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**Nepalese Coffee and Market Potentiality in Finland**

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## **Abstract**

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The purpose of the thesis is to find out market possibilities for the Nepalese coffee in foreign market and to provide the guidelines for market expansion in best way possible for Nepalese coffee exporting companies to enter in Finnish market. This thesis intends to solve the important concerns on behalf of the Nepalese coffee exporting companies. To prepare this thesis a set of questionnaires was prepared and sent to various famous cafes and different supermarket chains that exist over the Finland. To find out the real Nepalese coffee market information, we tried to arrange the interview with the biggest coffee exporting companies in Nepal but because of various reasons it was not possible. The information was gathered with questionnaire, e-mail and telephone conversation with the operating organizations and from different official sites.

Keywords: Coffee, Nepalese, export, Finland, Import, Market

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# 1 Introduction

Coffee is considered as one of the most famous beverage that is extracted from the evergreen plant of genus *Coffea*. *Coffea canaphora* (Robusta coffee) and *Coffea arabica* (Arabica coffee- which occupy 60 percent coffee productions) are the two popular varieties of coffees in the world. Currently, more than 70 countries in the world are engaged in coffee farming out of which equatorial Latin America, Southeast Asia, and Africa are highly engaged in coffee plantation. Coffee provides satisfaction, and it neutralizes free radicals and safeguards the body cell from injury caused by stress because of its robust antioxidant properties(Third Wave Coffee Source).

Coffee is highly demanded and leading beverage in the world. Every day more than 2.25 billion cups of coffee are demanded throughout the world. Mostly, the underdeveloped countries produce more than the 90% of these coffees that are consumed mostly in the developed countries according to(PONTE, 2002). Nepal is the country that has been producing natural, organic coffee mostly Arabica (which most is preferred and traded brand in Finland). Coffee is one of the most valuable commodities exported by developing countries. Green (unroasted) coffee is one of the most traded agricultural commodities in the world. Coffee is served in many varieties that are espresso, French press, cafe latte etc. light and dark roasted coffees of high quality coffee brands provide different sensational tastes.

Consequently, the markets for fair trade coffee and organic coffee expanding and thus this study provides an approach for the understanding the underlying market structure of Finland and provides guidelines to the Nepalese coffee exporters and other business entities currently operating in this sector. With this approach, the study plans to identify the true potentiality of Nepalese coffee brands that meets the market requirements of Finland that can help in promoting this coffee exporting practice and further increase its exportation to Finnishmarket

This study comprehends the environment factors with marketing mix p's, PEST analysis and the strengths, weaknesses, opportunities and threats based on various elements that has the impact on the market chains over the Finland and Nepalese coffee sectors. The interviews were conducted over different organizations and the

coffee operators in Finland as well as Nepal, with the help of survey analysis and results this study tends to portray market strategies and in depth knowledge about the consumers behavior and the existing patterns of coffee consumption in Finnish society, which will be of great worth for the reader and there will be guidelines for Nepalese coffee exporters for considerable planning and setting up market link to the Finland and meet the specific market requirements.

### **1.1 Research objective and goal**

The objective and goal of this research is to describe the Nepalese coffee, Finnish coffee market and evaluating the market chain possibilities and prospects to venture in to various foreign nations as well as Finnish market, this project underlines the opportunities for Nepalese coffee in Finnish culture and introduces to various strategies and market structures in order to harness the capability of Nepalese companies and business sectors and pave a successful path to penetrate in this thriving market. Finally, this research will provide some useful guidance to the companies in term of expansion in the Finnish coffee market. The following concerns will be elaborated in this project:

- How a Nepalese company operating in the coffee business can successfully enter or operate in the International/Finnish markets.
- The market conditions of the Finnish Coffee in the world.
- The behavior of Finnish coffee consumer.
- Identifying elements/factors that help companies or business entities to enter the Finnish market.
- Factors that contribute towards the entry mode selection for Nepalese coffee industry to start their business in Finland.

The major objective of this study is to illuminate the existing organization patterns, market, conditions, constraints etc. and provide guidance and useful information to Nepalese companies that have been exporting coffee to the worldwide nations and expand its exportations to the Finland, primarily because Finland is one of the highest coffee consuming countries in the world and there is vast possibilities and

potentialities for Nepalese coffee beans in the Finnish market. It is for sure that the research conducted would benefit the Nepalese coffee marketers and exporters by addressing the issues concerning the globalization and the barriers to entry in the foreign market which is an important factor for the expansion of the business operations in the foreign country. To achieve this there are certain guidelines and the conditions that the Nepalese producers should be aware of or more priorities should be given in order to get through its constraints and limitations and provide useful instructions for better market strategies and planning.

## **1.2 Significance of the Research**

The significance of this study can be evaluated from the fact that it provides different market strategy that the Nepalese coffee companies can adopt in order to stimulate its business operation in Finland, and is also used to evaluate the viability and the applicability of the global strategies in the process of globalization of the coffee organizations operating in the emerging and the developing economies of Nepal to elevate and mature in terms of their economy.

In addition, another major significance of this study is the primary focus to the coffee market of Finland and possibilities of Nepalese coffee in this country. Since the primary data and information are collected from residents and business specialist of Nepal as well as Finland, there are various recommendations to Nepalese coffee companies showing a better way to utilize and enhance their existing market patterns for successful globalization.

## **1.3 Research Limitations**

There were some difficulties gathering information from companies, due to the fact that some experts did not answer to all questions provided or answered partially to questions and the lack of computerized system in organizations in Nepal, which makes it difficult to access data and information. One of the main obstacles of this research will probably come from the fact that accurate data regarding coffee statistics as well as others related information's are not always available in Nepal

due to lowest penetration of computerized system in the country. The sources of the information are mostly the online and journal sources as the writer of this thesis has language barrier with the Finnish language.

#### **1.4 Structure of Thesis**

This thesis is divided into seven chapters focusing each of them on a particular area and subject.

- Chapter one introduces the research objectives, the subject area as well as the background of this project. This chapter also explains the reason behind the selection of this topic as well as the expected outcome.
- Chapter two introduces to Nepalese coffee market, its characteristics, market pattern & processing mechanism are discussed
- Chapter three gives the glimpse of international coffee market and Finnish coffee culture. It provides information regarding the current market situations as well as the famous coffee brands and factors of market chains in Finland.
- Chapter four explains about the internal and external environmental factors of the companies. It explains marketing mix (4Ps), SWOT matrix and PESTAL analysis to help better understand the environment of producers and companies and their possibilities.
- Chapter five is the blend of methodologies, survey analysis and the discussion.
- Chapter six is the introduction to the various market entry modes and its criteria. This chapter provides effective market specializing strategies and the factors that have been widely implemented in many successful business plans.
- Finally, chapter seven gives the conclusion of this study and provides useful recommendations and guidelines to the Nepalese economy for its enhancement and better market possibilities.

## 2 Coffee Business in Nepal

### 2.1 Background

Coffee plantation is still a new adventure in Nepal. In 1938 AD, a hermit Mr Hira Giri had brought some seeds of Coffee from Sindu Province of Myanmar (the then Burma) and had planted in Aapchaur of Gulmi District for the first time in Nepal. After Hira Giri introduced coffee in Nepal, it stayed as interesting plant for a very long while onwards until the then His Majesty's administration chose to import Coffee seeds from India in 1968. Mid 1980s saw a critical advance in Nepali coffee area: the primary ever Coffee progress, Nepal Coffee Company (NeCCo), built up in 1983 and only a year after, Coffee development Center under department of Agriculture was set up in Aanpchaur, Gulmi. (National Tea & Coffee Development Board)

In the vicinity of 1999 and 2002, HELVETAS's program, Sustainable Soil Management Program (SSMP) propelled Coffee Promotional programme in Syangja, Parbat, Kavrepalanchowk and Sindhupalchowk. Coffee Promotional Project was planned and executed from 2003 until 2006. Coffee Promotional Program (CoPP) has been effectively implied since 2007 which is in its third stage, covering 12 districts right now (Coffee Database In Nepal, 2014).

In 2003, there were different international and national organizations operating in coffee sector when the national coffee policy was prepared. Precisely recognizing the possibilities of coffee businesses, there are perpetually expanding quantities of manufacturer's organization included, straightforwardly or by implication, in its manufacture, preparing and in the business. The farmers are normally structured in producer groups and cooperatives; Nepal Coffee Producers' Association (NCPA) and Central Coffee Cooperative Union (CCCUL) being the apex farmers' organizations. (Coffee Database in Nepal, 2014).

Among the cash crops cultivated in Nepal, coffee is a high value cash crop commercially grown in many parts of the country with environmental importance and is growing popular among the Nepalese since the last few decades. At present, coffee cultivation is spread in over two dozen districts of the mid hill regions. Coffee,

a commercial crop, requires an exceptionally apposite geographic and climatic condition in the country."There is a great potentiality for coffee cultivation in hills, due to suitable climate, topography, soil structure, relative humidity, temperature and rainfall," Gyanendra Adhikari, president of Central Coffee Cooperative Union (CCU) Limited. (Pokhrel, COFFEE CULTIVATION, Nepal Could Make Huge Gains, 2009)

Coffee, being one of the most important and cash generating crops in the mid hills of Nepal are grown in marginal areas with minimal use of advanced technologies. There are altogether 40 districts involved in coffee cultivation. The resource poor and small-scale farmers are mainly responsible for growing coffee under marginal highland condition (Shrestha, Production, Processing and Marketing of Coffee in Nepal, 2008)with the minimal or no use of chemical fertilizers and pesticides in the production process. The use of unproductive, fallow and the lands prone to degradation, the coffee cultivation is helping to conserve soil erosion, degradation of land and also provides 20-25 percent extra income than traditional cereal crops like maize and millet (Chaudhary, 2008). The climatic conditions suited for coffee consist of a temperature with 20-25oc, humidity with 70% to 80%, rain fall with 1600 mm to 2500 mm and a daily 10-12 sun hour with no frost conditions. It may be grown within the altitude ranging from 700 m to 1400 m. Coffee needs adequate shade and grows well in the northern slope of hills. (Trade Competitiveness of Nepalese Coffee, 2006). Thus, mid-hill regions are best suited for coffee cultivation, farmers have benefitted from the huge coverage of land and climate condition for growing coffee and generating income.

In terms of area coverage and production, Nepal has significantly lower presence in comparison with the world production and its area, however it is notable that Nepalese upland and organic coffee is well known in the international markets and they owe to its high quality cupping and sound aroma (Poudel, 2009). Especially Nepalese coffee has high demand in Japan, America, South Korea, Germany and the Netherlands.

Since, the coffees are cultivated and processed without the use of chemical fertilizers and pesticides in Nepal, Nepalese coffees are one of the best organic coffees. Both the government and non-government sectors are growing interestin

promoting the coffee production and assisting the farmers to produce in more amounts in order to meet the international market demand.

The Nepalese Arabica coffee brand received the award in the '2nd International Contest of Coffee Roasted in their Countries of Origin.' The event participated by participants from 24 countries, was organized by the Agency for the Valorization of Agricultural Products (AVPA) in Paris, France on 2016, July 1st(Himalayan Arabica, 2016). Likewise, in 2017 Himalayan Arabica has been accorded with the '4-Gourmet' award at the internationally acclaimed International Contest of Coffees Roasted in their countries of Origin AVPA – Paris 2017 organized by the Agency for the Valorization of Agricultural Products (AVPA). Nepal's 'Himalayan Arabica' received the recognition in the 'Puissant Amer' category, according to the organizers. Himalayan Arabica is grown by the Lamjung-based Greenland Organic Farm(Himalayan Arabica, 2017).

Nepalese coffee beans are being recognized and appreciated worldwide. This significant gourmet coffee of Nepal has the potential to produce a better product in years to come due to improved growing and processing methods. So, it is noteworthy to measure the implications and the potentiality for promotion of coffee production and marketing as valuable commodities in overseas market, and especially measure the possible outcome in Finnish market that has high demand of Arabica coffee.

## **2.2 Production Places**

Coffee can be commercially produced in many parts of the country. However, there is great potentiality in mid hilly region for organic coffee production as it has got suitable climate, topography, soil, relative humidity, temperature and rainfall for Arabic coffee.



Figure 1 Coffee Production Districts in Nepal (Source: <http://www.lekali.com>)

In late seventies, expansion of coffee as commercial crop to some extent took place when government of Nepal imported coffee seeds from India for distribution ([www.teacoffee.gov.np](http://www.teacoffee.gov.np)). Nepal has auspicious environment for coffee cultivation and seeing the peoples' interest on its farming Minister of Agriculture decided to launch Coffee Development Programme in Nepal. With the governments' technological and financial assistance, people started to cultivate coffee and it slowly spread to more than 39 central and hilly districts of Nepal. The whole coffee process is organic and involves a lot of physical labour (Tealaya).

In 1989 enthusiastic farmers initiated the establishment of coffee production group which later transformed into Committee of Nepal Coffee. In 1993 the concept of organic coffee was introduced. Furthermore, 8 districts (Palpa, Gulmi, Syanja, Kaski, Kavre, Lamjung, Baglung & Jhapa) jointly established Central Committee of Nepal coffee producers association (Nepal Coffee Producers Association, 2015).

### 2.3 Processing

The quality of coffee vastly depends on its processing methods. Farmers from Nepal commonly use two different methods known as dry and wet processing. However,

the wet processing method is commonly practiced nowadays. Firstly, the fresh ripe cherries are harvested and sold to the pulping centers by the farmers and then they are pulped, fermented, washed and dried to produce fine dry parchment at the pulping center. Dry parchments are then collected by processors and hulled at the central processing unit to produce green beans (Shrestha, Productoin, Processing and Marketing of Coffee in Nepal, 2008) and then the beans are exported.

The various operational processes and their managements such as quality of available water used in the pulping center, types of pulping machine, fermentation duration, facilities available for drying, washing process, storage etc are responsible for the quality of coffee in wet processing method (Coffee Promotion Program (CoPP), 2008). Basically, Producers' Association, Cooperative Union and private companies are involved in the final processing and packaging of coffee.

## **2.4 Quality Assurance**

As coffee is a very important cash crop and an export commodity, it necessitates maintaining its quality and standard at every stage of its production as well. The quality of coffee refers particularly to the color, size, appearance, flavor and with acidic aroma. The quality of the final product depends upon the pre-harvesting and post harvesting activities. Variety, climatic factors and agronomic practices (at the pre-harvesting level), sorting, pulping, fermentation, washing, drying, storing, packaging and processing including hulling and grading activities/practices adopted at the post harvesting have direct bearing on the quality. Although, Nepalese coffee producers, processors are not highly skilled, trained and equipped with adequate expertise to required extent, but the suitability and diverse climatic condition makes it possible, Nepalese coffee yet has been considered to be of high quality. As per the reviews of International coffee experts Mr. Miricion Salinas and Mr. Paul Katzet, the presence of Ochratoxin A (OTA) produced by moulds in coffee due to unsafe moisture level has been found to be toxic to health that primarily affects the kidneys, that has been confirmed with animal tests. Therefore, a safe moisture level is essential to maintain the quality. ((AEC/FNCCI), 2006)

The National Tea and Coffee Development Board (NTCDB) and NCPA have guided the farmers not to grow coffee at less than 800 meters altitude. Many of the coffee growing areas also get cool wind from Himalayas that help produce superior quality. As a genuine process of promoting Nepalese coffee the Government of Nepal (GoN) has approved Nepali Coffee Logo and awarded to three traders that meet the set standards. (Karki, 2012)

## **2.5 Certification**

The certification for organic coffee in Nepal is still in rudimentary condition as the government has not launched strong mechanism for promoting organic certification. Nonetheless, National Technical Standard has recently been established by Gender Equity and Environment Division (GEED) of MOAC, in order to promote production, processing and certification of organic products and the National Coordination Committee for Organic Agriculture Processing System has also been established for facilitating this process.

NGOs (especially Helvetas), Nepal Permaculture Group and some private organizations are plying for technological improvements to some extent as they are of essence for organic coffee production. Nevertheless, the organic methods of coffee production and inspection, certification and marketing are the considerable roles of CoPP/Helvetas. While measuring its importance, CoPP has started Internal Control System (ICS) in collaboration with District Cooperatives Federation, Gulmi in 2005 for the certification of coffee and to promote its production. This practice from Gulmi, further led ICS to start this system in the Lalitpur district. The ICS is an aim of gaining experience on requirements of ICS, expenses needed for the system and identify cost effectiveness and sustainability and appropriateness of ICS in Nepal (Coffee Promotion Program (CoPP), 2008).

In Nepal, certification process for organic production is relatively expensive as the coffees produced heretofore are in little amount and failed to convince the traders and companies to support this notion. Although international agencies such as National Association for Sustainable Agriculture, Australia (NASAA) (Australia) and Japanese Agriculture Standard (JAS) have involved in the certification of coffee.

NASAA (an Australian organization), however is only certifying the organic coffee especially of Gulmi district and have just started in the Lalitpur district. Thus, small portion of organic coffees known to be certified are sold in the international market. (Tiwari, AGRICULTURAL POLICY REVIEW FOR COFFEE PROMOTION IN NEPAL, 2010)

Additionally, the export market of organic coffee depends on its quality. Part of the certification process is internal control system. Farmers need to be trained on this practice. Arrangement is also required to recruit technicians who will be regularly visiting the farmers' fields to provide much needed technical help.

## **2.6 Marketing**

Marketing is defined by the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offering that have value for customers, clients, partners, and society at large. (Definition of marketing, 2013)

Generally, there are five players/stakeholders who are involved in bringing coffee from producers to the consumers or selling centers. They are farmers, collectors, pulpers, processors and traders. However, for the last few years, some collectors have also started performing the role of pulping the ripe cherry and forward it to the processor. This channel is common in wet processing system which covers nearly 80% of the market. Besides, above mentioned circuit, in some places, the farmers bring ripe cherry/dry cherry to the collector, who in turn (after drying if he buys the ripe cherry) takes it to the processors directly. This prevails in the dry processing system that accounts for nearly 20% of the market share. In both the processes, the processors themselves act as traders and sell the final products either in the domestic and, or overseas market.

There is a great scope for Nepalese coffee if they could participate in international trade with developed countries but Nepal seems to fail in meeting those criteria as the quality obligatory for agricultural products set by these countries are very high (Adhikari & Adhikari , 2005). In the world market, the demand for the organic and

highland coffee is high because of climate peculiarity of mid hills in Nepal thus, coffee produced in these areas are of high standards in international markets.

At this moment, countries such as Japan, Europe and USA imports more than 65% of Nepalese coffee in the form of parchment, that are exported through coffee mills and 35% of the total products are processed and supplied in the domestic market (Gautam, 2008). Nepal exports only superior quality green bean to overseas markets, and the lower quality beans are roasted, grinded and sold in the domestic markets.

<b>Market</b>	<b>Export (% of total)</b>
Domestic	35%
Japan, Europe and USA	65%

Table 1: Nepalese Coffee Export (Domestic and International)

Nevertheless, there are no direct marketing channels from producer cooperatives and District level producer's associations to international markets for exporting Nepalese coffee beans. Instead most of the coffees are exported through personal contact of the traders rather than institutionalized exporting mechanism. Thus, there is no fair price for the Nepalese beans and the market scope is limited in international market. Moreover, due to the lack of market transparency the actual price for the Nepalese coffee is unknown to the producers, cooperatives and producer's associations. The actual prices of Nepalese coffees remain secret and the traders are not willing to disclose them in the international markets thus keeping the great deal of confusion among the producers.

In general, there are 3.5 times more prices for Nepalese coffee in the world market as compared to the Indian coffee because of their higher quality (Tiwari, AGRICULTURAL POLICY REVIEW FOR COFFEE PROMOTION IN NEPAL, 2010). Nonetheless, Nepalese coffee market is so far very limited because of lack of well-developed marketing channels and low volume of production. As for the local market, the lack of awareness among the consumer is a major constraint for the growth of Nepalese coffee. The NTCDB organizes Coffee Day annually and provide information regarding the coffee to lure the domestic as well as foreign consumers.

The Coffee Day is organized especially for the promotion and fostering the marketing of coffee.

Nevertheless, the production of coffee in Nepal is less than the quantity and quality demanded by traders and the number of programs organized by government and non-government to promote its production are still considered lower. In this context, it is necessitated to escalate the productivity and quality of coffee regarding the demand of international market.

District Cooperative Federation, Gulmi is the only exporter of certified organic coffee (Certified from NASAA). It mainly exports to Japan and South Korea. Another effort to promote coffee export was done by Highland Coffee Promotion Company, Everest Coffee Company and Plantec Inc. to USA, Japan and Europe (Poudel, 2009).

Although agricultural policies are concerned to the improvement of marketing for Nepalese coffee in the international market, still the government organizations have not succeeded for the promotion of coffee exportation to the international market. Thus, prominently there is a gap between what is stated in the policies and what is actually implemented in the field and lacks researches for the Nepalese coffee marketing.

Majority of agricultural policies are interested in increasing the production and area coverage of valuable crops such as coffee beans, but there seem to be lower than expected expanding rate owing to the several constraint factors. As the technical assistant and equipment are not sufficient to support coffee producers, the farmers seem to be less motivated and most of all, the producers are not adopting the improved cultivation practices.

Certification is considered the paramount for promotion of organic coffee. In this context, the international agencies such as NASAA, Australia and JAS, Japan are involved for certification of organic coffee in Gulmi and Lalitpur districts. Highland Coffee Promotion Company Limited has been able to certify organic coffee production in Palpa and Syangja districts, which is still not sufficient as the well implemented mechanism is necessary for the certification of organic coffees. (Tiwari, AGRICULTURAL POLICY REVIEW FOR COFFEE PROMOTION IN NEPAL, 2010)

Coffee is having international market. It is necessary to maintain international market strategy in order to compete and meet the requirements of the foreign importers. Likewise, market fluctuations also have great impact on the production and price of coffee.

### 3 Foreign Market: Finland

#### 3.1 A glimpse at world coffee consumption

Global coffee consumption has continued to increase, reaching a record 151.3 million bags in coffee year 2015/16, representing an average annual growth rate of 1.3% over the last four years. By far the strongest growth rates have been found in Asia & Oceania, averaging 3.7% per annum, followed by North America (+1.7%) and Africa (+1.2%). More modest growth rates were recorded in Mexico & Central America (+0.8%), Europe (+0.4%), and South America (+0.2%). (ICO Annual Review)

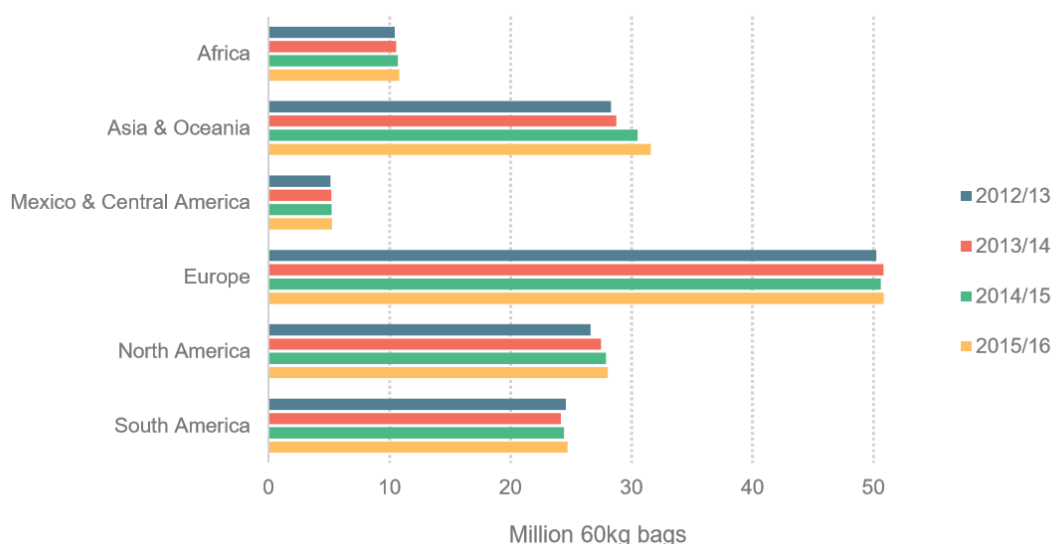


Figure 2: Global Coffee Consumption (Source: <http://www.ico.com>)

The figure above illustrates the coffee consumption in different continents in between the year 2012-2016. Amongst all, Europe on top of all continents has been the greatest coffee consumer in all years that imported more than 50 million bags (each bag weighing 60kg) in all four years. So, it is clear that there is great potentiality for exporting coffee beans to the European markets especially the countries Finland, Norway, Germany have great affection towards coffee consumption. Statistics says that the Finns are greatest per capita coffee consumers in the world. So, this research particularly focuses in the market structure of Finland and in-depth analysis is conducted to identify the possible outcomes if there is successful market chain between Nepalese coffee companies and Finnish coffee importers.

### 3.2 Coffee Consumption in Finland

Finns are one of the biggest coffee consumers in the world, thus coffee consumption is a very fascinating term in Finnish culture. There is a legal right for Finnish workers to take coffee breaks. Finnish coffee is usually lightly roasted, allowing the flavour notes of the coffee's origin to shine through, which is considered the traditional way of brewing coffee.

Finnish have a great obsession of drinking coffee, each person in Finland consumes around 12 kg of coffee each year (highest rate of per capita coffee consumption in the world). One of the main reasons behind this massive coffee consumption is the cold environment of Finland making this beverage one of the most popular drinks. (worldatlas, 2016)

Year	Raw coffee imported to Finland, kg
2012	61 328 545
2013	62 920 360
2014	61 217 463
2015	67 713 000
2016	71 387 000

Table 2: Coffee Imports in Finland 2016

In 2016, raw coffee imported about 71 million pounds in 2016. Finland at the forefront of green coffee supplying countries were Brazil, Colombia and

Honduras. 75% of imported raw coffee came to Finland from these countries. (Koffee and roastery association, 2016)

Finns are drinking coffee for more than a century; therefore, it has a significant relation with the Finns. The significance of coffee for Finns can be also analyzed from the 20<sup>th</sup> century's Finnish novels, painting and essays. (Curtet, Exploring the Finnish affinity for coffee, 2015)

According to the Finnish Restaurant guide, there are big coffee shops in Finland with approximately 350 cafes only in Helsinki that sells regular coffee which provides the large choices of supplier and variety of taste. Therefore, there is a very virtuous chance for new competitors in the Finnish coffee market.

### **3.3 Key Players/Factors Determining the Market Chain**

#### **3.3.1 Players**

Gustav Paulig's Juhla Mokka and Meira's Kulta Katriina are the two most traded coffee brands in Finland. The private labeled coffees by the grocery retailers are also in the choice of customers. For instance, Pirkka Costa Rica becomes the second choice of consumers in Kesko stores after Juhla Mokka. Recently dark roasts, instant coffees and capsule coffees are becoming popular among the Finns. (Kultalahti, 2016)

#### **Paulig Group:**

Paulig is the market leader in supplying coffees in Finland, the Baltics and also in Russia. It operates in 15 different countries and holds the second position in the supply of roasted coffee. Gustav Paulig who arrived in Finland from Lubeck, Germany in 1876, started Gustav Paulig AB as a family business of coffee and cocoa. The Paulig group which employ more than 2000 employees has 867 million euros of sales in 2014 and out of the total sales, 13 % is from the sales of coffee. They are expert in coffee, world food and flavoring, snack and natural healthy food. Paulig Group owns the strong brand like Paulig, Santa Maria and Risenta. Their

major coffee brands are Juhla Mokka, Paulig President, Paulig Classic, Paulig Mundo, and Espressos. They distribute 4000 coffee machines every year which makes more than one million cups of coffee. (Paulig Group, 2016)

**Meira:**

Meira is a Finnish company established in 1914 in Helsinki that produces and market coffee brands and spices. It operates in Finland and Baltics regions as well as it works through its subsidiary in Estonia and Denmark. In 2013, Meira's 170 employee's team was able to make the sales of 88 million euros and in 2015, 85 million euros of sales occurred. Kulta Katriina is the most preferred coffee brand of Meira Group in Finland. Out of their total sales 23 percent of their sales is from coffee retail sales in Finland. (Kultalahti, 2016)

**Robert Paulig:**

Robert Paulig is the cousin of Gustave Paulig and he is one of the successful businessman in Finnish coffee business. In 1987, he started his company in Helsinki with a roaster and a café that provides variety of coffee products along with the filter coffee, Horeca coffee, and low acidity coffee named as Watsa coffee. Similarly, different variety of coffees such as flavored coffees, espresso coffee and moomin coffee were served by his company. The turnover of Robert Paulig Roaster in 2015 was about 3 million euros. Customers preferred their non-certified dark roast coffee mostly. Robert Paulig's buy green coffee mostly from their supplier from in Brazil, Colombia and Guatemala. (Kultalahti, 2016)

**Other players:**

The coffee is not only produced in Finnish roasters, but coffees are supplied from international markets as well. 56 different brands of coffee is imported from Asia, Africa, Europe, South America and some famous brands for instance Löffbergs of Sweden are also popular among the Finns. (foodie.fi 26th April, 2015). Löffbergs occupy not more than 5% of the coffee retail sales in Finland whereas 15 % of its coffees sold in Finland are Fairtrade certified. Löffbergs mostly preferred coffees are Crescendo, Kharisma and Magnifika (Kultalahti, 2016)

### 3.3.2 Competition

The coffee market of Finland is captured by the main players like Paulig, Meira and roasters holding more than 50% market share. Nevertheless, international coffees from many countries like Kenya, Ethiopia and South America are trying to make their portion in the market share. There is high competition and contention due to the big already established coffee brands in this market. The foremost retailer chains are Finnish coffee house possessed by the Finnish S-Group, Robert's coffee Founded by Paulig and the Swedish Wayne's coffee including the Starbuck. As the Finns have the highest coffee consumption habit in the world, it provides possibility for running the new coffee chain in Finland. Gustav Paulig which has a long history in the Finnish coffee category is the market leader in the Finnish coffee category. Their retail value share in 2016 was 49%. Because of its long history and well-known reputation, their coffee products Juhla Mokka, Presidentti and Paulig are vigorous, renowned and reliable coffee brands among the Finns. The company uses their social media actively, updates blogs on their company's website regularly and being active participation in their marketing and innovations pleasing particularly to the young generation the company continues its leading position in the market. It has also opened its cafes in the heart city center that provides demanding products like raw cakes and wide varieties of coffee with different tastes which helps to keeps its customers furthermore, it also creates new customers. (Euromonitor International, 2017)

### 3.3.3 Prospects

During the forecast period from 2016 to 2021 coffee is anticipated to persist a mature category in Finland. It is also projected that there will be no significant changes in the retail volume growth. Fresh coffee beans are expected to robust increase on the other hand the largest volume base of standard fresh coffee is predicted to persist stagnant in terms of retail volume growth. (Euromonitor International, 2017)

### **3.3.4 Cultural Value**

Coffee is not just a coffee for the Finns. Coffee and Finns have a bond since the beginning of 20<sup>th</sup> century. Drinking coffee in peers is considered much more of a social activity in Finland, coffee shops make ideal meeting spots and is almost served every time when visiting someone else's home. In Finland, it will be inappropriate to leave a restaurant or home before everyone has finished their coffee. (Wood)

Coffee is so common in Finnish culture that it is the main loss leader in supermarkets and grocery shops despite the amount of coffee consumption rate is higher. Consumer coffee drinking behaviour is changing every day that results home coffee consumption decreases with the increase in the cafes and restaurant coffee consumption.

Many "traditional" coffee drinkers in Finland belong to the older generation, who rose up in times when coffee was only ordinary social beverage. New generation are attracted to other beverages and caffeine drinks. (Larkin, 2017)

### **3.3.5 Cheap Prices (Cause & Effect)**

Annually, cost of coffee that the Finnish people spend is slightly below 80 Euros. The reason behind this huge price for coffee is the amount they consume, which is considerably high. While in Turkey, the Turkish yearly spend less than six Euros for purchasing the coffee. As for a single cup of coffee, just about seven grams of it would be enough to brew properly. However, the statistics say Finns pay 5.75 cents on average for a single cup. If it was for British or Irish people, they would pay more than 10 cents for each cup.

There is a tradition in Finnish culture, where the coffee is used for promoting the sales in various stores; selling them at the lower cost than the regular market cost. Finns believed this was a perfect idea for accelerating the purchasing/selling of different commodities and items for greater profit. Due to the extreme competition,

price fluctuations are minimal at the coffee markets during checkout procedure. (Yle, 2014)

### **3.3.6 Consumption**

Over the few years, there have been decline in the consumption of coffee in Finland. There is yearly 1.4% of decrease on coffee consumption since 2008; still it is one of the highest coffee consuming countries in the world. Each Finnish person on average consumes about 12kg of coffee in a year which is considerably very high. (Coffee and coffee products in Finland)

### **3.3.7 Imports**

Since 2008, there has been decrease in import of the coffee to Finland by 1.4% in each year. By far the largest portions of coffee imported are unroasted and not decaffeinated, which accounts for 88% of the total imports, whereas the remaining 12% are generally roasted and decaffeinated. Currently, the import duty rate for importing coffee to Finland is 7.5% and the import VAT is 14%. Finland is relatively small importer of green coffee in Europe (EU) which accounts for just 2.1%; however, the per capita consumption of coffee is overall higher than EU. Around 99% of total products imported to Finland are from developing countries. (Coffee and coffee products in Finland)

## 4 Environmental Factors

Companies carry out their market research for their products according to their business strategy. They are focused on their market trend, regarding their specific products. In other to gain the market information, they often carry out the market research through surveys, interviews and through other research techniques.

Different analytical methods are used to get the most holistic approach to access the right and true information and to setup the right approach for the business. From a strategic management's viewpoint, there are some tools that permit the knowledge of the market and the surrounding environment in depth understanding. PEST and SWOT analysis are the most common and used methods for environment analysis. (Pestal Analysis contributor, dec 15, 2011)

### 4.1 Marketing Mix: 4P'S

E. Jerome McCarthy created the Marketing 4Ps in the 1960s. This classification is used worldwide not only in the business school but also the business firms use this tool as the basic foundation for marketing mix. (MarketingMix.co.Uk)

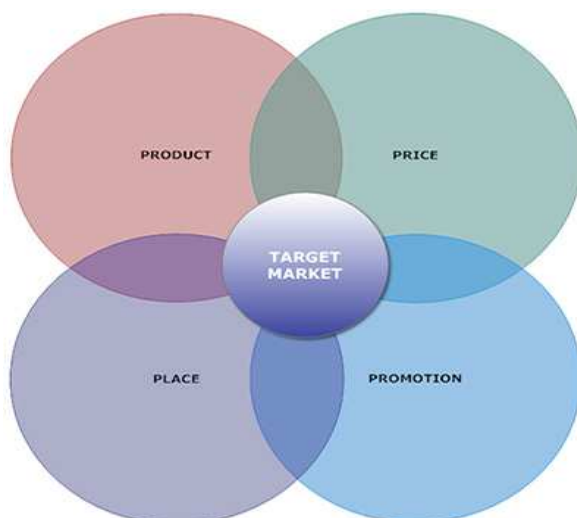


Figure 3: Marketing Mix 4P's (<http://marketingmix.co.uk/>)

#### **4.1.1 Product**

Coffee is a refreshing, energetic and widely preferred beverage around the world. Arabica coffee produced in Nepal is organic and rich in antioxidants. The farmers do not use pesticides, insecticides, or any other fertilizers or they keep it to minimal. Therefore, the coffee has Nepalese aromatic and supreme tastes. This organic product has high market demand and potentiality in to foreign culture even though there is insufficient marketing and promotional activities.

#### **4.1.2 Price**

Price is one of the major factors that determine the intensity of market competition. Nepalese coffee has relatively lower prices in the country because of cheap labor and cheap factors of productions. Moreover, uses of advanced technology are still in growing conditions. In many place, the organic coffee is produced in traditional way, so the price does not bear the expensive use of materials and mechanism.

#### **4.1.3 Place**

Nepalese coffees are exported to all around the world, in spite, of small quantity exported. EU market, U.S., Japan and Asian countries are the biggest importing countries of Nepalese coffee which are sold through supermarkets, hotel chains and through agents.

#### **4.1.4 Promotion**

Although, Nepal is backward in using the technology, Nepalese coffee exporting companies are utilizing the technologies their best as the promotional tools. Companies' websites are created and updated regularly. Also, online selling of the

coffee is practiced since few years. Traditional media as well as internet are being used as the promotional tools. Trade fairs and international organic trade fairs are attended that helps to familiarize the Nepalese coffee SWOT Analysis of Coffee Production and marketing in Nepal

## 4.2 SWOT Matrix

Coffee can be one of the emerging enterprises in Nepal within few years from both the foreign currency earning and the employment generation point of view. Therefore, its strength, weakness, opportunity and threats must be identified and necessary steps timely taken.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>▪ Diversified topography and agro climatic conditions, being organic unique opportunity to enter niche international markets by default</li> <li>▪ Cheap and ample availability of labour</li> <li>▪ Strong willingness, commitments and inter-coordination amongst the farmers, public and private sectors NGOs/INGOs like AEC/FNCCI, Helvetas, Winrock International, NTCDB, NCPA etc.</li> <li>▪ Pulper operators emerging as the micro enterprises in fulfilling the local community needs.</li> <li>▪ Gradual emergence of professional processors and roasters</li> <li>▪ Potentiality to achieve the specialty status in the international markets</li> <li>▪ Capability to present coffee in the international market as a niche product</li> </ul>	<ul style="list-style-type: none"> <li>▪ Inadequate R&amp;D programs for the development and promotion of coffee and making it cost ineffective.</li> <li>▪ Lack of technical knowledge on farm management among the farmers.</li> <li>▪ Inadequate support from the government</li> <li>▪ Low volume of production due to marginal land farming</li> <li>▪ Variation in quality due to scattered production and low level of awareness.</li> <li>▪ Small size and scattered coffee orchards making collection and processing costly and inconsistent quality of products</li> <li>▪ Lack of market research and promotional programs</li> <li>▪ Inputs and financial constraints</li> </ul>

Table 3 Strengths and Weakness

Opportunities	Threats
<ul style="list-style-type: none"> <li>▪ Growing demand in domestic as well as the international markets though at a slow rate,</li> <li>▪ Scope of expansion in the new markets. There has been faster growth in coffee consumption in Asia and Pacific Regions and Central and Eastern Europe. Particularly, in future the marketing prospect in Gulf countries and China looks very promising.</li> <li>▪ International Coffee Organization (ICO) trying to increase the world consumption of coffee through launching various programs.</li> <li>▪ Increasing demand and price for the specialty and organic coffee</li> <li>▪ As international coffee quality standard is being applied strongly for exporting countries, it is likely that this may force to reduce the use of chemical fertilizers ultimately resulting into low yield and short supply ultimately benefiting Nepalese coffee.</li> <li>▪ As a low altitude product the price of Brazilian, Mexican and African coffee is in a declining trend.</li> <li>▪ The international market is slowly shifting to higher quality coffee.</li> <li>▪ Increasing interest of the farmers to adopt coffee as a major crop and go for large scale coffee farming</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increase in competitiveness due to the multinational and regional trade agreements like WTO, SAFTA and BIMST-EC,</li> <li>▪ Continuation of production subsidies and export support in some countries,</li> <li>▪ Due to the existence of well-established suppliers it is likely to confront with hard bargaining process from the importers,</li> <li>▪ Increase in Robusta production and supply,</li> <li>▪ World production exceeding the demand which would continue to remain so for some time to come, As there are higher income opportunities in other sectors like industries, services and foreign employments than in coffee, it may discourage farmers in coffee farming,</li> <li>▪ Poor physical and institutional infrastructure may result in economic inefficiency</li> <li>▪ Discontinuity of the developmental and promotional programs after the completion of the respective projects</li> <li>▪ Non recognition of the Nepalese quality and quarantine certificate Incompatibility of Nepalese coffee price with the international price</li> <li>▪ The preferential market access opportunities provided by the developed and developing countries to Nepal being unilateral in nature can also be reversed at will creating uncertainty and chaos.</li> </ul>

Table 4 Opportunities and Threats

### 4.3 PESTLE Analysis

PEST analysis is a deeper approach into the marketing environment consists of Political, Economic, Social and Technological features of a market. A more detailed form of this analysis is called PESTLE, which includes the aspect of Legal and Environmental factors that affects the market.

PESTLE analysis is a complete view of the environment a business is situated in. It can be rightly called a bird's eye view where a company or an individual effort to ascertain specific trends of the market from a macroeconomic viewpoint. (Pestal Analysis contributor, dec 15, 2011)

These factors explain how conducive an environment is within which a business tries to flourish foremost. These are the major factors of strategic development. How these factors affect the Nepalese coffee exporting companies are described below:

#### **4.3.1 Political**

It accounts for all the impacts that a government may have upon the business environment, including business cycles, the economy at large and individual business industries. Tax reforms, fiscal policies, and trade tariffs form part of this analysis.

Political situation in Nepal is very unstable and unpredictable, that have direct influence in all the business sectors in Nepal. Policies are changed and frequently updated after introducing new government authorities. Taxation varies according to the nature of business and government also supports for exporting business providing concession, grants, redemption, and double tax relief. Normally, the corporate tax in Nepal is lower for agriculture industry.

#### **4.3.2 Economic**

This analyses the economy and its performance effects to global trends and long term effects that may be evident. Inflation rates, interest rates, economic growth, demand, and supply trends are all analyzed under this head.

The economic condition of Nepal is weak and the economic growth is not noticeable if it is compared to inflation rates there is always business deficit in international business. Country's economy is vested on remittance.

According to (Export Entreprises SA, 2017) GDP per capita of Finland is among the highest in the world, allowing the country to offer a high living standard. The distribution of wealth is relatively equitable, although social inequalities have risen in the recent years. The unemployment rate is 9.1% in 2016. As the currency of Finland is Euro, inflation risk is lower.

### **4.3.3 Social**

In Nepal, the cultural and social values largely influence business practices. Family patronage of business wide spread around. The advancement of information technology and the development of tourism industry, this trend is changing gradually.

Finnish government provides social security regarding the health, unemployment, education and for overall basic needs of the Finns. Social security for the entrepreneur is quiet comprehensive. The population around 5.5 million mostly speaks Finnish language which can be difficult for the foreign businessman.

### **4.3.4 Technological**

This analyses the technological trends of the business environment. It accounts for the rate at which the innovations are occurring and how directly and indirectly they're influencing the current business.

Nepal is backward in the innovations and the use of the technologies. The country does not have sufficient investments and also because of various other factors like the political and environmental factors the policies regarding the foreign investments are largely affected. Traditional technologies are used mostly.

According to the report of (Technology Industry of Finland, 2017) around 300,000 Finns work in technology companies out of total 700,000 people work in the technology sector. Responsible for 70% of all investment in research and development carried out in Finland. It is the leading countries worldwide in terms of R&D spending per capita.

### **4.3.5 Legal**

There are many laws and policies that directly impact the way your business is run and the decisions that fuel its propulsion. These laws can be social laws, regulatory laws, certain standards that need to be met and other such laws.

The political issues are everywhere in Nepal. The laws are changing with the changing of the government. Existing laws are not followed and complicated rules are followed to do a simple procedure that takes times.

Finland ensures safety of the consumers and the entrepreneur regulating many legal rules. Products and packaging should meet EU regulations. The acts of product safety ensure the labeling and marking. Trademarks, designs, patent and copyright are the principal forms of IP protection provided to companies and individuals. (Department for International Trade)

#### **4.3.6 Environmental**

The business has effects in the environment it operates in therefore you need to analyze in depth what implications your business might be having on it. On the other hand, the environment also influences your business directly or indirectly especially the tourism, farming or agriculture business. Therefore, these factors account for the geographical location, weather, climate etc. but are not just limited to the study of these only. (Pestal Analysis contributor, dec 15, 2011).

The climate is favorable for the coffee farming in Nepal as we have suitable climate, soil, relative humidity, rainfall and soon. It has some complications regarding the delivery because of the difficult landscape and the lack of safe road ways.

The Finnish environment is different than in Nepal. This Nordic country has a long winter and the temperature is cold most of the time. It is one of the reasons that the coffee consumption in this country is highest in the world, which is positive environment for a coffee business in Finland.

#### **4.4 Analyzing the Competition (Porter's Five Forces)**

There are always questions regarding the competitions whenever a company is newly started company or an existing company looks for new market entry. These questions can be solved by using Porter's Five Forces model. It focuses of five

important factors to determine whether a business is profitable or not, based on other businesses in the industry. (Arline, 2015)

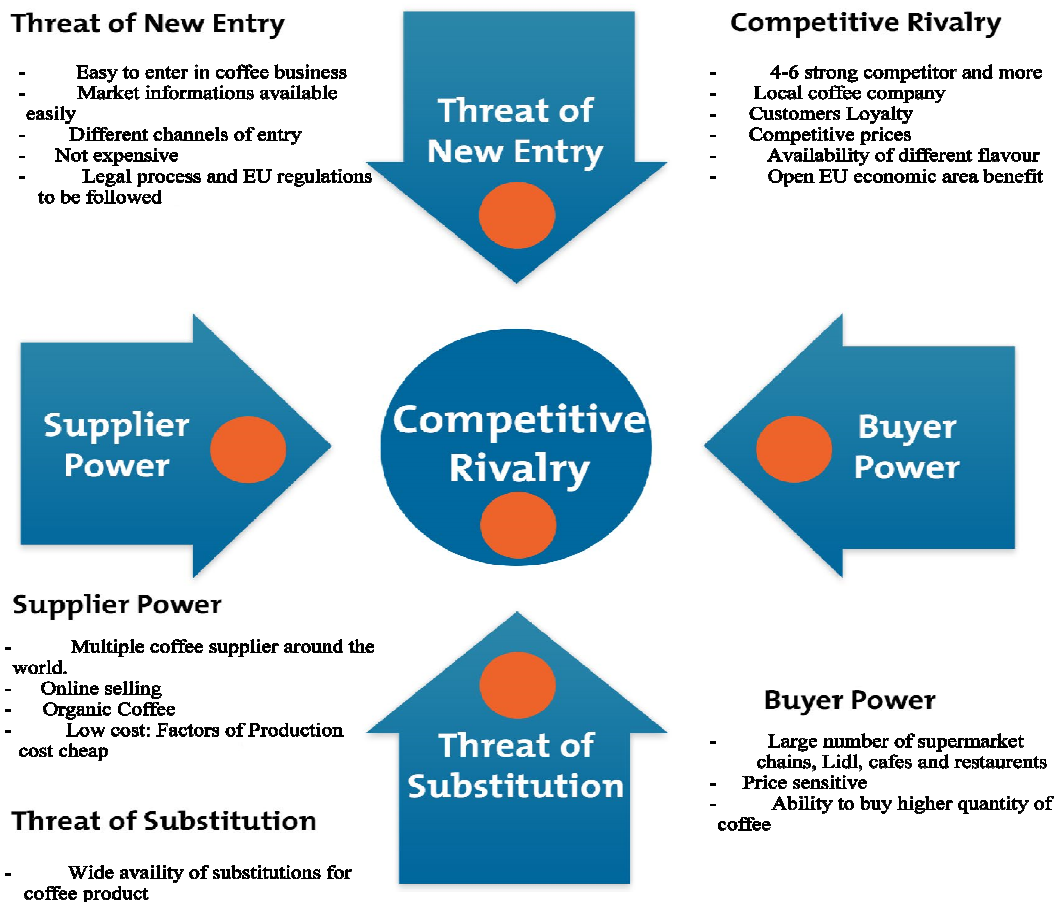


Figure 4: Porter's 5 Forces analysis for Nepalese Coffee

### Understanding the Five Forces

A company should better know the industry and the competitive forces to make the effective strategic decision. Porter's Five Forces Analysis assumes that there are five important forces that determine competitive power in a business situation which are explained below:

**Competitive Rivalry:** This force explains the competitive situation of the marketplace that is determined by the number of current competitors and what each of them can do. Rivalry competition is intense, if there are many competitors, and they offer

equally attractive products and services. The company will most likely have little power in the situation, because suppliers and buyers will go elsewhere if they don't get a good deal or even a small amount of money can make switch the customers to the competitors. On the other hand, if no-one else can do what you do, then you can often have tremendous strength. (Arline, 2015).

The competition is very intensive for Nepalese Coffee in the foreign markets as there are already few branded and well-established companies. The companies already have the competitive prices.

**Power of Suppliers:** This force analyzes the power of a business's supplier has and his control over to raise its prices, which in turn, would decrease a business's profitability. It focuses at the number of suppliers exist. Fewer the suppliers, the more power they have. Businesses are in a better position when there are a multitude of suppliers. Sources of supplier power also include the switching costs of firms in the industry, the presence of available substitutes, and the supply purchase cost relative to substitutes.

There is availability of different coffee products in Finland that come from different parts of world. There are quiet many coffee suppliers and online selling has been practiced now a day. Nepali coffee suppliers have some unique selling point as the cost of production is relatively lower, and the Nepalese coffees are organic in Nature that is healthy. These advantages give bargaining power to the Nepalese coffee supplier.

**Power of Customers:** This force describes the control of the consumer to affect pricing and quality. Consumers have power when there aren't many consumer and many sellers. It is easy to switch from one business's products or services to another because of availability of alternative goods. Buying power is low when consumers purchase products in small amounts and the seller's product is different from the competitors. (Arline, 2015).

Finnish customers consumes huge amount of coffee and there are many sellers for instance supermarkets, Lidl, cafes, Restaurant, and other small stores. The buyer's power is higher in Finland as there are many coffee substitutions available. Also,

Finland is a socialist country, government takes care of the people everywhere and their first preference is always the local brands.

**Threats of new entrants:** This force examines the easy or difficult for competitors to join the marketplace in the industry. If the competitor can easily join the marketplace, there is greater the risk of losing business's market share. Barriers to entry include absolute cost advantages, access to inputs, economies of scale and well-recognized brands. (Arline, 2015).

Finland is a very stable country and it provides safety to the entrepreneur and supports foreign investment inside Finland. All the information required can be easily obtained and the legal process is simplified and reliable that always attracts the competitor to enter the Finnish market. There are various modes to enter in to the Finnish coffee market which can be adopted according to the needs of the companies. There is always threat of new coffee supplier entrance in the Finnish market which have competitive advantages like cost advantages and so on.

**Threat of substitute products or services:** This force studies the easiness of the consumers to switch from a business's product or service to that of a competitor. It looks at the price and the quality of the competitor products and how much profit the competitors are earning to determine if the company can lower their costs even more. If substitution is easy and substitution is worthwhile, then this declines the company's power.

Nepalese coffee is organic with pleasant aroma, robust flavors and apple-like acidity features. The cost of coffee produced are lower because of the cheap labor and other factors of production is relatively lower than in Finland. The price of the Nepalese coffees is possible to become lower than the other already established brands. Even with the availability the substitute coffee brands Nepalese coffees can have its portion in the Finnish coffee market. There is threat of substitute for coffee products in Finnish market.

## 5 Research Methodologies and Analysis

### 5.1 Introduction

Explanatory, exploratory and descriptive researches are the most used approaches when it comes to scientific research (Yin, 2003). Briefly, descriptive research refers to the type of question that is designed to get current and accurate information on a given topic using sometimes data available. Explanatory research aims to get a clear understanding on a particular problem rather than simply to describe while exploratory research which is flexible aims to better understand and clarify problems and it is used when there is limited knowledge about the research problem.

This research is mainly explorative due to the fact that the knowledge about Nepalese coffee market and its expansion is limited. Therefore, data and findings were collected through desk research, websites, and emails to companies like Himalayan Java, Himalayan Beanz, government authorities, Nepal Coffee Producers Association, and professionals in the coffee sector. This research also contains the explanatory properties because factors that make good internationalization/globalization will be explained in detail. Also, this study further covers descriptive theory because one of the main goals of this study is to get a deep understanding of the Nepalese and Finnish coffee market.

Both qualitative as well as quantitative research methodology are used to prepare this thesis. There are mainly three methods used in this empirical research; Personal Interview, questionnaire and document analysis. As for quantitative research, the survey questionnaire, with a cover letter was sent to 45 coffee shops, cafe and 6 supermarkets as population sample along with Lidl that sells coffee in Finland. The questionnaire was sent through e-mail and personal interviews were also carried out, unfortunately not all the emails are responded. While for qualitative research, the researcher planned to write to Nepal tea and coffee center private limited and Himalayan java coffee companies located in Nepal, and they provided useful resources, policies, reports and other information but the in-depth interviews could not be conducted due to certain factors. So, the major document analysis covers the statistics and market structure of Finland.

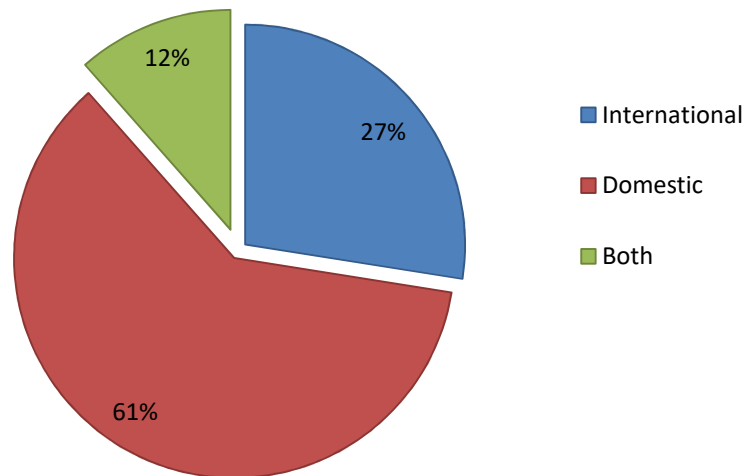
## **5.2 Data Collection**

This sub-chapter provides information about the methods used to collect data in order to respond to research questions. According to Fisher (2004), four main methods exist in terms of data collection which is documentary and observation, panels, questionnaires and interviews. Data collection methods used in this research is mainly documentation through books, reports, online sources from companies and professional bodies and interviews together with questionnaires to the case company officials as well as to professionals in the coffee market in Nepal was made.

In Finland, the author visited several times retailing shop and cafes. After consultation and research from the retailing shop and cafe, a research was made on coffee industry of Nepal and Finland, using various literature review and various articles, data report. Then required data for the research were then tabulated to make the report into a final format.

## **5.3 Survey Analysis**

For survey analysis, a set of questionnaires was prepared with the help of Google form, and sent to different coffee market stakeholders in Finland. This research covers all the age groups and genders the analysis is based on different responses, because of the partial answers and no responses, so the number of responses are expressed as N= (no. of responses). The thorough analysis was conducted with the help of MS- Excel and here are the results:

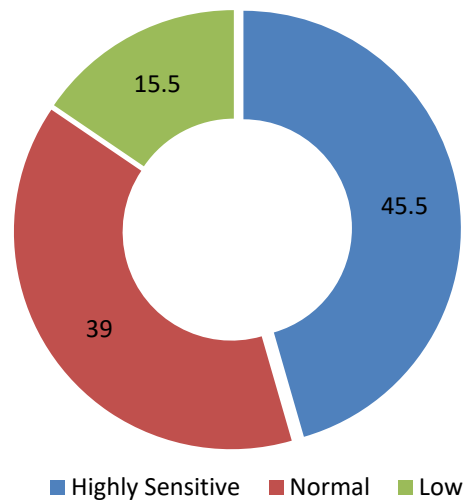
**Brand preferred by Finns (International or domestic)**

N=35

Figure 5 Preferred brands (International or Domestic)

After the completion of survey in Finland, it is concluded that the most preferred brand of coffee among Finns are the domestic brand that occupied merely 61% And the 27% of preferred coffee comes from foreign markets, while 12% of interviewee preferred both brands. So, it is clear that the Finns are fond of their domestic coffees which satisfy their requirements. Majority of Finns prefer domestic brands as they are generally light roasted.

## Price sensitivity

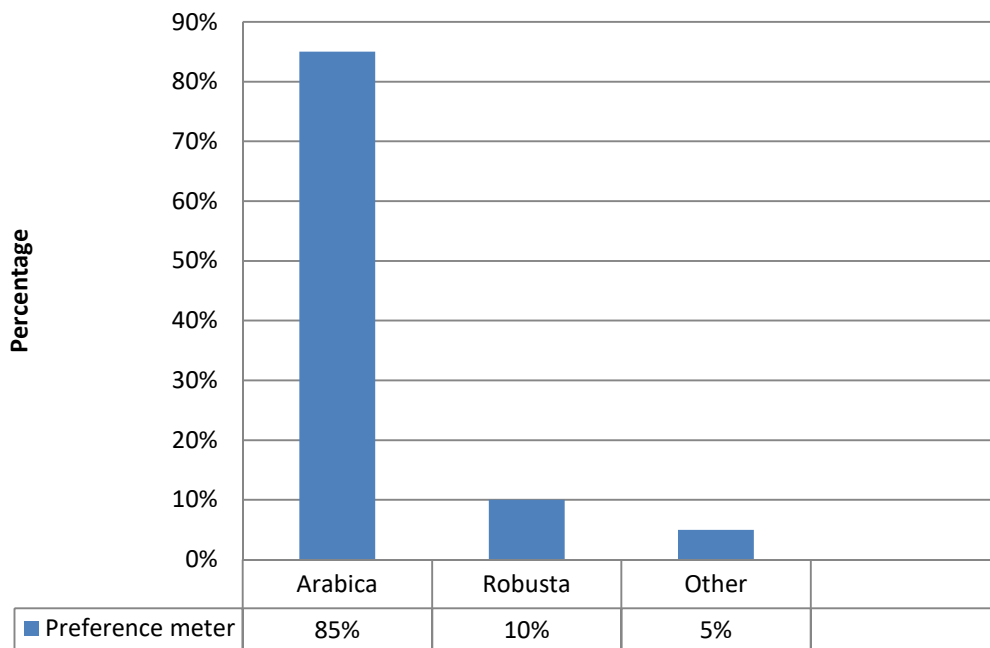


N=35

Figure 6: Price sensitivity level

The chart above shows the price sensitivity of coffee consumer in Finland. 45.5% of respondents were sensitive towards the price fluctuations of coffee, which occupies nearly half of the respondents of this study. While 39% of the total interviewee dealt with the price sensitivity normally and the remaining 15.5% showed low interest and they didn't change their consumption habit or did not care much about the changes in coffee prices. So, from this study it is prominent that the majority of Finns are sensitive towards the price changes, and provides useful information about the consumer behaviors which is beneficial in different market strategies. It helps to determine the prices of various coffee brands benchmarking other coffee brand.

### Coffee preference (Arabica, Robusta, other)

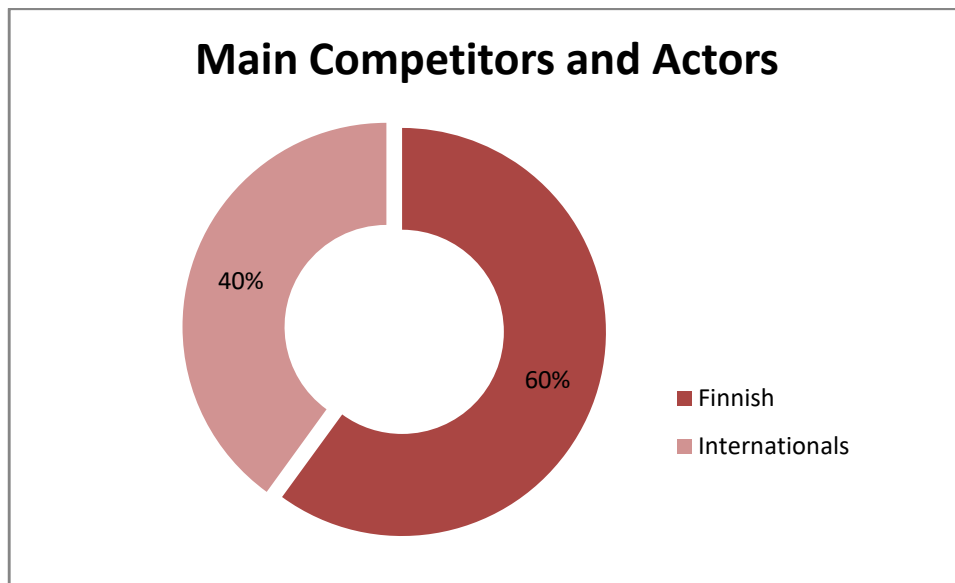


N= 35

Figure 7 Preferred coffee variety

The figure above represents the data regarding the preference of different varieties in the Finnish culture, and the survey has the positive outcomes that the Finns love Arabica variety more than any other which occupies the whopping 85% of the total coffee preferred by Finns which the Robusta stands at 10% and the remaining at 5%. This data provides a hint that the Finland is the right country for supplying of the Arabica coffee especially light roasted that the Finns prefers the most. In this regard, this information is valuable for the readers and those market entities that are planning to establish market chains in Finnish coffee operators.

### Main competitors and actors(International or Domestic)

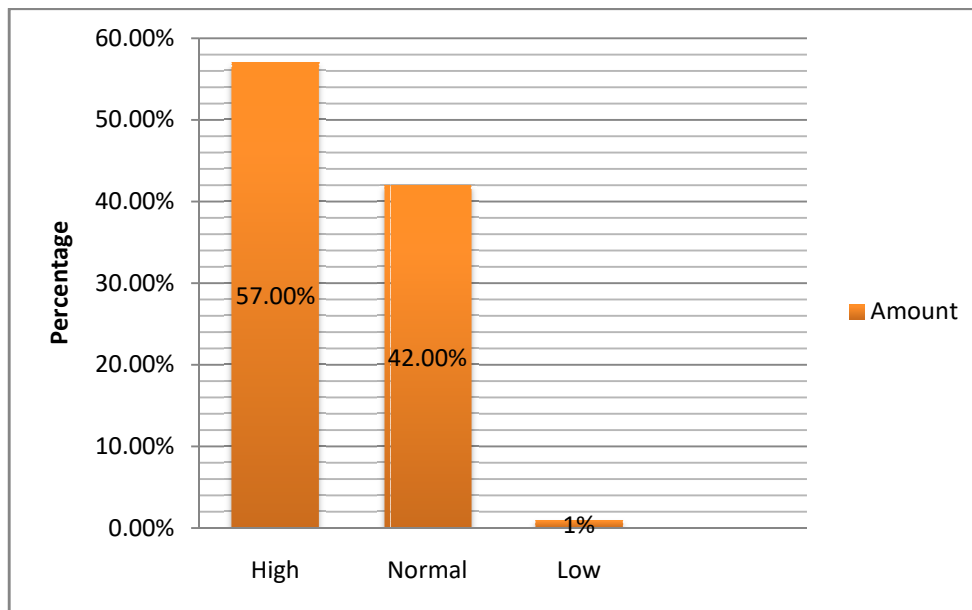


N= 35

Figure 8 Main competitors and Actors

The main actors and competitors involved in coffee market and business are the domestic entities that account for 60% of the total number of actors and competitors and the rest 40% being international marketers. This evaluation is essential in identifying the market structure of Finland coffee market and analyzing the existing competitors and their strategies for better cooperation and initializations of the market entry. It gives the better understanding about the key players in the Finnish coffee markets and new businesses can make the suitable strategy to enter into the Finnish market.

### Consumption Amount (Normal or High)

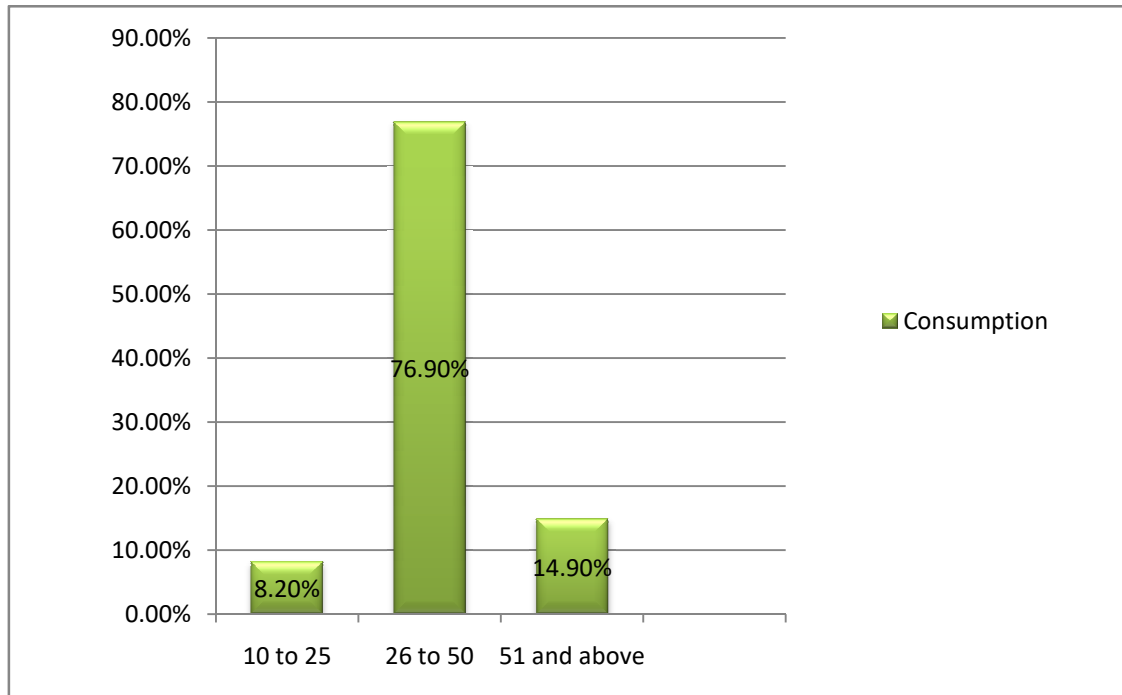


N= 35

Figure 9 Total cups consumed in a day

As shown in the figure above the coffee consumption in Finland is very high i.e. 57% while the respondents consuming normally were 40% and only 1% consumed lower amount of coffee. It can be easily analyzed that most of the Finns drinks maximum number of coffees per day which explains Finnish market has the positive signs about the coffee business. With considering different variable such as price, quality and other elements, Finland can be one of the good market for coffee business according to the survey result on the basis of the consumption.

## Consumption as per the age group

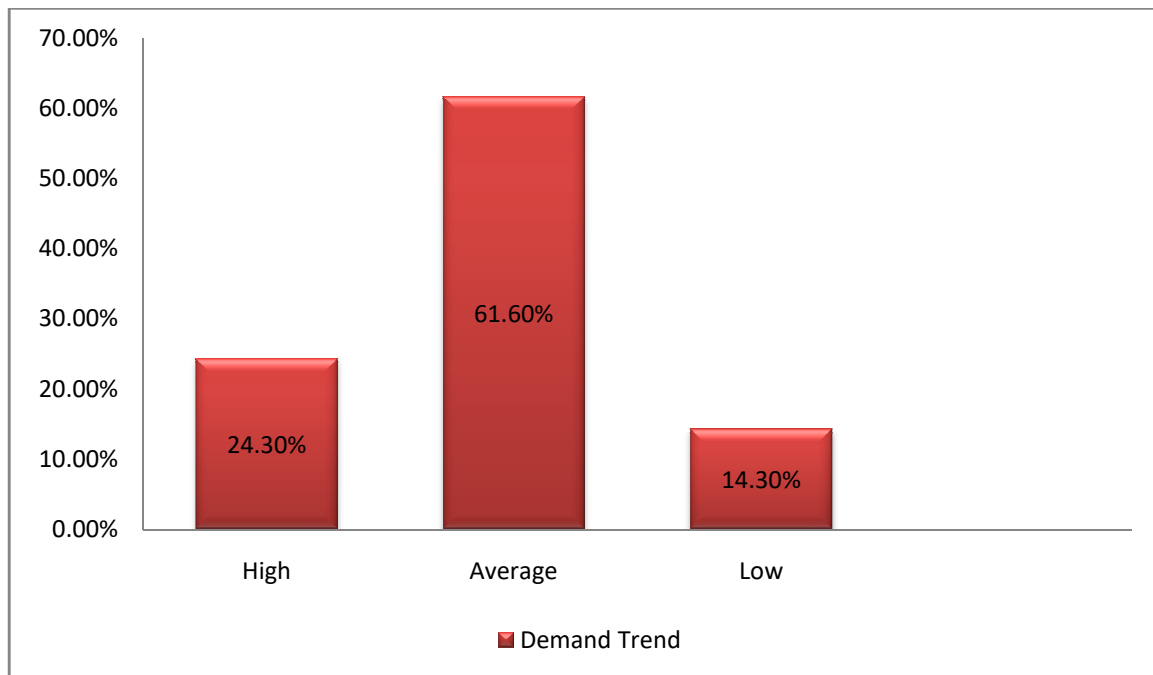


N= 35

Figure 10 Consumption as per the age group

The result shows that the highest coffee consuming age group is in between 26 and 50. As the chart shows, it accounts 76.9% of the total consumption of coffee consumed by adults from the above age group. Another 14.9% of the total consumption occurred in the people of 51 and above, while the age group of 10 to 25 consumed 8.2% of the total coffee. So, this clearly shows that the highest coffee consumers in terms of age group are adults. The population below 25 is around 27%, similarly between 25-50 is about 40% and the rest 33% is more than 50 years. Adults highly prefers the coffee drinks according to the survey result, it helps to target the adult group mostly for the coffee business in Finland whereas other age groups also drinks coffee which can't be ignored.

## Demand

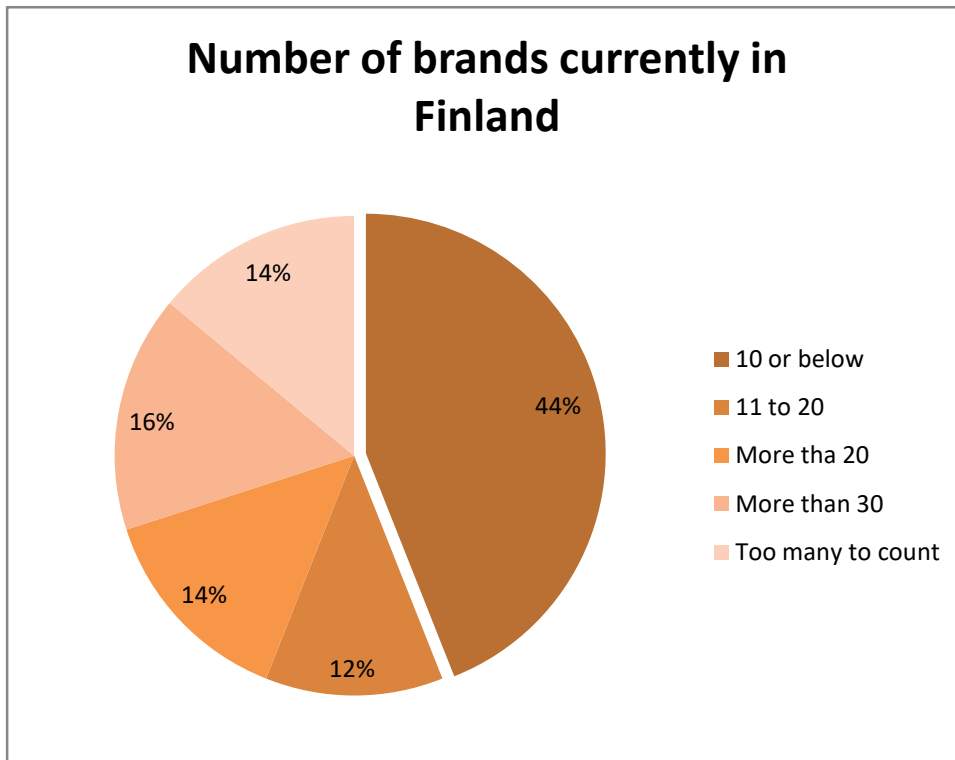


N= 35

Figure 11 Coffee Demand Trend

The Demand trend is generally average in Finland as per the study which showed 61.60% of the answers supported average demand trend and the 24.30% supported the higher demand trend, while 14.30% falls under the lower region in this current study. It explains that Finnish market has the big potential for the new entrants for selling their coffee in Finnish market as the demand trend shows the positive trends according to the survey result.

### How many coffee brands are currently in market?

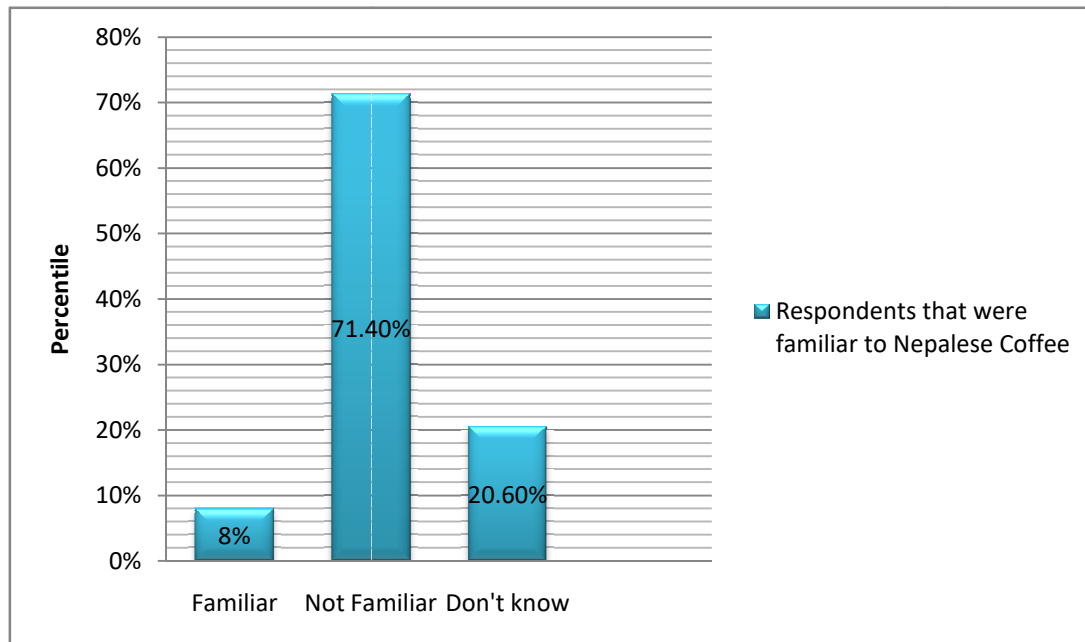


N= 35

Figure 12 Total no. of brands operating in Finland

According to the survey result, 44% of the respondents believed the number of coffee brands are around 10 and below which covers almost the half of the total data being 44%, whereas the answers '11 to 20', 'more than 20' and 'more than 30' stood up for 12%, 14% and 16% respectively and the remaining 14% of the answers are in the category of 'too many to count'. The result shows positive environment for the new companies to enter into the Finnish market as there are quiet many brands existing in it. With the proper business strategy and well study of this market, a new company can make its portion and it can be established in this market.

### Familiar to Nepalese coffee or not

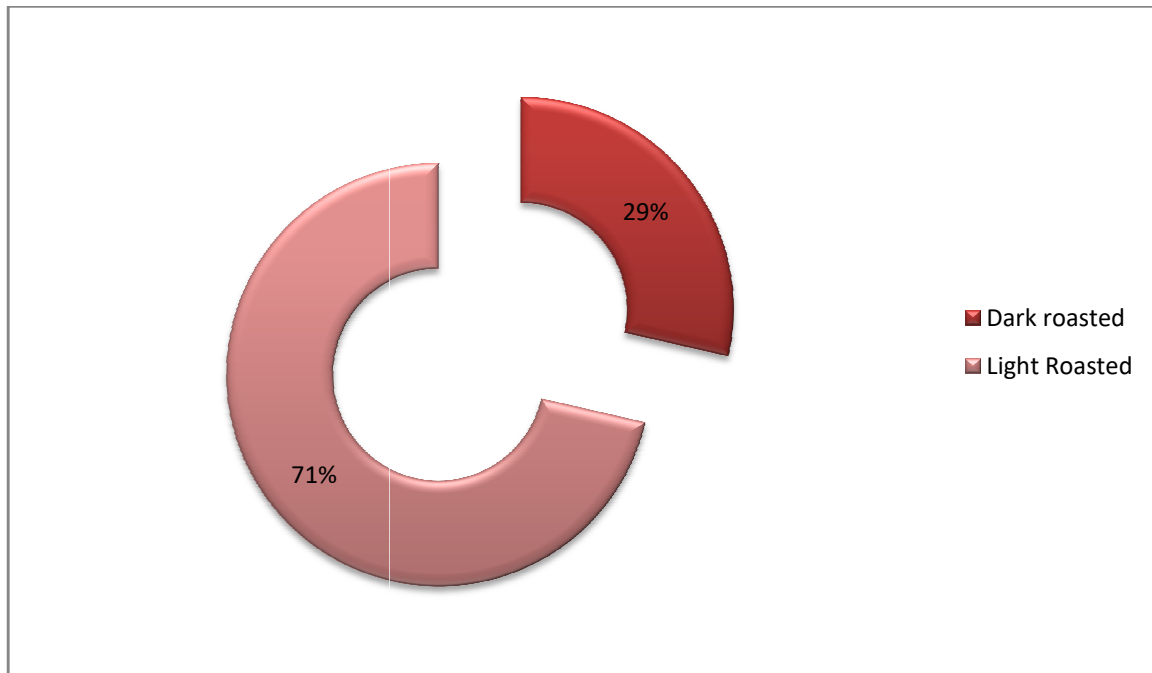


N= 35

Figure 13 Familiar to Nepalese coffee

This chart represents the responses of whether the Finns are familiar to Nepalese coffee or not. As shown in the diagram 71.40% of respondents are not familiar to any Nepalese coffee brands and the 8% of the respondents were familiar or they have heard about the Nepalese coffee from their friends, internet and other sources. While 20.60% of the respondents did not know about any coffee brands or never heard of it this term was completely new to them. After knowing about the Nepalese coffee brands some of them gave positive opinion about the possibility of Nepalese Arabica coffee in Finnish market if they could meet the market requirements and are organic and superior quality.

### How much roasted (Light or Dark)

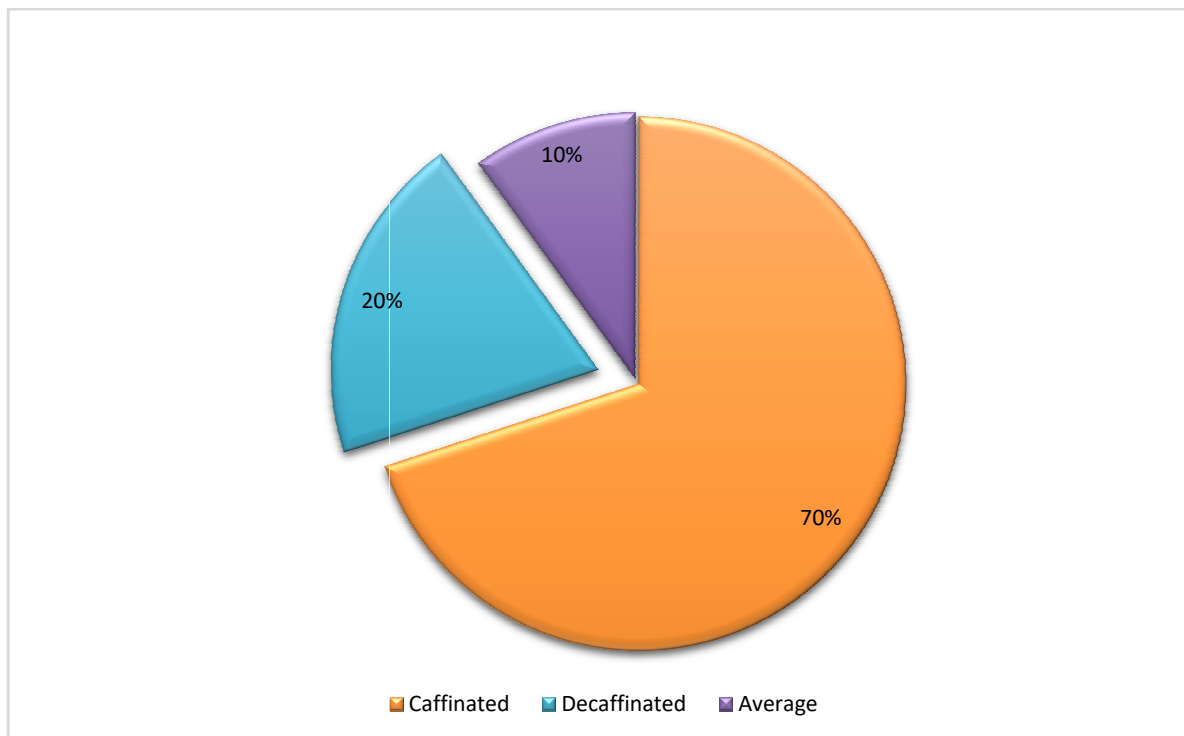


N= 35

Figure 14 Preference (Dark roasted or Light roasted)

The result says that the Finnish consumer prefer light roasted coffee, which accounted for 71% in the current study, while the remaining 29% being dark roasted. The light roasted coffee with high acidic level is very common in Finland. The dark roasted coffee is not very hard as their acidic levels are decreases as they are roasted more. It explains that mostly Finns prefer hard coffees and it should be taken into considerations while doing coffee business in Finland as a supplier or as a seller.

### How much caffeine do you prefer?

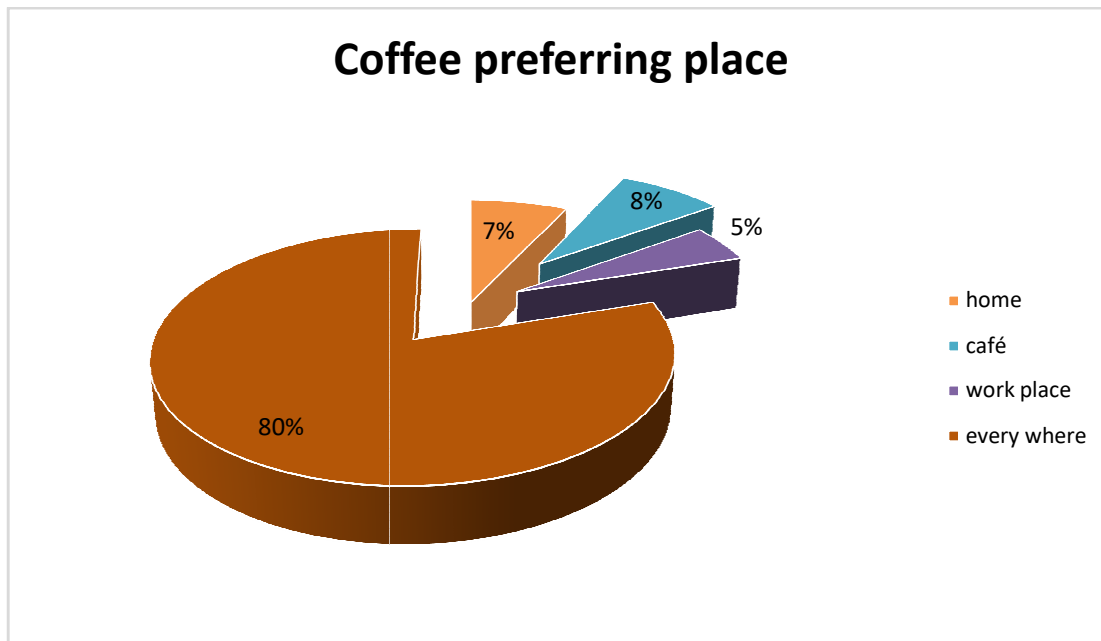


N= 35

Figure 15: Caffeine preferred in coffee

The chart explains how much the caffeine is preferred in the coffee by the Finns. The response was given by 35 people and out of it, 70% people preferred caffeinated coffee on the other hand 20% likes decaffeinated coffees and the rest of the 10% participants likes normal one. Caffeinated coffee has high amount of caffeine than in the decaffeinated. It can be analyzed that Finns are mostly addictive with the high amount of caffeine. Caffeinated coffees can be easily sold in the Finnish market then the others.

## Where do you prefer to drink coffee?



N=35

Figure 16: Coffee preferred in different places

It is one of the very important questions asked with the participant about their desired place to drink coffee. It was very surprising that 80% of the participant replied they drink coffee everywhere mean while there were 7% and 8% of the participant who prefer coffee at home and in the cafes consecutively. The rest 5% prefers coffees in the work places. It reveals that most of the Finns drink coffee anywhere and anytime.

**Summary:** According to the result, the most preferred brands in Finland were the domestic brands that are produced from best coffee varieties from Brazil, Colombia, Central America and Africa. Paulig's Juhla Mokka is the most popular brand of coffee in Finland, other being Kulta Katrina, Presidentti, Costa Rica and Saludo. They altogether share maximum market shares. Arabica is the most traded and preferred coffee variety in Finnish culture, according to the acquired data more than 85% of Finnish people prefer Arabica coffee over Robusta and other varieties. More than half of the respondents of the current study consumes higher amount of coffee i. e. 4-8 cups per day and rest of the consumer consume normal amount of coffee. In Finland, more domestic entities are involved in the competition market some of the main actors are Paulig group, Meira and Rober Paulig; and less than half are from

foreign nations. The age group that consume large amount of coffee were the adults between age 26 to 50, as per this study, other being older than 50 and people below the age 25 consumed relatively low amount of coffee. Light roasted are the most preferred coffee beans in Finland, and Finnish also preferred caffeinated coffee. In terms of places they preferred drinking in all places whether in peers, at home alone, work places etc. which is fascinating.

As per the current export and market chain between Nepal and Finland in terms of coffee, there is rather disappointing results as there is very low data of availability of Nepalese coffee in Finland. While conducting the interview with the Finnish Consumers, they often wondered after knowing about the Nepalese coffee brands that has been selling coffee in overseas market. However, in future it cannot be under-estimated the expansion of Nepalese coffee beans in the Finnish market, especially the worlds' most famous variety Aroma is the out most priority of Nepalese coffee sectors.

## **6 Modes of Market Entry**

Foreign market entry modes or Participation strategy differ in degree of risk they present, the control and commitment of resources they require and the return on investment they promise.(McDonald, Burton, & Dowling, 2002)

Modes of entry into an international market are the channels which an organization employs to gain entry to a new international market. There are different modes of entering into the foreign markets which are determined by internal and external factors of the company. Some of possible modes to enter Finnish coffee markets are explained below:

### **6.1 Licensing**

If an organization takes a fee or royalty for the use of its technology, brand, or expertise over the, it is called licensing the management is under the control of the franchisor. The licensor in home country makes limited rights or resources available to the licensee in the host country. The rights or resources may include patents, trademarks, managerial skills, technology, and others that can make it possible for the licensee to manufacture and sell in the host country a similar product to the one the licensor has already been producing and selling in the home country without requiring the licensor to open a new operation overseas(Kamian, 1992).

### **6.2 International Agents and International Distributor**

An individual or organization that is appointed by a business to sale on the company's behalf in a country are known as Agents. Commonly, they take a commission on goods sold. Agents usually work for more than one organization, although, they are less costly but low-control option. If a company intends to internationalize, they should make sure that the contract agrees them to regain direct control of the product you need to set targets since you never know the level of

commitment of your agent. Agents might also represent their competitors, so, the company should beware conflicts of interest.

Distributors are similar like agents but they take the ownership of the goods. Therefore, they have a motive to market the products to make a profit from them. Otherwise advantage and disadvantages are like those of international agents.(Friesner, 2017)

### **6.3 Strategic Alliances (SA)**

Strategic alliance is a type of cooperative agreements between different firms, such as shared research, formal joint ventures, or minority equity participation. (Bartett, 2009)

Strategic alliances are partnerships in which two or more companies work together to accomplish mutually beneficial objectives.They may share resources, information, capabilities, and risks to attain the objectives. The companies that work under the SA are separate and independent.

### **6.4 Joint Ventures (JV)**

A joint venture is an entity formed between two or more parties to undertake economic activities together. They share the expenses, revenue, and control over the entity according to the agreement. The result of forming joint ventures provides opportunities to organizations to minimize their risk factors and at the same time provides access to local resources and knowledge. They also get an option to expand in the future.(Buckley, 2002)

There are five common objectives in a joint venture: market entry, risk/reward sharing, technology sharing and joint product development, and conforming to the government regulations. Other benefits include political connections and distribution channel access that may depend on relationships. (Foley, 1999)

## **6.5 International Sales Subsidiary**

An International Sales Subsidiary reduces the element of risk, and has the same key benefit as overseas manufacturing. Though, it acts more like a distributor that is owned by the company. (Modes of Entry into International Markets) Setting up a subsidiary in a foreign country can have many benefits like expanding brand recognition, opening access to new markets and using efficient production methods for cost controlling.

## **6.6 Exporting**

Exporting allows small businesses to hold to their current model and product line, while sending goods into a foreign market for distribution. Exporting is a general type of entry into foreign markets for small businesses throughout the world because of its low cost of implementation and its low level of risk. It eliminates repackaging, marketing and investing in the infrastructure. It is divided into two approach namely direct and indirect export. (Connect Americas)

### **6.6.1 Direct Export**

The firm works with the foreign customers and the markets with developing the relationships. The companies that have all the information regarding the foreign markets use this method. They have knowledge regarding the appropriate channels of distribution for instance agents, distributors, retailers, and final consumers. (Connect Americas).

### **6.6.2 Indirect Export**

This method is typically chosen by SMEs that are not yet able to commit to a direct export due to the costs and resources involved. Also, an existing company uses this method to enter the completely new market through the intermediaries. The business

participates in the international business through intermediaries and it does not deal with the foreign customers directly. (Connect Americas).

## **6.7 Franchising**

The franchising system can be defined as semi-independent business owners (franchisees), who pay fees and royalties to a parent company (franchiser) in return for the right to become identified with its trademark, to sell its products or services, and often to use its business format and system (Zimmerer & Scarborough, 2008).

Franchising agreements are generally longer and offers broader package of rights and resources as compared to licensing, which usually includes: equipment, managerial systems, operation manual, initial trainings, site approval and all the support necessary for the franchisee to run its business in the same way it is done by the franchisor. Additionally, licensing agreement involves intellectual property, trade secrets and so on but franchising is limited to trademarks and operating knowledge of the business. (Hoy & Stanworth, 2003)

## **7 Conclusion and Recommendations**

### **7.1 Recommendations:**

There are different factors that influence the coffee markets of Finland as we have discussed in the SWOT and PESTLE analysis. Therefore, any company that plan to enter the Finnish market must understand and interpret these factors that influence their success. It is even more important in case of Nepalese coffee exporting companies as there is overall difference on the culture, market size, competitors, regulations and other aspects. Internal and external environment of the company must be studied carefully to make the best strategy to enter the Finnish market.

Although, Nepalese coffee companies are doing business with USA, Canada and other countries, Finland is the fresh market for them. There are several coffee brands in Nepal which are not even popular in Nepal. Nepalese coffee companies are in the primary stage of expansion. If we compare Nepalese coffee companies with the competitor companies in Finland, they are very small in terms of capital, technology, and the resources. In spite, Nepalese coffee has some competitive advantages as they are organic coffees with special flavor and low cost of production, the transportation is very difficult and expensive in Nepal due to the dependence on Indian Port for doing business with the third world countries. Even the big companies are shut down in the new market after having all the resources. Success of the Nepalese coffee company largely depends on the selection of right mode to enter the Finnish market. Due to the lack of market knowledge, capital, language barriers, and strong competitors in the Finnish market, international agents, retailer and distributors are common method employed for initial market entry in Finland.

#### **Direct Export through Agent, Distributor and Retailer**

The major players in Finnish super market are the Kesko Corporation, S-Group, and Suomen Lähikauppa, with Lidl also compete in the market. In the Food retailing sector, Kesko owns K-Market, K-Citymarket, K-Extra and K-Supermarket. S-Group has Sale, Alepa, Prisma and S-market. Suomen Lähikauppa has Euromarket Siwa

and Valintatalo. The population of Finland is 5.5 million that is scattered in this very big country. Therefore, it is recommended to do partnership with these supermarket chains that serves all around Finland through their wide network.

Nepal has been the exporting its coffee to various nations, however proper development of such distribution and market are not identified. Finland could be proper destination for exporting coffee. Nepal's organic coffee could gain popularity in the Finish market. Nepal may not be able send its coffee directly to the finish market and compete with the already established company; hence a partnership with the local store that has been doing business could be done.

The companies do not need huge investment, risk and human force if they enter by the direct export through the agent, distributor and retailer in the new market. In fact, the company can take the advantages of the local company know the know-how about the Finnish market. It mode has low risk as well as effective ways to enter the Finish market.

## **7.2 Conclusion and summary**

The main aim of this research was to identify the various elements and factors that bolster the contemporary market situation of Nepalese coffee business and analyzing the prospects for further enhancement in the international market possibilities including the factors that influence the mode of entry into these markets and the challenges that the coffee industry face when starting or expanding their business in the foreign markets. These were the key objectives that were set forth by the researcher on which the current research study was conducted. Finnish market has the ultimate potentiality for importing the coffee beans from Nepal, and Nepalese company could benefit from the high consumption pattern of the people from Finland. Nepal's coffee export is relatively low in the current situation, however if the government assists and focuses on promoting the coffee production and increasing its export, the country could meet its export demands and meet the market goals, that will be of great benefits to the Nepalese community and business area. Specially, Himalayan Java, which is the key exporter of coffee to overseas markets.

Coffee production in Nepal has high possibility for mass production and establishment as big industries and suppliers. Nepalese coffee is highly organic and demanded in US, Canada, Japan as well as some European and Asian countries like Thailand, India, Bhutan, and Bangladesh. The coffee Aroma produced in Nepal is the worlds' most favorite variety and the most preferred by Finnish people. There is huge potentiality for Nepalese coffee to perform successful business practice in Finnish market with collaboration of Finnish importers. However, the companies can analyze the Finnish coffee market with profound knowledge and research with the help of expert understanding of external environment of Nepalese coffee business. This will help in understanding the constraints and limitations and better strategies can be implemented for better market chain.

While analyzing the internal environment and components of Nepalese coffee company with the help of SWOT analysis, Porter's 5 forces and PESTLES it is feasible for Nepalese company to establish market pattern through the agents, distributor and the retailer companies of Finland. This practice saves huge amount of investment fund. In addition, Nepalese market should also make a thorough evaluation of the strategies that their competitors have used in setting up their presence in the international markets. By following this course of action international companies and firms can make an informed evaluation of the success of various market entry strategies and with this benefit they can take a reasonable and well informed decision.

The entry decisions and building up channels are costly process, and if they are not conducted in an appropriate manner, Nepalese firm will be wasting its resources and capital fund. As a result, before making this crucial decision, companies should conduct a cost benefit analysis of various methods of entry in the overseas market and should base its decision on the outcome of the analysis. The ideal steps should be taken and careful planning and business concerns should be kept in mind. Further collaborations and cooperation with international market industries could harness the true potentials of Nepalese coffee business and thrive and sustain in this field.

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## APPENDIX I

### Cover Letter

Dear Sir/Madam,

I am doing a research work on Nepalese coffee export to Finnish market for my thesis purpose. The main objective of this research is to analyse and discover the market possibility in Finland for Nepalese coffee.

This research will also assist the existing coffee exporter to analyse and increase the business turnover in the existing or in the new market. Furthermore, it will help to analyse the Finnish market and help to make the clear business strategy for the stakeholder businesses.

Therefore, I would humbly request you to fill this questionnaire. In case of any confusion, please feel free to ask.

We would be very grateful if you could reply us as soon as possible and not exceeding 15.4.2017.

Thank you for taking your precise time and co-operation.

Best Regards

Diwakar Gautam

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## APPENDIX II Survey Questions

1. How is the current situation regarding coffee business in Finland?
  - a.  High
  - b.  Normal
  - c.  Low
  - d. Other \_\_\_\_\_
  
2. How is the current Demand versus supply trend?
  - a.  Higher demand
  - b.  Average demand
  - c.  Lower Demand
  - d. Other \_\_\_\_\_
  
3. What kind of coffee Finnish consumer prefer?
  - a.  Finnish/ local
  - b.  International
  - c. Others \_\_\_\_\_
  
4. Who are the main competitors and actors in the coffee business in Finland?
  - a.  Finnish Company
  - b.  Foreign Company
  - c. Other \_\_\_\_\_
  
5. How many coffee brands are currently present in the Finnish market?
  - a.  1-3 Brands

- b.  4-5 Brands
  - c.  more than 6
  - d. Others \_\_\_\_\_
6. What do you think about Finnish consumer behavior trends in term of flavor?
- a.  light roast
  - b.  dark roast
  - c. Other \_\_\_\_\_
7. Are Finnish consumer price sensitive?
- a.  Yes
  - b.  No
  - c. Other \_\_\_\_\_
8. Are you familiar with Nepalese coffee?
- a.  Yes
  - b.  No
  - c. Other \_\_\_\_\_
9. The age group of customers that consume larger quantity of coffee.....
- a.  10-25 years
  - b.  26-50
  - c.  51 above
10. What do you think about Finnish consumer behavior in term of coffee consumption? Do they prefer Arabica coffee or Robusta coffee?
- a.  Arabica coffee

b.  Robusta coffee

c. Others\_\_\_\_\_

12. Do you prefer caffeinated or decaffeinated coffee the most?

a.  Caffeinated

b.  Decaffeinated

c.  Normal

13. Where do you prefer to drink coffee mostly?

a.  Home

b.  Café

c.  Work place

d.  Everywhere