
E-commerce Opportunities in China

Case: Mad Professor Amplification Oy




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ABSTRACT

This thesis is commissioned by the Finnish company Mad Professor Amplification Oy, which is based in Hämeenlinna, Finland. The main goal of the thesis is to analyse opportunities in doing business in China and to evaluate possibilities of establishing an online presence in the Electronic Commerce market for the commissioning company.

The objectives of this bachelor thesis are: (1) to observe theory and understand the concept of electronic commerce, its benefits and limitations as well as cultural dimensions in ways of communication and doing business between China and Finland. Information was collected from books, electronic books, professional blogs and articles. (2) To conduct a qualitative and quantitative research by using primary and secondary data with the purpose of finding out and describing the current marketing environment and supporting electronic commerce trading platforms in China through desk research, using professional literature like electronic books and articles, and field research by interviewing a popular Chinese rock guitarist and launching a survey among potential customers. (3) To analyse the data gathered from the research and finding out problems, challenges as well as opportunities that Mad Professor is going to face in case of entering Chinese market and establishing an online presence in one of the trading platforms. (4) To propose recommendations for future actions towards entering the Chinese market in the sphere of electronic commerce.

The results showed that now and during the next five years it is the best time to enter the Chinese market, despite the current down swing in the Chinese economy. On the other hand, the structural changes that enabled the moderation of the Chinese economy will trigger the rise and shift of social classes, which in turn will affect positively to the consumption growth rates. This is worth the opportunities it can bring to Mad Professor as well as experiences, which undoubtedly come together with challenges.

Keywords China, Electronic Commerce, Retail, Culture
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1 INTRODUCTION

This thesis was made with the aim of conducting a research and creating a complete useful and informative profile of China’s Electronic Commerce (hereafter referred to as E-commerce) market and its opportunities for the Finnish company Mad Professor Amplification Oy.

1.1 Background of the research

At the moment, China as a country on the global arena plays a crucial role in the world’s economy.

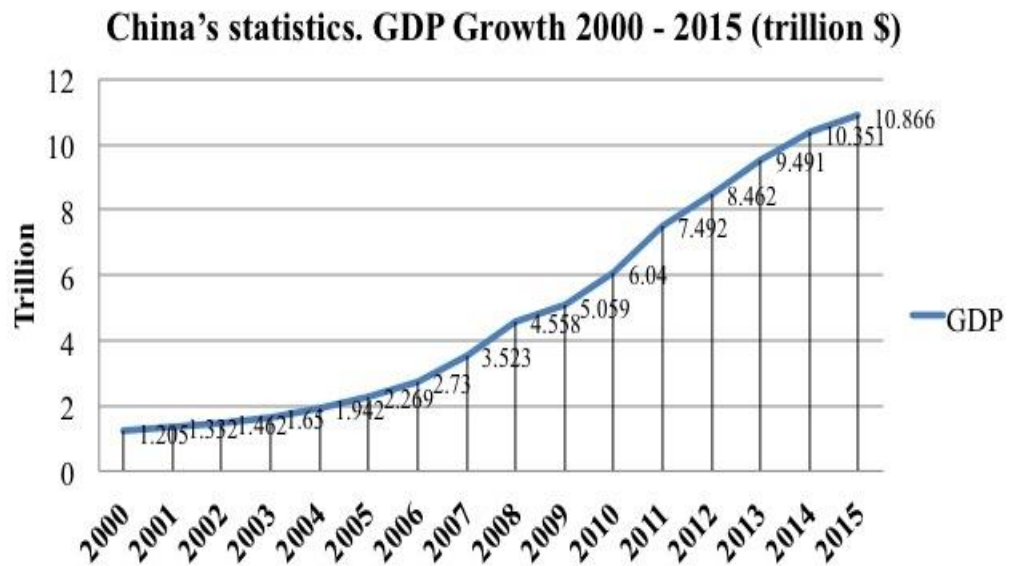


Figure 1 China’s GDP Growth 2000 – 2015. (The World Bank 2015)

Taking into consideration statistics from Figure 1, where the trends of GDP of China are showed, the tremendous growth since 2000 until 2015 is clearly visible. It shows China from the position of having a great and complicated, though growing economy, even though it has slowed down during recent years. Despite this fact, China still remains an attractive market to start a business in. China is an ambitious country, trying to become the largest global economy by 2020.

Undoubtedly, the growth of the Chinese economy has slowed down, but definitely not in the sector of Electronic Commerce. Sales of products and services on the Internet in recent years is different, it has shown extremely high growth. Thus, in 2014 the volume of e-Commerce market in China reached 1.8 trillion euros, forecast for 2017 reaches 3 trillion euros. About three-quarters of sales through the Internet at the same time committed in the Business-to-Business sector under the aegis of major online platforms. (China Internet Watch 2016)

There are few important facts, which prove that China is worth the try of entering its market. First of all, is the phenomena of the amount of people

preferring to do purchasing online: 81% of the population of China in tier-1 cities are conducting shopping online, 72% in tier-2 cities and 53% in tier-3 cities. (China Internet Watch 2016)

After being prevented from the usage of popular western social media and online trading platforms, China has created its own. The number of active online users grew up to 650 million people, which is nearly twice as the population of the U.S. (Make a Website Hub 2016)

In China, around 70% of Internet users are in the age group of 35, where 30% of people are aged between 26 and 30 years old. Average American social media user spends from five to six hours less online than a Chinese user. Another distinctive feature of Chinese Internet user is the amount of time it spends per day on social network platforms, which is accounted for 90 minutes or 1.5 hours per day. As to its buying behaviour habits, average Chinese online consumer base its decisions on reviews or comments left on social media networks. (Make a Website Hub 2016)



Figure 2 China's Disposable Income Per Capita in yuan. (Trading Economics 2016)

Figure 2, reported by the National Bureau of Statistics of China, presents statistics regarding disposable personal income in china, which has been increasing during the last 10 years and reached the number of 31195 CNY in 2015. (Trading Economics 2016)

With the rise of incomes during the past decades, Chinese people became more active than ever in purchasing, which has greatly affected their buying behaviour and marketing strategies aimed on Chinese in general. Not leaving without mentioning the improvement of internet technologies, availability for everyone and well developed platforms in China, which allow Chinese consumers to easily buy directly from suppliers and retailers at the click of a mouse or swipe of a screen. (Trading Economics 2016)

1.2 Research question and objectives

The research question of the thesis is: “With the focus on which e-commerce channels should Mad Professor distribute its products in China?”

The following objectives have been determined:

1. To become familiar with the general concept of e-commerce;
2. To evaluate the cultural differences between China and Finland;
3. To get familiar with the Chinese business etiquette;
4. To explore the Chinese way of marketing and electronic commerce channels;
5. To conduct a market research in potential marketing and distribution channels using PESTLE analysis;
6. To conduct a research among potential customers and partners;
7. To analyse the Chinese market as a target market;
8. To recommend the next steps in the implementation process.

This thesis consists of four main parts: theoretical framework, current situation, analysis and conclusion.

First of all, author has analysed the theory of electronic commerce, macro-environment in China and cultural aspects of doing business with Chinese people. Secondly, author has described the current situation on the market with the focus on research among existing e-commerce retail platforms and potential partners in defined areas. Then, author has analysed problems, challenges and opportunities, connected with entering Chinese market and cooperating with Chinese distributors based on the research results, using Five Porters Forces and a SWOT analysis. Lastly, the author has given the recommendations towards entering the Chinese market.

1.3 Research methods

The author has conducted both qualitative and quantitative research for this thesis by a combination of secondary and primary data through desk and field research by using Face-to-face interviews, online interview and online questionnaire of potential customers.

1.4 Commissioning company

Mad Professor Amplification Oy was founded in 2002 by Harri Koski in Turenki, Finland. Company’s headquarters are located in Hämeenlinna, Finland. The company is specializing in the production and sales of guitar hand wired and factory pedals, amplifiers, cabinets and red cables of premium quality. Mad Professor is a creditworthy company. It received the highest possible AAA rating in 2013 and 2014.

It is a small enterprise, employing three staff members, including Harri Koski. From the very beginning the company went international, due to

the small size of the Finnish market, where it played a leading role and appeared to have a market monopoly in that field, which has been staying unchanged since then. The business started with the successful selling and production of hand manufactured products, which lead to the growth of the company and in turn, made the company outsource the production to a factory in Taiwan, China. At the moment, there are two production sites, one in Finland and one in Taiwan.

The company works and cooperates with distributors, sales representatives and dealers all around the world. It has dealers in Europe, North and South America, Australia, Asia and in the Middle East. The distributors and sales representatives are located in Europe, Asia and the USA. Besides having distributors, representatives and dealers, the company sells its products worldwide via its own web shop.

Particularly talking about doing business with China, the company already has one dealer and one distributor in China, but recently it was not efficient and there were no purchases made during the last year. Therefore, the company is interested in an updated country profile and potential partners in China.

2 E-COMMERCE AND CULTURAL DIFFERENCES

The beginning of the XXI century was marked by the formation of post-industrial society and the information economy. Creation of computer networks has led to global changes in the life of modern society. Internet covers all the areas of our lives; it has become the main channel of social communications.

International trade is the main form of international economic relations, and it mediates many other forms of relationships. In particular, the development of international specialization and cooperation, international scientific and technical cooperation, and is reflected in the expansion of the exchange of goods and services between countries. Despite the fact that the history of e-commerce has only about two decades of intensive and effective development (in comparison with the history of the development of other sectors of the economy it seems a small period of time), the use in trade of modern information and communication technologies and electronic means becomes now the main factor, providing a significant reduction in the cost of trading, advertising, workflow simplification, increased mobility and the security of electronic transactions, optimization of logistic schemes of delivery of goods and services.

2.1 E-commerce

Owners of online stores are not hearsay familiar with the concept of "e-commerce", they know the answer to the question «e-commerce - what it is." But if you look in fact, it pops up a lot of nuances and the term gets a broader meaning.

Before the author will start explaining the concept of E-commerce, it is important to take a look on few major statistics about e-commerce trends worldwide.

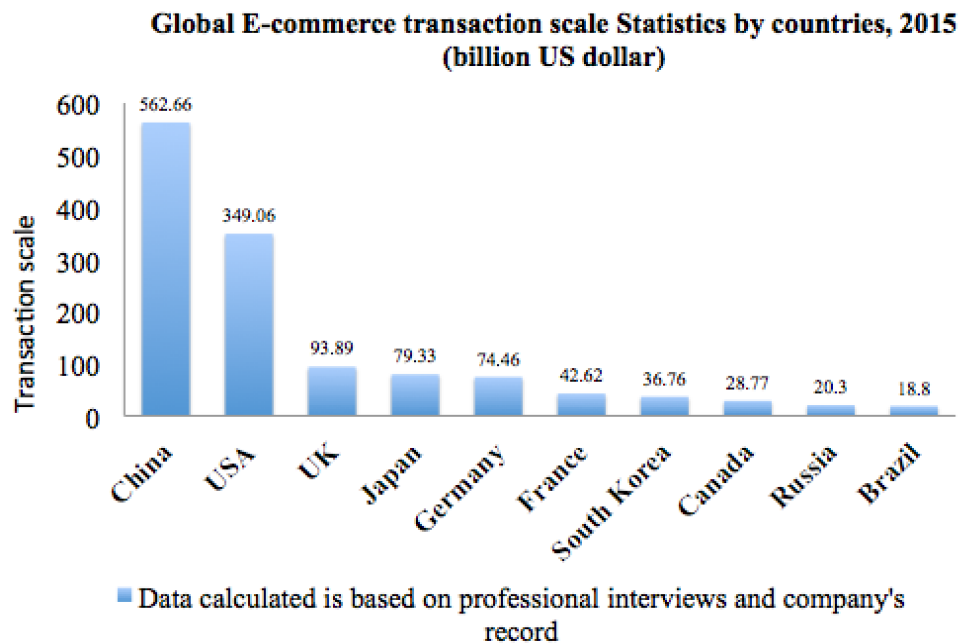


Figure 3 2015 top E-commerce countries statistics (billion US dollar). (Remarkety 2015)

According to the figure below, the biggest E-commerce market is the Chinese one with \$562.66B in sales projected for 2015. It is important to take into account the population factor, which is accumulated to 1,376,048,943 people in 2015 (Worldometers, 2015). Shopping is the fastest growing internet activity in this country. (Remarkety, 2015)

These facts make China an attractive country for e-commerce activity.

2.1.1 Definition of E-commerce

The general concept is as follows: the e-commerce refers to a certain way of doing business, involving the inclusion of a number of all financial and commercial transactions carried out by means of computer networks and business processes related to the conduct of such transactions. (Business News Daily, 2015)

In other words, it is any commercial transaction, which is made by electronic means of communication. E-commerce system is a kind of technology, which gives participants the system and the following options on the Internet:

- For companies, manufacturers and suppliers of goods / services - to offer their products to potential buyers, as well as the reception and processing of customer orders using network;

- For customers (buyers) - to find and select goods and services they are interested in the price and order on standard Internet resources.

E-commerce includes:

- Electronic Data Interchange, hereafter to be referred as EDI, is the computer-to-computer exchange of business documents in a standard electronic format between business partners. (Farlex Financial Dictionary, 2012)
- Electronic Funds Transfer, hereafter to be referred as EFT, consists of computerized systems, that facilitate a transaction in which money, securities, or some other good changes hands. Examples of electronic funds transfer include receiving cash out of an ATM and placing an order to buy a stock over the telephone. (Farlex Financial Dictionary, 2012)
- Electronic Trade as is a method of trading securities (such as stocks, and bonds), foreign exchange or financial derivatives electronically. Examples of e-trading between buyers and sellers can be NASDAQ, NYSE Arca and Globex which are also known as electronic communication networks (ECNs). (Farlex Financial Dictionary, 2012)
- Electronic Cash is a tool that is used to pay for goods and services on the Internet, and it has the same value as real money. (Farlex Financial Dictionary, 2012)

Electronic Marketing or Internet advertising is the mix of marketing activities with the main purpose of delivering promotional marketing material to consumers. Email marketing, search engine marketing, social media marketing, many different types of display advertising (including web banner advertising), and mobile advertising main components of Electronic Marketing. (Farlex Financial Dictionary, 2012)

- Online banking or Internet banking, hereafter to be referred as e-banking, is a banking account management system via the Internet. It allows customers of a financial institution to conduct financial transactions on a secure website operated by the institution, which can be a retail or virtual bank, credit union or building society. (Farlex Financial Dictionary, 2012)
- Electronic insurance is the application of Internet and related information technologies (IT) to the production and distribution of insurance services. (Research Gate, 2009)

2.1.2 Categories of E-commerce

E-Commerce or E-business can be defined as a set of automated business processes implemented using Internet technology. E-business affects the internal organization of the company (employee engagement, workflow management, marketing, relations with partners, etc). There are four prin-

principal categories of e-commerce: Business-to-Business, Business-to-Consumer, Consumer-to-Business and Consumer-to-Consumer:

Business to Business, hereafter to be referred as B2B, category includes all levels of interaction between the companies. For example: the dealer gets an opportunity to place orders, and track the progress of their implementation, working with databases of data provider. (Business News Daily 2015)

Business-to-Consumer, hereafter to be referred as B2C, is the basis of this category is the electronic retail. In other words, B2C type implies customer interaction with the company takes place through an online store, which consists of conducting trading system integrated with business processes in the organization, and the "internet shop window" visible to the user. (Business News Daily 2015)

Consumer-to-Business, hereafter to be referred as C2B, is a type of system, where consumers post a project with a set budget online, and companies bid on the project. The consumer reviews the bids and selects the company. (Business News Daily 2015)

Consumer-to-Consumer, hereafter to be referred as C2C is mostly about online classified ads, forums or marketplaces where individuals can buy and sell their goods. (Business News Daily 2015)

Additionally to all mentioned types above, economists are pointing out:

Business to Government, hereafter to be referred as B2G, is a special kind of trading between business organisations and a government. Trade is based on the orders of or with governmental organizations. (IGI GLOBAL 2016)

Government-to-Citizens, hereafter to be referred as G2C, is type of trade between the government and the citizens, ensuring free public access of citizens to all relevant government information as well as paying taxes, registering vehicles. (IGI GLOBAL 2009)

Government-to-Government, hereafter to be referred as G2G, is the scope of relations between the state bodies themselves, including the single nation's government electronic commerce activities or between two or more nations' governments. (IGI GLOBAL 2009)

Business-to-Employee, hereafter to be referred as B2E, is a type of trade represents an employee centric e-business initiative. Typical examples include various types of innovative web-based B2E products including employee portals and human resource management systems. In other words, an intra-system of e-business, allowing the company to organize the work of staff and to conduct joint business activities of employees, individual structures or units in order to provide convenience and attractiveness of the work of highly qualified personnel in the enterprise. (IGI GLOBAL 2010)

Business-to-Business-to-Customer, hereafter to be referred as B2B2C, is a net platform for sellers to display goods and for buyers to choose goods, providing sales platforms with payment function for a large number of small and medium-sized enterprises. It is a direct link from supplier, vendors and customers, more open and worldwide, without time and space limitations. And it has less intermediate links and lower business costs compared with traditional modes like B2B, B2C. (IGI GLOBAL 2012)

2.1.3 Traditional commerce and Electronic commerce

E-commerce is one of the forms of trade, i.e. the exchange of goods or services of a seller to the money of a buyer. Therefore, e-commerce is characterized by basic operations of traditional trade. (Money Matters, 2016)

The common features of e-commerce and traditional commerce are:

- Buyer's acquaintance with the merits of the goods;
- Demonstration of products' appearance;
- Description of the main advantages;
- Consultations on the rational use;
- Selection of products by the buyer;
- Payment of selected products;
- Acquisition and clearance of products by the seller
- Delivery of selected products;
- Product refinement to use it, if necessary (assembly, commissioning);
- After-sales service (if provided). (Money Matters, 2016)

For differences in the sales of E-commerce and in the traditional trade include ten key positions. These differences may be classified as follows:

1. By means of costs effectiveness. Organization of trade through e-store makes the presence of buildings of shops, offices, as well as all kinds of commercial equipment rents unnecessary, what reduces the cost of marketing, advertising and content retailer and, consequently, products can be realized with the cheaper price. (Money Matters, 2016)
2. By means of time saving. It takes less time for the company to create an electronic store than the organization of the traditional store. From the other side, it is much easier for a client to find a product online rather than to visit dozens of traditional shops. (Money Matters, 2016)
3. By means of convenience. E-commerce provides convenience to both the customers and the business. Customers are able to a take a look on the whole catalogue of products, compare prices, access them at any time and from any place. (Money Matters, 2016)
4. By means of geographical accessibility. Comparing to a traditional commerce, it may be easier to penetrate the size of the market from regional into international level by hosting a website, placing advertise-

ments on the Internet and satisfying certain legal norms. (Money Matters, 2016)

5. By means of introduction of new products. In traditional commerce acquaintance with the goods takes place in person. At E-commerce level, the introduction occurs through a careful study of customer information and description of the relevant characteristics of the products. (Money Matters, 2016)
6. By the means of profit. Comparing to the cost of traditional commerce incurred on the middlemen, overhead, inventory and limited sales pulls down the profit of the organization, E-commerce helps to increase the sales of the organization by increasing sales, cutting cost and streamlining operating processes. (Money Matters, 2016)
7. By the means of physical inspection. Despite the ability of a customer to personally and physically inspect the product in the traditional commerce, in E-commerce customers have to base their decision on electronic images, description and feedback. (Money Matters, 2016)
8. By the means of time accessibility. In most of the cases traditional commerce stores are opened for a limited amount of time, while the electronic store is accessible for 24 hours 7 days a week. (Money Matters, 2016)
9. By the means of customer interaction. Comparing to face-to-face of a customer and middleman interaction of traditional commerce, screen-to-face interaction of E-commerce makes it more difficult to personalise interaction between the business and the clients in order to win the loyalty of the latter. (Money Matters, 2016)
10. By the means of process. An automated processing of business transactions in electronic commerce lead to minimization of the clerical errors, when those often occur in the manual processing of business transactions in traditional commerce as human intervention takes place. (Money Matters, 2016)

According to the information above, it is reasonable to conclude the benefits of doing business electronically and its limitations in order to access and evaluate the information before conducting business.

2.1.4 Benefits of E-commerce

There are plenty of benefits for users of E-commerce. For instance, the most ultimate ones are that e-commerce is time saving, it offers a greater product selection and cheaper, in terms of cost savings on taxes, the price of the product and gas. For retailers, the benefits are equally abundant. (Business 2 Community, 2015)

There are seven major benefits of doing business online:

1. In terms of establishing an online presence. According to the statistics, about 80% of the online users are accessing Internet with the shopping purpose or made it at least one time. Customers expect an online company to be available, what in its turn helps it with the competition. Otherwise, the audience will be flocking toward the competitors to make an online purchase. (Business 2 Community, 2015)
2. In terms of attracting new customers. As for business owners, one of the main goals is to grow business and attract new audiences. Physical retail relies on branding and customer relationships, but online retail has the one greater benefit of driving traffic from the search engines. (Business 2 Community, 2015)
3. In terms of operational cost savings. The technology today allows companies to set up a web-based management system, which allows companies to automate inventory management and decrease the costs associated with it. The additional profit that is made from reaching more customers will offset any initial setup costs. (Business 2 Community, 2015)
4. In terms of better customer understanding, when it comes to building a marketing persona, based on the actual data, which allows to track customers' buying habits in terms of the products they are most interested in, timing of purchase and motivation. (Business 2 Community, 2015)
5. In terms of providing information about the product. Operating an online business, it is possible to provide as much information about the product as needed, what goes without saying, is appreciated by a customer: product description, customer reviews, shipping charges, etc., what eliminates the need of providing an extra stuff to answer these questions. (Business 2 Community, 2015)
6. In terms of driving conversations and sales. As e-commerce allows businesses to operate globally without any geographical or time constraints, it may be possible to capture the audiences that wouldn't be reached otherwise. Well-designed ecommerce site and a quality product can boost conversions and sales. Analytics services also enables to tune marketing strategies in order to be able to reach the right audience. (Business 2 Community, 2015)

In conclusion to the benefits of E-commerce, it is important to sum up its main benefits. E-commerce brings its own unique advantages and contributions to the business. The first is the Internet as the World Wide Web, which opens the world for both business markets. Businesses can reach out to millions of customers in an instant, which is not possible in any conventional marketing mode. One of the most significant advantages offered by e-commerce, is the cost savings. Internet marketing cost all over the world is very small compared to the actual cost of traditional marketing methods. Transaction cost works out to be very cheap. Moreover, e-commerce facilitates paperless offices and processes, thereby contributing

to the economy in terms of resources. These and many other advantages make clear business sense for companies to enter the market with their products and services through the Internet.

In the past few years, the speed of the Internet, as well as applications, hardware and software support for e-commerce has developed and integrated e-commerce business process real time. Internet, financial capacity and the transaction gave a significant boost to e-commerce. E-commerce has not only struck the industrial business and business to customer's imagination, but now the internet trading has changed the stock markets, financial markets and commodity exchanges worldwide, which gives a lot of opportunities for companies to open a business electronically.

Looking for e-commerce in terms of marketing, it brings a product or service closer to the customer. This allows the customer to view, download and in some cases even test the product. Another important difference from conventional marketing is that Internet marketing allows marketing companies to set up sales pitch or products offered to the customer. In contrast to the traditional mode, with internet marketing and e-commerce it is possible to make the service and process more personalized and customized. As e-commerce is constantly developing and growing, business has no choice but to jump on the bandwagon of e-commerce and to adopt to the growing tendency.

2.1.5 Limitations of E-commerce

In addition to the obvious advantages, the implementation of e-commerce brings a number of disadvantages, both for the individual consumer, and for society as a whole. (EnkiWillage, n.d.)

These are disadvantages of E-commerce:

1. In terms of privacy and security. Internet systems are exposed to a greater extent than private networks to outside influence, since the idea of the Internet means universal access. Any information, including e-mail passes through the plurality of computer systems on the Internet, before it reaches its final destination. In any part of the route, it can be tracked, intercepted and stored. There may be intercepted such valuable information as the number and names of the owners of the credit cards, private information about employees, marketing plans, sales contracts, the development of data products and prices, negotiations between companies, as well as other information that may be of interest to competitors. Hackers, crackers and computer thieves use the weaknesses of the Internet to invade computer systems, causing the most harm by the theft of passwords to gain access to important information, the introduction of electronic bugs or blocking of corporate web-sites, making them inaccessible as a result. The Internet offers unprecedented opportunities to explore the potential buyers. . (Enki-Willage, n.d.)

2. In terms of quality. Another big disadvantage is the inability to try on, test and feel the goods presented for the sale. Many people do not buy clothes and shoes at online stores for this reason. Most online stores offer customers a detailed description of the product and the opportunity to return or exchange the goods if a person does not like it. But the return - is a waste of time, so many people prefer to buy in retail stores. (EnkiWillage, n.d.)
3. In terms of hidden costs. Most often all kind of possible costs may be presented on the web site, such as product price, shipping, handling and possible taxes. Sometimes it also happens that the customers are responsible for expenses such as taxes or delivery fee by themselves, which takes time to find out or the end bill may vary with the original. (EnkiWillage, n.d.)
4. In terms of delivery. The ordered product may be delayed, lost or delivered to the wrong address. Perishable products and goods of first necessity - are goods that the customer is not ready to buy due to possible delays. (EnkiWillage, n.d.)
5. In terms of personalisation. When most information about the product is presented on the web site or online catalogue, it may be complicated for the client to decide on the product, there is nobody to answer questions or concerns instantly, compared to the traditional commerce stores. (EnkiWillage, n.d.)
6. In terms of sufficient Internet service. Operating an online commerce shop brings dozens of other responsibilities regarding running the business from the technical point of view, such as telecommunication bandwidth and sufficient Internet access throughout all logistical infrastructure details. (EnkiWillage, n.d.)
7. In terms of low entrance barrier. There is no difficulty in setting up an online business. (EnkiWillage, n.d.)

These include: the imperfection of the legislative framework in the field of e-commerce, attractive environment for fraud, the need to ensure an adequate level of safety, loss of competitiveness of businesses who do not have representation in the electronic environment, the possibility of tax avoidance in the state budget. For the development of e-commerce, an important factor is the growing number of Internet users.

2.2 Cultural Differences between China and Finland

Before conducting any business with a culture, which is different of your own, it is important to have an overview of cultural dimensions, which characterise the culture itself and to compare it with the country of origin. In the case of the present thesis, the author will conduct a research of such cultural dimensions as Power Distance, Individualism, Masculinity, Uncertainty Avoidance, Long Term Orientation and Indulgence of China as a

target country and Finland as a home country of Mad Professor Amplifications Oy and its founder Harri Koski.

For the classification of crops in cross-cultural psychology it has been proposed the concept of cultural dimension by Hofstede in 1980. The research is based on the study of Professor Geert Hofstede, who by 2001 has evaluated scores of 76 countries and regions, partly based on replications and extensions of the IBM study on different international populations. (Geert Hofstede n.d.)

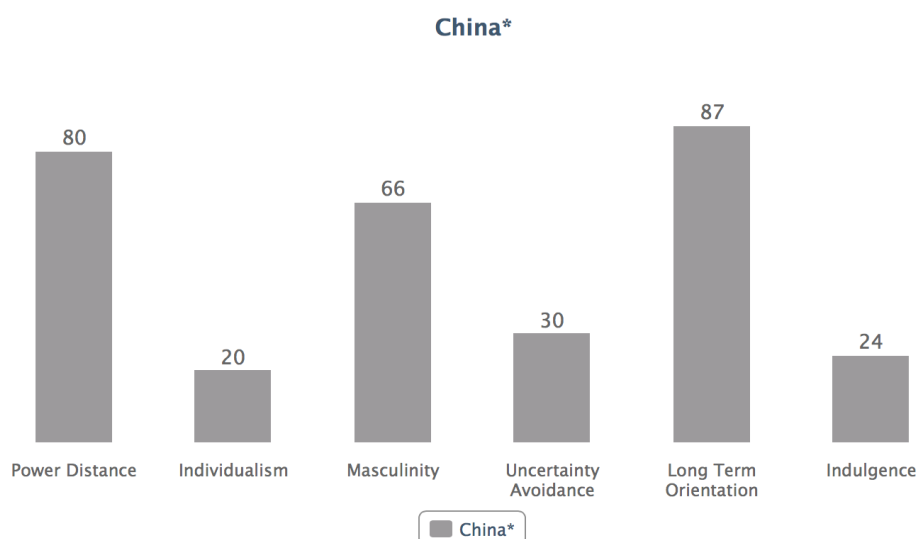


Figure 4 China's Cultural Dimensions by Geert Hofstede (Geert Hofstede, n.d.)

2.2.1 Power Distance

This chapter focuses on the indicator which measures the degree of agreement and acceptance of the members of a society that prevails in their culture hierarchy. The higher the index, the more people correspond authoritarian society, the lower it is - so it is more democratic. (Geert Hofstede n.d.).

Under the term Power Distance, it is supposed to mean the inequality between individuals in the society and people's attitude towards it, where organisations or members of institutions accept the fact of them having less power and its unequal distribution. (Geert Hofstede n.d.)

China's rate of the Power Distance Dimension is at 80, which is considered to be a high ranking of PDI, meaning that the Chinese society accept the inequality, the subordinate-superior relationship is polarized, not showing any defence against power absorbed by the superiors. People or individuals respect the formal authority and feel optimistic about the leadership and initiative, believe that others should not have aspiration beyond their rank. (Geert Hofstede n.d.)

2.2.2 Individualism and Collectivism

Individualism - a special form of ideology, emphasizing the priority of personal goals and interests, freedom of the individual from society. Individuals in the society with high individualism rates are prioritising personal goals, leaving the group goals at the background. (Geert Hofstede n.d.)

With the score of 20, China can be described as highly collectivist country. It means, people identify themselves as "we", basing on the societies to which a person belongs, duties assigned to the group as a whole, rights and laws depend on membership in a group, there is a fear of losing "face", the sense of shame. The main purpose of collectivistic society is to maintain harmony and accord. Most of the times relationship "employer - employee" are based strictly on a contract basis. (Geert Hofstede n.d.)

2.2.3 Masculinity and Femininity

The high degree of masculinity (the phrase "machismo"), according to Hofstede, is a high value in the culture of material things, power and representation. In masculine cultures there are such highlights as differences in gender roles, diligence, ambition and independence. People in masculine cultures have a strong motivation to achieve, in the work they see the meaning of life, tend to think of the welfares of their own interests and the centre of their personal lives, are able to work very hard. In these cultures there are significant differences in the evaluation of men and women in the same position in the direction of higher valuation of men; and recognition, success and competition are regarded as the main sources of job satisfaction. (Geert Hofstede n.d.)

Cultures, in which the main values prevails man himself, his education and the meaning of life, are considered feminine (or based on "women's early"). In such cultures, feminine gender roles are usually not so strictly fixed, and the emphasis is on the interdependence and serving each other. (Geert Hofstede n.d.)

Reaching the score of 66 China is a Masculine society, meaning it is success oriented and driven. The success plays such an important role in people's lives, they are ready to sacrifice their family and leisure priorities to work. For instance, people working in service sector such as hairdressers, will provide services until very late at night; leisure time is not too important as well: farmer workers will travel far in order to acquire better work in the cities. The same goes in education sector: from the very beginning, Chinese students are mainly focused on the successful achievements in the exams scores and rankings. (Geert Hofstede n.d.)

2.2.4 Uncertainty Avoidance

Cultures with high uncertainty avoidance (basically the collectivist type) have a low level of tolerance for uncertainty, resulting in a high level of anxiety and the tendency to "energy release" (aggressive behaviour). Indi-

viduals from these cultures are characterized by a high demand for formal rules and norms of behaviour in the "absolute trust". These cultures also have a low tolerance for individuals or groups with different ideas or behaviour. In these cultures there is a strong tendency to intercompany agreement. At the same time, representatives of these cultures are characterized by a clear manifestation of emotions in contrast to the members of the cultures with low uncertainty avoidance. Individuals from cultures with high uncertainty avoidance longer resist any change, have higher levels of anxiety, intolerance of ambiguity, are more worried about the future, accord loyalty to their government as the greatest virtue, have low motivation to achieve, and little inclined to take risks. (Geert Hofstede n.d.)

The cultures with low uncertainty avoidance have lower levels of stress, take the differences in their environment and are characterized by a greater propensity for risk. (Geert Hofstede n.d.)

At 30 China has a low score on Uncertainty Avoidance. Social groups are concerned about the Truth and rules abound, which can be often seen as in-group laws. Nevertheless, people tend to be flexible to the actual laws and rules, depending mostly on the situation. Pragmatism is a fact of life. The Chinese people are comfortable with ambiguity, which is reflected in the language, which is full of ambiguous meanings that can be difficult for Western people to understand. Chinese people are adaptable and entrepreneurial. This is reflected in the way of doing business: 70% -80% of the Chinese businesses are small to medium enterprises and family owned. (Geert Hofstede n.d.)

2.2.5 Long Term Orientation and Short Term orientation

Long-term orientation values oriented towards the future, savings and persistence. Short-term orientation values oriented towards the past and present, such as respect for tradition and fulfilling social obligations. (Geert Hofstede n.d.)

China scores 87 in long term dimension, what means that China is a pragmatic culture with the pragmatic orientation. Chinese people truth is basically depending on the situation, time and context. Chinese are easy in terms of adapting their existing tradition into the new environment; they have a strong propensity to save and invest, thriftiness, and perseverance in achieving results. (Geert Hofstede n.d.)

2.2.6 Indulgence and Restraint

Indulgence is a society that allows relatively free satisfaction of basic human needs and the natural associated with the joy of life and the pleasure. Conversely, the "Restraint" society suppresses and regulates these needs by rigid social rules and norms. (Geert Hofstede n.d.)

According to the graph presented in Figure 4, China is a restrained society which is shown in its low score of 24 for this dimension. Chinese society

with a low score in this dimension have a tendency to cynicism and pessimism and, opposed to indulgence societies, restrained societies do not put much emphasis on leisure time and control the gratification of their desires. (Geert Hofstede n.d.)

2.2.7 China and Finland

In this section, the author will take a closer look onto Finnish role and scores of the Hofstede's dimensions and compare Finland to China.

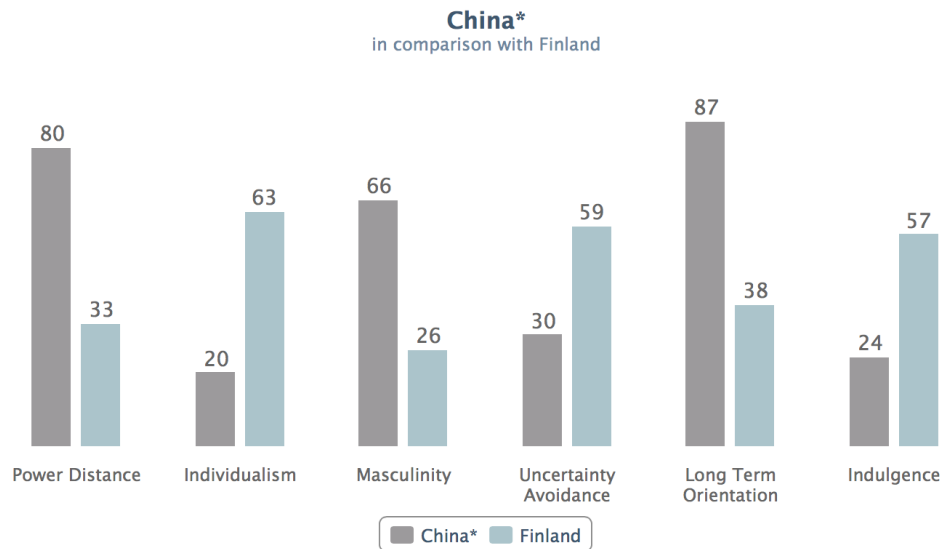


Figure 5 China's and Finland's Cultural Dimensions by Geert Hofstede (Geert Hofstede, n.d.)

It is clearly visible China has more score points than Finland in such dimensions as Power Distance, Masculinity and Long-Term Orientation.

In the first case, it means, that Finnish people are more concerned about authorities and inequality in the society. Chinese are more democratic, ambitious and success-oriented, ready to sacrifice their habits, family and leisure time for the sake of better job or promotion, while for Finnish people it is more important the quality of life and caring for others.

According to the power score of 33 in Power Distance, Finns prefer to be more independent, to have a hierarchy for convenience only, equal rights, accessible superiors, coaching leader, management facilitates and empowers. Power in Finland is decentralized. Employees play an important role in the hierarchy, they are expect to be consulted, managers count on their experience, they don't prefer to be controlled. Communication is only direct and participative. (Geert Hofstede n.d.)

Comparing to China, Finland got the score of 63 and considered to be an Individualist society. People prefer a loosely-knit social framework, people take care only of themselves and their families. There is no self-esteem at the workplace and the working contract is based on mutual benefits. (Geert Hofstede n.d.)

Finish people are focusing on achieving short result which shows the low rate of 38 in the Long Term Orientation Dimension.

The 57 score in indulgence classify Finland as a country with people with positive attitude, who are exhibiting a willingness to realise their impulses and desires with regard to enjoying life and having fun, spending money as they wish and putting a high priority on leisure time. (Geert Hofstede n.d.)

2.2.8 Chinese business etiquette

In recent years, China has greatly strengthened its position in the global economy. The socio-economic progress of the country makes all the global business community explore the Asian market more closely, as well as the features of the eastern business etiquette.

Due to the growth of China's economy, the people of this country are trying to adapt to the generally accepted rules of business, the European norms of etiquette. However, the Chinese are still preserved and are widely used to the features in these matters, which comes out of the Asian culture. Face, guanxi, and other cultural norms are changing in China, but understanding a basic level of cultural competence is still important for companies, who are planning of doing business in this country.

Face

The concept of face in China is somewhat similar to the concept of face in the West; the main difference is that it is far more important in the Chinese culture. For any Chinese person as a part of collectivistic society, prestige of the company in which he or she works, is more of an interest above his personal success. In China, because of the misdeeds of one of the members of the group - family, work collective or public organization - it is possible to lose the reputation of the entire group, hence in any situation the Chinese are trying to behave decently. (China Business Review 2008)

Getting to know hierarchy system and polite behaviour principles of the Chinese culture is a step closer to the point of understanding the concept of face in China. Hierarchy takes a very important place in the Chinese business etiquette and is very meaningful and serious for the Chinese people. People taking higher positions in the organisations are supposed to be more experienced and they expect to earn more. Typically they are of older age. Another significant difference between people of higher position and their employees is that the first ones prefer to keep their distance from the latter. Comparing to Finland, it is not acceptable to call people by their first names in China. Also, it is not common for employees to point out the mistakes of their managers. (Jocelyn Kan 2004, 206)

In China, it is not acceptable to argue with a person of older age, rank and position. It will be perceived not only as a gross breach of etiquette, but of national traditions in general. (China Business Review 2008)

In addition, being polite is a serious step on the way to blending in the Chinese business and simply into one's organisation's society. First of all, business people including bosses or their subordinates or business partners are cautious when sharing someone else's mistakes, especially in public because it can harm the face. It is better to discuss the issues in private. In terms of politeness, it is preferable to reciprocate when being offered an invitation for a dinner or sent a gift. (Jocelyn Kan 2004, 206)

If you are only going to establish a business relationship with the Chinese side, it is better to use the services of intermediaries, who will be able to formally present your company and act as guarantors of transactions and sureties. The Chinese are always keen to make sure. (China Business Review 2008)

Tips to save face

- Treat elders and those who outrank you with respect;
- Keep calm, do not show anger, avoid confrontations;
- Avoid replying negatively, use an indirect, gentle manner;
- Avoid criticizing someone in public or point out anyone in a group situation, otherwise bring the person aside and speak privately;
- When reciprocating an invitation, make sure it equals the prior engagement in value. (China Business Review 2008)

Guanxi

Every businessman must have heard the phrase, "no matter what you do, it is important - who you know." In China it is of paramount importance for business. Connection and attitude - that expresses the word «guanxi - 关系». This is - a business tool and a great way to access all kinds of resources, to ensure their integrity, safety. But for some people "connections" means a relationship aimed at capitalizing, benefiting out of any case. For the Chinese businessman as such the concept of "connection" is belonging to a particular group, where everyone is able to do anything to the detriment of themselves and not be afraid to not receive the same in return. Guanxi for Chinese business is the basis of business ethics, a tool to achieve the goal. (China Business Review 2008)

Tips to Build and Manage a Guanxi Network

- The best way to improve and strengthen a guanxi network is to stay connected all the time;
- It is a good idea to send small gifts or ask for small favours from time to time in order to keep a relationship active;
- Prepare and host an occasional get-together;
- Memorise the important Chinese holidays and send greetings;
- Good way is to get to know your partners' outside interests and find ways to support them, like getting tickets to a sporting event or concert. (China Business Review 2008)

Greetings and introductions

In general, the Chinese people are sociable and friendly.

In order to approach the Chinese in a polite and common for business practices way, use "title" (e.g. President) or "post" (Director and Chairman) or the appeal "Ms" or "Mrs". Addressing by the name of the representative in the Chinese society is unacceptable. It is neither permissible to use only the names and official positions of the Chinese, until the person asks to.

At acquaintance, exchange the business cards which should often be bilateral - in English and Chinese (better to use simplified Chinese language, without the use of complex classical writing characters, which are commonly used on the islands of Taiwan and Hong Kong). It is important to take and give a business card with both hands in the beginning of a meeting. (Jocelyn Kan 2004, 207)

Gifts

Chinese people are quite superstitious, for instance they believe that visiting parents or any other relatives is unlucky and leads to quarrels if doing so on the 3rd day of the Chinese New Year; people avoid using number "four" and prefer number "eight" etc. There are many details to be considered when sending a gift to someone in China: (Jocelyn Kan 2004, 207)

- People prefer practical gifts rather than decorative, unless the gift is expensive or stylish;
- Presenting clocks can be interpreted as a gift for funerals and is not welcomed or appreciated;
- Green hats as a present to a male can be interpreted as "wearing a green hat" man' wife is committing adultery;
- Fruit is welcome except pears, especially in case of a present to a newly married couple; other fruits like watermelon, melon, papaya and similar shape fruits and vegetables, which in Cantonese sound like "gwa" and means "dying" in informal speech, should be avoided as well;
- Wrapping is also another important issue a person should deal with while presenting something to a Chinese counterpart: it is advisable to avoid such colours as white and black, as these colours mean death and funerals; red and gold colours are welcomed especially during such celebrations as weddings or Chinese new year. (Jocelyn Kan 2004, 207)

3 CURRENT SITUATION

3.1 Marketing in China – Three forces of change in China

China is a rapidly growing consumer market and more and more companies throughout the world are looking for ways to develop marketing, branding and communication that is relevant to Chinese consumers.

Taking an overlook at China’s economy booming period, which lasted for approximately three decades and brought the country itself and the whole world great growth opportunities; and assuming it is over because of the current economy slowdown and twitchy markets, would probably scare and push away companies’ perspectives for the future. This can be assured by the fact of government’s decision to lower official five-year annual GDP growth to 6.5%, which is the slowest ever since the global financial crisis in 2008. (bcg.perspectives 2015)

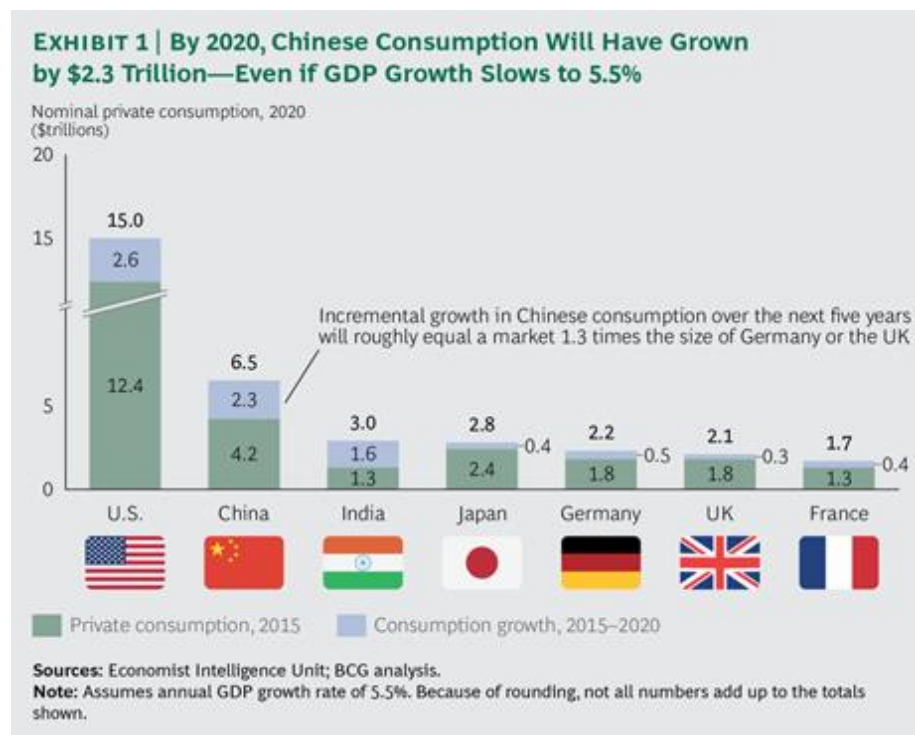


Figure 6 Chinese Consumption Growth Rate by 2020 (BCG analysis 2015)

Even though China's economy is struggling due to significant structural changes and transitions, and consumption growth rates are not as they were before during the booming years, it is moving along the stunning trajectory of shaping towards the higher positions in the world economy. It is expected that the consumer economy is about to expand to \$6.5 trillion by 2020, taking into account lowered GDP growth. According to the projected amount of \$2.3 trillion after five years, shown in Figure 10, Chinese market can be compared to German or UK market as 1.3 times larger. (bcg.perspectives 2015)

All the factors mentioned above are clearly bringing an evidence of growing and reshaping of new consumer market, which in turn will bring greater variety of opportunities for the companies eager to enter it. There were three forces identified as opportunities: the upper-middle-class and affluent households becoming a new trigger and driver for consumption growth; different, easier spending habits and more sophisticated demands; and last but not least important, dramatically increased power of electronic commerce.

The information about the forces did not just come out of the air. Researches conducted by The Boston Consulting Group and AliResearch, the most influential research body of Alibaba and China's electronic commerce giant company, state that these three forces will reshape China's economy by 2020. The results are expected to be as following: households with the annual income of \$24,000 and higher will account for 81% of the consumption growth, 61% of which will be consumers of age 35 or younger. E-commerce will gain higher importance in the retail market, driving around 42% of the total consumption growth with 90% of which will be accounted for mobile electronic commerce. (bcg.perspectives 2015)

There will be a tremendous change in the marketing spheres and strategies of the past will no longer be relevant. The most important driver of consumption will be a demand for premium quality products, which will strengthen a feeling of wellbeing of each individual.

There are few more changes which are predicted to happen in China by 2020 such as: high tech industry and better paid service will replace low-wage manufacturing industry, which will in turn lead to rising incomes. This will trigger a growth of the Chinese consumption rate by 9% through 2020. (bcg.perspectives 2015)

Rising income of Chinese people was on the peak positions since 2008-2009. Such issues as the declining stock market and rising housing market would not influence the behaviour of consumers dramatically. On the opposite, research results show the confirmation of this information in numbers: only 15% of urban households have investments in stocks; 93% out of 2000 Chinese consumers, who took part in a survey of BCG's Center for Consumer Insight, declared that stock market would not affect their will to spend more or less and 92% of the respondents stated the same about the housing market trend. Moreover, for 35% of the respondents such factors as rising incomes, have way more influence of the buying behaviour of the Chinese consumers. (bcg.perspectives 2015)

In order to have a better insight and analyse the forces which are changing China's consumer economy, it is important to take a look at social, demographic and technological trends.

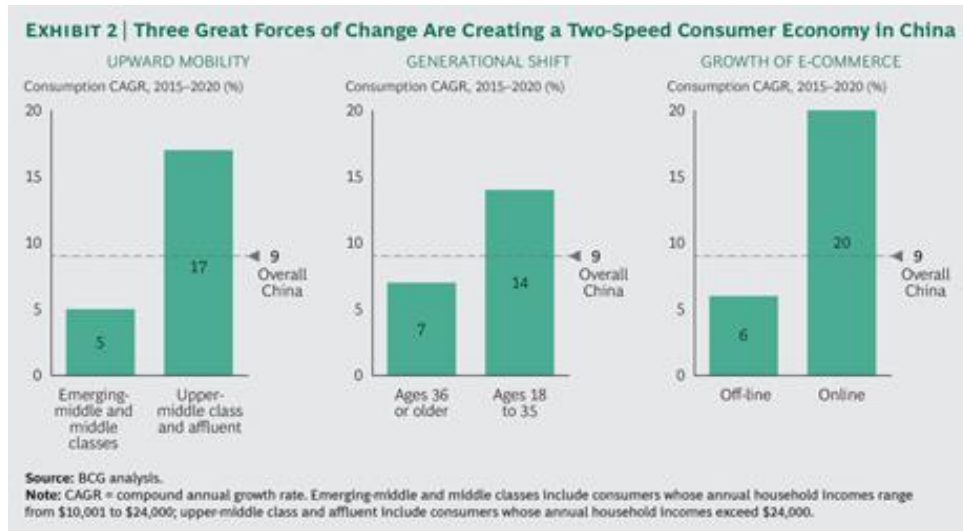


Figure 7 Three forces of change in China (BCG analysis 2015)

Figure 7 presents the expected forecast of China’s consumption with a difference of ten years: statistics from 2010 and expectations in 2020. The most important findings from the graph are the indications of upward mobility of the classes, generation shift and growth of e-commerce indicators.

3.1.1 Social indicators

During the peak years of Chinese economy, the incomes of millions of people have shifted from poverty to an emerging middle class, while their disposable incomes increased from \$10,000 to \$16,000 and to the middle class, those with incomes of \$16,001 to \$24,000. (bcg.perspectives 2015)

According to the statistics, in 2010 only 7% of Chinese consumers belonged to upper-middle-class and affluent households, in 2015 there were 17% and in 2020 it is forecasted to be double than today – 30% or 100 million of all urban households, which means that middle-class and affluent households will drive the consumption rate of China. In term of annual disposable income, it will grow from \$24,000 to \$46,000 in upper-middle-class households section and over \$46,000 in affluent households section, which will compose 55% of total Chinese urban consumption and 81% of its rising increment by 2020. (bcg.perspectives 2015)

In other words, the consumption will no longer be driven by the emerging middle and middle classes households, but by the upper-middle class and affluent households, the consumption rate of which is expected and accounted to be \$1.5 trillion of incremental spending in China, and which is equivalent to 17% of a growth rate per year, rather than 5% in the section of emerging-middle-class and middle-class consumers. (bcg.perspectives 2015)

China’s market is too big to ignore, even if the numbers drop by few per cent. For example, the share of total urban spending will decrease from today’s 48% to 39% by 2020, the above-mentioned households will still go on to make up a market. (bcg.perspectives 2015)

In order to be able to reach upper-middle-class and affluent households, firms and companies should take into account not only the biggest 1-tier cities, but also 2-tier, 3-tier and even 4-tier cities or lower. There is a high concentration of the upper-middle-class and affluent households in more than 2000 cities in China. BCG Group is advising companies who are aiming to reach at least 80% of this market to establish a presence of their production in at least 430 cities. Companies should seriously take into account rural areas of China, because the highest percentage of the speed growth and the number of consumers will happen in small cities by 2020. As to statistics and concrete numbers, out of 76 million of upper-middle-class and affluent households 30 will be located in tier 1 cities by 2020 and half of other 46 million will be located outside top 100 cities, which can be classified exactly as 4-tier and lower.

3.1.2 Demographical indicators

That part of the society, which was born in eighties or nineties or in the beginning of XXI century can be known as a segment and be called the “young generation”; on the contrary, the “last generation” of people, who were born in the fifties, sixties and seventies – are balanced enough to become a dominant consumption force. Rate of consumers in the age of “young generation” is increasing at a 14% annual rate - double than the pace of consumers older than 35. By 2020 the number concerning the young generation consumers is expected to grow from 45% to 53%.

In other words, it means that young generation spend more and consume more, rather than their contrary “past generation” and there is a significant reason for that. Most of the people, who was born in seventies or earlier, who is now 35 or older have been raised during the period of social instability and difficult scarce economical circumstances. The young generation was raised mostly during the peak years of China’s development as a country and a world economy, hence people who are in the group of young generation are eager to spend more. According to the currently conducted BCG consumer survey, statistics show that 42% of the Chinese people in the age rank between 18 and 25 disagreed with the statement: “I feel I have enough things and feel less the need to buy new ones.” Comparing with the responses of some European and American countries to the same statement in the same age group: only 36% of the respondents from the United States of America and European Union disagreed to the statement, 32% from Japan and 26% of Brazilians. (bcg.perspectives 2015)

Not leaving without attention facts that young generation Chinese people tend to be more sophisticated consumers due to the percentage of college graduates among them and travellers, which is accounted to be twice as much as among the past generation, and they are more conscious when it comes to brand name and origin, which is different among older Chinese and U.S. consumers of the same age group. (bcg.perspectives 2015)

3.1.3 Technological indicators

Striking growth of E-commerce was one of the most significant changes in the Chinese consumer economy. To clarify the picture, there are shown some statistics, for instance: in 2010 only 3% of total private consumption was accumulated for online transactions. In 2015, the amount of online shoppers in China was accounted for 410 million or 15%, which is 5 times more than in 2010.

As for the future rates and numbers, e-commerce as retail channel in China is expected to grow and gain even more importance and significance. Online consumption is projected to grow by 20% annually, while offline retail consumption is projected to grow only 6%.

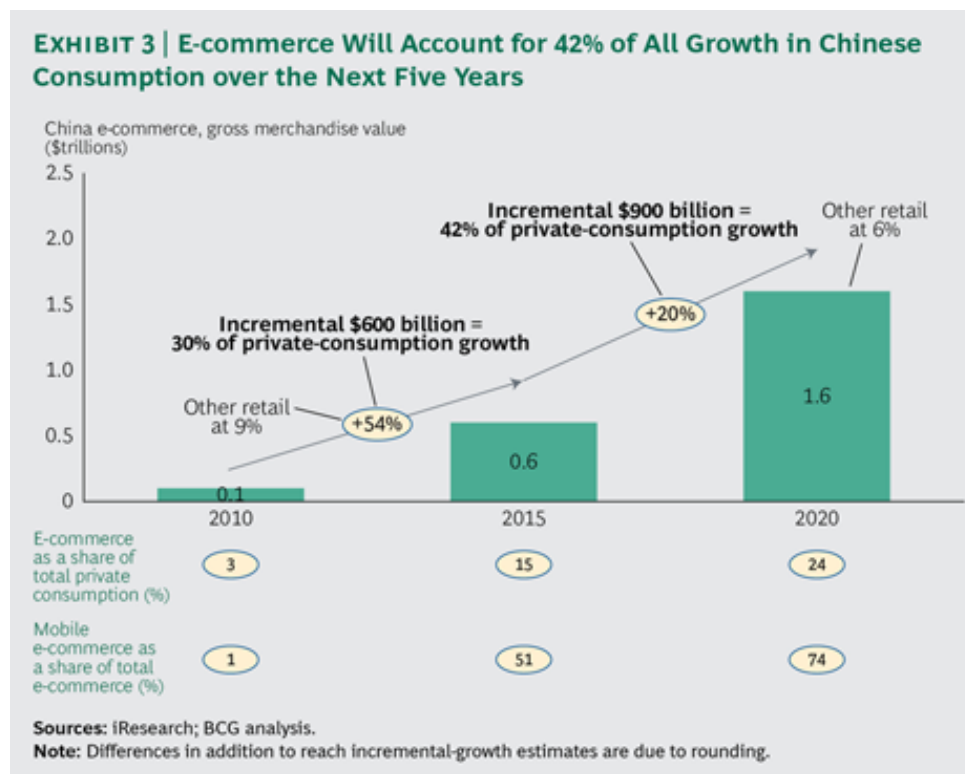


Figure 8 E-commerce growth and present state in China (BCG analysis 2015)

By 2020 China’s share of e-commerce consumption will grow by 42% and will take 24% out of the total private consumption rate, comparing to today’s 15% and 3% in 2010.

If talking more precisely about e-commerce, the section of mobile e-commerce will experience great increment as well. In 2015 it already accounted for 51% of all online sales in China, while the average online consumption in the world was 35%. For instance in 2015, during the first three quarters, transactions made via mobile devices rather than PCs grew from 51% to 62%. At the end of the year, it reached a rate of 68% during China’s National Year’s Single Day. During this day Chinese Taobao, a marketplace founded by Alibaba, launched a campaign by offering different kind of sales, which triggered the rise in the rates of the transactions

completed via mobile devices. Moreover, mobile e-commerce is expected to take over PCs and to account for 74% of all online sales in China in five years.

On top of that, online commerce brings new opportunities and competitive advantages over the brick-and-mortar stores. Statistics, according to Taobao, show that average e-consumer spending increased eight times during the past three years. The competitive advantage of shopping online is carried out in the inability to buy some products such as organic and imported products in local stores.

Another opportunity is laid out in demand for higher-priced products online. According to the BCG research, consumption of premium quality products has increased by about 150% at the moment Chinese households entered the upper-middle class. As to the affluent households online shopping rates, they almost doubled due to the possibility to afford better quality and higher priced products online. This way it helps companies face difficulties connected with products distribution and reaching national market. On Taobao, 55% of its sellers are based in the cities with presenting these product in physical stores as well as online, when 45% of other seller are from thousands of different cities that do not present their good in department stores. (bcg.perspectives 2015)

3.1.4 Overview

It goes without saying that the three forces mentioned previously and the new-born shaped class of richer, younger, Internet-savvy consumers will have a strong influence on China's consume market and economy in general. Services will play the main role and spending of the upper-middle class will rise up to 11% annually through 2020, accounting for half of all growth in urban consumption. Spending on goods is a bit behind services, but still will experience a positive change in a face of growth by 8% per year. The reason for that can be the buying habits of wealthier consumers, who prefer to spend bigger share of their incomes on services, comparing to lower-income buyers. (bcg.perspectives 2015)

According to the statistics, the average number of income of emerging-middle- and middle-class households is 2.5 lower than upper-middle-class and affluent households. The latter ones prefer to spend 3.3 time more on education, culture and entertainment. The difference in spending on goods between upper-middle-class and affluent households and that of emerging-middle and middle-class consumers is only 1.8 times. (bcg.perspectives 2015)

One of the main differences in strategies and buying behaviour of the Chinese consumers will lie on value growth rather than volume growth in various categories due to the rise of upper-middle class, which in turn will lead to a sharp increase in consumption of luxury goods.

Brand origin will play bigger role in the purchasing decision of the Chinese consumers. New generation people in China are considered to be the world's most brands conscious. For instance, 49% of 18 to 35 years old surveyed young Chinese consumers advocated for brands compared to U.S. consumer of the same age with 34%. As states in the results of survey, young Chinese consumers tend to be more emotionally involved with brands. As another evidence of the growing sophistication of young Chinese consumers lies in their openness to try local brands. When the first time purchasers give the preference to well know international brands, while the experienced consumers are eager to find an alternative and become more knowledgeable and eager to explore domestic brands. For instance, 46% of the surveyed Chinese consumers in 2015 stated that they would prefer Chinese brand home appliances. Similar trends can be seen in electronics, apparel and skin care brands.

Despite the strength of domestic e-commerce market, it is forecasted for 15% of total e-commerce in China to shop on a global cross-border basis by 2020. The same situation happens inside the country, where purchasing power has a strong influence not only in big cities, but also reaches remote regions. For example, during the Single Day's campaign, top ten cities with the highest market penetration were located in western and central China, which is considered to be a remote area. Shopping also becomes available at any time and 33% of Taobao transactions happen before 10:00 a.m. and after 8:00 p.m.

Tremendous growth of e-commerce should be interpreted as the total replacement of brick-and-mortar retail. On the opposite, they are becoming extremely intertwined due to the study that states, that average consumer will have a contact through different touch points such as store displays, product promotion, feedback tracking and social comments before making a purchase. In order to capture young Chinese consumer, companies have to offer smooth experience across retail channels. (bcg.perspectives 2015)

3.2 PESTLE Analysis

It is not a secret, that by identifying the macro-environment of the market it is possible to find out the opportunities as well as challenges. But detecting a new market opportunity does not guarantee the success in operating in its environment, even if it feels technically possible. It goes without saying, that understanding and analysing the true nature of trend and determine how to influence the macroenvironment and microenvironment (customers, industry players, the company and its offerings) can be a significant challenge. (Kotler 2010, 68)

3.2.1 Political Environment

Marketing decision in China is strongly affected by the developments in the political and legal spheres, which consist mostly of government agencies, laws and pressure groups that influence and limit organisations and

individuals, which in some cases can lead to new opportunities. (Kotler 2010, 80)

One of the main trends, which in this case influence the political environment, are the special interest groups. The number of the special interest groups has increased over the past decades significantly. (Kotler 2010, 80)

To clarify what are the interest groups, it is important to mention that society is a complex system of interactions of different group interests (social, economic, ethnic, professional, religious) that are in a constant state of struggle and competition for the possession and disposal of a variety of public resources and the right of access to the process of elaboration and adoption of the state (political) decisions itself to provide the advantages and benefits. One of the most difficult and at the same time, important problems of the implementation of important policy challenges is to reconcile the interests of individual groups and the interests of society as a whole. Stability of the society and political system, legitimacy and effectiveness of the authorities, the dynamics of social movements and political parties depend from the solutions to this problem. (China.org.cn 2013)

In China, special interest groups can be described as interest coalitions made up of people and social classes who have the right to dominate public power and resources, which will in need approve and grab as well as oppose the benefits of the Chinese reforms and policies themselves and in addition to that, interfere with China's reform program. (China.org.cn 2013)

Such organisation as Political Action Committees (PACs) play a role of lobbying the government officials and pressure businesses in order to gain attention of rights of such groups as consumers, women, senior citizens, minorities and gays. Because of that, lots of companies have public affairs and consumer affairs departments in their companies in order to be able to deal with such powerful groups and issues. (Kotler 2010, 80)

From one point of view it is a positive sign, facilitating the marketing activities in term of customer relationship management, but from the other side it leads to a problem in terms of privacy and extra transparency from the force, which is called consumerist movement. The force is an organised movement of citizens and government with the main aim to strengthen the rights and powers of buyers in relation to sellers. The movements were not effortless and lead to many winnings such as the right to know the true interest rate of a loan and benefits of a product, what moved many private marketing transactions into the public domains. (Kotler 2010, 80)

3.2.2 Economical Environment

Wen Jiabao, China's ex premier passed his final evaluation of the state of China society to the National People's Congress in March, 2013, administrated the results achieved on the pledge of reducing the income inequality. He said that the Chinese development was "unbalanced" and that China

“still face(s) many difficulties and problems in (its) economic and social development” (New York Times 2013). (The World Bank 2013)

Purchasing power plays an important role in the economy and depends on current income, savings, debt and credit availability. Markets as well as people require purchasing power in a same way. Companies, which are positioning its product for high-income and price sensitive consumers should take into account trends affecting purchasing power of the society, because it can affect the business essence.

Nations are not the same in terms of income distribution and industrial structures. Industrial structures are divided into four parts: subsistence economies, primitive type of management, in which production is directed only to meet their own needs (not for sale). Everything needed is produced within a business entity, without the need arises in the market; raw-material-exporting economies like Zaire, which exports copper and Saudi Arabia, which exports oil, and are good markets for equipment, tools, luxury products for the rich; industrializing economies, where growing middle class and a rich one are demanding new types of products, like India or the Philippines; and industrial economies, which are considered to be rich markets for any kind of goods.

Countries can be distinguished in five different income-distribution patterns: (1) Very low incomes; (2) Mostly low incomes; (3) Very low, very high incomes; (4) Low, medium, high incomes; (5) Mostly medium incomes.

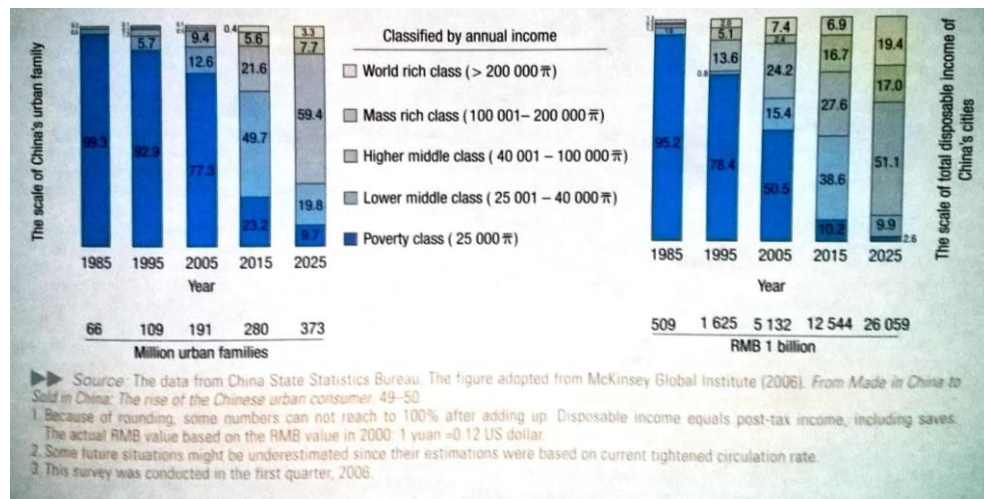


Figure 9 Income Estimation of China's Urban Families (Kotler 2010, 75)

According to the figure above the disposable income rate of urban residents per capita was RMB 11,759 in 2006, while the net income of rural residents was RMB 3,587, which illustrate the huge income gap in China. (Kotler 2010, 75)

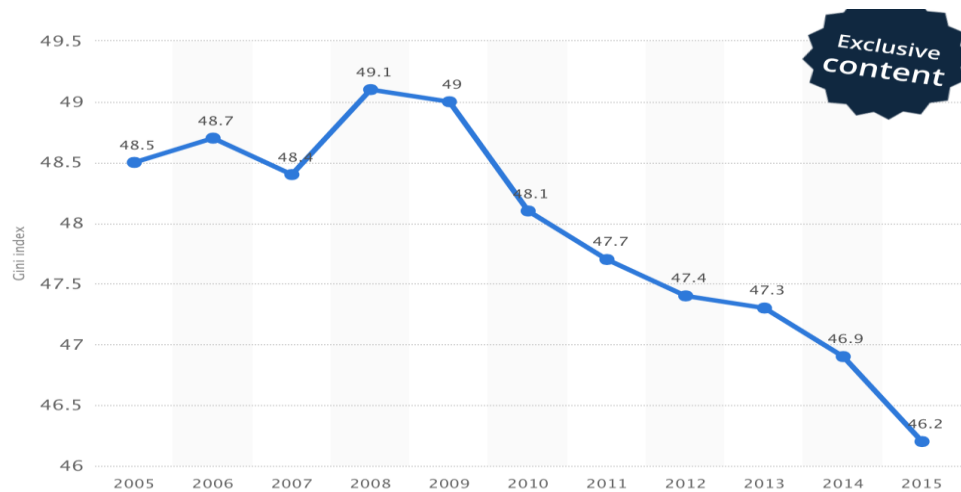


Figure 10 Gini coefficient in China: inequality of income distribution in China from 2005 to 2015 (Statista 2016)

Gini Index is a statistical measure that help identifying the difference in distributions such as income distribution. This statistic shows the huge inequality of income distribution in China from 2005 to 2015. The highest score China has reached was in 2008, with 49.1. The numerous value, measured in points up to 100 was set by the United Nations. (Statista 2016)

There are three main sources of inequality in China:

- It is not the result of stagnant or declining incomes of poorer groups, but more rapid growth in incomes of richer groups;
- It is heavily connected to urban and rural differences;
- Income from private property is a newly appearance and can be considered as a potentially long-term source of inequality. (The World Bank 2013)

Talking about savings, debts, and credit availability, The United States can be a good example. American consumers have a high debt-to-income ratio, which is slowing down further expenses on housing and such costly items, while the credit is also available for the American consumers, however under a high interest rate. (Kotler 2010, 75)

The situation in China is quite different. National deposits amount to RMB 16 trillion in 2016, though, resident bank saving have been staying high for a long time. Taking into considerations the effect from traditions and customs, other reasons of the Chinese Banks' high rates were the incompleteness of the social security mechanism and the lack of a personal investment channel. During the years 2006 and 2007, Chinese bull market motivated and stimulated many individuals to invest in stock markets. (Kotler 2010, 75)

3.2.3 Socio-Cultural Environment

The role of values in the lives of the individual and society as a whole is extremely high. According to them, there is a selection of information in the process of communication, social relations are set, emotions and feelings are formed as well as interaction skills, etc. Thus, the value is not a thing, but an attitude towards things, events, processes, etc. The values are very important in any culture, as determined by the relationship of a human being with nature, society, the environment and him- or herself. (Kotler 2010, 78)

In this chapter the author will consider the perception of the Chinese on different aspects such as other people, themselves, organisations, society, nature and the universe. (Kotler 2010, 78)

- Perception on themselves. Chinese consumers consider themselves to be more open in their behaviour and ambitions. Leisure pursuits are becoming more and more popular. (Kotler 2010, 78)
- Perception on others. People tend to focus their attention on such social problems as safety, crime, suicides and loneliness. At the same time, people are lacking long-lasting relationships with others, which makes the market grow with offerings that promote direct relations with other human beings or which make people feel that they are not alone, such as video games. (Kotler 2010, 78)
- Views of organisations. People started to consider work as a source of making money, not as a source of satisfaction and a self-expression, which shows the overall decline in organizational loyalty, and in turn made companies need to find new ways to gain back the consumer and employee confidence and trust, to make sure they are good corporate citizens and they send out a honest message to consumers. (Kotler 2010, 78)
- Perception of society. People have different attitude towards society, but in most cases it reflects in consumption patterns, for instance those who want to change the society may drive faster cars and live more economically. (Kotler 2010, 78)
- Perception of nature. With the deterioration of global climate and a scarcity of resources and its influence on the environment, people tend to raise their interest in being in a harmony with the nature, which has shown the raise of demand in ecologically friendly products. (Kotler 2010, 78)
- Perception of the universe. Chinese people don't have a common or single idea about universe and their place in it. (Kotler 2010, 78)

In China, people tend to have strong and persistent influence of their core beliefs of their lives, which are passed from parents to children, from one generation to another. For instance, believing in the institute of marriage is a core belief; believing that people have to get married early is a sec-

ondary belief. Marketers may change the secondary beliefs but it is very difficult, with little percentage of success, to change the core values. (Kotler 2010, 78)

Another important aspect is the existence of subcultures, groups of people who share the same values, which are based on their special life experiences or circumstances. Members share common beliefs, preferences and consumption behaviour. For example, marketers love teenagers as a target audience, due to their trendsetting behaviour in fashion, music, entertainment and attitudes. This can serve as an advantage for a marketer, because if they attract someone as a teen, he will probably become a long-term loyal customer in the future. (Kotler 2010, 78)

3.2.4 Technological Environment

Technology is a huge matter in people's lives. New technology can facilitate the innovative breakthroughs, yet it can lead to the "creative destructions" as well. For instance, the creation of automobiles has eased life to many people, but it hurt the railway industry the same way television hurt the newspapers. Instead of accepting and adapting to new technologies, many organisations had ignored it and that decision declined their business performance. The techno progress can be accidental or sporadic, for instance railroads sparked investments until the appearance of the car industry, which diminished it. It is vital for marketers to track and monitor the technological progress: the pace of change and the opportunities for innovation. (Kotler 2010, 79)

The gap between new innovative ideas and their implementation is disappearing, as does the time between the introduction of a new product and its peak production. It changes markets and needs. For example, people can work from home instead of going to an office and waste time on traveling, which reduces the transport pollution, bring people closer, create home centered shopping and entertainment opportunities. (Kotler 2010, 79)

Biotechnology and robotics are the new areas of interest among scientists in China today. The challenge in innovation, that will bring a revolution in the field of products and production processes is not only technical, but also commercial. The main goal is to develop affordable new versions of products. For instance, the development of virtual reality, where the user can experience three-dimensional, computer generated environments through sound, sight and touch, helped companies to gather consumers to the new car designs, kitchen layouts and other potential offerings.

Many companies are eager to invest into copying competitors' product, making minor changes in the design of the product, which can be a big challenge for the marketers and company's products and performance, especially taking a look to the fact that companies more and more prefer to merge their investment in such anti-innovative and sometimes even counterfeit industry. (Kotler 2010, 79)

As products became more complicated with the use of various technological achievements, it is essential to assure the public of its safety. Governmental agencies are responsible to investigate and ban the potentially unsafe products. Regulations concerning safety and health are becoming more of a concern of the Chinese consumer, especially in food, automobiles, clothing, electrical appliances and construction industries. Marketers should consider these factors when launching a product on the Chinese market.

3.2.5 Legal Environment

Despite the important issue such as consumerist movement of interest group affecting the political environment of business market, there is an increase in Business Legislations as another trend dealing with legal environment. For instance, recycling laws lead companies to make new eco-friendly products from the recycled materials, which in turn affected many companies. (Kotler 2010, 80)

Business legislation in china has three main responsibilities and goals: to protect companies from unfair competition, to protect consumers from unfair business operations and to protect the society from the unrestrained business behaviour. Countries such as The United States or European Union have already enacted laws regarding business behaviour, that cover the competition and competitive behaviour, product standards, its safety and liability, fair trade, packaging and labelling or commercial transactions. (Kotler 2010, 80)

Although new laws may have legitimate rationale, it may unintendedly affect business initiatives and economic growth in a bad way. Companies and managers in China are still on the way to learn European and American business standards, good working knowledge and ethics of doing business. (Kotler 2010, 80)

3.2.6 Natural and Demographic Environment

Natural Environment

Efforts made by China in favour of economic development in recent decades has led to disastrous consequences in the environment. (Kotler 2010, 68)

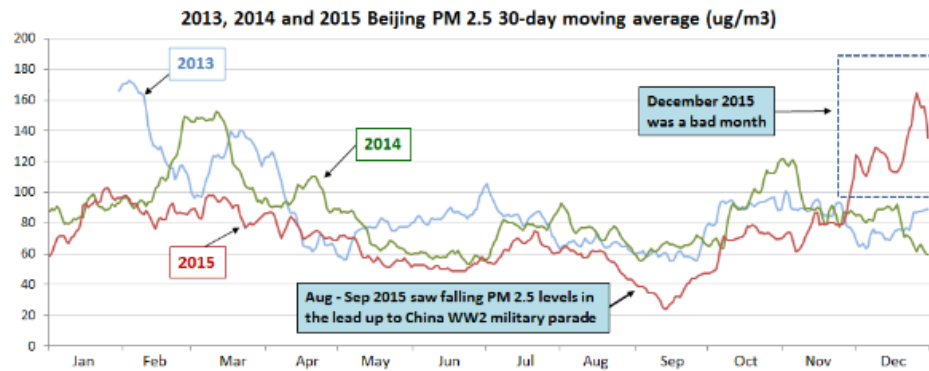


Figure 11 Air pollution rates in Beijing, China in 2013, 2014 and 2015. (Greenpeace 2016)

The figure 5 above shows the examples of the air pollution in Beijing throughout the years 2013, 2014 and 2015. The Greenpeace’s analysis shows that weather influences the most on the smog condition of the cities. But the weather cannot be predicted or regulated, despite the source of the pollution. (Greenpeace 2016)

There is a great concern of the environmental issues lead to the accumulated greenhouse gases in the atmosphere due to the extensive burning of fossil fuels, the depletion of the ozone layer and also the growing shortages of water. (Kotler 2010, 68)

All these reasons influences in a great way the life of Chinese people, what in their turn, appear to be conflicted about product decision that affect the environment, what lead to the increased popularity of Green marketing in China and throughout the world. (Kotler 2010, 68)

Green Marketing is a promotional activity aimed at taking advantage of the changing consumer attitudes toward a brand. These changes are increasingly being influenced by a firm's policies and practices that affect the quality of the environment, and reflect the level of its concern for the community. (Business Dictionary n.d.)

Another trend among organisations in the recognition of the importance of the environmental issues in China is called corporate environmentalism, what make firms integration the nature protection strategic plans and actions. (Kotler 2010, 68)

Marketers, who are dealing with the environmental issues of the Chinese environment should take into account threats and opportunities related to four main aspects: shortage of raw materials, increased cost of energy, increased pollution levels and the changing role of the Governments. (Kotler 2010, 68)

Shortage of such raw materials or finite non-renewable recourses as oil, coal, platinum, zinc, silver pose a serious problem. Firm, which require these scares minerals should take into account the increasing costs or en-

gage into Research and Development in order to find and develop substitute materials for their products. (Kotler 2010, 69)

Increased energy costs have seriously affected the world economy, what lead companies all around the world, including China to search for the practical means to harness solar, nuclear, wind and other alternatives of getting energy. (Kotler 2010, 69)

Anti pollution pressures has lead to the appearance of a large market for pollution control solution such as scrubbers, recycling centres and landfill systems. This aspect ha forced lots of companies to change the traditional way of packaging of goods in favour of eco-friendly designs. (Kotler 2010, 69)

Not leaving without mentioning the changing role of Governments in china. It strictly depends on the area and the government, which is concerned about the damage of the pollution and eager to change the situation. (Kotler 2010, 69)

Demographic Environment

Market is a group of people, wishing to buy your product. And this is the reason, why marketers constantly monitor population trends. The main areas of interest are the size and growth trends in different cities and provinces; age distribution and ethnic mix; educational levels and household patterns, regional characteristics and movements. (Kotler 2010, 70)

Business has a significant interdependence on the explosive population growth. Even though, growing population of a country does not mean growing markets, unless people as a group, have sufficient purchasing power. For example, people in China are concerned about the allowed amount of children per family, because of the one child policy in the past and only two children policy at the moment, what can serve as an opportunity to the organisation, who target children and their parents, grandparents, great-grandparents and other relatives, who are obsessed with the children and treat them like “little emperors”. (Kotler 2010, 70)

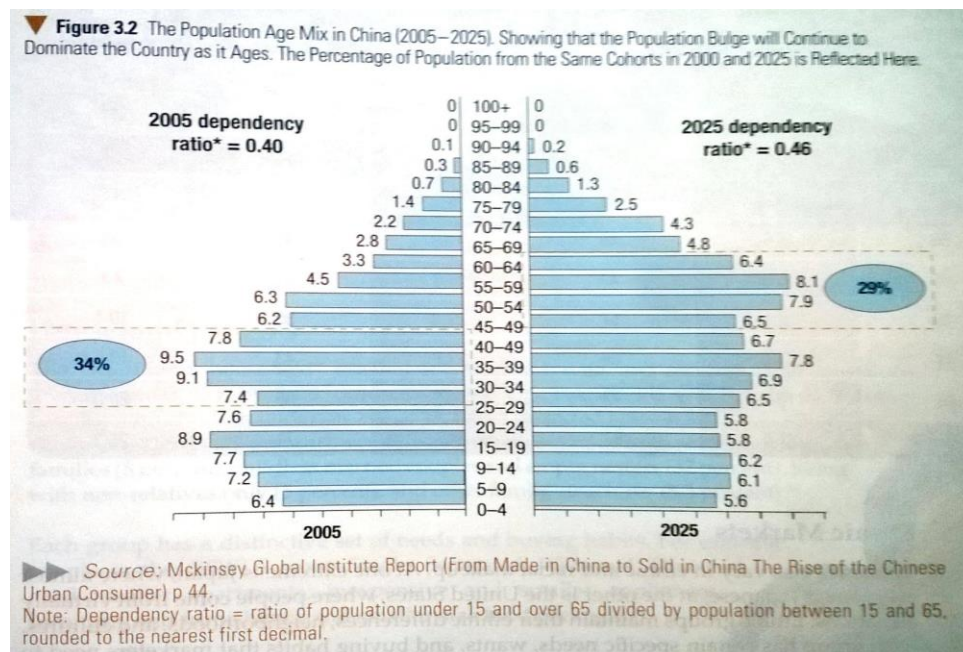


Figure 12 The population Age mix in China (2005-2025) (Kotler 2010, 71)

Nowadays countries are more concerned about the aging population. Population can be divided into several groups: Preschool, school-going age children, teens, young adults aged 25-40, middle-aged adults aged 40-65, and older adults aged 65 and up. (Kotler 2010, 71)

When considering China as a potential market, it is important to take a look onto the ethnic groups. Ethnic groups are composed and can be differentiated by cultures, neighbourhoods and their ethnic differences, what, consequently build up certain needs, wants, buying behaviour and habits. (Kotler 2010, 71)

China consists of 56 ethnic groups, where Han people account for 91.6 percent of the total population. Most often the other groups can be considered as ethnic minorities. Amongst the 55 ethnic minorities, 18 groups can account about one million people (e.g. Zhuang people), 17 between 0.1 and 1 million, and 20 under 0.1 million. Ethnic minorities are located in some relatively concentrated areas. (Kotler 2010, 71)

As to the educational ratios in mainland China, only 5 percent of the total population receive higher education. The total number of Chinese students receiving higher education is accounted for 25 million, when a gross enrolment ratio of 22 percent (in the year of 2006). (Kotler 2010, 71)

China's education is the largest education system in the world. For example, in June 2016 around 9.4 million student took part in the China's National higher Education Entrance Examination. Chinese Government invest about 4% of total GDP in China. Since 1986, China passed a law, which stated that nine years of education is mandatory for all Chinese children. Today, Ministry of Education prospects and forecast that 99.7 percent of the population of the country has achieved the basic education. (China Education Center 2016)

4 OPPORTUNITIES AND CHALLENGES

4.1 E-commerce in China

In the same way how the rest of the world has its ecommerce giants, so does China. While Westerners enjoy doing shopping online on such internet platforms as eBay, Facebook, Amazon, PayPal and Google; China has its own domestic market players, offering services likewise their western counterparts both to the locals and to the rest of the world.

These Chinese companies can not be compared to the Western e-commerce players with the strategy “like for like” terms and conditions, due to the differences in technology, perception, platform and capabilities, which make it too difficult to call equal and to weight one against the other.

In this chapter, author will conduct a desk research about the existing e-commerce giant players in the Chinese markets.

4.1.1 Alibaba Group

Alibaba Group Holding Limited is an open company, which was founded by Jack Ma in 1999. In the beginning, it served as B2B portal between Chinese and overseas consumers. At the moment the company also provides C2C, B2B, P2P, electronic payment, shopping search engine and data centric computing services in People's Republic of China as well as all around the world. (Alibaba Group 2016)

In other words, Alibaba is a huge ecosystem with dozens of possibilities to conduct online businesses. It consists of its own financial, logistical and technological systems in order to ensure reliable and trustworthy flow of information, needed for the functioning of the whole ecosystem. It consists of the following sectors: Taobao, Tmall, Aliexpress, Alibaba, 1688 as marketplaces and trading platforms for different targeted groups and markets, Juhusuan and Alimama as marketing platforms for boosting sales, Alibaba Cloud technological cloud platforms for storing data, Cainiao Network technological platforms for logistics operations and Ant Financial Services Group as financial services provider. (Alibaba Group 2016)

In order to avoid misunderstanding and give the topic a deeper meaning, it is reasonable to explain the name of Alibaba company. The name itself was created according to the Persian fairy tale about two brothers - Qasim and Ali Baba. One brother, Qasim, was a good entrepreneur of those times, while Ali Baba, another brother, was living in poverty for most of his life until he found a cave full of treasures, gained an access to it with the magical word “sesame” and shared the treasures with the whole world. (Alibaba Group 2016)

The allegory has continued with Alibaba company and its affiliated companies, through which Alibaba can share the so called “treasures” with

China and the whole world. Through Alibaba, users can access the platform from anywhere at any time, through PC or a mobile application that does not only offer a convenient web-site navigation, but also additional functions via the built-in applications such a comparative analysis of prices on interest goods, payment service or social network with the ability to select specific vendors to follow the novelties. (Alibaba Group 2016)

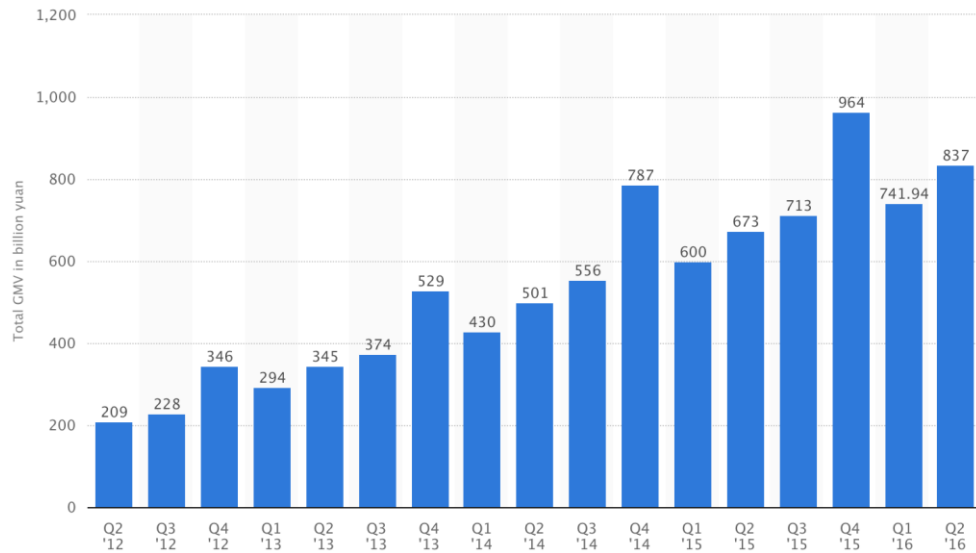


Figure 13 Alibaba's online shopping merchandise volume from 2nd quarter 2012 to 2nd quarter 2016 (in billion RMB) (Statista 2016)

According to the retail market, the biggest and the most influential online marketplaces of this group are considered to be Taobao and Tmall.

Taobao

Taobao is China's largest network market and trading C2C and B2C platform. The name Taobao can be translated from Chinese as finding treasures and wealth. It was launched in 2003 as a free space for trading – sellers had an opportunity of low cost selling point, while buyers could find any product. (Alibaba Group 2016)

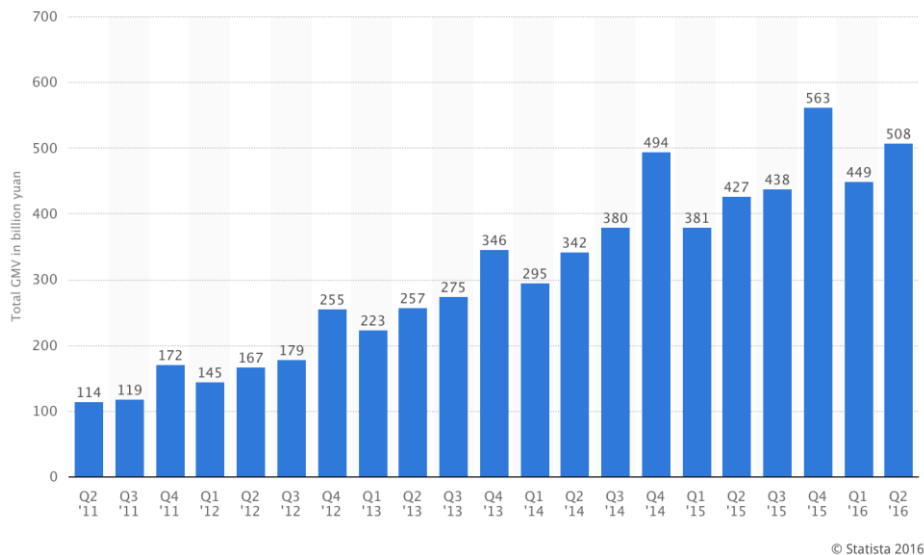


Figure 14 Taobao's online shopping merchandise volume from 2nd quarter 2011 to 2nd quarter 2016 (in billion RMB) (Statista 2016)

According to Figure 14, Taobao's merchandise volume is growing annually and has reached a number of 508 billion RMB in the 2nd quarter of 2016. Taking a closer look, it is noticeable that the highest annual rates are in the 4th quarter, which can be triggered by Taobao's marketing campaign during National Single Day. (Alibaba Group 2016)

Tmall

Tmall trading platform was introduced in 2008 and it presents brands and retailers with unique store and production lines. Accordingly, it is the place for presenting the products and services of premium quality, which are not available in conventional retail outlets. Each vendor on this platform has its own identity and offers a product that has no close analogues on the market, having complete freedom in terms of design and conducting its business. However, not everyone can enter Tmall trading space. Brands of the highest quality from all over the world are operating at this platform. Thus, Tmall can be considered in a sense of "quality mark". (Alibaba Group 2016)

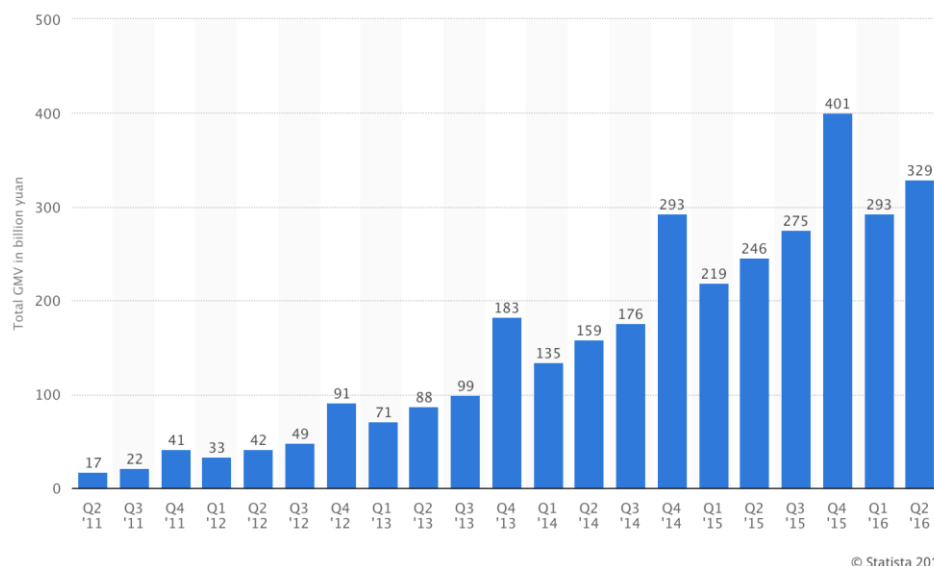


Figure 15 Tmall's online shopping merchandise volume from 2nd quarter 2011 to 2nd quarter 2016 (in billion RMB) (Statista 2016)

In 2009, Tmall started a successful marketing campaign by promoting holidays for lonely hearts in China, commonly called Lonely Hearts Day or National Single Day, which is celebrated on 11th of November. During this day people exchange gifts and congratulate those who have not yet found a pair, so the company has offered to organize the day of the annual 24-hour period of discounts for its consumers. (Alibaba Group 2016)

4.1.2 Tencent

Tencent is a public company, which was founded in 1998 and nowadays is a leading provider of various Internet services in China, such as communication, information, entertainment, financial services, etc. through social platforms and digital content services and also one of the most visited internet portal website. The biggest Internet platforms are QQ Instant Messenger, Weixin/WeChat, QQ.com, QQ Games, Qzone, and Tenpay. For example, by June 31st 2016, there were 899 million active user accounts on QQ. It's aimed market is Chinese consumers aged between 16 and 30. (Tencent 2016)

QQ Enterprise

QQ Enterprise is Tencent's instant messaging service made with the reason of connecting business organisations and groups with the huge QQ user base. It is an essential tool for adopting Customer Relationship Services via stable, effective, and secure communication platform for businesses. (Tencent 2016)

QQ.com

QQ.com is another popular and widely used Tencent's tool or Internet media platform, which is assisting Chinese people with different kind of services such as integrating news, interactive communities, entertainment

products and widely-used basic services, which can be useful for any company. (Tencent 2016)

Paipai.com

Paipai is Tencent's well-known online e-commerce trading platform, which was launched in 2006. At the moment, it is one of the biggest and fastest-growing, well-known among its population of e-commerce website in China. It contains a number of channels, oriented for any kind of market. On top of that, it also provides great opportunities for establishing own business with distinctive variety of services such as feature products and services, proxy overseas purchases, customization and branding. (Tencent 2016)

4.1.3 JD.com

JD.com or Jingdong Mall is the biggest B2C electronic commerce company in China and a major competitor of Tmall. It was founded by Liu Qiangdong in 1998, but started operating as B2C platform only in 2004. (JD.com 2016)

4.1.4 Suning.com

Suning.com is a chain of retail electronics stores, which operate throughout China and one of the largest B2C representatives. (Suning.com 2016)

4.1.5 Vip.com

VIP.com or Vipshop is the biggest online discount B2C retailer for brands in China. It was founded in 2008. Its distinctive feature is a cooperation and partnership with brands all around the world, which are eager to present their products in China. Therefore, it offers consumers premium quality products from different popular brands with significant discounts. (China Internet Watch 2016)

4.1.6 Amazon.cn

Amazon.cn is a recently presented Chinese subsidiary of American Amazon.com, one of the first online trading platforms focused on selling a variety of goods and services all over the world. (Amazon.cn 2016)

4.1.7 Vancl.com

It is one of the largest retailers of online clothing stores in China. It provides clothing of its own brand as well as giving an opportunity as a trading platform for other merchants. It is operating both globally and locally in China. (Vancl.com 2016)

4.2 Introduction to the Primary Data

Besides gaining information by desk research while writing the present thesis, the author has conducted one survey as a way of collecting quantitative data among potential customers of the preferred aged group. One interview was the source of qualitative data. Questionnaire and interview respondents were acquired from personal contacts and post sharing options on WeChat, Tencent's social platform for instant messaging, via promotion of the survey was conducted.

Survey itself was created with the help of Survey Monkey tool for creating surveys and contained ten questions about the age of the respondent, gender, electric guitar playing skills, preferences in the features of their guitars, online shopping habits and most often used online e-commerce platforms for guitar equipment purchasing. In the end of the survey each respondent was offered to give personal opinion about buying foreign electric guitar selling brand from the Chinese e-commerce platforms.

As to the interviewees, author has conducted one face-to-face interview in China of one famous Chinese guitarist and vocalist Li Xia, who is playing in a rock band named Li Dong, which means standing on the East. The band is performing and is based as in Beijing as well as all around China. Interviewee was asked questions regarding his guitar: its usage, the equipment of his guitar and brand preferences.

4.3 Questionnaire and interview results

In this section author has introduced the results of the conducted interview and questionnaire.

4.3.1 Questionnaire results

In total there were fifteen respondents, who reside in China and play electric guitar. And 100% of the respondents belong to the age group of 18-34.

Eleven out of fifteen are men and only four women.

Ten evaluated their guitar skills as a beginner, four as an intermediate and only one respondent stated to have an advance level of guitar playing skills.

As to equipment usage, seven of the respondents do not use any guitar equipment, two of the respondents use all the equipment, three of the respondents use cabinet, one uses amplifier and one – factory pedal.

On the question about what do respondents take into account when buying guitar equipment, everything, including price, quality and features, was important for eight out of fifteen, only quality was important for two people and only price was important for one person.

Regarding online shopping frequency, only one respondent answered that he never shops online. Most of the respondents shop often and very often, while five respondents shop sometimes.

Next question was regarding the exact online stores preferences when shopping for guitar equipment. The most popular platforms among the respondents were JD and Amazon. Next ones by popularity are Tencent, Taobao and Tmall. Although five respondents answered they would not prefer to buy guitar equipment in any of the shops mentioned above. One response mentioned the shop Guitar World in his answer.

As to the question, where potential consumers would like to see the Finnish branded guitar equipment, the most popular answers were JD and Amazon, then followed by Tencent, Taobao and none of the options. The least popular, but still preferred were Tmall and Suning.

For more than 70% of the responses quality of their guitar equipment is very important, while for approximately 30% of the respondents quality is important, but not on first place.

On the last open-ended question, asking each respondent's opinion, answers were quite different but all of them were taken into account. The general idea of the responses lies as follows: it is going to be quite expensive, but with the good promotional efforts and logistics, it can be a great idea, which can be worth a shot.

4.3.2 Interview results

The interview consisted of eight questions regarding guitar playing experience of the interviewee, number of guitars he owns and what brands they are, the guitar equipment, most important characteristics and so on.

As it was stated above, the name of the respondent is Li Xia, who is a vocalist and guitarist in the rock band called Li Dong. Li Xia has four guitars of foreign brands Fender and Gibson. As to the guitar equipment he uses, it is a pedal of Wah-wah brand. The most important feature and technical characteristics of the guitar is distortion. Li Xia prefers to use foreign brands rather than Chinese.

There were few questions concerning Mad Professor amplification and readiness of the respondent to cooperate with the Finnish company. Li Xia replied that he probably would not consider Mad Professor Amplification at the moment, because of the lack of information and awareness about the company.

4.4 Opportunities and challenges

E-commerce is a well known and widely used phenomena nowadays in China and it should not scare the potential market entrants away. Indeed,

the incomes of the Chinese people together with prices are growing, but people's attitudes and perceptions towards the existing products are changing as well. Statistics acquired through Secondary and Primary data research, which were enlightened in this thesis, show that E-commerce in Chinese market is about to keep on growing and expanding in the nearest few years.

China's economical slowdown does not mean crisis, but on the opposite, it can bring stability to the country in many spheres, especially e-commerce.

According to the secondary research of current situation of Chinese E-commerce, the demographic, social and technological forces companies will face both challenges and opportunities due to the designation and reshaping of consumer market in China. Marketing strategies which were acceptable in the past, will be no longer relevant or will have to adapt to the changing environment, not without difficulties. Market itself is reshaping and companies, with ever existing competitive advantage, have little to none at all relevance to the new young generation of Chinese consumers and new retail trends.

First thing that companies have to keep in mind is the fact that the era of rapid swift growth is fading. China is going to become world's most powerful and most important growth market.

As to the technological research, China's e-commerce market is going to continue growing, involving an affluent new generation of consumers. Strategies should include different aspects such as shift in popular product categories, branding perception and retail channels.

Targeting will become more important in the next five years. It is important for companies and their strategies to not mistake and misidentify targeted segments, wrong product category and brand awareness campaigns in the fastest growing online platforms in order to meet consumption demand.

Favourable target group of consumers will become young, well brand aware generation, who are coming from the upper middle or affluent classes. The same happens vice versa in the older generation segment with lower incomes and operations in traditional retail channels.

It is important to take a look onto the macro-environment of the country before starting doing business in it and take into consideration such factors as political, economical, socio-cultural, technological, legal and environmental. First of all because it ensures legitimacy of a company and the right business sphere of investment, but also main keys to marketing and consequently, better customer relationship and profits.

China is still remaining a country with preserved customs and traditions. Even though Chinese people are learning more how to cooperate with foreigners, they still have significant ways of doing business in terms of negotiating, operating, valuing and problem solving.

As to the interview and survey results, the majority of respondents are shopping online often or very often, prefer to buy equipment for the guitar from Chinese online platforms and consider quality as the most important factor, when buying such products as pedals, cabinets or amplifiers, which in turn gives Mad Professor huge advantage in terms of positioning itself as a premium quality guitar equipment, which it already does. However, price factor got the second biggest share among other options and this can push away price-sensitive customers.

On the other side, most of the people who can afford and prefer to purchase foreign brands are not aware of such brand as Mad Professor and would hesitate to buy from online platform.

5 RECOMMENDATIONS

Generally speaking, it is just the right time for Mad Professor to continue entering Chinese market. It will be successful only in the situation where Mad Professor is ready to apply the following recommendations into practice.

It is crucial to create a proper business plan and stick with the strategy, because even Chinese economy has slowed down, and it is due to its experiences of systematic and infrastructural reshaping, which can lead to new legislation reforms or some market fluctuations.

The most attractive target audience for Mad Professor after few years will be the young generation or people in the age group of 18-35 as Mad Professor's target audience, since it will be leading consumer market segment in the nearest five years. The reason is that the growing incomes and social class shifts will be the main driver of the consumption market, while the share of consumption of older people and people with lower incomes is going to decrease.

Investing into brand building and awareness among Chinese consumers before launching an online store by using the services of different platforms will only improve the performance of Mad Professor in China, because new preferable generation of Chinese consumers are the most brand aware and quality appreciative. Another option can be to hire an agent to do so.

In order to not make a mistake, Mad Professor should not leave out of sight cultural differences between ways of conducting business in China and Finland. Mad Professor should learn the negotiation styles of Chinese people and implement guanxi phenomena and maintain relationship by using knowledge of the ways of how to approach Chinese people, would it be clients or partners.

Hiring an overseas agent or using consulting services will be a great opportunity for Mad Professor, as it can make many different issues go easi-

er, such as being able to clearly identify and get familiar with the legislation and right policy. Translation services will be great in this case as well.

According to the results of the interview, most of the respondents are ready to see high quality Finnish products on such e-commerce platforms as JD, Amazon, Tencent, Taobao, Tmall and Suning. Each of these electronic stores and platforms for trading has its own marketing services, which can be extremely helpful for Mad Professor, depending on which category Mad Professor is eager to operate – B2B or B2C.

6 CONCLUSION

Summing up all the theoretical and practical, qualitative and quantitative, field and desk researches of this thesis, author would like to give a conclusions regarding to each chapter particularly.

Thesis background

China's economy is second powerful economy after the one of the United States. For many years, China's rapid economic growth was regarded as an axiom, and its governors - perfect technocrats. But now the environment changed: many people argue that China's economy began to falter, the country suffers from several problems such as over-investment and over-development of infrastructure in a number of basic industries, local government debt, an overvalued exchange rate of the yuan and the looming demographic decline.

In fact, China has faced a problem of not a deep economic crisis but a crisis of expectations. Negative trends, which were mentioned above, exist already for a few years, and the Chinese authorities not only recognize them, but also even called for the slowing down. Therefore, the current economy braking is a sign that China began its transition to a new economic model, largely based on domestic consumption and services sector development. So by fact there is an economic slowing down in China, but not in the e-commerce sector. The situation of doing business online has dramatically changed in the recent years: for instance, in 2014 the volume of e-commerce market in China was EUR 1.8 trillion, when the forecast for 2017 reaches EUR 3 trillion.

Mad professor Amplification Oy is a Finnish company, focusing on producing guitar equipment such as amplifiers, cabinets and pedals and is aiming to conduct online business in China using popular e-commerce platforms. Therefore, the research topic of this thesis is: “E-commerce opportunities in China”. Thus, the research questions author would like to answer in this thesis regarding to the topic and the background of the thesis is: “With the focus on which e-commerce channels should Mad Professor distribute its products in China?”

Theoretical framework

In this thesis author was primarily focusing on enlightening the existing theory of Electronic commerce in order to understand completely the phenomena of doing business online, categories it can be divided into, how companies can benefit from it and what limitations it may contain.

According to the fact that China is quite preserved country with culture and language being quite different from the Finnish ones, author decided to contribute to this thesis and to the company, which is doing business in China already and is planning to expand it, by providing complete profile and analysis of China's culture using Hofstede's seven cultural dimensions: power distance, individualism and collectivism, masculinity and femininity, uncertainty avoidance, long and short term orientation, indulgence and restraint. Moreover, business etiquette, the idea of guanxi and constant maintenance of the relationships play a significant role when doing business with the Chinese, which is also a part of theory described in this thesis.

Current situation

In the chapter author has researched the macroenvironment of the consumer market of e-commerce in China as well as marketing environment in general using PESTLE analysis.

As to the electronic market, there are main three forces in the face of social, Demographical and technological indicators, which are forecasted to influence positively and in a great way the growing consumer market of China.

Then author described and opened up such aspects of doing business in China as: political, the influence of interest groups and political organisations, representing those groups; economical, which explains the situation of purchasing power and income inequality; socio-cultural, where author explains how Chinese people percept their own existence, society and nature; technological, where it is clearly stated that people are concerned about their own privacy with the growth of influence of technology in their everyday life; legal, where author places an accent on the legislation and its possibility to influence on business without a purpose and that company should always be aware of the legislation in its field; and natural and demographical environment of Chinese society, which explains the issue of pollution and the people's attitude towards it, culture in which Chinese people live and what are the main aspects of it.

Opportunities and challenges

The purpose of this chapter is to present the existing popular electronic commerce platforms in China, conduct a research among potential users in this sphere by using primary qualitative and quantitative data. Information was collected via personal interview with the electro guitarist Li Xia, who is a part of a band named Li Dong and a launched survey among guitar

players and their attitude towards online shopping and Finnish brand, their preferences in e-commerce platforms for specific products and their age group. Interview has helped author to analyse the situation and attitude of famous players as potential partners or customers of Mad Professor, while survey as a source of quantitative data helped author to describe and have an overview on the most popular and preferred electronic commerce platforms for purchasing electric guitar equipment from foreign brands and how important for them is the quality of a guitar, what is important for the commissioning company as it has acquired an AAA rating in 2013 and 2014 and is positioning itself as a Finnish brand, producing products of a highest quality. Both qualitative and quantitative research as source of primary data as well as field research as a source of secondary data has assisted author in creating further recommendation of a commissioning company for further actions.

Recommendations

As a result of an overall process of writing thesis, author has come up with the recommendations for the company, which can be probably used by it in the nearest future in order to improve existing problems of doing business in China and to enlighten the fact of growing consumer market in e-commerce sphere.

In general, author is basically taking into account three aspects: culture of doing business in China, the primary and secondary data research results and company's preferences of getting to know how to acquire new customers. According to those author has come up with the recommendations.

First of all, it is crucially important for the company to clarify their target market, the age group, the kind of partnership and category of e-commerce. Then, it better focuses its attention on such e-commerce platforms as JD, Amazon, Tencent, Taobao, Tmall and Suning, depending on the preferred category of e-commerce company is eager to enter. The next step is to increase customer awareness and invest into marketing services on the platforms.

Second of all, as language and culture are different in China than in Finland, company should build a strong strategy concerning negotiations and relationship maintenance part, taking into account business etiquette tips as it is important step in conducting business in China. It is preferred to hire an overseas agent in order to understand better the laws and legislation of China's business environment and get an assistance in operating on the platforms as most of the information including available versions of the layouts are in Chinese.

Final words

In conclusion, according to the data collected during the thesis writing process, author considers China, its current market situation and future forecasts as a great opportunity for Mad Professor to continue entering, exploring and operating in Chinese market.

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ORIGINAL COPY OF THE QUESTIONNAIRE

电子吉他手调查问卷

这项调查完全匿名，最多需要2分钟的时间。鼓励填写诚实的答案。事先表示感谢！

1. 您的年龄
 - 低于12岁
 - 13-17
 - 18-34
 - 35-44
 - 45-54
 - 55-64
 - 65-74
 - 75岁及以上

2. 您的性别
 - 男
 - 女

3. 请评估你的吉他演奏技巧
 - 初学者
 - 中等水平
 - 高等水平

4. 您使用以下哪些乐器？
 - 吉他手有线踏板
 - 吉他工厂踏板
 - 吉他音箱
 - 吉他柜
 - 以上所有
 - 无

5. 在为您的吉他购买音乐设备时，您会考虑什么？
 - 价格
 - 质量
 - 特点（颜色，形状等）
 - 品牌来源
 - 以上所有
 - 无

6. 您在网上购物的频率？

- 常常
- 有时
- 很少
- 从不

7. 您喜欢从以下哪些网上商店购买吉他设备？

- 淘宝
- 天猫
- 京东
- 腾讯
- 苏宁
- 唯品会
- 亚马逊
- 凡客
- 无

8. 您更喜欢从以下的哪些在线商店购买芬兰品牌的吉他设备？

- 淘宝
- 天猫
- 京东
- 腾讯
- 苏宁
- 唯品会
- 亚马逊
- 凡客
- 无

9. 评估吉他设备的质量对您有多重要

- 非常重要
- 重要
- 不必要，但是应该处于可以使用的状态
- 不必要

10. 对于从中国的网上商店购买高品质的芬兰品牌吉他设备，您有什么看法？

- 请填写评论

ENGLISH VERSION OF COPY OF THE QUESTIONNAIRE

Electro guitar players survey

This survey is completely **anonymous** and will take maximum **2 minutes** of your time. Honest answers are encouraged. Thank you in advance!

1. Your age?

- under 12
- 13-17
- 18-34
- 35-44
- 45-54
- 55-64
- 65-74
- 75 or older

2. Your gender

- male
- female

3. Evaluate your guitar playing skills:

- beginner
- intermediate
- advanced

4. Which of the following musical equipment do you use?

- Guitar Hand Wired Pedal
- Guitar Factory Pedal
- Guitar Amplifier
- Guitar Cabinet
- All of the above
- None

5. What do you take into consideration when buying musical equipment for your guitar?

- price
- quality
- Features (colour, shape, etc.)
- Brand origin
- All of the above
- None

6. How often do you shop online?

- Very often
- Sometimes
- Rarely

- Never

7. Which of the following online stores you would prefer to buy guitar equipment?

- Tao Bao
- Tmall.com
- JD.com
- Tencent
- Suning.com
- Vip.com
- Amazon.com
- Vancl
- None

8. From which of the following online stores you would prefer to buy Finnish brand guitar equipment?

- Tao Bao
- Tmall.com
- JD.com
- Tencent
- Suning.com
- Vip.com
- Amazon.com
- Vancl
- None

9. Evaluate how important for you is the quality of the guitar equipment?

- very important
- important
- not necessary important but should be in working condition
- not important

10. What do you think about purchasing a high quality Finnish brand guitar equipment from China's online stores?

Please comment:



Results of the Chinese language survey:

Q1

Answer Choices	Responses
12岁以下	0.00% 0
13 - 17	0.00% 0
18 - 34	100.00% 14
35 - 44	0.00% 0
45 - 54	0.00% 0
55 - 64	0.00% 0
65 - 74	0.00% 0
75岁及以上	0.00% 0
Total	14

Q2

Answer Choices	Responses
男	71.43% 10
女	28.57% 4
Total	14

Q3

Answer Choices	Responses
初学者	71.43% 10
中等水平	21.43% 3
高等水平	7.14% 1
Total	14

Q4

Answer Choices	Responses
手工焊接的效果器踏板	7.14% 1
流水线生产的效果器踏板	14.29% 2
吉他音箱箱头	14.29% 2
吉他音箱箱体	28.57% 4
以上所有	14.29% 2
从没有使用过以上任何乐器	42.86% 6
其他:	Responses 21.43% 3
Total Respondents: 14	

E-commerce opportunities in China. Case: Mad Professor Amplification Oy

Q5

Answer Choices	Responses
设备的价格	57.14% 8
设备的质量	64.29% 9
设备的外观特征（比如颜色，形状等）	35.71% 5
品牌效应	21.43% 3
以上所有内容都会加以考虑	50.00% 7
从不会考虑以上设备	0.00% 0
Total Respondents: 14	

Q6

Answer Choices	Responses
经常	28.57% 4
经常	21.43% 3
有时	28.57% 4
很少	14.29% 2
从不	7.14% 1
Total	14

Q7

Answer Choices	Responses
淘宝网	28.57% 4
天猫网	7.14% 1
京东网	35.71% 5
腾讯旗下网店（QQ网购、拍拍网）	0.00% 0
苏宁	28.57% 4
唯品会	0.00% 0
亚马逊	35.71% 5
当当网	7.14% 1
凡客	0.00% 0
从不会在以上任何一个网站购买电子吉他设备	28.57% 4
其他	Responses 7.14% 1
Total Respondents: 14	

Q8

E-commerce opportunities in China. Case: Mad Professor Amplification Oy

Answer Choices	Responses
▼ 淘宝网	23.08% 3
▼ 天猫网	23.08% 3
▼ 京东网	30.77% 4
▼ 腾讯旗下网店 (QQ网购、拍拍网)	0.00% 0
▼ 苏宁	15.38% 2
▼ 唯品会	0.00% 0
▼ 亚马逊	30.77% 4
▼ 当当网	0.00% 0
▼ 凡客	0.00% 0
▼ 从不会在以上任何一个网站购买电子吉他设备	30.77% 4
▼ 其他: Responses	0.00% 0
Total Respondents: 13	

Q9

Answer Choices	Responses
▼ 非常重视	71.43% 10
▼ 重视	28.57% 4
▼ 不是那么重视, 但要处于可用范围内	0.00% 0
▼ 并不重视	0.00% 0
Total	14

Q10

需要加强推广

10/27/2016 3:29 PM [View respondent's answers](#)

quite expensive

10/27/2016 2:55 PM [View respondent's answers](#)

只有物达或者超过所值就行

10/27/2016 1:56 PM [View respondent's answers](#)

确定没有疯

10/27/2016 1:48 PM [View respondent's answers](#)

会让购物变得很方便 good idea

10/27/2016 1:32 PM [View respondent's answers](#)

Results of the English language survey:

Q1

Answer Choices	Responses
under 12	0.00% 0
13-17	0.00% 0
18-34	100.00% 1
35-44	0.00% 0
45-54	0.00% 0
55-64	0.00% 0
65-74	0.00% 0
75 or older	0.00% 0
Total	1

Q2

Answer Choices	Responses
Male	100.00% 1
Female	0.00% 0
Total	1

Q3

Answer Choices	Responses
beginner	0.00% 0
intermediate	100.00% 1
advanced	0.00% 0
Total	1

Q4

Answer Choices	Responses
Guitar Hand Wired Pedal	0.00% 0
Guitar Factory Pedal	100.00% 1
Guitar Amplifier	100.00% 1
Guitar Cabinet	100.00% 1
All of the above	0.00% 0
None	0.00% 0
Total Respondents: 1	

Q5

E-commerce opportunities in China. Case: Mad Professor Amplification Oy

Answer Choices	Responses
Price	0.00% 0
Quality	0.00% 0
Features (colour, shape, etc.)	0.00% 0
Brand origin	0.00% 0
All of the above	100.00% 1
None	0.00% 0
Total Respondents: 1	

Q6

Answer Choices	Responses
Very often	0.00% 0
Often	0.00% 0
Sometimes	100.00% 1
Rarely	0.00% 0
Never	0.00% 0
Total	1

Q7

Answer Choices	Responses
Tao Bao	0.00% 0
Tmall.com	0.00% 0
JD.com	0.00% 0
Tencent	0.00% 0
Suning.com	0.00% 0
Vip.com	0.00% 0
Amazon.com	0.00% 0
Dang Dang	0.00% 0
Vancl	0.00% 0
None	100.00% 1
Other: Responses	100.00% 1
Total Respondents: 1	

Q8

E-commerce opportunities in China. Case: Mad Professor Amplification Oy

Answer Choices	Responses
▼ Tao Bao	0.00% 0
▼ Tmall.com	0.00% 0
▼ JD.com	0.00% 0
▼ Tencent	0.00% 0
▼ Suning.com	0.00% 0
▼ Vip.com	0.00% 0
▼ Amazon.com	0.00% 0
▼ Dang Dang	0.00% 0
▼ Vancl	0.00% 0
▼ None	100.00% 1
▼ Other: Responses	0.00% 0

Q9

Answer Choices	Responses
▼ very important	0.00% 0
▼ important	100.00% 1
▼ not necessary important but should be in working condition	0.00% 0
▼ not important	0.00% 0
Total	1

Q10

Showing 1 response

Why not, if the action and pickups are good, then I'll rock it.

10/27/2016 7:57 PM [View respondent's answers](#)