duty rates

- For goods originating from countries that have made a special preferential duty provision with China
- Lower than MFN duty rates

### General duty rates

- General duty rates are applied for countries that have not made any agreement or treaties with China, or items with unknown origin

### Tariff rate quota (TRQ) duty rates

- Items included to TRQ schemes get lowered tariff rates when these are imported within the quota.

### Temporary duty rates

- occasional duty rates set to boost imports and domestic demand

According to Pitney Bowes' Duty Calculator an imaginary Porsche Cayenne originating from Germany that runs with petrol and has an engine 1501-3000cc: interior volume is more than 3.4 m<sup>3</sup> with shipping costs 1000 USD and 500 USD for insurance has to total custom value (CIF, cost, insurance and freight) of 339 652.80 CNY. Total customs for the car is 224827 CNY, divided to Duty 84913.20 CNY, Consumption tax 57895.36 CNY and VAT 82018.43 CNY. Total price for the car would be 564479.79 CNY, which is over 66 %

more than product, shipping and insurance alone. (Pitney Bowes 2016). The high taxes makes it attractive for the potential customers to buy their luxury items abroad, as they get them there with much cheaper price. On 2014 over Chinese tourists spent about 165 billion USD abroad. (Burkitt 2015.)

## **Environmental**

Chinas environmental issues are widely discussed and create concern around the world. Luckily Chinas relatively new leader, Xi Jinping, who took the charge in 2012, wants Chinas GDP growth rather have better quality than fast pace. (Marro & Co. 2015.) On the newest 5-year plan (appendix 4), there are several points regarding the environmental issues. Points 14 to 19 are about environmental issues. This makes it 6 out of 32, i.e. one fourth of the plan is about environmental improvement. For this market research point of view the most important point is number 16, which promises to promote new energy vehicle use, and improve the electric cars' industrialisation level. (China Daily 2015.)

This new promotion seems to be what the people want, as a press release published by a Chinese research company Renren (2014) (translated from Mandarin to English and cited in Jing Daily, 2014) states that according to their studies, nearly half of the young car buyers are interested in the environmental issues. As much as nearly 80 % of the people surveyed named health of their family and themselves as an important factor in making a buying decision. This includes besides concern of the emissions, also the air quality inside the car. In other words, the Chinese are getting more and more conscious about the environmental issues, and the demand for environmental-friendly cars is raising.

In fact, China has already made multiple changes towards meeting the emission standards given to it. On 2014, it removed 6 million old vehicles from the roads to reduce the emissions and improve the air quality. On 2015 another 5 million cars were planned to take off the roads. This is expected to reduce the sulphur dioxide emissions by 2 % per year and nitrogen oxides by 5 % a year. In addition, several Chinese cities are restricting the number of new vehicle licenses to reduce car usage. (Duggan 2014.) Furthermore, the State Council is planning to reduce China's coal consumption by 62.6 % per year by closing over 1000 mines and suspending new coal mines for the next three years. The energy loss will be replaced by renewable power. (Bloomberg News 2015.)

## 4.2 Analysing the company’s operating environment

This chapter takes deeper look into the potential customers and competitors of MID. First, the customers’ motivations and triggers for buying a car are examined. The competitor analysis on its part takes a look at foreign and domestic competitors and the competitive advantages of the company.

### Customers

China is not one big market (Jacques 2010) rather than divided into plenty of small ones. In terms of auto industry, the regional location effects on the consumer behaviour. In Wenzhou and Hangzhou, the market is more sophisticated as the premium cars landed to the coastal cities several years earlier, than to the inland cities Xi’an and Taiyuan. (Sha & Co. 2013, 10.)

Table 6. Consumer behaviour differs across regions (Sha & Co. 2013, 10)

The statement agreed / location	National average	Coastal cities: Hangzhou and Wenzhou	Inland cities: Xi’an and Taiyuan
“My car should reflect my social status”	29 %	38%	30%
“I must consider my image in other people’s mind”	23%	27%	11 %
“My car is a source of joy and must be aligned with my attitude towards life”	24%	24%	15%

As shown in the table 6, the people in coastal cities are more conscious about their reputation and willing to prove their social status than the country average. Conversely, the customers inland require more word-of-mouth recommendations and knowledge and praises of brand from sales people. (Sha & Co. 2013, 10.)

The motivations to buy a premium car vary between the customers. McKinsey’s survey (Sha & Co. 2013, 7-8) was able to find five key factors that make the consumers to buy a premium car. The most important reason was safety, followed by brand, reputation, powertrain technology, and exterior. McKinsey (Sha & Co. 2013, 6) argues, that safety named as the main reason might be due to the growth of safety consciousness in China. First generation wanted to show their social status by driving a premium car. In addition,

30 % of the Chinese premium car owners named “reflection of social status” the main reason to purchase a premium car, while 27 % said “self-indulgence” was the main reason.

Word of mouth is the most effective driver for considering to buy a premium car in China (and in Germany). TV is almost as effective trigger. Internet search and different shows and events are also highly effective. When actively evaluating the buying decision, the importance of the events organized by dealerships increases dramatically, followed by word of mouth and internet search. On the purchasing moment the salespeople’s effect is increasing as dealerships’ events and product displays play the biggest role, strictly followed by word of mouth. In other words, creating good reputation is essential for selling, as peer’s opinions effect on the decision making during the whole buying path. The people are mainly family members determining the need, and colleagues creating peer pressure. Finally, it is considered uncomfortable for the employees to drive a higher class car than their foremen. (Sha & Co. 2013, 9-10.)

## **Competitors**

The imported luxury car market is very attempting, as the profits are relatively big. Hence, the competition on the field is rather high, and as Mr Chen (2016) pointed out, is expected to grow due to the opening of parallel import. In fact, the profits have already started to shrink due to growing competition (Rauwalt & Tian 2015). However, there is still enough demand for new importers to step in the field. (Qiu 2016.)

One big competitor is Yongda, China’s luxury car reseller that joined forces with Alibaba’s Tmall, China’s huge online sales platform. Their first sales offer was providing Chevrolet Epicas with price 40 % less from the recommended retail price. These cars on massive sale are sold occasionally and in batches, but they also have general priced cars with wider selection. The cars can be bought online with settled price, and picked up from one of Yongda’s 200 outlets. The customers will also get aftersales services from the shop where the car was picked up. The concept reaches the customers nationwide and is expected to grow 10 % yearly for the next decade. (Zuo 2015.) This seems to be a considerable competitor, which needs future investigation by examining its current situation, strengths and weaknesses, and customer feedback.

Mentioning aftersales services, Mr Qiu named that and price as the main competition points on the market. He said, that as there are now more and more luxury cars available, the customers have more power to choose the dealer. One very good way to win the customers is to offer them insurance, aftersales service and maintenance. Mr Chen (2016)

said, that this is called 4S shops in China: Sales, Services, Spares and Survey. These, and MID's own sales team will be the competitive advantage on the field. (Mr Qiu 2016.)

What it comes to the domestic competitors, the Canton Fair was a good place to take a look at the competition. Unfortunately, there weren't any imported cars, and only very few Chinese luxury cars. The Chinese luxury cars aren't straight competing with MID's customers, due to that the MID's customers want specifically imported cars, made outside China. However, as McKinsey (Sha & Co. 2013,11) found out, the Chinese car brands are eager to head to the luxury market. This will take long time before actually achieving it, but next we are having a short sight of the local automakers selection that may become a threat within next 10 years.

Table 7. Potential future competitors of Chinese cars

	<b>Brand</b>	<b>Model</b>
<i>Guangzhou Automobile Group Co.Ltd</i>	Trumpchi	GA3
	Trumpchi	GS5
<i>Jianxi Jiangling Motors Import &amp; Export Co. Ltd</i>	Landwind	X8
<i>Guangdong Foday Automobile Co. Ltd</i>	Explorer	six
	Landfort	
<i>Brilliance China Automotive Holdings Ltd.</i>	Jin Bei	SUV S30
	Jin Bei	Double Cabin Pickup SY1028

The Chinese cars that are potential future competitors are shown in table 7. Guangzhou Automobile Group has two possible models: a passenger car Trumpchi GA3 that has a new facelift model, and an SUV, Trumpchi GS5, that declares to have the safety of European cars (Canton Fair 2016a). Jianxi Jiangling Motors' Landwind X8 is made to target customers who big size, power, and the looks of Land Rover, as they look very identical. The advertisement claims Landwind X8 to have the most advanced diesel engine of the world, which must make the tech savvy consumers interested. (Canton Fair 2016b.)

Guangdong Foday Automobile has a pick-up series Lion F16/F22, and two SUVs Landfort and Explorer six, big and relatively expensive car that resembles Mitsubishi Pajero (Guangdong Foday Automobile 2015 & China Auto Web 2010).

Probably the most interesting finding must be Brilliance Auto that, on 2003 made a joint venture with German auto brand BMW, named BMW Brilliance Automotive Ltd. Their own selection has a brand called Jin Bei which makes SUVs and pick-ups that might attract the same target market. But would Brilliance Auto start to compete on the same market with

its JV with BMW is another question that we won't know the answer for. (Brilliance Auto 2015, Brilliance Auto 2016.)

As stated before, the Chinese government allowed the parallel importing to China. However, firms that want to start the business, need to apply for a licence. According to the current knowledge of Mr Chen, approximately 70 companies have this licence now. MID is in the applying process of getting the licence. In case something goes wrong and the Chinese government denies the licence, there is an option to use an agent, who holds a licence. However, this is only the plan B, and MID is expected to be granted for the licence. The original car makers are another threat. Even if there is enough demand for everyone, the parallel importing has cut its share from the auto maker's shares. Naturally, they are not happy about the development, and are most likely trying to find ways to get the lost shares back from parallel importers. (Mr Chen 2016.)

### **4.3 Chinese business culture**

In the following chapter, we will have a short overview of the key cultural differences a Western business person needs to know before starting to do business with the Chinese. To find out the most important differences, Australian Business Solution Group's (2016) practical list of tips for doing business in China is followed. The chapter is completed with points of views from other reliable sources and the interviews conducted.

First of all, the Chinese culture is very different from the Western one, and so are the ways of doing business. The culture is very complex, and even if the business environment seems to be modernised, the traditional norms play a huge role. (Mr Chen 2016.) In addition, as in the West, say in Europe, there is not only one "European market", rather than plenty of different countries and markets within the large geographical area. The same thing is in China, it is not only a market rather than a mosaic of markets creating one big picture. (Jacques 2010.) Hence, it is advisable for a Westerner to associate with a Chinese counterpart who is familiar with the Chinese cultural norms. Sometimes seemingly small or innocent remark may destruct (or seal) a potential business deal. (Mr Chen 2016.)

Open, respectful, and humble mindset is always the key for succeeding in the international business, which is true also when dealing with the Chinese. Probably the most common mistake is that a Western person just arrives to China, and arrogantly thinks that he is now here to show the little Chinese how business is ran. The roots of the culture are so

strong, that in order to succeed in the Chinese market, the business people need to understand and adapt the Chinese business culture. (Jacques 2010.)

In China, good and close relationships are the key for doing business. These relationships are close, almost like friendships. In contrast to the West, where business and private life are kept separately, the Chinese business people want to get to know with whom they are doing business with. Hence, in China, business related personal dinners and other activities are often held after the business hours, taking the business person's free time. (Australian Business 2016.) Mrs Lee (2016) told, that when she travels to Europe for a business trip, after the working hours she is on her own, whereas in China the host of the guests has arranged all kind of activities for the visitors on their free time. If you take a look at it, all the business occasions are about creating and maintaining the relationships.

These relationships are called guanxi (关系). In guanxi, trust plays the most important role. The decision of trusting is made based on your experience and instinct (Mr Qiu 2016), and trust can be even gained immediately. In most of the cases, to gain the trust and create good and strong guanxi, you need to spend months or even years like in friendships (Australian Business 2016). Some people, especially if they seem to have hidden agendas or are otherwise untrustworthy, may never gain the trust. Hence, it is important to be honest and genuine with the Chinese (Mr Qiu 2016). However, there is a difference between guanxi and trust. They don't always come hand in hand, as guanxi is also based on the common interest. If you have something very appealing to offer, you might get in, but as soon as you lose that advantage, for example a position at work, you will be left out. Trust is more difficult to build and even easier to lose, but once you have it, the Chinese will stay very loyal to you no matter in which situation your career is. (Mrs Lee 2016.)

Creating strong guanxi may take a long time and lots of effort, but it is worth it (Australian Business 2016). If rushing it, the whole thing may get ruined. Guanxi is essential for doing business in China. Without guanxi it is difficult to close any deals, let alone good ones, and to keep the business running. When finally the access to guanxi is gained, good deals start to come up. When making a deal, both parts can trust on it without a question. (Warren-Gash 2012.) In the Western world, guanxi can be understood as a close network (Mr Chen 2016).

But how to build s guanxi and gain trust? What are the "other activities" to participate? Being present is the key. To create such a network requires to participate on dinners and



events with associates. Getting an invitation is a sign of honour, and these should be accepted with gratitude. A Westerner shouldn't just stay and wait for an invitation rather than actively asking people for a coffee or for example offer to teach their kids English (Mrs Lee 2016). Learning Chinese language helps considerably with getting to know the people and maintaining the relationships (Mr Chen 2016).

Informal events are important part of the business making with Chinese, because this is a way to create and deepen your guanxi. It is also very important to know that in China, the best deals are often made in casual surroundings. (Australian Business 2016.) Many business deals are decided not at the negotiation table but during lunches, dinners, and other social settings. (Mr Chen 2016).

Meetings take lots of time and may on Western measures seem unproductive, but rushing things up may cause mistrust and delay or destroy the process. Being punctual on the meetings is important and shows respect towards others. The meetings are strict and hierarchical. Be aware of the hierarchy: always shake hands with the oldest person first, then the second and so on. Also keep in mind, that the oldest person, also in your side, is expected to be the spokesperson. (Australian Business 2016.)

Chinese people are at the same time very direct and very reticent. The reticence is explained to become from the Chinese culture of rather being humble than arrogant. Also the ruling in China focuses on community, rather than an individual. On the other hand, direct questions such as how much you earn or what your parents do for living can be expected from the Chinese. However, this is actually different side of the same issue, being part of a community: asking questions that are very personal for the Westerners is the Chinese way of putting individuals to their frame, to their community, in order to understand them better in their own way (Mr Chen 2016). (Australian Business 2016.)

Comprehending the concept of "face" helps to understand the Chinese way of communicating and to avoid social mistakes. Face is understood as the person's dignity. The basic idea is to try to save and increase own and the other's faces. Compliments from others and achievements will add face, whereas being rude or loosing temper in public causes loss of the face. Unity is the most important value of the Chinese (Jacques 2010), and the increase or decrease of the face affects also the person's community. (Etiquette in China 2008.)

## **Practical everyday tips**

The attitude towards women is equal to men: businesswomen are treated same as businessmen, and women are respected with no difference in the age hierarchy. (Australian Business 2016.) Age is respected in the Chinese business culture, and the knowledge coming along aging is valued (Mrs Lee 2016).

What it comes to business attire, formal clothing is much appreciated. Men should wear a plain brown or dark blue suit and a traditional tie. Women are recommended to wear a suit and a blouse or a business dress and shoes with no or minimal heel. Revealing clothes such as shorts for men or open necklaces for women are considered as bad taste. (Etiquette in China 2008.) Clean, fresh appearance is noticed positively (Mrs Lee 2016).

Business cards are exchanged actively in China. The card should look high-classed and include the job title. Chinese translations are appreciated. When giving or receiving a business cards, the card should be handed out or received with both hands. When giving it, make sure that the text is towards the recipient, and when receiving one, take time to read the card before putting it down. This shows respect towards the Chinese. (Etiquette in China 2008.) Also WeChat, a widely used Chinese smartphone application for communication, is very convenient and effective channel to find keep in touch with contacts as well as finding new ones from related groups (Jane 2016).

Smalltalk is appreciated before business meetings in order to get to know each other. Good topics to cover are telling about positive experiences in China. Weather is also an interesting topic, and as stated before, the Chinese want to get to know with whom they are working with, and hence including hobbies and other interests are good topics. Negative topics and politics should be avoided. (Etiquette in China 2008.)

## **5 Discussion on research findings**

This chapter will gather together and discuss the key findings of the research, evaluate the reliability and validity of the data, reflect the learning along the process, and give some propositions for future research.

### **5.1 SWOT analysis of the key findings**

Key points are typically collected into SWOT analysis, which is therefore a very useful tool for analysing the situation described in the research. The research question of the thesis was: What are the main characteristics of imported luxury car market in China? The characteristics are described and discussed in this market research. In the following, the key strengths, weaknesses, opportunities, and threats points found along the research are gathered together.

#### **Strengths**

The biggest strength of the case company MID is that it already has successful importing business. It also is present in the target country, China and has all the office facilities ready to use. Steady income from the lubricant business keeps the company up and running also during the rough starting period, and the company can provide after sales services because it has a workshop chain in Shenzhen. The experience and knowhow of the personnel in import business is very good in terms of being familiar with the principles of what needs to be taken under consideration when importing and how to communicate with the customers and the suppliers. In addition, the personnel of MID work well together and has good team spirit.

In addition, the team has good language skills, which is important in international business. There are a few translators, who are able translate documents and face-to-face meetings inside and outside the company from English to Chinese and vice versa. Besides English and Chinese, other, mainly European languages, are spoken by the employees, making it possible to communicate with overseas suppliers with their own language. Furthermore, the personnel mainly consist of Chinese people, which gives the company plenty of natural understanding of the Chinese culture and their business culture.

Due to the existing operations and the long establishment on business field, the company has wide and proficiently operating network. Especially the CEO's guanxi is crucial for the new business, as the first customers will be his friends and acquaintances i.e. people from

Mr Qiu's guanxi. These customers will also provide the company more insight and increase the understanding of the target market customers, as the employees of MID will get to deal with them in person. In addition, the suppliers will be current business partners with MID.

The author can be seen as a strength for the company, too. She is dedicated to her job, eager to learn everything it takes to succeed in the business, and has education in international business. She will continue to learn Chinese, which is important in the market, and is fluent in English. As an expat, she is aware of the cultural differences, and is trying to find explanations for them in order to be able to act smoothly among the Chinese. The author is also an out-going person, who seems to be easy to approach and trust, and she has no problem to deal with people with different backgrounds.

### **Weaknesses**

The company does not have any experience of the luxury car market. This research is a pre-study providing some basic market information to start with, but a lot of detailed research about the required car brands and models need to be done. Even if the orders come from clients, there are plenty of details to be clarified before being able to order the right cars.

Due to the starting phase, the clientele is not stable, and the procedures are yet to be created. This creating process is expected to take a long time, and it means that some potential deals may need to be turned down due to the fact that the company is not ready yet to provide the requested service. In addition, at the moment MID has the office as well as the workshops only in Shenzhen. The market in the city of 15 million people won't become too small soon, but if everything goes very well, at some point MID may need to find ways to expand its operations to other cities, or the growth of the business will be limited.

The author herself has very little previous experience on doing business, and the car industry and Chinese customers are totally new for her. While being an expat is a strength on one hand, it is a weakness on the other: as an expat, the author has to create her network from scratch, and actively learn everything about the new culture from small talk topics to creating guanxi. In addition, the author does not speak good Chinese, which means that nearly always someone else needs to help her with the translations.

## **Opportunities**

The growth of the Chinese luxury car market provides interesting and appealing opportunities for MID. Even if the pace has slowed down recently, the Chinese market is still growing fast compared to the Western market. In fact, the Chinese people are very interested in imported goods, and an imported luxury car is found out to be a good symbol to show social class status. Thus the demand for imported luxury cars is expected to stay high.

Alongside, the Chinese are getting continuously richer, and the number of people belonging to the upper middle class is constantly raising, which creates bigger and bigger market for the luxury items, including cars. The families are more often buying second cars for spouses. The raising trend for women buying cars is noted, and MID has an opportunity to start focusing the marketing for female customers.

The Chinese government's decision to open up the parallel import creates a huge opportunity. This happened relatively recently, last year, and due to that all the competitors on the field are more or less on the same line – beginners in this particular business. If MID gets the business started soon, it has a good chance to gain market share relatively fast.

The company has already some interested clients. As word of mouth found to be efficient contributor for making a buying decision, as soon as the word spreads around, more clients can be expected to show up. The company also has strong guanxi, and is widening its network constantly for example in many networking opportunities arranged in Shenzhen. These may open new possibilities in leveraging business.

The development of green technology and its predicted rising interest among the customers of the target market will open new doors within the near future. Also the Chinese government is supporting new energy vehicles which might make the electric vehicles more appealing for the customers. Even if the company doesn't start with the green technology vehicles, this development and the people's attitudes towards it need to be kept an eye on.

## **Threats**

The Chinese legislation and ruling seem complicated and unpredictable especially for foreigners, but also for the Chinese people. Starting from the legal matters and bureaucracy regarding importing or exporting products, ending to dealing with alien's visa issues, there

are lots of paperwork to be done. Also the regulations are constantly changing. This will cause some uncertainties in terms of not being granted for the car importing licence, or for example a working visa for the foreign employees of the company, including the author.

Fortunately, the company has good practices in handling the bureaucracy, and the paperwork for the cars will be done by professionals in the freight companies. In addition, the general way is that China wants to open up its economy, and contribute international business by reducing bureaucracy and setting up different incentives.

Changes in the legislation might effect on the volume of luxury cars sold is the restriction of emissions. The Chinese are interested in buying big cars with powerful engines, which despite the development of the engines, almost automatically means high emissions. Also the limitations of new cars' registration may become a problem, if the potential customers won't be able to register their vehicles.

The devaluation of yuan creates concern. Nobody knows what is going to happen with the currency of China, but if its devaluation continues, imported goods may become too expensive to purchase. The demand would drop, as the customers will look more into domestic products due to more affordable prices. On the bright side, this might boost the aftermarket and MID's repair workshops, as the imported luxury car owners may want to take better care of their precious cars.

The competition is expected to become tougher. There are two types of straight competitors: over 70 other parallel dealers like MID, and the car manufacturers themselves. The parallel importing has been legal about a year, which gives a year lead start for the competitors of MID. 70 dealers does not sound too big in the massive market of China, but the number is expected to grow. The car manufacturers on their side do not want the parallel importers to cut their share, and they are likely to take counter measures to limit the parallel imports. For the time being, the domestic cars in China are not counted as threat.

## **5.2 Reliability and validity of data**

The data collected for the market research is reliable and valid. The research methods and data collection process is described and explained in chapter 3.1. The research follows ethical principles. No unethical or questionable methods were used. No information was plagiarised, fabricated nor misappropriated, and no essential data was left out. The whole research is provided with accurate in-text references, and at the end of the re-

search a full list of the references is found. The information from the primary nor secondary data sources was not fictitious not modified according to the needs, and all the plans, ideas and conclusions were invented by the author.

What it comes to the primary data, the collected data is presented with pure honesty and independence to any biases. The interviews were planned beforehand, and the answers were saved carefully in detail. Possible misunderstandings due to language barriers were prevented by using a translator, and if there still seemed to be a possibility for misunderstanding, the questions as well as the answers were explained thoroughly.

The observations of the competitors at the exhibition were supported by collecting the exhibitors' promotional material to keep the selection in mind. Some background research was also done before and after the exhibition in internet. The observation of MID was performed in long period of time (starting from a long weekend in September 2015, continuing in February 2016 for nearly 2 months), which makes it difficult for the employees to play a role for the whole time. The author also had to continuously ask about the company practices from her managers and colleagues. Due to that she is also a part of the team and she needs to learn how the company is working, there is no reason to provide her incorrect information. No observations were falsified rather than presented in the way the author, as unbiased as possible, found the results.

### **5.3 Reflection of learning**

Writing this thesis has been a long and beneficial learning process for me. Making this research took nearly eight months from the beginning to finish. The learning outcome is important for the future, weather I choose to go for post-graduate degree, continue in working life, or both. The first learning point I would like to point out is the importance of this thesis for the work life. Writing this thesis has showed me, how many aspects need to be taken under consideration in order to succeed in the business world. With the help of this research process I have found out how to search and find important information, and how having knowledge of the field helps in the everyday life at work. This research was made as a pre-study of the market I am about to work at. It is very clear, that with the outcome of the research, the starting of my career in international business is significantly better, and I have stronger self-esteem to step into my new position.

The second learning point I want mention is the importance of planning. In Finnish we have an old saying that goes "well planned is half done". This has always been my weakness, and to be perfectly honest, planning of this thesis process could have been done

with more time and attention. I have understood that planning carefully and creating the structure for my actions will result better organised and less stressful projects.

As the third learning point I would raise information collection. I had multiple difficulties while writing this thesis, as even if my university had the biggest library of Shenzhen, it had only a few books regarding my topic. Furthermore, the internet caused lots of trouble. China's great firewall blocks Google's services, which made it difficult to access very valuable sources of Google Scholar and Google Books, and many newspapers are censored. Also connecting to the internet itself was not always self-evident. However, when I overcame these difficulties and got access to all the information, other difficulties started: choosing the reliable information from unreliable ones. My skills in reading academic books and journals, and separating the valid and relevant information from all the selection has grown significantly.

As stated before, planning beforehand is one of my weaknesses, and it could have been done better in this thesis. At first, I planned to graduate a few months earlier, but not only due to the loose planning but also more importantly the workload of this thesis as well as the Mandarin studies I had during the first five months of the writing process, surprised me. Around Christmas I was so tired, that I had to give myself a break from the research process and focus on finishing the Mandarin studies. After that, conducting the research has been much easier and even enjoyable from time to time, and from the report I can see that the quality of writing got better. Hence, I need to keep in mind in the future that also I have my limits, and it is not beneficial for anybody to try to do too much at the same time. After the break, I was engaged with the thesis daily, and made good progress.

#### **5.4 Conclusion of research findings**

The purpose of the thesis was to help the author and MID, the company she was recruited to start luxury car importing business, by concluding a pre-study of the luxury car market in China. Writing the market research took altogether nearly eight months, ending to April 2016. During that time, numerous of articles, journals, and books were read, and several interviews were conducted. This was mandatory for gaining understanding of the target market.

This pre-study research gave the author important knowledge of the current situation of the Chinese luxury car market, that is very helpful for her at work where she is about to start new business for MID. In fact, some knowledge she has already started to apply on her daily life, especially the tips of the Chinese business culture. Living and working in



China becomes significantly easier, when you understand the cultural environment. Without doubt the rest of the new information she got when making the thesis will become useful on the following months, when she is starting not only the business, but also her whole career.

In terms of the company, the other staff members working on the car import, will be informed about the research findings, and the knowledge will be spread in the office. The ones who are motivated and have strong enough English skills, are encouraged to read the report. This way, all the personnel will have the same basic information of the field, and they will be able to build more knowledge on that.

## **5.5 Future research**

This thesis is only a pre-study of the target market. There are many issues to take a deeper look at, and the major aspects are discussed next.

As stated previously, this is a pre-study of the market. This could be logically extended to a deeper market research. The hypothesis question could be *How to perform successfully in the luxury car market in China*. In the light of this research can be stated that, it is possible to start luxury car importing business in China. However, due to the demarcation which left out the actual counting of prices and profits, it is impossible to say for sure, whether the business will be beneficial or not. Finding out this would require calculating all the expenses starting from remuneration and marketing costs, ending to shipping costs and taxes.

Regarding the business development, a business model could be formed for MID's luxury car importing business. This would definitely be beneficial for the company, and in fact is most likely done within a few months, along with forming the procedures for the business. There are several good tools, such as Business Model Canvas, that can be used to ensure, that all major aspects are taken under consideration.

The Chinese business culture is complex and versatile. It is said, that nobody, who is not born in the Chinese culture, can fully understand all of its sides. Hence, examining the Chinese business culture deeper would be not only interesting but also very beneficial for numerous of Westerners and other non-Chinese, who are interested in doing business with the Chinese.

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## Appendices

### Appendix 1: Interview questions for Mr. Qiu 17 March 2016

<i>Topic</i>	<i>Question</i>
<i>The market environment</i>	How does the future of imported car market look like? What opportunities and threats are there?
	How does the economic situation effect, or does it?
	Which technological development you find the most interesting in your field?
	How is the company planning to handle freight and the complex bureaucracy?
<i>Customer</i>	Who is the target customer?
	Will the company sell the cars to a distributor, or directly to end users?
	How to find the customers?
	What is important for the customer when they are making the buying decision?
<i>Competitors</i>	How competed is the market?
	How big threat you find the competitors?
	Which strengths does MID have compared to the competitors?
<i>Chinese business culture</i>	How do you build strong <i>guangxi</i> and maintain the relationships?

## Appendix 2: Interview questions for Mr. Chen 4 April 2016

<i>Topic</i>	<i>Question</i>
<i>The market environment</i>	How does the future of imported car market look like? What opportunities and threats are there?
	How does the economic situation effect, or does it?
	Which technological development you find the most interesting in your field?
	How is the company planning to handle freight and the complex bureaucracy?
<i>Customer</i>	Who is the target customer?
	Will the company sell the cars to a distributor, or directly to end users?
	How to find the customers?
	What is important for the customer when they are making the buying decision?
<i>Competitors</i>	How competed is the market?
	How big threat you find the competitors?
	Which strengths does MID have compared to the competitors?
<i>Chinese business culture</i>	Which characteristics do you find interesting, different and/or difficult in the Chinese business culture? Can you tell some self-learned tips about how to come into agreement with the Chinese or how to overcome some difficulties coming from the cultural differences?
	How do you build strong relationships and maintain them?

### Appendix 3. Interview questions for Mrs. Lee 11 March 2016

<i>Topic</i>	<i>Question</i>
<i>Customer</i>	What is your typical customer?
	What does s/he value?
	In which social class does s/he belong to?
	What affects to his/her buying decision?
	How to attract customers?
<i>Chinese business culture</i>	How to build a network in China?
	What is quanxi?
	How to build trust with the Chinese?

## Appendix 4: China's 13<sup>th</sup> 5-year plan

### Highlights of proposals in the 13th Five-Year Plan (2016-20)



1 China has seen great progress in the past five years, becoming the world's second-largest economy and with per capita GDP increasing to \$7,800. Agricultural production has risen continually and the proportion of permanent residents in urban areas reached 55 percent.



2 Various systems to be improved in the next five years. National governance ability to be further enhanced through modernization, and basic systems to be set up in each industry. Nation to be more democratic and rule of law and judicial credibility to be implemented and boosted. Human rights and property rights to be protected effectively.



3 Competition to be further improved in national monopoly sectors, including electricity, telecommunications, transportation, petroleum, natural gas and public services.



4 Cybereconomy to be further expanded and Internet Plus plan implemented. Network speed to be increased and fees lowered, along with support for innovation in cyberspace of related industries, business methods, supply chains and logistics chains.



5 Increased autonomy for universities and research institutes. Project leaders to have more freedom to make strategic decisions, including on financial and personnel administration.



6 New-style professional farmers to be nurtured. Reform of the rural land system to deepen and the orderly transition of land operational rights promoted.



7 Most-stringent policies to be adhered to for protection of cultivated land to boost capacity and ensure grain security.



8 Fiscal reform to be strengthened. Responsibilities of the central government and other authorities to be moderately strengthened to approve allocation of their income.



9 Financial reform to be accelerated. The issuance and trading system for stocks and bonds to be improved.



10 A new urbanization method will be pushed, focusing on improving livelihoods and deepening reform of the household registration system.



11 Legal land use rights of farmers to be ensured, including those who work in cities. Ren-

ovation of shantytowns in cities to be speeded up.



12 Online cultural building to be enhanced, positive culture in cyberspace encouraged and the online environment cleaned up. Mixed development of traditional media and new media to be promoted and digitalization accelerated.



13 Reform of the military to be speeded up, with the goal of establishing a modern military system with Chinese characteristics by 2020.



14 Clean production to be promoted and green and low-carbon industry systems set up. Green finance to be promoted and a green development fund established.



15 Audit system proposed for officials who leave their current posts, taking environmental protection into consideration. Officials' efforts to protect natural resources to form part of their performance appraisal.



16 Use of new energy vehicles to be promoted and the industrialization level of electric cars improved.



17 The strictest management system for water resources to be implemented and a national monitoring system established for groundwater.



18 A nationwide real-time online environmental monitoring system to be set up and an emission permit system will cover all companies with stationary pollution sources.



19 Forest protection plan to be improved, with commercial deforestation banned and forested areas increased. The amount of land returned to farmland and forest areas to be expanded and pasture protection improved.



20 Financial markets to be opened further. Renminbi's inclusion in the IMF's special drawing rights basket to be promoted to achieve convertible capital account.



21 International coordination of macro-economic policy to be strengthened. An active role to be played in rule-making in new fields such as the Internet, deep-sea and polar areas, and outer space.



22 Increased investment from central and provincial governments to integrate various channels for poverty alleviation.

More financial channels to be explored to combat poverty.



23 Innovative teaching abilities to be raised to ensure some universities meet world standards. Modern vocational school system to be set up and universities encouraged to transform into vocational schools.



24 Cooperation encouraged between schools and enterprises to train skilled workers. Skilled workers' salaries to be increased.



25 Social insurance system to be improved to cover all residents living in China legally. Insurance rates to be lowered to a reasonable level.



26 Reasonable adjustments to the pension fund. Investment channels for this fund to be increased and investment returns raised.



27 Policies to be issued on raising the retirement age progressively. Progress to be made on commercial old-age care insurance and occupational or corporate pension plans.



28 Full implementation of the supplementary health insurance program proposed for jobless rural and urban residents suffering from major diseases. Retirees who live at places other than their workplaces to have hospitalization fees reimbursed under basic health insurance.



29 Advancing comprehensive reform of public hospitals proposed, ending the system used to seek profits. A personnel and remuneration system to be set up that is appropriate for the health industry. This calls for optimized distribution of health resources, an improved basic health service, and for health resources to be promoted at rural and grassroots level.



30 Full implementation of fertility policy advocated, allowing all couples to have two children. Improvements to reproductive health services, women's and children's healthcare and nursing services also proposed.



31 Leadership's knowledge structure to become more professional. Reform of human resources to be further deepened.



32 National population basic information database proposed, along with improvements to the social credit system. Social mental health service system to be enhanced and an emergency response mechanism set up.

(China Daily 2015.)