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# Doing Business in Finland as a Sole Proprietor in the Philippines

The implications involved in exporting coconut oil

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<p>The growing demand of coconut oil throughout the world has open new opportunities and possibilities for coconut farmers who have the advantage of producing coconut crops. Despite the fact that the Philippines is one of the top coconut exporters worldwide, entering a competitive market with major players dominating the market share has its implications and challenges especially operating a business as a sole proprietor. Before considering internationalisation, the aspiring coconut farmers should be aware of the internal and external factors affecting its business to be able to find a better strategy to capitalize on its existing advantages while minimising its risks.</p> <p>The purpose of this research is to present an analytical review based on the available literature and secondary sources to answer the following questions: how sole proprietorship may operate as a supplier of coconut oil in the Philippines, what are the issues relevant in internationalising coconut oil from the Philippines to Finland, and how suitable is the sole proprietorship as a corporate structure in coconut oil internationalisation to Finland. The significance of the research is to provide a clear overview and the possibilities of entering the Finnish market through the European Union for aspiring coconut oil farmers who intend to operate a business as a sole proprietor in the Philippines by examining the factors of coconut oil market in the Philippines, the positive and negative aspects of doing business across borders while exploring the possible mode of entry to Finland.</p> <p>In addition to relevant sources collected by the author, analytic business methods were conducted to gain insights of the advantages and the risks pertaining to operating business as a sole proprietor while attempting to do business across borders.</p> <p>As a result, the author concluded that the recommended strategy for internationalisation is through indirect exporting based upon the Uppsala internationalisation model analysis to mitigate any risks involved in entering a highly competitive market.</p>	
Keywords	Internationalisation, sole proprietorship, coconut oil, exports, imports, Philippines, Finland, Europe

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## 1 Introduction

Since the evolution of globalisation, it became possible for companies to do business across borders. With the existing international trade in place, small and medium-sized companies (SME) are taking advantage of the opportunities in offering their goods and services to customers from around the world. With the help of the internet, it is possible for an individual to build his or her own website for global exposure or communicate with potential international customers. As a result, sole proprietor business owners are willing to take risks to expand their businesses internationally despite of its lack of resources. An example to this is the growing global demand of coconut oil which opens new opportunities especially to the independent coconut farmers particularly in the Philippines.

Philippines is among the top global coconut exporters due to its advantage of having coconut trees growing almost everywhere. Although it is perceived as a great opportunity for aspiring coconut farmers in the Philippines, going international has its many risks that need to be analysed before making any rational business decisions. Before considering internationalisation, the aspiring coconut farmers who operate as a sole trader should be aware of the internal and external factors affecting its business to be able to find a better strategy to capitalize on its existing advantages while minimising its risks.

## 2 Research Process

This study aims to answer research questions which will provide an overview for coconut oil farmers who are considering internationalisation as a sole proprietor. To do so, thesis objectives, methodology and types of data collection must be clearly defined to support the thesis.

### 2.1 Research Objectives

The importance of the research is to provide a clear overview and the possibilities of entering the Finnish market for aspiring independent coconut oil farmers in the Philippines who plan to operate as a sole proprietor and perhaps might find this case study useful in their business endeavours.

The research objectives are as follows:

- Discover available literature and secondary sources relevant to the thesis topic
- Obtain information regarding the coconut oil market in the Philippines to explore the possibilities for the sole proprietor to operate as a supplier of coconut oil
- Examine the positive and negative aspects of doing business across borders as a sole proprietor in the Philippines
- Explore business opportunities for coconut oil suppliers to enter the Finnish/EU market
- Conduct analysis by utilising the business analysis models in order to identify the risks of internationalisation

## 2.2 Research Methodology and Data Collection

As stated by Kothari (2004), research methodology is a way to systematically solve the research problem. The methods used in this research aims to provide a considerable amount of evidence and facts to support the thesis which is also followed by an analysis based on the collection of data.

Methods used for data collection are mainly from secondary data. Secondary data refers to the data that are already available which have already been collected and analysed by someone else (Kothari 2004). Secondary sources are being utilised in order to obtain different viewpoints on the relevant issues pertaining to the topic of the thesis. In doing so, it will provide options for sole proprietors who considers internationalisation.

## 3 Research Questions

The thesis topic is based upon the research questions: “How sole proprietorship may operate as a supplier of coconut oil in the Philippines?”, “What are the issues relevant in internationalising coconut oil from the Philippines to Finland” and “How suitable is the sole proprietorship as a corporate structure in coconut oil internationalisation to Finland?”

## 4 Literature Review

A literature review is an evaluative report of information found in the literature related to the selected area of study which should give a theoretical based for the research to help determine the nature of the research (CQUniversity Australia 2018).

Before conducting any analysis, it is imperative to review the relevant literature to get a better understanding of the basic concepts and theories related to the issues being discussed. The author has collected the following literature reviews sources from books written by authors, reports, figures and statistics available online, news articles, online eBooks and official government websites of the Philippines and Finland discussing topics related to sole proprietorships, internationalisation, the coconut industry, as well as doing business across borders. These sources were specifically chosen by the author due to its relevance to the thesis topic and the availability. However, it is important to note since these are secondary sources, it has its own limitations as it has been conducted by secondary researchers. Using secondary data sources can be quite challenging to identify its reliability. Despite of the massive amount of information which could have been included in the thesis that are available online, it was impossible for the author to acquire most of the sources, as some would require payment to access any related sources, which could have helped the author make further analysis. There are as well some gaps found in the literature review sources specifically in the coconut oil market in the Philippines as the current available sources are somewhat outdated and a bit difficult to acquire which in the process made it challenging for the author to provide a more detailed analysis. As a result, the author utilised the literature review sources that were universally attainable but with caution.

### 4.1 Sole Proprietorship

Sole proprietorship is the simplest form of business organization in which the owner is the business, therefore the owner reports business income on his or her personal income on his or her own income tax return and is legally responsible for all debts and obligations incurred by the business (Miller and Jentz, 2008: 586). While there are advantages in starting a business as a sole proprietor, there are disadvantages which entail considerable risks in sole proprietorship type of businesses especially when the owner conducts businesses across borders.



Miller and Jentz (2008: 586) stated that there are advantages and disadvantages of the sole proprietorship. Its major advantage of the sole proprietorship is the proprietor owns the entire business and has a right to receive all the profits and it is often easier and less costly to start a sole proprietorship than to start any other kind of business as few legal formalities are involved (Miller and Jentz, 2008: 586). Additionally, this type of organisation entails more flexibility as the sole proprietor is free to make any decisions she or he wishes concerning the business which includes whom to hire, when to take a vacation, what kind of business to pursue and can sell or transfer all or part of the business to another party at any time without needing approval from anyone else (Miller and Jentz, 2008: 586). The major disadvantage of the sole proprietorship is that the proprietor alone bears the burden of any losses or liabilities incurred by the business enterprise which in this case the sole proprietor has unlimited liability or legal responsibility of all obligations incurred in doing business including lawsuits against the business and its employees and as a result, creditors can go after the owner's personal assets to pay any business debts (Miller and Jentz, 2008: 586). Moreover, sole proprietorship has the disadvantage of lacking continuity on the death of the sole proprietor which means when the sole proprietor dies, the business is automatically dissolved (Miller and Jentz, 2008: 586).

## 4.2 Internationalisation

There are risks associated to internationalisation such as problems with foreign exchange, exchange rate risk, transaction risk, economic risk, translation risk, restriction of remittances, environmental factors and taxation (McLaney 2009: 418-426).

### 4.2.1 Foreign Exchange

Businesses which trades in foreign markets is almost compelled to exchange currency as part of its day-to-day routine (McLaney 2009: 418). The cost of foreign exchange dealing is the most obvious problem which confronts most businesses as a business conducts business to a foreign buyer and usually payment will be in the currency of the buyer's country (McLaney 2009: 418). In this case, some part of the value of the sales proceeds will be lost to the foreign exchange market and in percentage terms, this might not be a very large figure, but it is a cost (McLaney 2009: 418).

#### 4.2.2 Exchange Rate

Exchange rate is the risk which the rate of exchange between two countries will move unfavourably to the business under consideration which in this case, a change in exchange can have the effect of reducing the business's wealth (McLaney 2009: 418).

#### 4.2.3 Transaction Risk

Transaction Risk refers to the potentially detrimental effect of changes in the exchange rate during the period between commitment to a contract and its subsequent settlement (Kantox Limited 2018). As two companies working in different currencies enter into a contract together involving a monetary transaction, the interval between entering the contract and the payment represents a period of potential currency risk due to the volatility of exchange rates that can fluctuate considerably within a short period of time (Kantox Limited 2018).

#### 4.2.4 Economic Risk

According to McLaney (2009: 422-423), the moment a business's fortunes are affected by the movements in exchange rates, the business is said to be exposed to economic risks. In table 1 below further explains which areas cover the economic risk when businesses consider internationalisation.

Table 1. Areas covering the economic risks

<b>Areas covering the economic risks (McLaney 2009: 423)</b>	
1.	Long-term borrowings in foreign currencies becoming costlier than expected to service (interest payments) and repay the principal of the borrowings, as a result of a shift in exchange rates;
2.	Projects not having as high a Net Present Value (NPV) in practice as was planned, because the home currency has strengthened against the relevant foreign ones, so that the value of operating cash flows is less than planned; and
3.	The business, when it is supplying from the home country, finding it hard to compete in the foreign market as a result of the home currency strengthening against the relevant foreign one.

#### 4.2.5 Translation Risk

Translation risk tends to give particular concern due to the fact that under the accounting rules which apply throughout much of the world, the performance and position of all the business's operations which includes foreign ones, have to be incorporated in its income

statement and balance sheet, respectively as stated by McLaney (2009: 424). In terms of foreign operations, it requires translating figures expressed in foreign currencies into the home currency (McLaney 2009: 424).

#### 4.2.6 Restriction of Remittances

A factor such as the restriction of remittances should be taken into account as converting funds to another currency weakens the first currency (McLaney 2009: 426). Additionally, funds that cannot be remitted abroad can only be reinvested in the country where they were generated, an action which tend to be beneficial to the country concerned (McLaney 2009: 426).

#### 4.2.7 Environmental factors

There may be factors that need to be looked at carefully which affect a particular foreign location and need careful investigations which such matters including environmental constraints and ethical constraints (McLaney 2009: 426).

#### 4.2.8 Taxation

The purpose of taxation is to collect income to finance the duties of the public sector (Valtiovarainministeriö 2018). Any company conducting business must pay their tax obligations to avoid tax evasion. There may well be a double-taxation agreement with the home country in the case of taxes on profits where, in effect, tax is paid at the higher of the home country's and the relevant foreign country's rate (McLaney 2009: 426).

#### 4.2.9 Cross-cultural communication

Author Deresky (2011: 105) emphasizes the importance of cultural sensitivity or cultural empathy as cultural awareness lead to developing appropriate policies and determining how to plan, organise, lead and control in a specific international setting.

Authors such as Folsom, et al (2015: 37) also pointed out that once transaction takes on an international dimension, it is usually involved a greater geographic distance between

the parties such as transportation of the goods and a whole variety of issues arise from the simple fact that an international sale will involve more than one cultural and legal system.

## 5 Sole Proprietorship in the Philippines

Starting a business is an attractive option for some people who prefer to become the boss of their own company and set their own working time. Registering a sole proprietor business is primarily the choice for individuals who want to start their business right away as it is an easier method to set-up this type of business and does not require a large amount of capital. Due to the competitive labour market, local governments from around the world have been suggesting unemployed jobseekers to consider entrepreneurship as an alternative to secure income. There are even opportunities to acquire start-up grants and training programs to help ease the process in starting one's own business. When business is starting to get better in their local area of business, expanding their business internationally seems to look very promising for some sole proprietors. Providing goods and services to customers worldwide has never been this easy before as the World Wide Web is making it possible to set up a website where people around the world can shop and make a purchase online.

Regardless of its alluring opportunities, there are many things to consider before taking this next step. It is why it is important to identify the implications of doing business across borders as a sole proprietor to prevent any conflict between the authorities and the competition as well as making sure if the investment is worth to risk it. For that reason, the author wanted to investigate further on the implications for operating sole proprietorship business between in Finland and in the Philippines as a coconut oil supplier. According to Mejorada (2006: 26), several small businesses in the Philippines are started as sole proprietorships and this is often due to the individual's desire to go into business for the first time with minimal governmental requirements and capital. When considering doing business across borders, the sole proprietor must identify the important issues which involve operating the business internationally.

### 5.1 Sole proprietorship registration

Before the Duterte Administration, it was quite time-consuming to set-up a business including sole proprietorship as it required an amount of paperwork. It would take months

to process when registering a business during that time. The Philippine House of the Representatives has finally approved the anti-red tape bill namely 'An Act Establishing a National Policy on Ease of Doing Business' as the Duterte administration aims to create a business environment which will be conducive and attractive to local and foreign investors and hopefully reduce the documentation procedures and processing of business permits (Porcalla 2017). Provided that all required documents have been submitted, the substitute bill prescribes a maximum processing time of one working day at the barangay level, three working days for simple applications and 10 working days to be reckoned from the time documents are received for complex applications (Porcalla 2017). The bill will as well provide for the automatic approval and release of business permits upon the lapse of 30 days of inaction, given that all the required documents have been submitted (Porcalla 2017).

## 5.2 Assistance for exporters

Any businesses who are planning to export goods to other countries will be provided with assistance by the Philippine government through the Philippine Export Development Plan and the Export Assistance Network. The Philippine government implemented the 'Philippine Export Development Plan (PEDP) 2018-2022' to assist and provide training for new and current exporters in the Philippines.

According to Export Development Council (2017), the PEDP aims to embody the country's export thrusts, strategies, programs as well as projects as it is one of the most important elements of the International Trade Strategy. Aside from the PEDP, the Department of Trade and Industry (2017) established the 'Export Assistance Network' to be able to help exporters and prospective exporters access information as well as resolve any problems in relation to exporting.

## 6 Coconut Oil Industry

As coconut are cultivated across the tropics, the coconut production is expected to accelerate in comparison to the past growth (OECD & FAO 2017: 86). As shown in figure 1 on page 9, the changes in major production activities in Southeast Asia increased from 0.68 percent in 2002 to 1.55 percent in 2017.

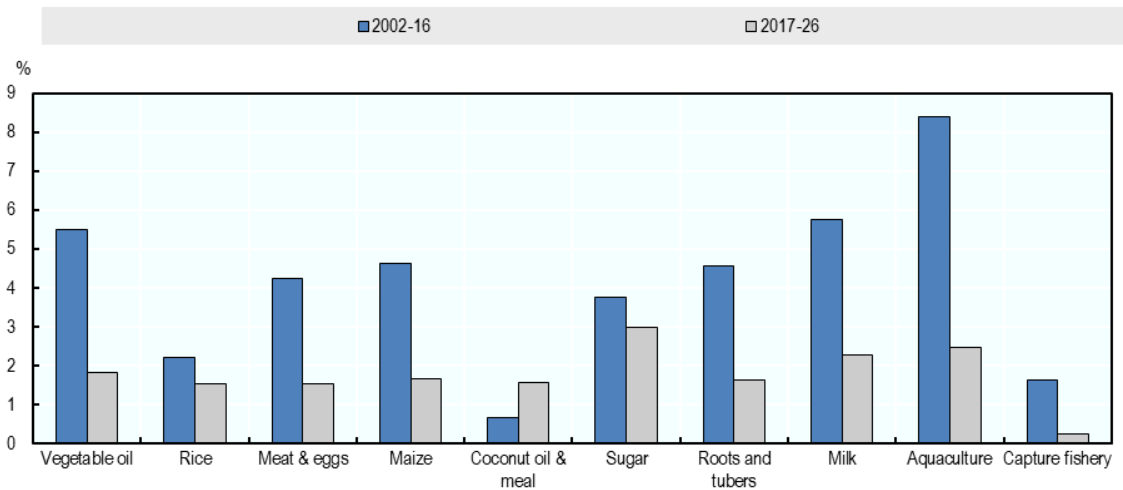


Figure 1. Changes in major production activities in Southeast Asia – Average annual growth rates (%) (OECD & FAO, 2017 pp.86).

The expected growth is projected to occur due to government efforts to improve coconut production and productivity in the Philippines and India (OECD & FAO 2017: 87).

### 6.1 Coconut oil

Coconut oil is one of the most commonly used product in the household which can be used in cooking as well as the production of shampoos, soaps, lotions, cosmetics, and fragrances (Gans and Kauwell 2017). As shown on figure 2 on page 10, a sample of the coconut oil product available in Finland.



Figure 2. Coconut oil product on shelves at K-Market grocery chain (Photo source: Surban 2017)

### 6.1.1 Coconut oil production

Coconut oil is extracted through heat, pressure, and/or chemical solvents but depending on the extraction methods, the final product can be labelled in different ways: virgin coconut oil, refined coconut oil and hydrogenated coconut oil (Gans and Kauwell 2017).

Virgin coconut oil is mechanically pressed to separate the oil from the meat of fresh mature coconut (Gans and Kauwell 2017). It is made either with or without heat which is also free from chemical solvents and bleaching or deodorizing agents (Villarino, Dy and Lizada 2007). Through this process, it enables the coconut oil to absorb high levels of antioxidants and polyphenols (Arunima and Rajamohan 2013) and retains the scent and taste of the coconut (Gans and Kauwell 2017).

Refined coconut oil is processed which is similar to making virgin coconut oil, however it is followed by additional processing methods which includes refining, bleaching, and deodorizing (Gans and Kauwell 2017). Bleaching does not involve chemical but rather it utilises bleaching clay to remove impurities after the oil has been deodorised through steam heating it between 405 and 475 degrees (Gans and Kauwell 2017). Nonetheless, deodorizing removes most of the coconut aroma and flavour away from the coconut oil (Gans and Kauwell 2017).

Hydrogenated coconut oil is occasionally used as an ingredient for shelf stable sweets and baked goods (Gans and Kauwell 2017). The small portion of unsaturated fatty acids are hydrogenated which creates some trans fats and it also keeps coconut oil solid at higher temperatures (Shilhavy 2018).

### 6.1.2 Coconut oil benefits

Coconut oil has been called as the healthiest dietary oil in earth as it is known for its nutrition, health and medicines to cure numerous diseases (Rethinam 2002). Based on the research conducted by Rethinam (2002), coconut oil contributes several benefits which includes increasing digestibility and control diabetics, helping to reduce weight, improve cardio vascular health, protection against disease, inhibiting induction of carcinogenic properties. Reducing degenerative disease and providing immune system support.

## 6.2 Coconut Oil Industry in the Philippines

The Philippines has a long history in trading coconut products. When the demand for coconut oil increased in 1898, it was exported to Europe as raw material ingredient (Philippine Coconut Authority 2018a). According to Philippine Statistics Authority (2017), the top coconut-producing region in the Philippines was CALABARZON with the estimated contribution of 15.1 percent between July and September of 2017 as shown on figure 3 below.

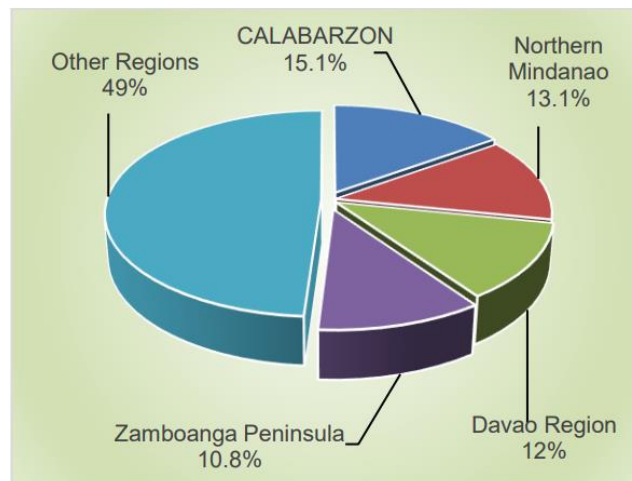


Figure 3. Estimated Distribution of Coconut Production, by region, July-September 2017 (Philippine Statistics Authority 2017a).

### 6.2.1 Coconut Oil Exports in the Philippines

The top five exports between August 2016 and 2017, the Philippine Statistics Authority (2017) ranked the coconut oil exports in fifth place with export sales of \$160.78 million and a share of 2.9 percent in 2017. In comparison to the previous year's export value of \$99.73 million, it showed a growth of 61.2 percent as shown in figure 4 on page 12 (Philippine Statistics Authority 2017b).



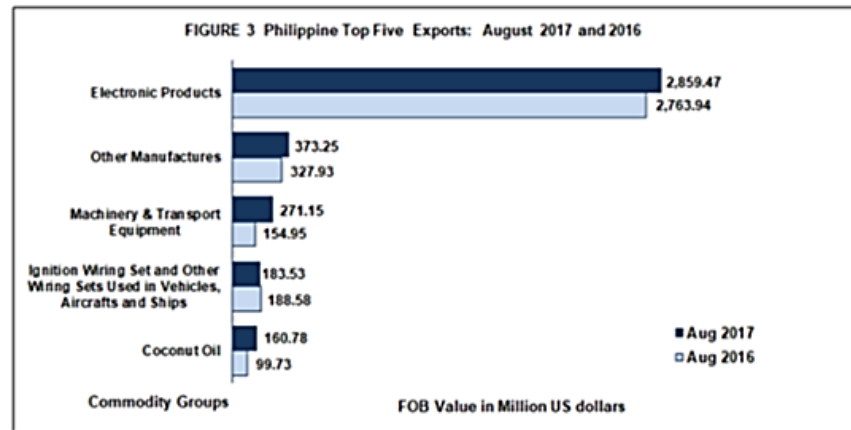


Figure 4. Philippine Top Five Exports between August 2017 and 2016 (Philippine Statistics Authority 2017b)

By November 2017, the corresponding sales of coconut oil dropped to 26.8 percent with \$113.23 million (Philippine Statistics Authority 2017c). However, in November 2017 the coconut oil export only declined by 8 percent with \$117.26 million (Philippine Statistics Authority 2017d).

## 7 Doing Business in Finland

International companies are warmly welcomed and enjoy high return on investment in Finland as it allows them the access same benefits as Finnish companies (Invest in Finland 2018a).

### 7.1 Coconut oil imports in Finland

When conducting research regarding the top coconut oil importers of Finland in 2016, three European Union countries are dominating the market. According to the calculations made by the International Trade Centre (2016) based on Eurostat statistics, among the top five coconut importers of coconut oil in Finland dominating the market shares are Denmark, Netherlands, Sweden, Sri Lanka and the Philippines as shown in figure 5 below

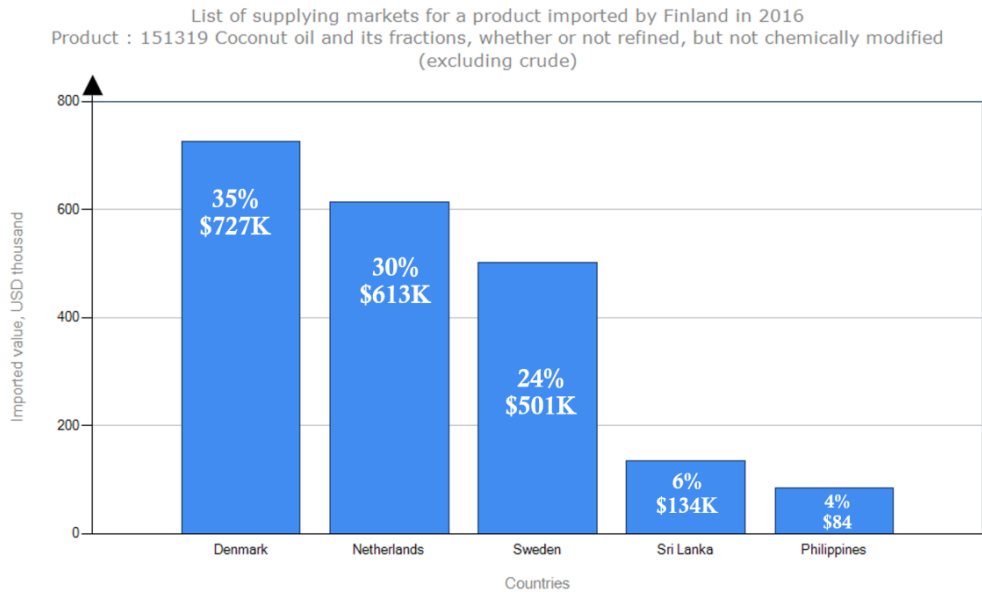


Figure 5. List of supplying markets for coconut oil product imported to Finland in 2016 (International Trade Centre 2016).

Although the EU countries are dominating the market, the Philippines still has a foothold in the market share of coconut imports in Finland.

## 7.2 Geopolitical

Geopolitical refers to politics specifically international relations which influenced by geographical factors (Oxford Dictionaries 2018).

The president of the Philippines, Rodrigo Duterte has raised concerns worldwide. As stated by the Asian Dynamics Initiative (2016) of University of Copenhagen, it is mostly due to Duterte's 'heterodox' yet largely 'populist' political style; his internationally controversial yet domestically popular war on drugs as well as his sensitive foreign policy choices which will have important implications for the geopolitical economic position of the Philippines in particular and the whole of the ASEAN bloc at the time of intensifying rivalry between US and China for Asian hegemony.

### 7.2.1 European Union and the Philippines

The relationship between the European Union and the Republic of the Philippines is a longstanding one that has broadened and deepened remarkably in recent year

(European Commission 2017). The negotiations for an EU-Philippines Free Trade Agreement were launched since on 22 December 2015 which will develop a key aspect of the overall relationship between Finland and the Philippines based on the Partnership and Cooperation Agreement signed in 2012 (European Commission 2017). It aims to conclude an agreement which covers a broad range of issues, including tariffs, non-tariff barriers to trade, trade in services and investment and trade aspects of public procurement, intellectual property, competition and sustainable development (European Commission 2017). Based on European Commission's (2017) report, the EU ranked as the Philippines' fourth largest trading partner with the bilateral trade in goods amounting to €12.8 billion in 2016 while the Philippines was EU's sixth largest trading partner in the region (European Commission 2017).

However, the relationship between European Union and the Philippines is becoming increasingly uncertain due to the issues involving the Philippine's president's war on drugs. Despite of these circumstances, the European Union and the Philippines enter into a partnership and cooperation agreement which was signed in 2012 and has now been ratified by all the parties after ratification by the Senate of the Philippines on 22 January 2018 (European Commission 2018a). The Agreement provides a new and enhanced legal framework which enables the European Union and the Philippines to strengthen their bilateral relationship on political, social and economic matters including human rights (European Commission 2018a).

### 7.2.2 EU GSP+ Scheme

As stated by the European Union External Action (2014), the European Parliament granted the Generalised Scheme of Preferences Plus (GSP+) to the Philippines in 2014 which means the EU slashes tariff exports to zero to most important Philippine exports including coconut oil. The European Union is offering GSP+ to developing countries such as the Philippines as a special incentive arrangement for sustainable development and good governance providing additional tariff preferences when exporting to the European Union (European Union External Action 2014). The GSP+ aims to create economic benefits which will help the Philippines to assume its responsibilities under core international conventions on human and labour rights, environmental protection and good governance (European Union External Action 2014). Nonetheless, the Philippines will likely to lose this privilege if the European Union finds any concrete evidence in violating any of the international conventions particularly on the human rights issues.

### 7.3 Exporting to Finland

The Finnish business culture is based on high ethics and standards (Ministry for Foreign Affairs of Finland 2008) and anyone intending to sell products to Finnish partners must learn what they value when doing business such as efficient negotiations, explicit offers and terms, even quality, punctuality as well as compliance with law, contracts and other specified requirements (Ministry for Foreign Affairs of Finland 2008).

#### 7.3.1 Bilateral relationship

As the Philippine coconut oil exporter is doing business with Finland, it was important to research about the diplomatic relations between two countries. As a matter of fact, the Philippines and Finland established their bilateral diplomatic relations for more than 60 years since the 14th of July 1955 as stated by the Ministry for Foreign Affairs of Finland (1955). The bilateral relations between two countries particularly in the economic sphere intensified in the last years (Embassy of the Philippines in the Nordics 2018). Finland's presence in the Philippines can be largely felt through the increasing number of Finnish enterprises doing business in the country including Nokia, Kone Elevators, IVO Power, KEMIRA Chemicals, Wärtsilä Power, Tieto Communications, Pöyry Power (for operations/maintenance of power systems of certain industries), Meridia Financial Softwares and Outotec (mining and metals processing/treatment) (Embassy of the Philippines in the Nordics 2018).

#### 7.3.2 Taxation Agreement between Philippines and Finland

One of the common problems facing most businesses is double taxation. Since there is no distinction between the sole proprietorship company and its owner, the sales earned by the sole proprietor would also be considered as his or her personal income, he or she is entirely liable to pay taxes. Nonetheless, the Republic of the Philippines and the Republic of Finland signed a tax treaty in 1978 which is a convention between two countries for the avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income (Department of Foreign Affairs 1981). With the tax treaty in place, this will take the burden off from having to pay taxes to both countries which most sole proprietors feared to face with.

### 7.3.3 Food Legislation

When opting to do business between Philippines and Finland, the sole proprietor must be able to fulfil the requirements needed to become a supplier of coconut oil especially the consumer labelling of their products as well as the options to consider on how to conduct their business in terms of exporting their coconut oil to Finland.

As Finland is part of the European Union, the Philippine exporter must also follow the guidelines imposed by the European Union. Considering the fact that coconut oil belongs to the foodstuff category, the products imported to Finland must also follow the food law regulation. The Food Law Regulation EC1978/2002 which integrated to the “from-farm-to-fork” approach treated as a general principle for the EU food safety policy ensuring a high level of protection of human life and health with due regard for animal health and welfare, plant health and the environment (Ministry for Foreign Affairs of Finland 2008). The Philippine coconut oil exporter in this case must make sure that proper documentation, food packaging, labelling and any other related import requirements must be met to be cleared through the EU and Finnish customs.

### 7.3.4 Consumer labelling

According to CBI (2017), if the coconut oil is packed for retail in the country of origin, it must follow the European legislation covering food information to consumer which in this case, the consumer label must include information as shown in table 2 on below.

Table 2. European Consumer label information (CBI 2016)

Name of product
List of ingredients, including allergens
Nutrition information
Quantity / categories of ingredients
Net quantity
Date: minimum storage life
Special storage conditions / conditions for use
Business name and address
Particulars of origin
Instruction for usage
If the product is organic, it must contain the name / code of the certifying body, the certification number and the European Union's organic logo

### 7.3.5 Logistics

Logistics management is the part of supply chain management which plans, implements and controls the efficient, effective forward and reverse flow and storage of goods, services and related information between the point of origin and the point of consumption to be able to meet customer's requirements (CSCMP 2018). Transporting coconut oil from the Philippines to Finland can be quite challenging. It is important to complete the necessary steps in properly packaging, storing and shipping coconut oil across borders.

Coconut oil is mainly transported in tanks and rarely in barrel (TIS 2018). The acid value of the coconut oil must not be too high as this denotes an excessively high content of free fatty acids that causes the oil to turn sour (TIS 2018). As oils and fats spoil by readily becoming rancid and rancidity is promoted through light, atmospheric oxygen and moisture which leads to changes in order and taste (TIS 2018). Thus, the tanks and barrels must be filled as full as possible, taking into consideration the coefficient of cubic expansion so that as little ullage space as possible is left above the cargo (TIS 2018). Coconut oil can be transported via ship, truck or railroad. Loading, travel and pumping temperatures should be precisely compiled with, since any change in consistency that occurs during transport may prove irreversible (TIS 2018).

In the Philippines, there are several logistics providers who can transport the independent coconut farmer's coconut oil goods, however one particular logistics company has an outstanding and experience in transporting goods to Europe. Established in 1878, SGS Philippines (2018a) transformed grain trading in Europe through providing innovative agricultural inspection services. From their beginning in 1878 as grain inspection house, they have steadily grown into their role as the industry leader and have done this through continual improvement and innovation as well as through supporting their customers' operations by reducing risk and improving productivity (SGS Philippines 2018a).

In addition to logistics solutions, the SGS Philippines has a wide range of services including innovative solutions and risk managements for agriculture & food, chemical, consumer goods & retail, environment, health safety, sustainability, training, trade, transportations and much more (SGS Philippines 2018b). Thus, it could be beneficial for the independent coconut oil farmer to choose a logistics provider which offers a number of services which will assist him in every step of the way.

### 7.3.6 Export Procedures

Before exporting coconut oil products across borders, the Philippine coconut farmer should comply with the Philippines' export procedure. In figure 6 below shows the legal procedure in exporting goods in the Philippines.

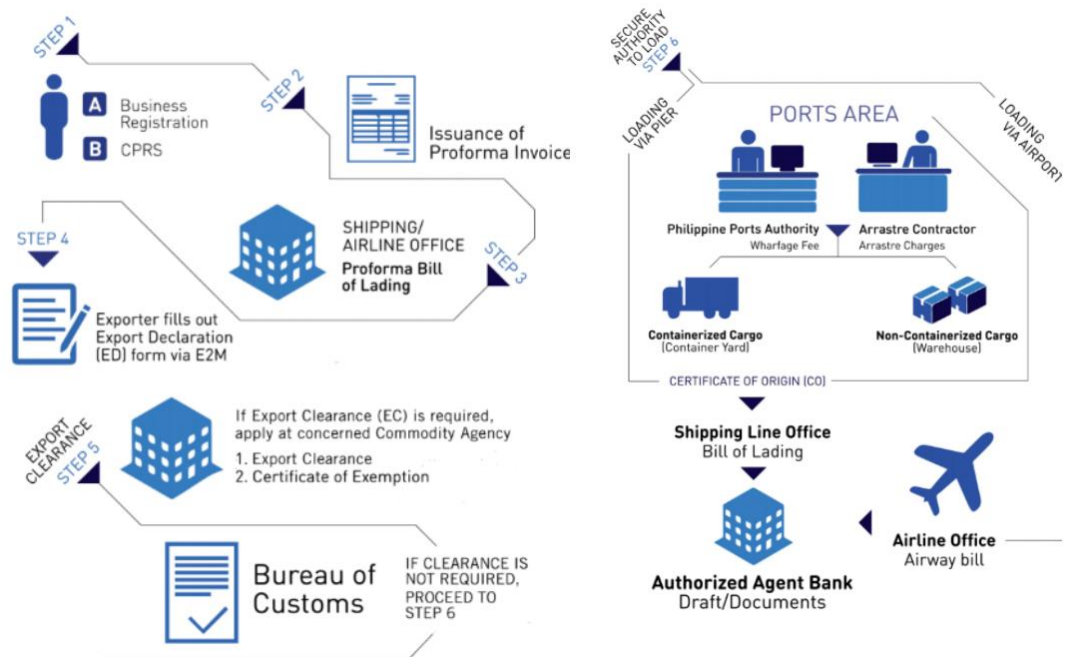


Figure 6. Export Procedure Flowchart (Department of Trade and Industry 2015)

Based on the flow chart, the first step is that the exporter must have his or her business registered but since the coconut farmer is operating as a sole proprietor, then he or she will register with the Department of Trade and Industry (2015). In addition to registering with the city or municipality where you will operate to get a business permit and with the Bureau of Internal Revenue, the next step is to register as an exporter in the client profile registration system or also known as CPRS (Department of Trade and Industry 2015).

Since the Philippine coconut farmer is a first-time exporter, he or she should register at Philippine Exporters Confederation, Inc (Department of Trade and Industry 2015). After being registered to the appropriate agency, the coconut farmer will receive its own Unique Reference Number which will serve as proof of accreditation as an exporter (Department of Trade and Industry 2015). In second step, when a foreign buyer buys the

exporter's products, the exporter will issue a PROFORMA INVOICE which should be signed by the foreign buyer and returned to the exporter. Third step is for the exporter to choose a courier who will deliver its products which is done through filling out a Bill of Lading (Department of Trade and Industry 2015). Step five is to obtain clearance for exporting products as some products are regulated or prohibited for export and if Export Clearance is needed, the coconut exporter should apply at concerned Commodity Agency otherwise proceed to step 6 (Department of Trade and Industry 2015). Step 6 is for exporter shall file an Export Declaration electronically via E2M to Bureau of Customs in order to secure an authority to load (Department of Trade and Industry 2015). Step 7 is loading the products which will be inspected by the agencies at each port (Department of Trade and Industry 2015). For air freight, inspection is done at the airport by the BOC while for sea freight, inspection is done at the ports by the Customs Container Control Division for containerized products and the Piers and Inspection Division for non-containerized products (Department of Trade and Industry 2015). Lastly, the coconut oil exporter will then obtain a certificate of origin from the Bureau of Customs which require documentations such as Certificate Declaration, Export Declaration, Bill of Lading, Commercial Invoice and other supporting documents proving which a Certificate of Origin is required (Department of Trade and Industry 2015).

### 7.3.7 Import Regulations

At the time of import, goods from a non-EU country must be cleared through Finnish customs before it can be taken into use or resold (Tulli 2018a). Customs impose duties, taxes and charges, that are determined based on the commodity code, origin and customs value of the imported goods (Tulli 2018a).

But before importing goods, there are steps to follow in accordance to Finnish customs as shown on figure 7 on page 20.



Before starting import

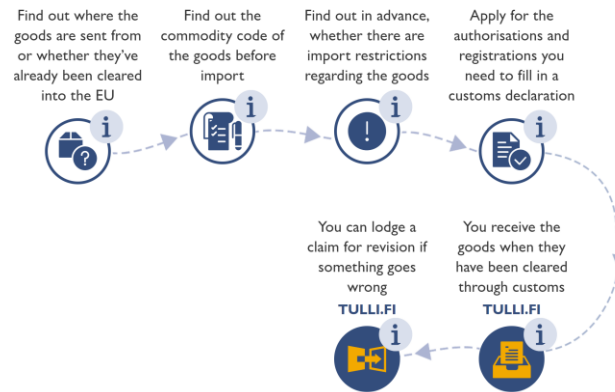


Figure 7. Before starting import (Tulli 2018b).

Before anything else, it is imperative for customs clearance and import taxation purposes to find out where the goods are originally being delivered from as it is the importer's responsibility for the safety of the products and package labelling (Tulli 2018b). Secondly, find out the commodity code of the goods which will help you determine the amount of customs duty and the restrictions (Tulli 2018b). Commodity code can be found online from the TARIC database provided by the European Commission.

TARIC, the integrated Tariff of the European Union, is a multilingual database in which are integrated all measures relating to EU customs tariff, commercial and agricultural legislation (European Commission 2018b). The TARIC includes the main categories of measures such as tariff measures, agricultural measures, trade defence instruments, prohibitions and restrictions to import and export (European Commission 2018b). Additionally, TARIC also contains as shown in table 3 below.

Table 3. TARIC also contains as follows (European Commission 2018b)

TARIC also contains as follows (European Commission 2018b)
<ul style="list-style-type: none"> <li>• The goods nomenclature and the additional codes;</li> </ul>
<ul style="list-style-type: none"> <li>• The agricultural product nomenclature for export refunds;</li> </ul>
<ul style="list-style-type: none"> <li>• The supplementary units;</li> </ul>
<ul style="list-style-type: none"> <li>• The EU codes to be used in Box 44 of the Single Administrative Document (SAD) as "Documents produced, certificates and authorisations"</li> </ul>
<ul style="list-style-type: none"> <li>• The list of country codes used in different boxes of the SAD, according to the nomenclature of countries and territories published in Regulation (EU) No 1106/2012.</li> </ul>

Thirdly, it is crucial to find out in advance if there are import restrictions to the goods being imported as all products have their own national administrative authority and/or licensing authority e.g. Finnish food Safety Authority Evira or the National Police board, which will provide instructions about the import restrictions (Tulli 2018b). Fourthly, you may lodge a claim for revision when something goes wrong as it is vital to find out from proper authorising authority whether the item being imported requires authorisation or it is otherwise restricted (Tulli 2018b). Finnish Customs is an enforcement authority which in this case never grants import authorisations for restricted goods (Tulli 2018b). Fifthly, the importer is responsible for the customs clearance of the imported goods (Tulli 2018b). The importer may choose to clear the goods either on its own or hire an agent in behalf of the importer (Tulli 2018b). The import authorisation for the imported goods needs to be obtained beforehand (Tulli 2018b). Lastly, present the import authorisation to customs when clearing the goods (Tulli 2018b). If the importer noticed any error when clearing consignment through customs, it is possible to file a claim for a revised decision and can appeal to the customs clearance decisions despite of the customs declaration was being lodged by an agent (Tulli 2018b). The claim for a revised decision should be submitted within the given time limit (Tulli 2018b).

## **8 EU Business Opportunities in Exporting Coconut Oil**

There are three options that sole proprietor might consider if they intend to export their coconut oil to Finland depending on their preference and business venture.

### **8.1 Opening a branch in Finland**

If the Philippine exporter decides to open an establishment in Finland, opening a branch or a subsidiary company could be an option to consider. Nevertheless, opening a subsidiary company in Finland would need a minimum share capital of 2,500 euros in addition to the other fees. As a sole proprietor in the Philippines, the foreign exporter might not have enough capital to fulfil this requirement. Although it is mandatory to submit complete documentations as well as acquire permits and licences, opening a branch in Finland would be a more attractive option to the Philippine sole proprietor (and exporter) as it would cost about 380 euros as stated on the Finnish Patent and Registration Office's website (Patentti- ja Rekisterihallitus 2017b).

Since the Philippines is outside the European Economic Area countries, the foreign trader must also need to acquire permit to establish its branch in Finland and according to the Finnish Patent and Registration Office (Patentti- ja Rekisterihallitus 2017a), the application fee is 120 euros and an additional charge of 12 euros for delivery and invoicing of decision and invoice by mail. In accordance with the Finnish Patent and Registration Office (Patentti- ja Rekisterihallitus 2017b), the branch must operate in the same line of business as the foreign trader's parent company. In this case, it appears that the Philippine sole proprietor's parent company in the Philippines acquires full responsibilities, liabilities and obligations of its branch company in Finland.

## 8.2 Joining a Finnish cooperatives

If the Philippine sole proprietor decides to join cooperatives in Finland, there is a possibility for them to become a coconut oil supplier in one of the grocery chains in Finland as they have the resources including logistics which could be useful for the sole proprietor when exporting their goods to Finland. As stated by the Ministry for Foreign Affairs of Finland (2008), the big players in food products are Kesko and S-Group and all big chains have strict store concepts even if the stores are run by private entrepreneurs as store space planning, buying, logistics, basic assortment, marketing and even pricing decisions are made in the central organisations. Buying is centralised within each chain not only nationally however in many cases also at the European level e.g. Kesko is a member of Associated Marketing Services which is a strategic buying alliance based in Netherlands, whereas the S Group has its own channels through Coop Norden (Ministry for Foreign Affairs of Finland 2008).

### **Kesko Oyj**

Kesko's own Pirkka product range has nearly 500 suppliers and these suppliers and the ingredients they used are carefully screened before being accepted as suppliers of Kesko's own brands (Kesko Oyj 2017a). On their website, there are contacts available for suppliers as Kesko is engaged in the grocery trade (Kesko Oyj 2017b). Kesko has already coconut oil products from the Philippines on its shelves which could be attractive cooperative for the Philippine sole proprietor. Based on Kesko's annual report in 2016, the Philippines was among the countries in which Kesko has own direct imports as shown in figure 8 on page 23.

**Kesko's own direct imports from high-risk countries, 10 largest countries in 2016<sup>1</sup>**

Country	Value of imports, € million
China	42.6
India	8.5
Vietnam	7.3
Turkey	6.9
Thailand	6.1
Bangladesh	2.9
Ukraine	1.7
Indonesia	1.6
South Africa	1.0
The Philippines	0.9

<sup>1</sup> ICIF, direct imports forwarded by Kesko Logistics and Onninen Finland only, excluding imports by VV-Auto

Figure 8. Kesko's own direct import from high-risk countries (Kesko Oyj 2016).

## S Group

S Group (2017) has a dedicated website wherein suppliers can sign a written contract with suppliers who comply with their category specific quality requirements found on their website as well as information on what they expect from their suppliers. New suppliers who are offering products to S Group for the first time must fill in their supplier preliminary data form (S Group 2017).

### 8.3 Partnership with other EU countries

Another option which the sole proprietor should consider is to form a partnership with other EU countries who are among the top exporters of coconut oil in Finland. As previously mentioned, among the top European Union countries who exported coconut oil to Finland were Denmark, Netherlands and Sweden. Rather exporting directly to Finland, sole proprietor can become partners with companies in EU countries who export the same product to Finland. Based on the data results conducted by the Observatory of Economic Complexity (2016), the Philippines exported coconut oil to Netherlands with a highest export value of \$464 million which is 41 percent as shown in figure 9 on page 24.

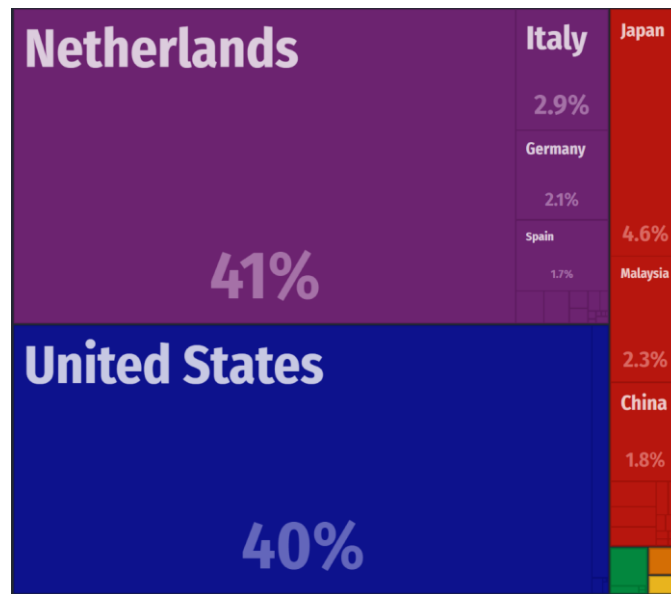


Figure 9. Where does the Philippines export coconut oil to? (The Observatory of Economic Complexity 2016).

Given the data result, there is a possibility for the Philippine sole proprietor to conduct business with Finland through a European partner if in any case the sole proprietor fails to become a supplier for a Finnish grocery chain.

### 8.3.1 Becoming a supplier for Urtekram International A/S

As mentioned on section 7.1, Denmark was one of the top importers of Finland. Another possibility to enter the Finnish market is becoming a supplier for Urtekram International A/S.

Urtekram International A/S is the largest organic wholesaler in Scandinavia located in the north of Denmark in scenic Mariager (Urtekram 2018a) which started in 1972. The company market organic foods in the categories processed food and frozen food, certified organic care products as well as products intended for people with allergies which also include lactose and gluten free products (Urtekram 2018a). They sold their products in more than 36 countries in Scandinavia, all of EU and Russia, the Middle East, Asia and North America (Urtekram 2018a).

Among the products which Urtekram International A/S sold is coconut oil as shown in figure 10 below which is also available to purchase in most of the grocery chains in Finland.



Figure 10. Urtekram Coconut Oil (Urtekram 2018b)

The coconut oil products shown in figure 10 above are produced in the Philippines as well as in Sri Lanka (Urtekram 2018a). The coconut farmer in the Philippines can take the advantage of becoming a coconut oil supplier of Urtekram if other options to enter the Finnish market is more challenging. On Urtekram's website, they provide contact information from their head office to distributors in Europe (Urtekram 2018c).

## 9 Analysis

Before considering internationalisation, it is imperative to conduct analysis to be able to identify the important factors, issues and implications when attempting to sell coconut oil to international markets such as Finland and European Union. Coconut oil suppliers should conduct market research as well as industry analysis to be able to analyse their business and their competitiveness in the global market. With the economy becoming more competitive with each day, having apt knowledge regarding the concerns and preferences of the customers has become integral for any business as it is the best way to increase customer satisfaction, understand the factors which affect any businesses and to elevate its performance (Flat Word Solutions Private Limited 2018). To be able to provide answers to its research questions, the author has conducted an analysis derived from the available sources collected.

## 9.1 Coconut oil market outlook in the Philippines

Granting that the coconut oil sole proprietor is planning to internationalise its company, it is crucial to perform a market analysis on the coconut oil market in the Philippines. In doing so, the coconut oil supplier can explore whether a sole proprietorship can operate as a supplier of coconut oil in the Philippines or not. In this section, a market analysis is conducted in order to explore the market size and market growth rate, market trends, market profitability, industry cost structure, distribution channels, key success factors as well as the key success details in the coconut oil market in the Philippines. However, be advised the market analysis outcome may be inaccurate due to its outdated data.

### 9.1.1 Market Size and Market Growth Rate

At this time, there were no recent accurate data or any available sources pertaining to the coconut oil market size and market growth rate in the Philippines. However, data such as the coconut oil production by year, coconut oil food use domestic consumption by year and coconut oil industrial domestic consumption were being analysed to be able to estimate the market size who could be buyers and sellers of coconut oil.

According to the data collected from IndexMundi (2017a) in figure 11 on page 27, it shows that in 2016, the coconut oil production was roughly estimated around 1.46 million metric tons while in 2017, it was 1.48 million metric tons. In comparison to the production volume between 2015 and 2016 which had a growth rate of 5.34 percent, there was only a slight increased growth rate of 1.37 percent in 2017 (IndexMundi 2017a). With the Philippine government already distributing the coconut levy fund, it can expect to grow in 2018. Unless of course if natural disasters strike its coconut crops tremendously, it is likely predicted that the growth rate will decrease when analysing the previous data between 2013 and 2015.

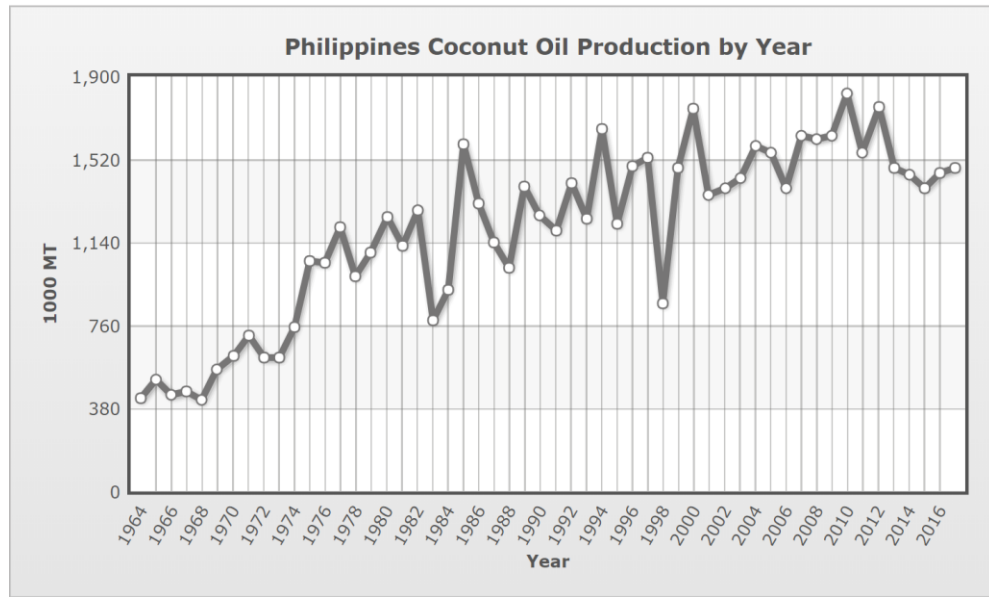


Figure 11. Philippines Coconut Oil Production (IndexMundi 2017a)

However, the coconut oil domestic consumption in the Philippines was estimated around 605 thousand metric tons in 2017 while in 2016 it was around 600 thousand metric tons (IndexMundi 2017a).

In figure 12 below, it shows the growth rate between 2016 and 2017 was 0.83 percent which appeared to be slightly increasing.

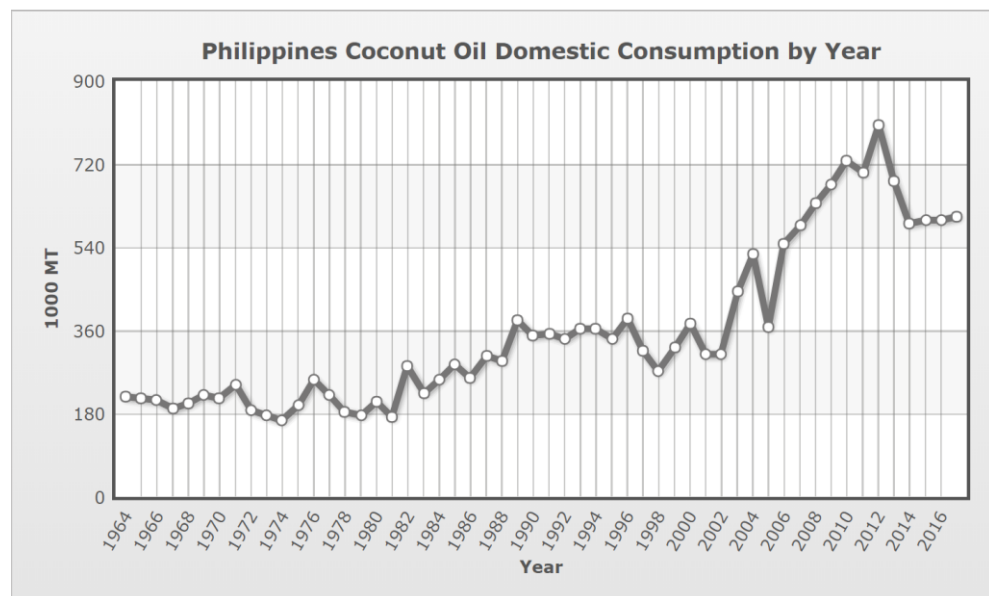


Figure 12. Philippines Coconut Oil Domestic Consumption by Year (IndexMundi 2017b)



Based on the data collected by IndexMundi (2017c), it appears that remaining metric tons from the production was distributed to exports which was roughly 850 thousand metrics tons as shown in figure 13 below.

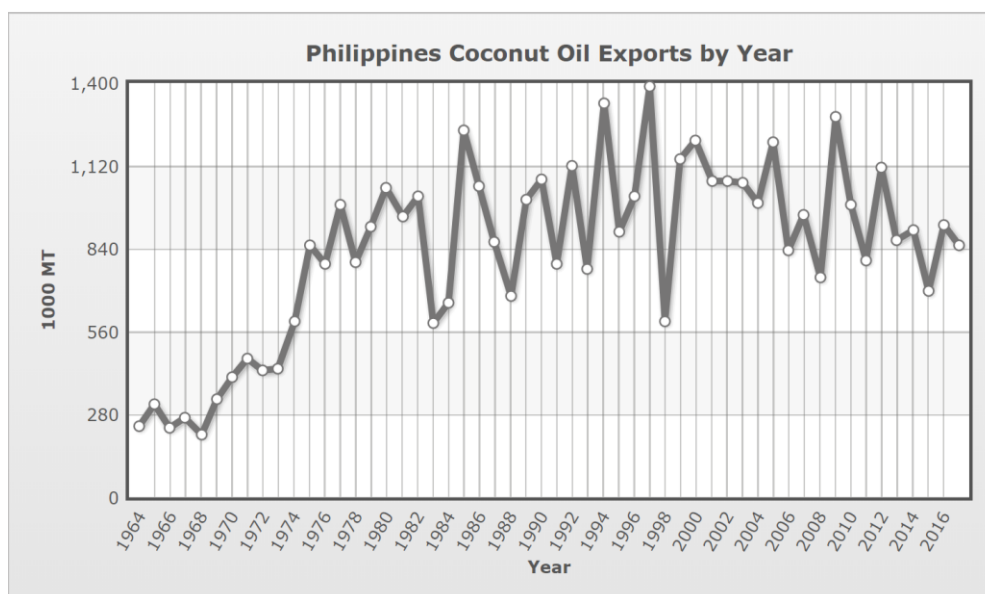


Figure 13. Philippines Coconut Oil Domestic Exports by Year (IndexMundi 2017c)

Between 2016 and 2017, the exports declined in growth share by -7.61 percent in comparison with the growth share of 31.62 percent between 2015 and 2016 based on the data collected by IndexMundi (2017c). By adding both exports and domestic consumptions value, it was roughly estimated that it was a total of 1.46 million metric tons of coconut oil were consumed.

### 9.1.2 Market Trends

Looking at the monthly price for coconut oil in the Philippines, the price in March 2018 was 910.35 EUR per metric ton which apparently declined by -10.24 percent however it is not particularly as bad as it was last month which was -11.60 percent. Given that there are some upcoming changes in the supply and demand, it has hard to determine what the future might look like in the coconut industry in the Philippines. In figure 14 on page 29 highlights the coconut oil monthly price in Euro per metric ton.

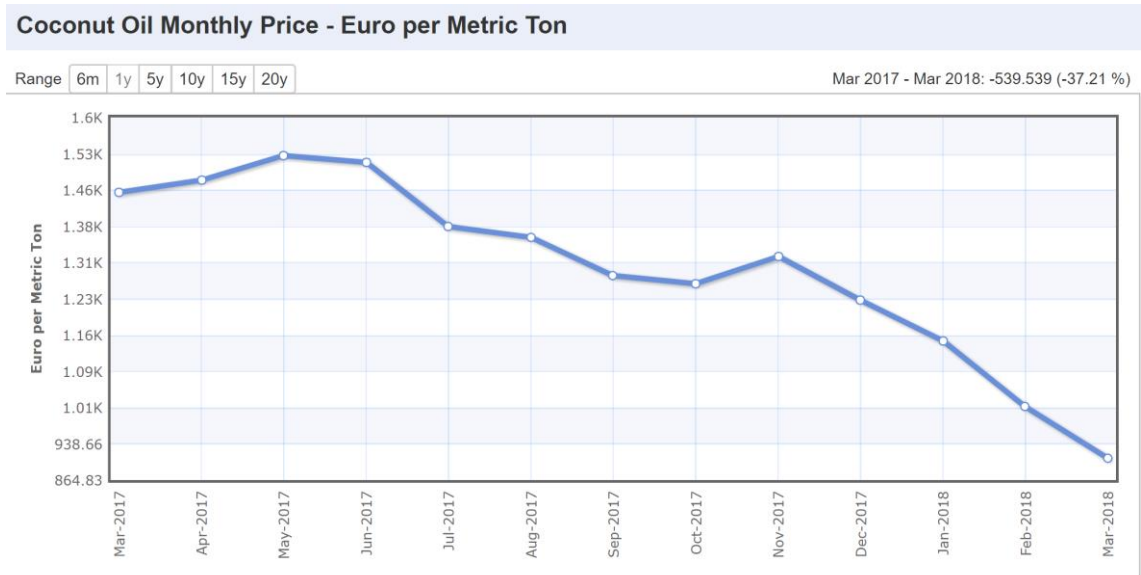


Figure 14. Philippines Coconut Oil Monthly Price – Euro per Metric Ton (IndexMundi 2018)

To obtain information latest trends online and the changes in the interest of coconut oil, the author utilised Google Trends (2018) data to analyse. By filtering the data to only view the results by country (Philippines) over the past 12 months, it shows the value of 82 which relatively means is closer to the peak popularity for the term between April 15 and April 21, 2018. Compared to the first week of April between April 8 to April 14, there were a slight drop in its value as shown in figure 15 below.



Figure 15. Interest in coconut oil by term (Google Trends 2018)

Nevertheless, the data trends were based upon users using the search term ‘coconut oil’ in a browser and for that reason, it is quite challenging to determine its accuracy.

### 9.1.3 Market Profitability

Due to the limited sources available, it appeared to be quite a challenge to determine the market profitability in the coconut oil industry. Nonetheless, if the market price of the coconut oil had been decreasing since November 2017 as previously shown on figure 15 on page 29 (IndexMundi 2018), it begs a question if the market for coconut oil will be profitable in the future.

### 9.1.4 Industry Cost Structure

Operating as a sole proprietor would most likely be a challenge as its key costs include the production of coconut oil and operative costs. In the coconut oil industry, it is apparent that most of its costs derived from labour. In addition to the cultivation of its crops, labour workers are needed to climb and harvest the coconuts before producing the coconut oil. If the sole proprietor is unable to meet its costs, he or she may consider seek funds from the government via coconut levy fund. Besides planting more coconut trees nationwide, putting up the shared facilities to improve the Philippine's coconut production, the coconut levy fund will be used for the provision of loan facility for farmers (Miraflor 2018).

### 9.1.5 Distribution Channels

Upon researching for distribution channels solely for coconut oil products, such information was not freely available. Nevertheless, distribution channels under the food category were found. However, it may be deemed inaccurate to assume that most of these distribution channels sell coconut oil. The Philippines' distribution channels of foodstuffs consist of the following types of outlet as shown in table 4 below.

Table 4. Distribution (types of outlets).

<b>Distribution Channels (Types of Outlet) (Export Enterprises SA 2018a)</b>	
<b>Supermarkets, hypermarkets</b>	Supervalu, Robinsons Supermarket, Rustan Supermarkets, Gaisano (Chain) SM-Shoemart (Supervalu), Robinsons, Rustans, South Supermarkets, Tropical Food Hut Mart, Ever Supermarkets, Waltermart, Lopues, Shopwise, SM Super Shopping Market
<b>Shopping Centers</b>	SM, Robinsons, Ever Gotesco, Isetann
<b>Local shops</b>	7-Eleven, Caltex Star Mart, Mini Stop, Shell Select, Petron Treats
<b>Cash and Carry</b>	Makro

As stated by the Export Enterprises SA (2018a), supermarket chains are opening large, Western-style stores in Metro Manila, Cebu, and other key provincial cities which include cities such as Bacolod, Cagayan de Oro and Iloilo. Modern retail markets including supermarkets, hypermarkets and convenience stores have become more important especially to those living in Metro Manila and other large cities due to the fact that the customers demand easier access and flexibility (Export Enterprises SA 2018). By 2015, food retail giants continued to expand when new stores were opened, and acquisitions were made of these smaller local supermarket chains (Export Enterprises SA 2018). To reach its target consumers, the sole proprietor may consider becoming a coconut supplier of any of these following distribution channels mentioned above. Though it may be deemed as quite challenging for some suppliers to be in partnerships with these big supermarket chains due to its regulations. Nevertheless, according to Singh (2016) even multinationals operating in the Philippines are extremely reliant on their channel partner as more than 80 percent of their revenue derived from via the indirect channels. Knowing the nuances of the Philippines distribution landscape and improving channel is vital in building an effective strategy for the Philippine market (Singh 2016).

#### 9.1.6 Key Success Factors and Details

As stated by Monash University (2018), key success factors which are a necessary condition for success in given market. It is crucial to identify the key success factors of the sole proprietor in becoming a coconut supplier in the Philippines to meet the company's goals and objectives. In table 5 below shows the author's selected top five key success factors projected for the sole proprietors as a coconut supplier in the Philippines including its details.

Table 5. Selected top 5 Key Success Factors to consider when becoming coconut supplier in the Philippines as a sole proprietor.

Slected Top 5 Key Success Factors	
1.	Human Resources
2.	Finances
3.	Marketing
4.	Customers
5.	Strategic Planning of the Company

#### Human Resources

One of the most important assets of the company is its labour force as they are involved in the process of creating the sole proprietor's coconut oil products. To maximise its

productivity level, the people in the organisation must feel motivated to work. Thus, it is imperative that they must be appreciated by the company for its hard work and dedication. To successfully do so, the sole proprietor must encourage them or provide them good feedback rather than only noticing them when they don't meet their work quota.

### **Finances**

Without its financial resources, the sole proprietor will not be able to operate his or her business as it should be. The sole proprietor should be cautious in handling its finances to be able to keep on sustaining its business and avoid bankruptcy.

### **Marketing**

As a start-up, brand awareness is important to acquire new customers as well as retain the current ones. The sole proprietor should determine a marketing strategy best suited to market its coconut oil products and achieve its mission.

### **Customers**

The customers are as well as important factors as they are responsible of increasing the profit of the sole proprietor's company. By ensuring that the sole proprietor meets the customer's needs or wants, it will enable the company to achieve its business goals and objectives as a coconut supplier in the Philippines.

### **Strategic Planning of the company**

Entering a market that is already been competitive can be quite challenging for any sole proprietor. The sole proprietor must implement a strategic plan for his or business to identify its goals, mission, as well as its business opportunities to accomplish the results that he or she desired.

## **9.2 Internationalising Coconut oil from the Philippines to the Finland**

When the sole proprietor in the Philippines considers doing business with Finland, it is crucial to be aware of the issues relevant in internationalising coconut oil from the Philippines to Finland. In doing so, it was essential to conduct a PESTLE analysis of Finland to be able to determine the external factors which could affect the sole proprietor's business when engaging business with Finland.

## 9.2.1 PESTLE Analysis of Finland

### PESTLE

The environment creates both opportunities and threats for organisations and can be considered in terms of a series of layers (Johnson, et al 2017). The macro-environment, which is the outermost layer of organisations, consists of its major external and uncontrollable factors which impact to a greater or lesser extent to many organisations, industries and sectors (Johnson, et al 2017). The PESTLE Analysis is a useful method to utilise in order to identify the external factors which influence an organisation and can be used to help consider Political, Economic, Social, Technological, Legal and Environmental issues (Team FME 2013a).

- **Political**

Political factors consist of government attitudes to employment, consumer protection, the environment, taxation, trade restrictions, societal reforms and the burden of bureaucracy as well as the level of corruption (Team FME 2013a).

Finland is among the least corrupt countries in the world reflecting in its business life and as agreements are respected and Finns are known for keeping their word (Invest in Finland 2018b). Due to the low level of corruption, it makes doing business in Finland a more unequivocal than in most places as well as one of the appealing features of the country as an investment location (Invest in Finland 2018b). The country is perceived as a leader in data sovereignty with more responsible policies in regards to the protection, retention as well as the collection of electronic data compared to most European states (Invest in Finland 2018b). The Finnish government does not have any interest in enforcing unreasonable restrictions on the country's telecommunications industry or in forcing it to take part in such activities that will jeopardize the privacy of the companies and clients (Invest in Finland 2018b).

- **Economic**

Economic factors consist of assessing potential changes to an economy's inflation rate, taxes, interest rates, exchange rates, trading regulations and excise duties (Team FME 2013a).

The Pellervo Economic Research (PTT) as quoted in (Teivainen 2018) revealed that it is expected that the national economy will grow by 2.8 percent between 2018 and 2019 which allows almost 90,000 unemployed join the ranks of the employed. According to Janne Huovari, the head of forecasting at PTT as quoted in (Teivainen 2018), although the current fiscal policy may be regarded as to relaxed considering the rapid growth, Finland still has some catching up to do.

As stated by the Finnish Ministry of Finance as quoted in Export Entreprises SA (2018b), Finland has relatively strong public finances as in 2017 the public debt is estimated around 53.1 percent and by 2019, the debt ratio will decrease to under 60 percent. Current accounts are expected to show small deficit in the coming years with inflation rates at 0.8 percent in 2017 and 1.2 percent in 2018 (Export Entreprises SA 2018b).

- **Social**

Social factors consist of age distribution, population growth rate, employment levels, incomes statistics, education and career trends, and religious beliefs as well as cultural and social conventions (Team FME 2013a).

According to the provided data collected by the Statistics Finland (2018), Finland's population was 5,513,849 at the end of February as shown in figure 16 below. The country's population increased by 719 persons during January to February and the reason for the increase was migration from abroad since immigration exceeded emigration by 2,186 persons (Statistics Finland 2018a).

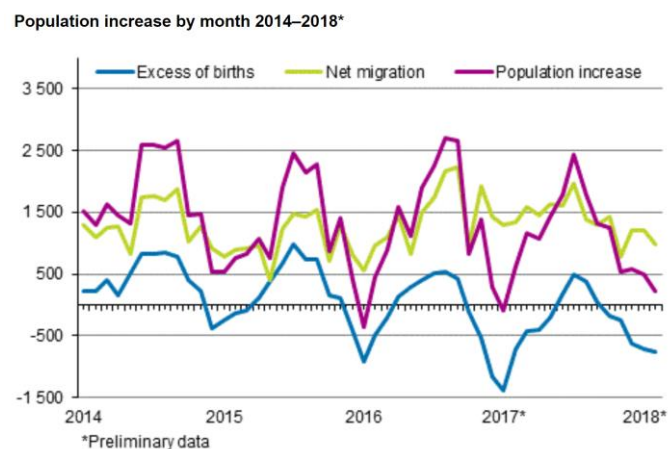


Figure 16. Population increase by month 2014-2018\* in Finland (Statistics Finland 2018a)

Based on the Statistics Finland's Labour Force Survey as quoted in Statistics Finland (2018b), the number of employed people was 37,000 higher than one year ago and the number of unemployed persons in March 2018 was 240,000, which was 20,000 lower than one year ago as shown in figure 17 below.

**Unemployment rate and trend of unemployment rate 2008/03–2018/03, persons aged 15–74**



Figure 17. Unemployment rate and trend of unemployment rate 2008/03–2018/03, persons aged 15–74 in Finland (Statistics Finland 2018b)

All people in Finland are considered equal in the eyes of the law regardless of age, sex or occupation as equality in Finnish working life is apparent, for example, in the relatively high number of women holding advanced positions, however also in the way everyone calls each by their first name despite of position (Invest in Finland 2018d).

- **Technological**

Technological factors can be broadly divided into two areas: manufacture and infrastructure (Team FME 2013).

In Finland, innovation flourishes as well as strong innovation skills generate business results (Invest in Finland 2018c). New businesses are continuously developing in the gaming, electronics, software, cleantech and health industries and Finnish innovation environment is among the best in the world according to international benchmarks as quoted in Invest in Finland (2018c).



Finnish society is highly supported of entrepreneurship with a thriving Silicon Valley-inspired business culture and Wired listed Finland as one of the best countries around the world for start-ups (Invest in Finland 2018c). With a strong commitment to innovation and R&D both the private and public sector, it has played vital role in Finland's development into being one of the leading knowledge-based economies in the world (Invest in Finland 2018c).

Finland has an exceptional infrastructure including IT networks, electricity supply or transport as practical Finns portray a strong commitment to functional structure and had recently launched the most advanced 5G test network in the world (Invest in Finland 2018d). Companies in Finland can depend on its highly reliable as well as cost-effective power supply in running their business with maximum efficiency (Invest in Finland 2018d).

- **Legal**

Legal factors consist of current and impending legislation which may affect the industry in areas such as employment, competition and health and safety (Team FME 2013a).

According to the Ministry of Economic Affairs and Employment of Finland (2018a) A proper functioning of the markets is important in promoting Finnish competitiveness and the main of task of the Ministry of Economic Affairs and Employment is to create a favourable environment for entrepreneurship and business. Its crucial goal is ensuring free exchange of goods and services both in Finland as well as with other countries (Ministry of Economic Affairs and Employment of Finland 2018a). It must be guaranteed that enterprises observe the rules of conduct of social importance as well as that consumers' interest are take into account (Ministry of Economic Affairs and Employment of Finland 2018a).

- **Ecological**

Environmental factors consist of infrastructure, cyclical weather, disposal of materials, energy availability and cost, and the ecological consequences of production processes (Team FME 2013a).

Finland has been rated as one of the world's leading countries in many international comparisons of environmental protection standards including the Global

Economic Forum's regularly compiled Environmental Sustainability (Lyytimäki 2014). Among Finland's strengths include highly efficient environmental administration and legislation as well as the ways environmental protection is considered in all sectors of society (Lyytimäki 2014). However, not all comparisons are quite flattering as signs of need for improvement include Finland's large ecological footprint, high levels of material and energy consumption as well as excessive greenhouse gas emissions (Lyytimäki 2014).

According to Ministry of Economic Affairs and Employment of Finland (2018b), Finland's long-term goal is carbon-neutral society. Approximately 80 per cent of greenhouse gases causing global warming result from the production and consumption of energy which includes transport (Ministry of Economic Affairs and Employment of Finland 2018b). The preparation of the new energy as well as climate strategy will take into account and coordinate the Government Programme's energy and climate policies, the long- and medium-term climate change policy referred to in the Climate Change Act and the EU's energy and climate targets for 2030 (Ministry of Economic Affairs and Employment of Finland 2018b).

### 9.3 Sole Proprietorship as corporate Structure in Coconut Oil Internationalisation to Finland

There are advantages and disadvantages to explore further to identify how suitable is sole proprietorship as a corporate structure in coconut oil internationalisation to Finland. The SWOT Analysis, in this case, was the appropriate tool to utilise to determine the strengths, weaknesses, opportunities as well as the threats pertaining to sole proprietors entering the market as a corporate structure when internationalising coconut oil to Finland. Porter's 5 forces tool is as well being used to be able to measure the attractiveness of coconut oil industry.

#### 9.3.1 SWOT Analysis

According to Kotler, et al (2013: 54) managing the marketing function starts with a complete analysis of the company's overall situation. By conducting a SWOT analysis, it will help evaluate the company's overall strengths, weaknesses, opportunities and threats.

The goal of SWOT analysis is to match the company's strengths to attractive opportunities in the environment and at the same time, eliminating or overcoming the weaknesses and minimising the threats (Kotler et al. 2013: 55). In figure 18 below, it shows the output of the SWOT analysis.

<p><b>S Strengths</b></p> <ul style="list-style-type: none"> <li>• Easy to set-up a sole proprietorship business</li> <li>• Full control in its business operations</li> <li>• No need to pay double taxes due to the taxation agreement between Finland and the Philippines</li> <li>• Trade benefits of paying little to no duties through its country's GSP+ status</li> </ul>	<p><b>W Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Sole proprietor acquires high liabilities</li> <li>• Language barrier</li> <li>• Limited financial sources</li> <li>• Lacking current distribution channels</li> </ul>
<p><b>O Opportunities</b></p> <ul style="list-style-type: none"> <li>• Form a joint partnership with the Finnish grocery chains in Finland</li> <li>• Expand its product portfolio</li> <li>• Take advantage of increasing demand of coconut oil in Finland due to the popularity of coconut oil</li> <li>• Promote fair trade of its coconut oil products to customers.</li> </ul>	<p><b>T Threats</b></p> <ul style="list-style-type: none"> <li>• Sole proprietor will likely face intense competition with the major players in the coconut oil market in Finland</li> <li>• The alternatives for coconut oils will make it difficult for sole proprietor to increase its prices</li> <li>• Changes to trade policies</li> <li>• Unpredictable profit or revenue</li> </ul>

Figure 18. Output of the SWOT Analysis

- **Strengths**

Strengths consist of internal capabilities, resources, and positive situational factors which may help the company serve its customers as well as achieve its objectives (Kotler et al. 2013: 54).

1. ***Easy to set-up a sole proprietorship business***

- As mentioned previously, sole proprietorship business is easy to set-up in comparison to other types of business entities. According to Adcount (2018), sole trader or private trader is the easiest as well as the most inexpensive form to obtain a business ID and start operations in Finland. the Trade register's handling fee in Finland is 110€ with no minimal equity capital requirements however it is required that at least 1 person is a resident of European Economic Area (Adcount 2018).

Due to the ease of setting up this type of business, the sole proprietor can only focus more on rather important things such as running the business.

## **2. Full control in its business operations**

- Having full control of the sole proprietorship business is crucial at this point especially when doing business in Finland. The sole proprietor can ensure that his or her business will be conducted according to its Finnish customers or business partners' rules and regulations including the Finnish customs. The sole proprietor can monitor the quality of its products as well as making business decisions without needing any board members to decide what is best for the company.

## **3. No need to pay double taxes due to the taxation agreement between Finland and the Philippines**

- As mentioned earlier, the Republic of the Philippines and the Republic of Finland signed a tax treaty in 1978 which is a convention between two countries for the avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income (Department of Foreign Affairs 1981) which means that the sole proprietor is only liable to pay taxes in the country where he or she earned the money. This is an advantage for the sole proprietor in terms of decreasing its company's expenditures.

## **4. Trade benefits of paying little to no duties through its country's GSP+ status.**

- European Parliament granted the Generalised Scheme of Preferences Plus (GSP+) to the Philippines in 2014 which means the EU slashes tariff exports to zero to most important Philippine exports including coconut oil (European Union External Action 2014). This is highly beneficial for the sole proprietor when transporting and importing coconut oil to Finland.

- **Weaknesses**

Weaknesses contain internal limitations as well as its negative situational factors which may impede with the company's performance (Kotler et al. 2013: 54-55).

- 1. Sole Proprietor acquires higher liabilities**

- Despite the fact that sole proprietorship businesses are easy to set-up, it also has its disadvantages as the sole proprietor cannot separate itself from its business. Thus, all the liabilities of the company will be acquired by the sole proprietor. For example, if the company has unpaid loans from the bank, the bank can take its due payments from the sole proprietor's personal assets.

- 2. Language barrier**

- Although majority of the Finnish people can communicate in English, language barrier can be something that the sole proprietor should be concern of. One of the most important part of market research is knowing what the consumers are saying about a product. If the sole proprietor in the Philippines doesn't speak nor understand the language, it will be difficult for them to know what their potential Finnish customers are talking about. It is vital for any business to have their customers' feedback about their products making it possible to develop the quality of their products.

- 3. Limited financial sources**

- As a start-up company operating under sole proprietorship, it is apparent that the sole proprietor has limited financial sources to meet its operating expenses. The sole proprietor would require funds matching the euro currency when importing its coconut oil to Finland. It is a disadvantage for the sole proprietor as the exchange rate of Philippine peso alone is under par.

- 4. Lacking current distribution channels**

- Sole proprietors need stable distribution channels especially if they want to sell their coconut oil products in Finland. As a start-up, it would take some time for them to obtain distribution channels in Finland due to its strict regulations.

- **Opportunities**

Opportunities are favourable factors or trends in the external environment which the company may be able to exploit to its advantage (Kotler et al. 2013: 55).

- 1. Form a partnership with the Finnish grocery chains in Finland**

- Finnish grocery chains in Finland are very strict and rather particular in terms of the requirements needed to become their supplier. Although it may be hard to compile all the necessary documents, this is great opportunity for sole proprietors to be able to put their coconut oil products on the shelves wherein their customers in Finland can purchase them.

- 2. Expand its product portfolio**

- Coconut oil is not only for food consumption but can also be used as ingredients for cosmetic products. If the sole proprietor has enough customer base in Finland, he or she has the advantage to expand its product portfolio.

- 3. Take advantage of the increasing demand of coconut oil in Finland due to the popularity of coconut oil.**

- The demand of coconut oil has been continuously increasing in Europe. As mentioned previously, the coconut oil is among the top importers of coconut oil in Finland. This is one of the pros of the sole proprietors when internationalising his or her business in Finland. It is likely that the distributors will be needing coconut oil suppliers to meet their customers' demands.

- 4. Promote fair trade of its coconut oil products to customers**

- According to Pirjo Virtaintorppa (2010), the former executive director of Fairtrade Finland, Finland is the world's third best Fairtrade consumer as the Finnish trading groups want to promote responsible consumption and offer customers opportunities to do so. The sole proprietor should take this opportunity to promote fair trade on their coconut oil products to reach this target group.

- **Threats**

Threats are unfavourable external factors or trends which may present challenges to performance (Kotler et al. 2013: 55).

- 1. Sole proprietor will likely to face intense competition with the major players in the coconut oil market in Finland**

- Being a start-up sole proprietor, it can be challenging to compete in a highly competitive market with already established competitors acquiring most of the market shares.

- 2. The alternatives for coconut oil will make it difficult for sole proprietor to increase its prices**

- Given that the prices for coconut oil available in Finland are already a bit expensive, there is a possibility that the consumer will find a much cheaper alternative which also bring the same health benefits. Thus, it makes it hard for any suppliers to raise its prices.

- 3. Changes to trade policies**

- There have been some debates concerning the status of the Philippines' GSP+. As a matter of fact, one of the top requirements of obtaining this incentive is in compliance of human rights. The current administration of the Philippines has been accused of violating human rights due to its drug war operations. There is a threat that the Philippines will lose its GSP+ status which in this case, the sole proprietor would have to pay higher duties to its imported goods in Finland.

- 4. Unpredictable profit or revenue**

- Sole proprietorship businesses are extremely unpredictable when it comes to their projected profit or revenue. Thus, it is a potential risk for the sole proprietor as it can face a number of difficulties in sustaining its business operations especially when exporting its coconut oil to Finland.

### 9.3.2 Porter's 5 Forces

#### Porter's Five Forces

Professor Porter further enriched the literature of competition by devising his 'Five Forces' approach in analysing an industry and the players operating in it (Murphy 2005). Porter's Five Forces is a framework for understanding the competitive forces at work in an industry which help companies assess industry attractiveness, trends will affect industry competition that industries a company should compete in and how companies can position themselves for success (Harvard Business School 2018). In figure 19 below show the output of the porter's five forces.

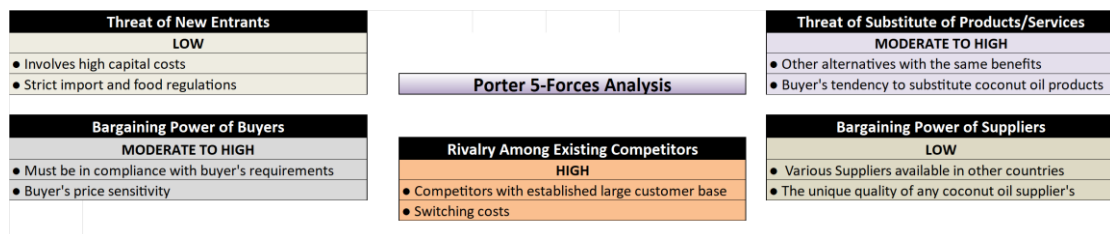


Figure 19. Output of Porter's Five Forces

- **Threat of New Entrants (LOW)**

The threat of new entrants into an industry can force current players to keep prices down as well as spend more to retain customers which puts a cap on the profit potential of an industry (Harvard Business School 2018). According to Team FME (2013b), the number of potentials new entrants into a market will be low if the barriers to entry created by governments, patents and proprietary knowledge, asset specificity, internal economies of scale, and other barriers to exits which can prevent additional rivals entering the market.

The threats of new entrants in the coconut oil industry are low as explained below:

- ***Involves high capital costs***

Any new business who attempt to enter a competitive market such as the coconut oil industry would require high capital costs to finance its



operations, marketing, production of the coconut oil products as well as its transportation.

- ***Strict import and food regulations***

Importing goods that belong to foodstuff category must follow the EU law and regulation otherwise have the risk of being hold in the Finnish customs.

- **Threats of Substitute Products (MODERATE TO HIGH)**

The threat of a substitute is high if it offers an attractive price-performance trade-off relative to the industry's product or if the buyer's cost of switching to the substitute is low (Harvard Business School 2018).

Due to the vast number of alternative products for coconut oil, the threats of substitute products are between moderate and high based on the following factors:

- ***Other alternatives available with the same benefits***

The threat of substitutes products is high because there are other substitutes available for coconut oil with the same benefits. As stated by Organic Facts (2017), coconut oil's substitutes include extra virgin oil, sunflower seed oil, grapeseed oil, almond oil, avocado oil, hemp seed oil, neem oil and shea butter.

- ***Buyer's tendency to substitute coconut oil product***

Buyers have the capability to find other substitutes as they see fit especially when the prices of the coconut oil increases. In this case, the industry's profitability will be affected.

- **Bargaining Power of Buyers (MODERATE TO HIGH)**

Buyer power is highest when buyers are large relative to the competitors serving them, products are undifferentiated and represent a significant cost for the buyer and there are few switching costs to shifting business from one competitor to another (Harvard Business School 2018).

The bargaining power of buyers are moderate to high as further explained below:

- ***Must be in compliance with buyer's requirements***

The grocery chains in Finland require their suppliers to follow the regulations and requirements they set before conducting business with them.

- ***Buyer's price sensitivity***

It is apparent that the buyers would prefer to find the best possible prices of coconut oil available which in this case the bargaining power of buyers are high as they have the power to choose between suppliers when necessary.

- **Bargaining Power of Suppliers (LOW)**

Powerful suppliers can utilise their negotiating leverage to charge higher prices or demand more favourable terms from industry competitors that decreases industry competitors (Harvard Business School 2018).

The bargaining power of suppliers in the coconut oil industry are low according to the following elements:

- ***Various suppliers available in other countries***

There are massive number of coconut oil suppliers available in other countries which in this case the bargaining power of the suppliers is limited.

- ***The unique quality of any coconut oil suppliers' products***

When buyers became fully aware of the unique quality of the coconut oil supplier's products, the supplier's coconut oil product has a competitive advantage against its fellow suppliers' coconut oil products despite of its similarities.

- **Rivalry Among Existing Competitors (HIGH)**

When rivalry tends to become intense, it drives down prices or dissipates profits by raising the cost of competing (Harvard Business School 2018).

- ***Competitors with established large customer base***

According to the Ministry for Foreign Affairs of Finland (2008), the big players in food products in Finland are S-Group, Kesko and Tradeka. Both S-Group and Kesko have coconut oil products that are already made available on their shelves. Thus, the rivalry among existing competitors is high as the sole proprietor is entering a competitive market with major competitors.

- ***Switching costs***

Most competitors in the coconut oil industry take measure in preventing their customers from switching between brands by lowering product prices as much as possible. However, there is a slight possibility for customers to consider other brands if provided better and cheaper prices.

## 10 Conclusion

Based on the analysis made, it is quite promising for the aspiring coconut oil sole proprietor in the Philippines to export its products to Finland. The growing demand of coconut oil does in fact open new opportunities for those who want to consider internationalisation. However, there are risks involve that should not be ignored when running a sole proprietor business in the Philippines especially the full liabilities that will be acquired. Although the risks mentioned can't be avoided completely, aspiring sole proprietors may have the possibility to lower its risks.

However, it is important to note that the outcome of the analysis may be in accurate due to the outdated data collected from the secondary sources as well as the limited number of secondary sources related to the thesis topic which were accessible to the author.

As for becoming a coconut oil supplier in the Philippines, it is somewhat promising for sole proprietors based upon the fact that the coconut oil consumption in the Philippines alone has shown an increasing growth rate in comparison with the coconut oil exports. Although selling coconut oil products in its own country first might be deemed as the easiest option to start a sole proprietor, it is important to note however that it is as well quite challenging due to the extensive amount of the established Philippine coconut oil suppliers.

Finland's external factors specifically how they embraced and encourage start-up companies as well as provide the same benefits for the international companies have made it quite attractive for aspiring sole proprietors to internationalise their coconut oil in Finland. The country itself is quite stable which could open potential business opportunities for any sole proprietors who want to engage into business with them. Finland is hoping to attract foreign start ups by providing new entrepreneurs' residence permit aiming to remove barriers and get start-up business entrepreneur into Finland in order to accelerate economic growth and employment according to inspector general Pekka Lindroos of the Finnish Immigration Service, Migri as quoted in YLE Uutiset (2018).

Before considering international phase, it is imperative to examine its coconut oil product through utilising the Boston Consulting Group (BSG) matrix to determine the coconut oil product's potential. The BCG Matrix is commonly used as a corporate portfolio analysis tool which provides a graphic presentation for an organization in examining different businesses in its portfolio based on their related market share and industry growth rates with four cells of the matrix have been called as stars, cash cows, question marks and dogs (Juneja 2018).

Given that the sole proprietor is a start-up business, the sole proprietor's business unit are placed on the question mark as it has a low market share in a high-growth market. Therefore, the sole proprietor may not generate as much profits as it can to keep sustaining its business operations. Even though business units belonging to question marks may have the possibilities to achieve higher growth market share and high growth rate by evolving into stars or rather into cash cows when market growth declines, there is still higher chances that it can turn into dogs if the sole proprietor fails to analyse its business units carefully.

The author recommends that sole proprietors, who wishes to internationalise their businesses, to proceed to an international phase based upon the Uppsala Internationalisation model. According to Glowik (2016: 64), companies handle its risk problem through an incremental decision-making process wherein information obtained in one phase is used in the next phase to take further steps. In the basis of this incremental behaviour, the organisation can maintain control over its foreign activities as well as gradually build up the knowledge in conducting business in diversified foreign markets (Carlson 1966: 15; Forsgen 2005: 258).

Johanson and Vahlne (1977,1990) developed the ideas of Carlson which introduced the gradual internationalization theory which later became known as the Uppsala internationalisation model (Björkman & Forsgren 2000:11). The Uppsala approach assumes that companies, due to lacking foreign market knowledge, that is connected to corresponding market uncertainty, follow an incremental internationalisation chain pattern (Glowik 2016: 65). As stated by Glowik (2016: 66), internationalisation is a process which is difficult to plan well in advance as organisational structures as well as its routines are built gradually by a consequence of learning first the firm's internal capabilities and competences (e.g. language qualifications of employees) and then second, the foreign market requirements including the process quality consciousness and service expectations.

The sole proprietor, in this case must first make assumptions on the psychic distance as defined in terms of factors including differences in languages, culture political systems as well as other which disturb the flow of information (Glowik 2016: 65) between the sole proprietor and the market. Since Finland's business culture is entirely different from the sole proprietor's culture, it will require a higher cost to obtain market knowledge in the target market while taken into account the relatively low to no business experience.

In reference to the Uppsala model, the author suggests that sole proprietors approach stage 2 which is exportation by independent representatives. Sole proprietors may consider entering an international market through a rather low risk and low-cost mode of entry via indirect exporting. Finding an intermediary in the Philippines, who has an extensive international business experience, to purchase the sole proprietor's coconut oil products may be the suitable option for the sole proprietor. Although there are disadvantages to point out in indirect exporting including not having a direct contact with the foreign customer specifically in Finland, the sole proprietor can minimise its risks associated to internationalisation.

The sole proprietor at this point has limited financial capability to sustain the operations through direct exporting as he or she would require not only the funds to transport its coconut oil products overseas but as well as the administrative, marketing and operational costs pertaining to doing business directly in Finland.

Nevertheless, when the sole proprietor's business is established well enough in its home country in the future and gain enough profit and business experience, the sole proprietor may then consider changing its strategy to a more complex mode of entry.

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