



Discovering competitive edge in the Finnish business gift industry

Case: Company X

Rikhard Moilanen

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ABSTRACT

Tampereen ammattikorkeakoulu
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Rikhard Moilanen
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This thesis was conducted to create a competitor analysis for the commissioning company, Company X which operates in the field of business gifts. The content in this thesis is meant to provide the commissioning company a comprehensive view of its main competitors' current operations. The focus was to analyze the relative weaknesses and strengths of the closest competitors identified by the case company. The goal of this thesis is to equip Company X with valuable data in order to help position themselves better in the market and create competitive edge.

The theoretical section of this thesis is based on the theory of competitor analysis and financial statements. Firstly, the competitor analysis identifies the commissioning company's three main competitors according to the companies' image, organizational structure and positioning in the market. The chosen competitors were Company A, Company B and Company C. Materials for this step of the analysis were gathered from online resources such as the companies' websites and other 3rd party materials. The second stage of analysis focuses on the competitors' financial statements in order to affirm the financial viability of their current operative strategies and future competitive prospects.

The thesis includes some confidential information which has been removed from the public version.

Key words: competitor analysis, financial statements, business gift,

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1 INTRODUCTION

1.1 Business gift industry

Business gifts are a major part of b2b marketing these days and they can be given to customers as well as all important stakeholders associated with the company. Suppliers, retailers, financiers and the like can all be the recipients of not just pens with a company's logo printed on it, but a wide variety of products ranging from clothing, to decorative furnishing and kitchen supplies.

Business gift industry in Finland is comparably small and fairly fragmented, with no clear market leader and lackluster statistical data on the field as a whole. The overall industry revenue is estimated to range between a few hundred million to a quarter of a billion euros yearly, a mere quarter in size compared to Sweden. The barrier to entry is relatively low compared to other fields of business due to minimal requirements for starting capital. Because of this, there is a multitude of small sized businesses operating in the field. This coupled with the percentage of import operations tending to vary from business to business, accurate estimates of the industry have become very difficult to form. In the future though the industry is expected to centralize around the few bigger players and grow thanks to Finnish companies finally starting to understand the importance of branding.

The prevalent trend of low pricing losing its importance as a company's only competitive edge to a more service oriented business offering is affecting the business gift industry as well. To win over customers these days, the deciding factors have become the right product catalog, reliable logistics operations to guarantee punctual delivery and possibilities to warehouse inventory. With online retailing gaining market share, being able to offer web-shop solutions has also become an important selling point.

1.2 Company X

(Confidential)

(Confidential)

2 THEORY ON COMPETITOR ANALYSIS

This chapter introduces some of the theories utilized in conducting this analysis, mainly the methods first developed by Michael Porter. A business needs a direction and a goal in order to operate successfully and therefore every professionally run company also needs a plan of action. Each plan of action should be custom-made for their particular companies, so that their limitations, capabilities, risks and future aspirations are considered. This plan of action is more commonly known as the company's competitive strategy. Because this strategy largely determines a company's success, composing it needs to be done in a thorough and professional manner. However, sometimes this plan is either not well thought out or completely unplanned and it just forms as a consequence of the company's different branches or departments conduct their work. This spontaneous emergence of a competitive strategy is not advisable and a company should always strive to plan out its operations ahead of time as it can only be used as a tool for monitoring one's competitors and the developments happening in the field. Two rivalling companies regularly display similar characteristics in their operations and therefore a competitive strategy can prove to be very useful whether by adopting some of your competitors' methods or avoiding their mistakes. A competitive strategy is indeed useful for self-assessment as well. (Närhi 2015, 14-15)

Competitor analysis is a great tool for figuring out which of the other companies a firm needs to stay mindful of and how to respond to their competitive maneuvers. If a competitor is making strategic moves in the market, competitor analysis can be utilized to examine the reasons behind these changes in operations and help define, which of them a company needs to react on with moves of their own. Also a properly conceived competitor analysis can help a company avert strategic moves that could potentially cause its competitors to react in a counterintuitive way from the executing company's point of view in relation to its strategic goals. (Porter 1980, 49)

Michael Porter composed a model, illustrated in Figure 1 below that a company can use when analyzing its competitors. The four part model is first split in two, between the driving force of the competitor and its current and future actions. They are then further split up into sub-categories:

- future goals and assumptions

- current strategy and capabilities

While figuring out a competitor's current strategy and capabilities is a much easier process compared to understanding its future goals and assumptions. Being able to comprehensively answer both of these questions obviously produces superior results. (Porter 1980, 47-49)

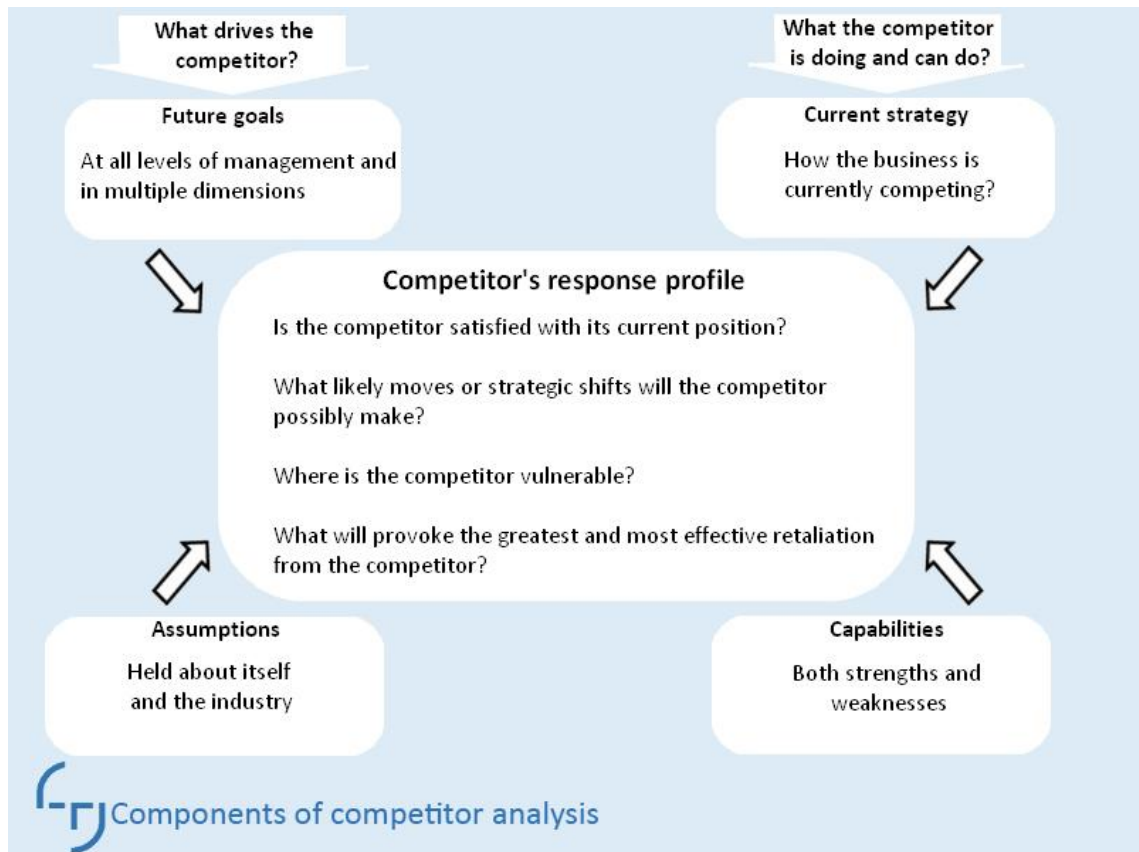


Figure 1. The components of competitor analysis (Porter 1980, 49)

2.1 Porter's five forces of competitive position analysis

For a company, recognizing the key characteristics of itself and its current business environment that it operates in is pivotal when creating a functional competitive strategy. Michael Porter produced a model featured in Figure 2 below of five forces that play a factor in determining the competition inside an industry. With these four forces a company is then positioned accordingly in its field. An applicable competitive strategy can be formed as relating the firm's operations to its business environment becomes possible only after all the essential data has been gathered. (Porter 1980, 3-4)

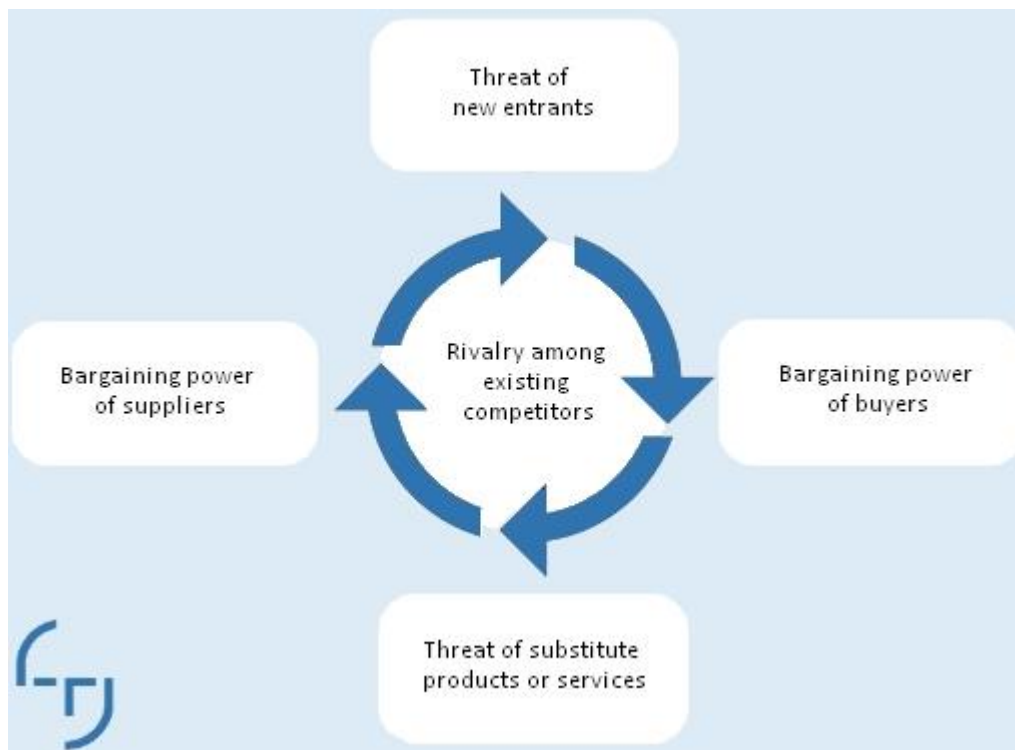


Figure 2. Five competitive forces affecting competition. (Porter 1980, 3-4)

2.1.1 Threat of new entrants

In an already established market the amount of customers is fairly stable and therefore any new company is bound to take away some of them from its competitors, reducing their market share. Competition between the existing competitors aside, the industry itself also poses several barriers of entry that these new companies need to first consider before entering the field. These same factors can also be used as indicators for risk assessment by the existing companies, helping them determine how much attention they should pay to the threat of new entrants. These barriers are inversely correlated to the posed threat, meaning larger barriers leading to smaller threats.

- Economies of scale
 - This barrier dictates the amount of investment a new entrant must commit to their production. A large scale manufacturing facility for example requires a tremendous amount of capital just to get started. The new entrant must determine the optimal level where the amount of risk related to capital investment remains tolerable and the scale of production produces significant benefits in costs needed to produce a single product.

- Cost disadvantages independent of scale
 - Companies that have operated in the field for longer could possibly possess tangible and intangible assets such as proprietary technology, strategically advantageous locations of business, superior knowledge of the field's characteristics and so on that a new company will not yet have access to.
- Capital requirements
 - Depending on the industry, starting a new company within the field might require a large amount of starting capital just to get the company running in the first place.
- Switching costs
 - If a company is moving over from another field for example, naturally some training for their current personnel and new machinery, software and other resources will create costs.
- Product differentiation
 - A new company to an established market has to realize customers have already developed loyalties to pre-existing products and therefore extra efforts in terms of marketing and branding are needed to neutralize them.
- Access to distribution
 - If there are only a few companies offering distribution channels within the industry, hiring their services might be a big barrier for a new business. Suppliers for example might already have exclusive contracts with other companies, preventing the formation of new partnerships.
- Government policy
 - Restrictive government policy such as a limited access to raw materials or possible licensing requirements can make new entries to the field more difficult. (Porter, 1998)

2.1.2 Bargaining power of buyers

As the source of the supplier company's revenue, buyers are natural stakeholders to all companies and through altering their behavior they can influence both individual companies on

their own and competition among different companies. The more easily the product being bought can be replicated and manufactured, the higher the buyer company's negotiating power grows. The currency value of the purchase also forces supplier companies to offer larger discounts to win over the buyer company's business, therefore increasing the buyer company's bargaining power. The abundance of competitors offering similar solutions and the availability of information to customers again add to the negotiating power of the customers. (Porter 1980, 24-27)

2.1.3 Bargaining power of suppliers

Suppliers compete amongst themselves with the quality and price of their offerings. There are however factors that can make the suppliers as a group to hold more negotiating power. A supplier within their own industry can possibly command strong negotiating power over their clients depending on the characteristics of the product or service they are offering. If the number of suppliers within the industry in question is limited to a small selected group or when losing one particular buyer is not detrimental to the suppliers business then new entrants will have a harder time negotiating beneficial deals. Also the characteristics of the product determine how much bargaining power the supplier commands. If finding other products capable of performing the same task are hard to come by or if a particular product plays an integral part in the buyer's end product then negotiating terms will be stricter to the new entrant to the market. (Porter 1980, 27-29)

2.1.4 Threat of substitute products or services

Companies should not only be worried about their competitors producing a similar type of product but they should also be mindful of substitute product which perform effectively the same tasks. Substitute products possess similar characteristics, perform the same function or offer an identical solution to a customer's problem compared to what another company is offering. If the needs of the target customers are not fulfilled to a satisfactory level by the supplying company, whether it is due to a misjudgment of the core needs or an error in pricing, there is always a threat of losing customers to a competing business. (Porter 1980, 23-24)

2.1.5 Rivalry among existing competitors

Unless one company enjoys a monopoly position in their industry, there will always be competition between two or more companies for their customers' business. Although the intensity of rivalries vary from field to field, some level of competition is bound to be present. This happens automatically when commercial companies strive to improve and expand their business and market share in their industry to get ahead of their rivals. The methods to achieve this range from just reducing prices in hopes of increasing sales to a more intricate and carefully planned multi-level strategy affecting all departments of the organization with the goal of bringing long term sustainable growth. (Porter 1980, 17-23)

2.2 Common competitive strategies

Regardless of the differences, which come in many shapes and forms between competing companies, two distinct strategies can always be found in any competitive field of business. The first one is cost-leadership and the second is differentiation. Combining these two strategies with focus, the method in which the firm means to accumulate above average profits compared to other players in the field, one arrives at the three generic competitive strategies. (Porter 1998, 11) These strategies are of course not mutually exclusive and a company can feel free to employ more than one strategy at the same time. This might prove difficult if a company's product catalog is limited but with a large and diverse product offering it is completely feasible, if not advisable to employ one strategy for one product and another strategy for a different product. (Murphy 2005, 21) All of these strategies provide a different perspective to how a company can gain advantage over its competitors. This is either achieved through a broad and comprehensive view of the different segments present in the market, according to differentiation and cost-leadership. Or it is done through building cost-advantage or differentiation over one particular segment according to the focus strategy. (Porter 1998, 11)

After that the five competitive forces present in a market place have been introduced and their effect on market conditions identified, it is time to determine the position a company employing a competitive strategy has taken in the market in question. Depending on the position a company places itself in its market of choice, the difference between realized profits

can be tremendous. A correctly positioned company can achieve high profits regardless of the industry's financial health and offer sustainable advantage over its competitors in the long term. (Valkama 2014, 16) The competitive means of positioning one's company are now more thoroughly introduced below.

2.2.1 Cost leadership

This strategy is about finding a way to either produce, market, distribute or offer maintenance and other post sales services at a lower price compared to one's competitors. This can be accomplished by controlling one's cost drivers and the characteristics of one's value chain. Operating in a way that reduces activities or at least minimizes the effects those activities that produce large costs and tie a lot of capital is pivotal when trying to reduce one's cost structure. Also finding new ways in which to manufacture, deliver and advertise one's offering is important in gaining advantage over competitors. There is however the issue of this strategy's longevity as the cost-leader is only able to exploit this advantage over their competitors for as long as the methods in which this dominance was first achieved can't be replicated. (Porter 1998, 99)

2.2.2 Differentiation

Unlike in cost-leadership strategy where advantage is achieved through lower pricing of goods and services quite similar in properties compared to one's competitors, differentiation is all about producing unique products that a customer cannot get elsewhere. At its core, it is about figuring what a customer truly values in a product. Doing this successfully, offering something completely different compared to other products in the market, allows a company to place a premium on their prices, sell larger quantities and build loyalty with their customer base. (Porter 1998, 120)

While offering something completely different compared to other solutions in the market, very rarely is differentiation utilized in its full potential. Some aspects are not delved into deeply enough or completely ignored by businesses who focus solely on the tangible traits and marketing as the only methods to make their products stand out. Rather the approach

should be all encompassing though all organizational layers and activities to create superior value for the end customer. It's about finding out how each department and operation can enhance the final result. (Porter 1998, 120)

2.2.3 Focus

Instead of targeting the entire market, a company selecting focus strategy as their approach only picks out one or two clearly defined smaller segments within the market and modifies its operations towards satisfying the needs of those customers specifically. Compared to the two other strategies introduced above, focus is therefore fairly unique in the fact that the conducting body employing it is fixated on a rather narrow customer segment. Holding competitive advantage over the whole market becomes negligible in terms of long term survival and sustainability if a company is able to secure themselves a firm position inside its few small target segments. (Porter 1998, 15-16)

This approach can also be divided into two sub-segments, cost focus and differentiation focus. These sub-segments work in similar fashion to what was already introduced above, but when they are employed as part of a focus strategy, their purpose becomes achieving the same advantages in a smaller segment within a market. Cost focus strategy aims to exploit customer sentiments regarding pricing inside the targeted segment and differentiation focus involves a company trying to differentiate themselves from other players operating within that segment. (Porter 1998, 15-16)

The most important thing when evaluating whether or not to use a focus strategy to create competitive advantage is making sure that the segments a company intends to target can be clearly defined from other segments within the market. Failure to do so can be the defining reason why the company's efforts lead to an unsuccessful results in gaining competitive advantage. (Porter 1998, 15-16)

Many companies strive to expand their business operations globally. These aspirations however come with high costs, both monetary and time-wise and even heavy investments do sometimes lead to unsuccessful results and disappointing returns. This is especially true if a company aspires to capture market share too large in the global scale. Narrowing down one's

potential target customer segment to a few samples, clearly differing from others, can therefore yield profits at a much lower risk and smaller investment. Focus strategy can be an efficient way in accomplishing a small and clearly defined, yet global presence for a company. (Murphy 2005, 22)

2.3 Analyzing competitors' skills: Performance Profiles

A company's source for consistent and dependable earnings are realistically the company's competitive skills according to Emilio Cvitkovic. Presented in a graphical manner, this tool is used to gauge a competitor's qualities in regards to its critical capabilities and skills that could play a factor in the competitive environment at large. This tool allows insight into a competitor's prospective future actions and also helps the company conducting the research to evaluate their own capabilities. The analysis is divided into a four step format and the profiling process begins with determining the four factors affecting competition among companies. These factors are management, production, technology and marketing. After these components have been determined, their success is measured using established indicators. In the penultimate stage of the analysis, the connecting factors between the competitor's strong points are then determined and the final step each factor is assigned a measured average performance level. As a company uses these same principals to evaluate all of the competitors operating in the field, the average performance of the entire industry can be determined. (Cvitkovic 1993, 83-91)

2.4 Understanding competitors

Being familiar with the basic aspects of your competitors' operations can be a tremendous benefit when planning your own actions. But a far deeper understanding of not just the surface level image, but the organization as whole offers an even greater value to the company conducting the analysis. David Aaker's method of analyzing competitors, which played an integral role in composing this thesis is introduced below.

The first highlighted component to be considered by the conducting company is the growth, size and profitability of its competitors. Figures like the current sales revenue, market share and growth during the last few years can offer key insight into the competitor's strategy.

Strong competitors have often already secured a solid position within their respective market and have been showing steady, sustained growth, which will imply a healthy stream of growing profits. A strong financial status also aids in securing outside investment for future expansion activities and therefore implies a potential threat to other players in the field. (Aaker 2010, 45-50)

The next part is the image and positioning of a competitor. Understanding things such as company image and brand personality is important of not only your own company but your competitors as well as it will help a company find an optimal position in the market. Uncovering weaknesses in this aspect may present an opportunity to capture potential customers and differentiate. Next part of Aaker's method is objectives and commitment is to reveal whether or not the competitor itself has been pleased with past performance and the likeliness of changes happening to its current strategies. Depending on the findings in the previous part of the analysis, to reflect what the competitor might do in the future one needs to take a look at the prior and current strategies employed by the competitor. Similar mistakes from past failed strategies are unlikely to be made again and being familiar with the activities happening currently can aid in forecasting direction of the competitor's growth in the future. (Aaker 2010, 45-50)

One aspect that is easily dismissed and truthfully a fairly difficult one for an outsider to gather data on, is the competitor's organizational culture. These days access to information regarding the competitor's executives' and board of directors' background has been simplified due to the information age. Knowing what actions these key figures have taken in the past can be a valuable clue into future developments if deciphered properly. Another element in Aaker's model is cost structure of the competitor, which should hold special interest particularly to the analyzing company if heavy price competition is a key characteristic of the market. Knowing the employee count and costs related to materials, inventory, sales and outsourcing helps determining a competitor's cost structure, possible future pricing strategies and longevity. (Aaker 2010, 45-50)

The two final elements to consider in Aaker's competitor analysis are exit barriers and the strengths and weaknesses of a competitor. The competitor's commitment to the market can be determined by the size and nature of different exit barriers, complicating the withdrawal

from a market. These barriers range from more social reasons such as relationships with other businesses and managerial pride, to legal reasons like labor agreements and government regulation and purely financial reasons like heavy investment in specialized assets. The final element is the analysis of a competitor's strengths and weaknesses. A thorough understanding of these points can offer opportunities to eschew suboptimal circumstances and exploit poorly executed strategies. (Aaker 2010, 45-50)

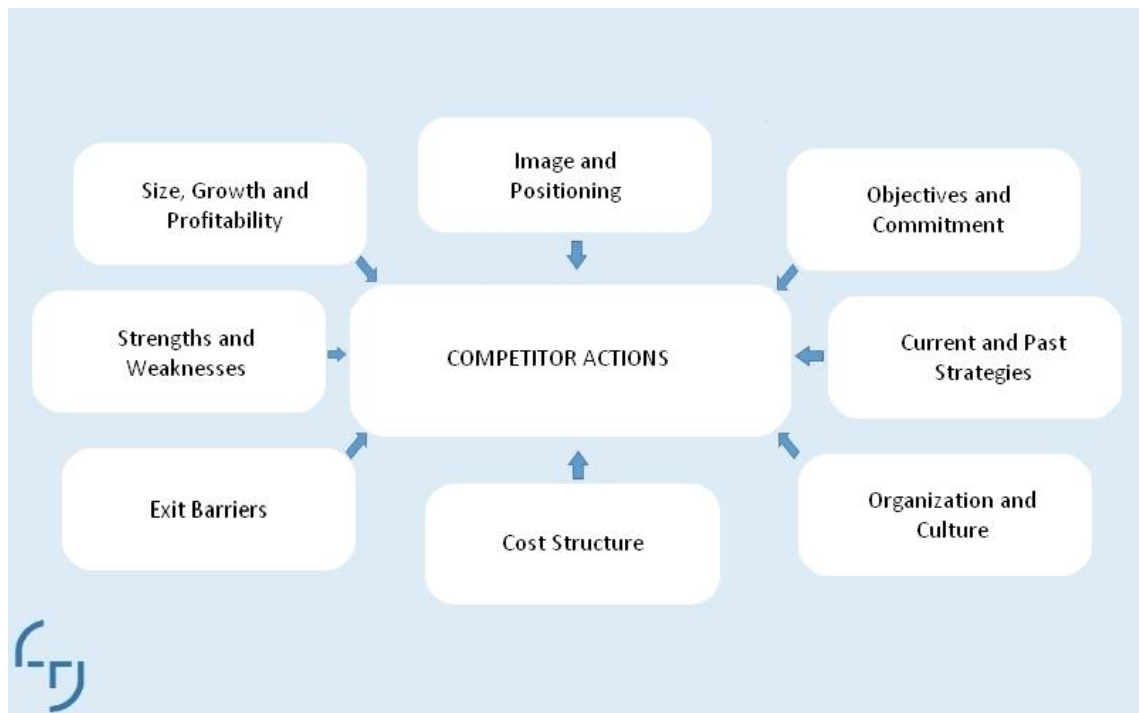


Figure 3. Understanding competitors. (Aaker 2010, 47)

2.5 Analyzing competitors with Rope's model

This model is based on the assumption that it is possible to analyze one's competitors operating in the same industry by compiling data of each player's market share, turnover and their growth during the previous two or three years. This method is therefore based on hard quantifiable data which is used to reveal the individual growth rates in terms of financial gains and market share. This data is then compared to the overall average growth of the market and the growth of the company performing the analysis. This model reveals which competitors are currently outperforming the industry average in terms of expansion and development.

This model can then be used to predict which of these companies will emerge as top players in the industry as well as who is likely to stay a challenger and who will end up as a loser. The goal of this method is to figure out why some competitors end up outperforming everyone else and the reasons behind successes and failures. (Rope 1999, 42-43)

3 SWOT ANALYSIS

SWOT analysis is a rather straight forward tool that can be utilized to plan any project as well as a complimentary tool for competitive analysis. Formed from the words strengths, weaknesses, opportunities and threats, the tool can be separated in to two different sections:

- Strengths and weaknesses are used to examine the internal characteristics of the company conducting the analysis.
- Opportunities and threats in turn are used to evaluate factors in the operating environment, outside of the conducting company's immediate influence.

The two latter factors are especially important when SWOT is being used as a tool for competitive analysis as competitor's activities or possible inactivity can be the prime catalysts for potential business opportunities and threats. (Kotler & Armstrong 2010, 77-78) The tools strengths and weaknesses lie within its simplicity; dividing noteworthy factors into four categories streamlines the process, yet it can also lead to inaccuracies and misinterpretations. Complementary tools for more realistic results are recommended. (Muranen 2013, 10)

In the case where SWOT analysis is used to conduct an extensive development project within a company, special care should be taken in the process of conceiving it. These four guidelines below guarantee the conducting body more accurate results when using SWOT:

- Precision and verifiability of all statements made in every section of the analysis is crucial.
- Focus should stay only on the most significant things influencing different sections of the analysis.
- Consideration should be taken towards where and how the results are applied; a standalone product or an organizational structure.
- Unique Selling Proposition –analysis and Core Competence –analysis are recommended supplements to SWOT when the subject under analysis grows in scale. (SWOT Analysis – Discover New Opportunities, Manage and Eliminate Threats 2015)

Competitor analysis and other types of research really accentuate SWOT analysis' strengths. Usually a company would conduct competitor analysis with the purpose of building a structured understanding of its competitors' strengths, weaknesses and strategic operations compared to itself. Another angle one might take when constructing a competitor analysis is focusing on the plausible threats and improvements that are currently taking place. (Närhi 2015, 20)

SWOT analysis was an ideal tool for the purposes of this thesis. As the study focuses on a narrowed down list of 4 companies extracted from a hugely fragmented market, the commissioning company being one of them, the reliability of the tool increases immensely.

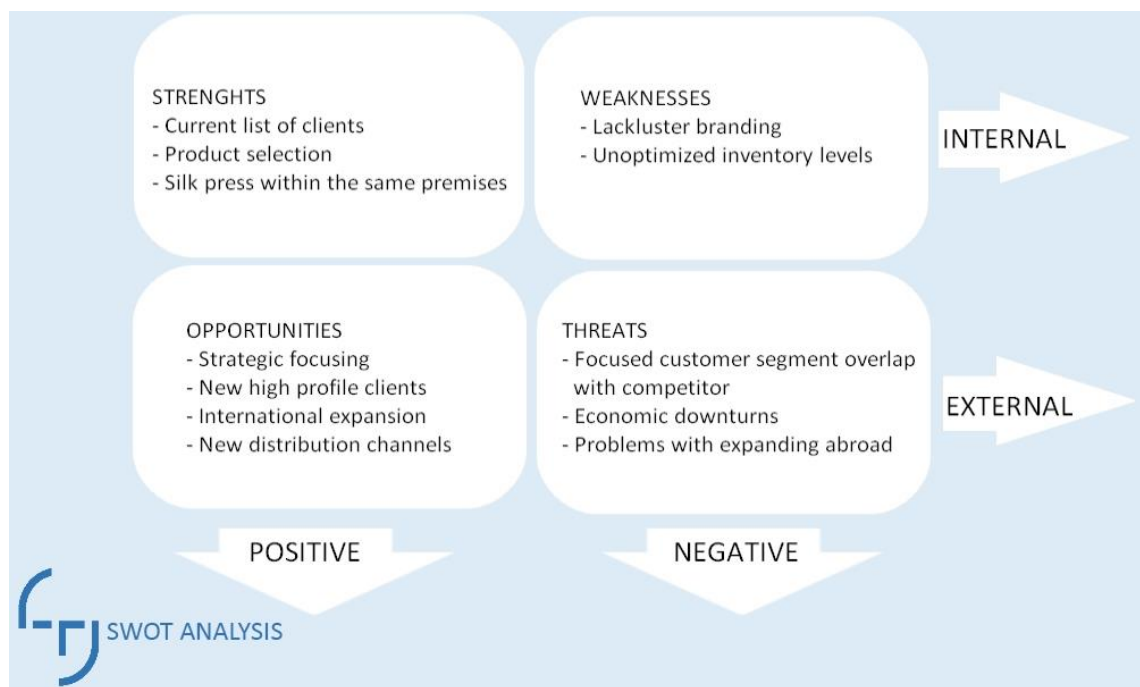


Figure 1. SWOT analysis of Company X

According to this analysis Company X already has continually revenue producing customer relationships and a large variety in their product selection through their own channels as well as being part of New Wave Profile and Fronta consortiums. Their Tampere warehouse also houses a silk press which is a unique feature among their competitors. Many opportunities are available to the company in international expansion as well as reaching new customers in Finland with strategic focusing.

In the negative column we can however identify some of the problems the company is facing around their marketing and strategic operations. Currently Company X does not stand out among the competitors included in this analysis. While the other companies have their own well defined images, Company X comes off as another retail location for the brands it represents instead of as a standalone company that has strategic partnerships with aforementioned brands. Balancing optimal inventory levels and avoiding tying up too much capital into warehousing is another concern that must be addressed. External threats include current strategic overlap with Company C, a competitor included in this analysis, regarding focus towards sports teams and fan merchandise. Economic recessions pose a significant risk in this industry, leading to decreased incoming revenues and therefore proper preparations must be made in order to deal with lowered business for a few years.

4 QUALITATIVE RESEARCH METHOD

The purpose of qualitative research is to gather the biggest quantity of varied perceptions and perspectives, so that the findings truly cover enough variables to make the results reliable. (Kananen 2009, 18-19) One of the key elements in conducting a successful qualitative research is deciding the design of the study. This should be decided upon before beginning the research itself as it determines many important factors concerning the information utilized in the research. The research design defines the type of data required and where it's going to be collected from. It also establishes the methods collecting and finally analyzing the data. (Närhi 2015, 8) Divided into three stages, qualitative research begins from describing the phenomenon of interest. Then the research moves on to the second phase which is devoted to gaining broad knowledge of the phenomenon. In the final stage of the research an analysis about the findings is then created. (Kananen 2009, 18-19)

In the beginning of a qualitative research process itself, before anything else can be done, a clear description of the phenomenon in question needs to be formulated. The incorporation of all information about its characteristics and features is pivotal and failure to do so will have a profound effect on beginning the research successfully. Proceeding to the following stages can prove impossible or at least futile, if the researcher has been unable to conceive a clear consensus about the topic of their research. (Närhi 2015, 8)

Moving on to the second part, the researcher now starts to accumulate information from reliable sources and begins to develop an understanding about the topic. Different factors, variables, perspectives and their interrelations are documented and reviewed from the research problem's point of view. The success of this stage is largely dependent on how successful the researcher was at describing the phenomenon originally in the first phase. The final phase of the research is also completely reliant on how well the researcher manages to understand the phenomenon in this second phase. The process of constructing reliable analysis on the subject will be hindered by many problems and inconsistencies if taken from an incomplete source. (Närhi 2015, 8)

Derived from the results gathered from the two previous phases of the research is the analysis, which also serves as the conclusion of the whole process. But the researcher certainly is

not bound to conduct their analysis exclusively in this part of the research. Rather it is recommended to implement analytical thinking to every leg of the process as it will help guarantee a successful execution of the entire research. (Kananen 2009, 18)

The choice to conduct qualitative research at this stage of the thesis became crucial to gain a deeper understanding of the commissioning company's competitors. Before further analysis on their financial capabilities to pose a threat to the commissioning company, data first needed to be gathered from sources consisting of verbal information. Quantitative research tools are ineffective at decrypting this type of data. Narrowing down the list of formidable competitors to a select few serves to provide a clearer focus for this study and helps conceiving relevant suggestions for the commissioning company.

4.1 Choosing qualitative research method

When the method to conduct qualitative research is determined, the characteristics of the target phenomenon dictate what approach is appropriate. The lack of prior data on the subject in question is most often the reason why quantitative research cannot be implemented, leaving qualitative method as the only viable option.

Unlike quantitative methods, qualitative tools are fairly flexible in comparison making alterations possible for the researcher to make if deemed necessary. It is advisable to use qualitative research at least in the following examples:

- Prior information such as theories and studies are unavailable.
- A need to acquire a more thorough understanding of a phenomenon.
- New theories and hypotheses are needed.
- When researching calls for multiple ways and perspectives to be used in conjunction.
- A proper description of the phenomenon is needed. (Kananen 2009, 19-20)

This thesis was conceived with the purpose of creating an intricate look in to the commissioning company's competitors, where proper courses of competitive action could then be built upon. As already discussed above, quantitative data on the business gift industry in

Finland is in scarce supply. As changes made to the research method will possibly become necessary later on, qualitative research offers the author more flexibility to alter his approach. The suggestions made to the commissioning company will stay relevant even though not all of the competitors operating in the market were accounted for in this study.

4.2 Content analysis

When the goal is to interpret and code textual material to make replicable and valid conclusions, content analysis becomes necessary. Qualitative information can be turned to quantitative data when documents, graphics and other types of communication are evaluated in a systematic manner. The researcher is able to collect and study the nuances of organizational behavior, stakeholder perceptions and societal trends and bridge quantitative and qualitative information together. Larger bundles of information can be employed than in traditional qualitative research, while also enabling the interpretation of complex perceptual constructs. Putting a company's press releases, media coverage and stakeholder blogs under analysis offers a valuable enhancement to archival research while keeping the edge of utilizing large samples of data. (Pfarrer, Pollock, & Rindova, 2010, 1131–1152)

There are however some inherent flaws within the method that a researcher needs to keep in mind. Working with text and graphics from various sources, the researcher needs to stay aware of their own biases stemming from their background. The researcher's closeness to the topic due to emotional investment, geographical vicinity and other sorts of factors that add to their involvement as an objective observer can either work with them or against them. Therefore it is crucial to maintain an open mind to new ideas and interpretations when evaluating content filled with contextual perceptions as it might prevent the researcher from discovering an important aspect affecting the research outcome. Knowledge and experience can and should be used when conducting the study as long it does not negatively affect the researcher's ability to conform to the actual purpose of the research. (Kananen 2015, 121-122)

When examining articles the researcher has to keep in mind that the source text could also have been affected by similar biases. Therefore all information should be studied with a critical mindset and only information applicable to the purpose of the study should be taken

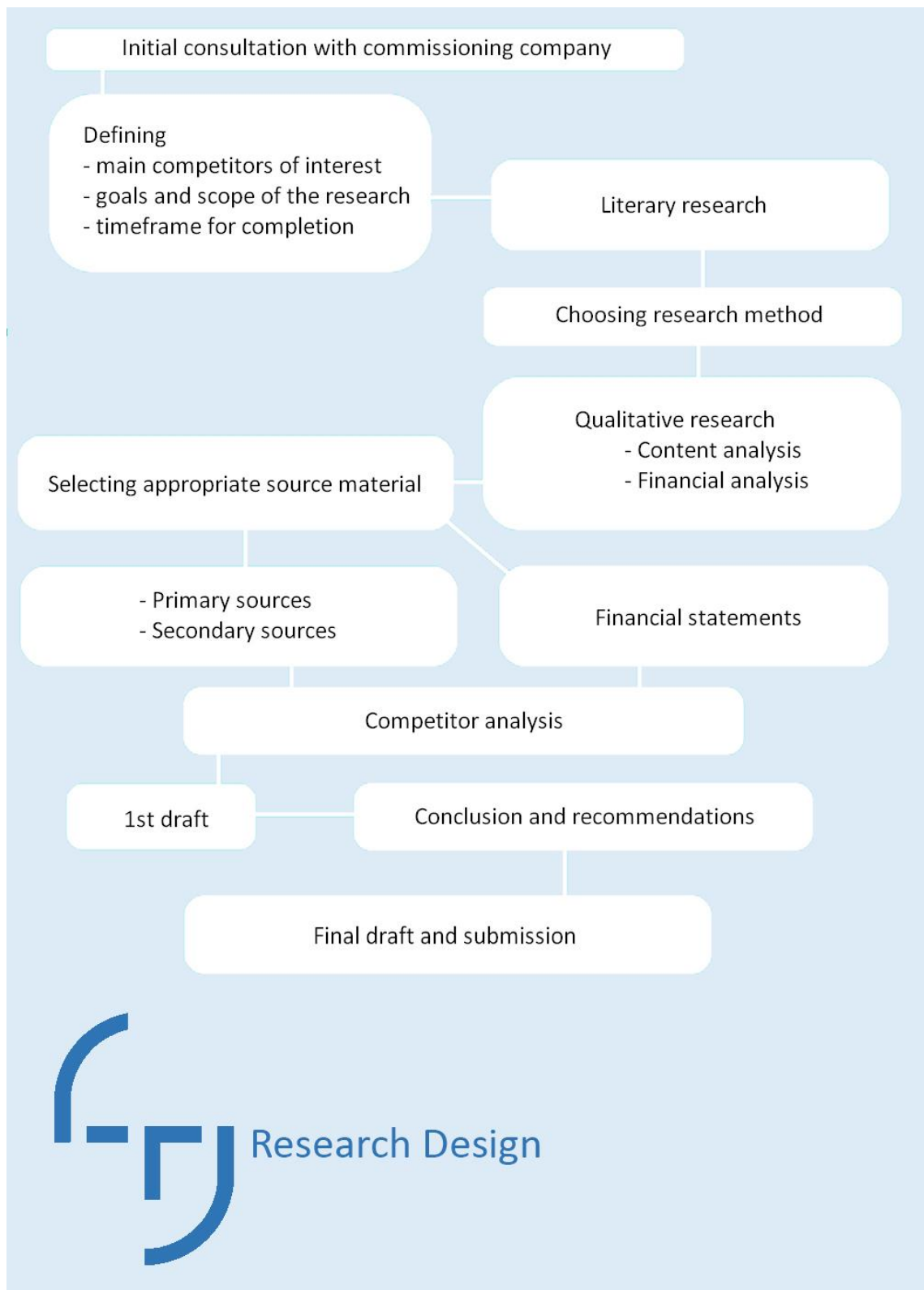
into account. The source and researcher could have alternate views on what information is relevant to the topic. That is why the researcher has to know which parts of the information can actually be included in the material sample used in the study. It can be assumed that all material about the phenomenon has been observed and recorded through a filter and it is in the researcher's best interest to these filters to get the most out of their source material. (Kananen 2015, 121-122)

Because of the varied nature of the material analyzed in the qualitative part of this thesis coming from multiple sources, content analysis was chosen as the superior method of getting the most out of the collected information. As overarching uniformity was absent in the material collected, the usage of more straightforward tools was deemed to be both difficult and ineffective at reaching satisfactory results. Moreover, as the sources used were diverse both in form and content, this method proved to be ideal at keeping the focus on the core issues and goals of the study. The researcher has previously worked for the commissioning company and for that reason not a completely neutral figure. On the other hand, the experience gathered through working in this industry before was a valuable asset to draw upon during the research process and a complimentary tool when assessing diverse research materials.

4.3 Research design

The structure in which a study will be conducted is determined and illustrated by a research design. This essential part of the research first describes the research question and the data required to conceive an answer for it. The model should be concise towards the goal of the study as improper clarity in this part would possibly hinder the research process and affect the success of the results. Choosing the most applicable sources becomes easier when both the research problem and the questions are clearly defined. The characteristics of the phenomenon and the research questions then play a major role in determining the best possible method in which to conduct the actual study. Finally, in the last stage of the research process, the research design defines the appropriate type of analysis to be used to examine the information uncovered. (Kananen, 2014, 42-43)

With this analysis the commissioning company wishes to discover strategic advantages to its competitors through comprehensive company profiles exposing strengths and weaknesses to be mimicked and exploited. What are the competitors doing right? Are they possibly doing something wrong? What lessons are there to be learned from the competitors' past and possible future actions and how should the commissioning company mold and implement the findings to serve its own strategic goals? Due to the nature of the research materials being diverse in both form and content, simplifying the findings into uniform numeric results was impractical at the very least and therefore qualitative research was chosen as the ideal over quantitative methodology. Content was gathered from the competitors' own published materials as well as 3rd party articles, websites and other sources and analyzed with content analysis to produce comprehensive results. Below is the design of the research is visualized in graph form (Graph 1).



Graph 1. Research design

5 FINANCIAL STATEMENTS

Accounting rules and regulations dictate how financial statements are composed. A company's financial statements include the following documents:

- Balance sheet
- Income statement
- Statement of cash flows
- Notes to the accounts

A balance sheet's function is to state a company's assets, liabilities and shareholder's equity at a certain point in time. Basically what the company owns, owes and the amount invested by shareholders, usually at the end of a fiscal year. Income statement, also known as profit and loss statement, depicts a company's revenues and expenses and showcases its financial result during a particular period. Statement of cash flows in short summarizes the money flowing in and out of the company. It demonstrates how well the company's money is being handled in terms of the ability to meet debt obligations and operating costs. Notes accompanied with these statements complement the information presented to the accountant. (Valkama 2014, 22)

5.1 Analysis based on financial statements

This form of analysis is used to evaluate the financial performance of the company under inspection with the goal of ranking several companies according to said metrics. How this is done is by extracting important values and information found inside the documents to be converted to a more accessible narrative of the company's current financial status. Based on this newly formed information strategic decisions can then be made by the company performing the analysis. (Järvinen 2003, 16-17)

Financial decisions about investments and credit involve risk and therefore examining a company's financial performance both in the past and the present is vital for forecasting future success. A company utilizing financial analysis does this by using the information found in financial statements. Another area of interest is probable future risks that might hinder the company's growth and profitability. To get a better of idea of these possible risk factors,

analysis on the probable future cash flows and profitability must be done. (Robinson 2012, 2)

The core users of the data presented in financial statements are the current and prospective future investors. One particular aspect that investors are interested in is the solidity of the company's finances and its ability to hold this position firmly in the long term. Small changes in the short term are not of special concern. But if the company's solidity starts to weaken over time, long term it might face difficulties in fulfilling their obligations to creditors and that's when it becomes a problem. (Järvinen 2003, 15)

Profitability is another concern for persons investing in the company as there can be no dividends payments made without damaging the company's financial status if the company is producing a net loss. Therefore profitability also plays a huge factor in the price development of the company's shares. This is the reason shareholders are and should be concerned about the company's solidity. (Järvinen 2003, 15)

Financial reports are of big interest to a company's competitors due to the wealth of information they contain. When determining your own strategic moves, analyzing information about your competitor's research investments and developments in their market share can be a great tool. To a company's customers however the information extracted from financial statements are of less concern as they can usually change their suppliers without much complication. Except when large purchases that require a lot of capital are made, then the importance of financial data rises. Financial information can aid your customers in their decision making. (Järvinen 2003, 15)

5.2 Analyzing financial ratios

Financial ratios were developed after ranking businesses by their performance was deemed to be too difficult. (Valkama 2014, 23) Now with these parameters the process has been simplified a great deal and comparing businesses to one another has become a lot easier. These metrics are useful when one is trying to analyze a firm's financial situation and evaluate its operating conditions. Comparisons between different companies are then rather easy to make and analysis of a company's past is simpler to conduct as is coming up with ways to improve

one's processes based upon these findings. Financial ratios are also relative, which makes it easier for the company composing the analysis to compare firms of different sizes and make note of the time value of money and its possible variations. Scenarios such as bankruptcy, changes in efficiency and reactions and vulnerabilities to risks among others can also be drawn from financial ratios. (Kaisanlahti, T. & Leppiniemi, J. & Leppiniemi, L. 2017)

Introduced in the next chapter are the most common financial ratios. They are solidity, profitability and liquidity. Accompanying the three components mentioned, analysis on the size and growth of a company is also be taken into mentioned as it plays an important role is understanding the overall economic performance.

5.2.1 Size and growth analysis

All firms have objectives and aspirations established for the scale and nature of their operations. As there is no comprehensive single definition for determining a company's true size, the size of sales and growth are most commonly used indicators for a company's success. A firm's product catalog and brand awareness are also common metrics used to determine a company's size. (Kaisanlahti et al., 2017) Employee count can in certain cases also be utilized to calculate size but most often it is used to compare performance between competitors. This metric can usually be found listed in the company's financial statements. The thing that does complicate the comparison process and what should be considered when composing the analysis are workers who are not employed full time. (Valkama 2014, 24)

5.2.2 Profitability ratios

While growth is certainly a common aspiration for all businesses, a more common and a rather obvious goal is guaranteeing the long term profitability of said business. The ratios introduced shortly are mostly used to calculate the profitability and efficiency of a business' operations within its market. At its simplest, profitability acts as the company's basis of value and should it wish to continue operating in its field, profitable operations is the only viable method to achieve this long term. Financial statements from one single year can only tell the reader about the short term profitability of the business under inspection and should a more

long term view be needed, comparisons between multiple statements need to be made. (Niskanen J. & Niskanen M., 2013, 57).

- Return on capital (ROC)
 - Enables the party conducting the analysis to calculate a firm's profitability during the fiscal period of choice. Depending on how much the parties invested in the firm are taken into consideration, separation between different rates of return on capital (ROC) are made.
- Return on Assets (ROA)
 - The conducting party can use this ratio to measure how efficiently a firm manages its total assets to produce profits during the period of choice. All of the company's investors are taken into consideration.
- Return on equity (ROE)
 - This ratio can be used to measure the amount of total profit every 1 single unit of currency the average shareholders' equity produces. Only the company's equity investors are taken in to consideration here. (Myaccountingcourse.com, 2019)

5.2.3 Solidity ratios

In the long term all businesses must be able to cover their financial liabilities and the likelihood of this being carried out successfully is called a company's solidity. One of the ratios in which a company's solidity can be measured are introduced shortly. If a business is able to raise new capital from third party investors to carry out strategic changes to its operations or handle different scenarios related to financing, its solidity can be regarded up to standard. It can be then used to assess the risks related to financing said company. (Valkama 2014, 26)

- Equity Ratio
 - This ratio can be used to measure the amount of assets that are financed by its owners in comparison to the total equity in the company to the total assets. How much of the company's assets such as machinery, buildings etc. are

owned by the shareholders and inversely how much of the previously mentioned are financed with debt money. A largely self-owned company will find it easier to secure new capital from foreign parties.

Regardless of which phase the economic cycle is currently in, the capability of handling risks is essential for any business, should it wish to sustain its operations. The percentage of personal equity in comparison to outside funding a company has within their balance sheet largely determines their ability to handle a subpar financial result. A mostly self-owned company has a much higher chance of withstanding a dramatic loss compared to another company deeply in debt. If a company's solidity is indeed on a strong foundation then securing new investments from outside parties will also be a lot cheaper as these foreign bodies will accept lower interests on their capital. (Kinnunen J., Laitinen, E.K., Laitinen, T., Leppiniemi & J., Puttonen, V. 2010, 62)

5.2.4 Liquidity ratios

While solidity can be used to estimate a company's capability of handling long term debts and liabilities, liquidity on the other hand is focused on the short term. The ratios introduced shortly below can be used to assess a company's ability to pay its bills inside the agreed upon time periods. The results can however have the potential to be overly optimistic or pessimistic depending on the timing of cash flows, seasonality of balance sheets and accounts receivable and inventories which never get realized into profits. (Bragg, 2019)

- Cash ratio
 - This ratio is used to measure a company's most liquid assets to its current liabilities and how it can fulfill its short term obligations. Unlike in the current and quick ratios, here inventories and accounts receivable are ignored, making this ratio the most conservative one since only cash readily available is taken in to account. (Bragg, 2017)
- Quick ratio
 - This ratio is used to measure the amount of a company's liquid assets that can be converted into cash in a timely manner to pay its bills. The components included in the ratio are cash, marketable securities, and accounts receivable.

Inventory is however left out from this ratio as it can be quite difficult to turn into cash in the immediate short term without incurring losses. (Bragg, 2019)

- Current ratio
 - This ratio is used to measure a firm's capability to cover its liabilities in the near-term as inventories are also included with the assumption that they can be liquidated relatively shortly. Factors participating in the unreliability of the results include a large majority of current assets being held up in inventory, paying bills with debt money and structural differences between industries. (Bragg, 2019)

6 INDUSTRY AND COMPETITOR ANALYSIS

The following analysis conducted for Company X is now built upon the theory and models introduced in the previous chapters. Finding competitive edge in a market as fragmented as the business gift industry in Finland, many steps needed to be taken before individual companies could be focused on. The selection process of competitors was initialized with an interview with the CEO of Company X, whose insight on the current competitors already narrowed down the list of companies for further analysis. Because the companies gathered from the interview have already been of special interest to the commissioning company in the past, they were deemed to be a sufficient sample for the thesis.

In the following chapters, after a brief overlook of the industry as a whole, these companies are introduced briefly and then analysis is constructed using the theories and models discussed in prior sections of this thesis. Information deemed relevant at the author's discretion were accrued from various sources such as the companies' own websites, social media, marketing material and published articles from 3rd party media sources. Following this discussion, the competitors introduced are subjected to further financial analysis, which aims to unveil aspects of their businesses that the commissioning company can use to develop their own operations. After these chapters, propositions to the commissioning company are made about possible new strategic moves or modifications to existing ones based on the results of this analysis.

6.1 Industry outlook

Virtually any company regardless of organizational size or field of operations these days utilizes promotional products of some sort in their marketing efforts. Both already realized and potential for increasing demand and market growth certainly are there as Finnish companies are incrementally becoming more aware of the importance of branding. The amount of variety in promotional merchandise these days is tremendous and the possibilities of imprinting a company's logo and slogan onto different surfaces of all shapes and sizes are practically endless. Leading the client companies to be limited only by their imagination when it comes to choosing appropriate and effective promotional products and business gifts. Options for products and customization are plentiful and so are the companies offering them.

Therein lies the problem for suppliers in this industry, as competitors' offerings resemble one another quite closely, competitive advantage has to be found elsewhere.

Product pricing is indeed the key driving force behind competition in this industry but companies must simultaneously also sustain a satisfactory level of service. Upon inspection, there appears not to be that much differentiation between the product catalogues of different companies included in this analysis, excluding the brands companies hold exclusive rights to. Securing the sole representation of strong, well known brands and the loyal consumer bases behind them therefore rises to an elevated importance in this instance, potentially driving clientele away from competitors offering the generic equivalents. This behavior will most likely however apply to only a small segment of the companies' overall product offerings as many customers may either not be able to afford or see the value in investing large amounts of capital into giveaway promotional material.

Aside from the rivalry among current competition, the other significant market force at play here is the bargaining power of buyers. Price competition for the bulk of every company's catalog operating in this field is indeed fierce. Even with optimal logistics operations and competitive manufacturing costs, companies are reduced to scalping slim margins as competitors lowering their pricings for the generic giveaway products, operating near the edge of profitability. This phenomenon has led to a large discrepancy between the negotiating powers of the buyers and the sellers due to the large array of cheap available options and virtually nonexistent switching costs between suppliers. However the possibility of losing customers to an entirely substituting service is not a considerable threat at this time. To gain back some negotiating power from customers, companies must be able to provide added value through extraordinary service, effective positioning and differentiation.

6.2 Company A

Company A, founded in 1978, is a Finnish family business that employs roughly a 100 people across Finland. Their main office and warehouse is located in the city of Turku and the company employs a widely spread out sales representation that's able to serve customers in person all over the country. Their sister company, Company A Brands, is the official importer

and primary marketing representation for many globally established brands in Finland. However, for the purposes of this thesis, a large part of the sister company's operations were mostly ignored. With sales revenues exceeding over 18 million euros per year, Company A is the largest competitor to the commissioning company and therefore an ideal candidate to start our analysis.

Company A is by far the longest operating business among the companies included in this analysis, which already gives them an edge over the competition in terms of operating experience and possible brand awareness. This established history coupled with a strong industry leader image inside the Finnish business gift field brings a lot of stability and security to both current and future business prospects, acting as a hedge against negative outside influences such as economic downturns and changes in government regulation. Before any capital is spent on marketing and advertising, Company A's image as a longstanding and reliable industry leader is already a valuable asset on its own, saving the company many potential costs related to new customer acquisition.

Collaboration and strategic partnerships are fundamental to improving business outcomes and a key aspect of Company A's strategy is maintaining exclusive importing rights to over 30 internationally known brands, including Victorinox and Swiss Diamond. The company is also an active member in the International Partnership for Premiums and Gifts network, made up of market-leading promotional item distributors and wholesalers. Through shared projects, resources and initiatives, Company A has access to information regarding the best practices implemented around the world by other national industry leaders operating in the business gift industry. Company A is also part of a global joint venture called Prominate, which is owned by several different promotional product suppliers around the world. This globally broad manufacturing and supplier network enables Company A to extend their operations beyond the Finnish market at much lower costs and levels of effort compared to doing everything themselves, while also serving as a vouch for quality of their goods and services.

At the time of writing this thesis Company A's strategy can clearly be determined to be aimed towards growth. During the last few years the management has pushed for innovative solutions in the company's marketing efforts by holding a product design competition in conjunction with Aalto University and altering the look of their product catalog to resemble a

lifestyle magazine (Kivikoski 2018). The company maintains a strong online presence as well. Their online stores are being updated for increased customer convenience and through search engine optimization the company's websites appear on the first page of the search results under all the relevant key words. To accommodate the rise in clientele and the increased sales volume that follows the efforts just covered, the company is also making heavy investments on larger storage and office space in their Turku headquarters as well as hiring more sales personnel.

If we evaluate Company A's current status in the market through Porter's five competitive forces, the company's future outlook seems very stable. Although the industry has low barriers of entry for new companies, they do not pose an immediate threat to the market leader. Suppliers' bargaining power is in some regards a negligible factor as all they are mostly standardized for general products offered by all companies operating in this field. Exclusive partnerships introduce some variables into this Porter's force but Company A's partners are after being in business together many years unlikely to switch to a competitor unless something nothing less of revolutionary becomes available. The threat of substitute products can at the author's discretion be ignored as for the foreseeable future there will always be demand for dispensable promotional products. The two most significant forces concerning Company A are the bargaining power of buyers and rivalry with its competitors. Complacency towards addressing these forces can prove to be especially detrimental in this market where switching costs for buyers are so low and companies such as Company B are innovating their business beyond a mere retailer model.

Company highlight	
Company profile	Market leader. Longest active among the companies included in this analysis as well as financially largest.
Key competitive advantage	Reputation and financial power.
Marketing	
Overview of brand positioning	Reliable, experienced and one of the largest business gift suppliers in the Nordic countries with many internationally recognized certificates guaranteeing the quality and ethics behind their business.
Value proposition	A unique assortment of high-quality business gifts and new ideas for sales promotion.
Online presence	Search engine optimization for related key terms. Active social media accounts and updates on company website. Satisfactory representation in online databases such as Kompass.
Strengths	Stable financial resources, position in the market and experience. Exclusive distribution deals.
Weaknesses	Possible disinterest towards capturing smaller niche segments in the market, leaving them for competitors.
Opportunities	Further internationalization through Prominate network.
Risks	Possible complacency towards innovation due to organizational size and market position.

Graph 2. Competitive analysis summary of Company A.

6.3 Company B

The second company to be put under investigation in this analysis is Company B Oy. Founded in 1996, the multifaceted business has offices and showrooms in Helsinki, Tampere

and Pori, where their main warehouse is also located. Compared to the market leader Company A, the company has produced both higher average revenue and profit during the previous four years, maintaining steady growth, whilst employing less than half the personnel (Finder.com 2019).

Company B's strong points and competitive edge relative to its competitors derive from the company's consistent, unique branding and native, self-developed customer solutions packages. This is a textbook example of differentiation as explained by Porter in his common competitive strategies. The self-proclaimed frontrunner in digitalization within their field of business offers a comprehensive online toolset and supplementary fulfilment services, all operated from their central warehouse in Pori.

Although the end goal of the company is to sell business gifts and promotional material, the company's approach to marketing has seemingly completely shifted over from tangible goods to their in-house software. This claim can be verified with one visit to their website where unlike with other companies included in this analysis, not a single product catalog can be found. Instead the website's sole purpose is to market the company's different digital solutions with only brief mentions of the brands they represent. Their copyrighted programs enable client businesses to remotely run all processes related to the management of their promotional materials, from warehousing to online stores, incentive programs and gift cards. The company's strategy is therefore less concerned with one time orders and more aligned to create long lasting customer-seller relationships with re-occurring business happening through these digital platforms.

To support this strategy in creating long-term customer commitment, Company B has invested large amounts of time and capital into their branding, creating a consistent image across all their marketing material, unquestionably differentiating themselves from competitors. Attaching unique imagery around the marketing of their digital solutions certainly helps with consumer memory retention and adds an element of excitement to the product, while the effort and capital placed behind their offerings, both in the presentation of their showrooms and branding efforts towards their online platforms helps to increase consumer confi-

dence. This applies to both end-customers as well as manufacturers and suppliers in the market for representation in Finland. Having their products backed by a strong brand could help Company B land advantageous and potentially exclusive distribution deals.

Similarly to Company A, when examining Company B through Porter's five competitive forces, the threat of new entrants is not a substantial cause of worry due to the factors introduced above strengthening the company's position in the market. The bargaining power of suppliers also remains mostly constant with general products. As was with Company A, the threat of substitute products and services can also be assumed an irrelevant factor because of the unlikelihood of promotional products being replaced by another solution. Company B does however have an answer to the bargaining power of buyers by moving to a more solution based value proposition, providing their customers a completely unique compared to their competitor's. Rivalry among competitors also starts losing its significance the further Company B is capable of distancing itself away from the competition with their differentiated offerings.

Company highlight	
Company profile	Innovative market challenger.
Key competitive advantage	Branded and copyrighted in-house digital solutions.
Marketing	
Overview of brand positioning	An incomparable supplier of branded products with over two decades of continuous development, an intrepid inventor mindset and a wide variety of services. Innoflame is aiming to revolutionize the branded products industry.
Value proposition	Provides the design, manufacturing, storage and distribution of a client's products with professionalism and experience.
Online presence	Suboptimal search engine results for key terms. Active social media accounts and updates on company website. Satisfactory representation in online databases such as Kompass.
Strengths	Unique, memorable branding, growing revenues and self-developed online platforms.
Weaknesses	Client brands overshadowed by company's marketing for its own products.
Opportunities	Positive momentum carrying over from past few years of continuous growth.
Risks	Competitive edge largely dependent on branding with a little effort can be easily replicated compared to exclusive distribution deals.

Graph 3. Competitive analysis summary of Company B.

6.4 Company C

The third company in our analysis is Company C. Founded in 1998, the company measures close to Company B and the commissioning company in terms of financial figures, employee

count and time operating in the field. Company C has in recent years implemented focus strategies described by Porter, targeting sports entities and landing itself notable clients such as the World Rally Championships and the Finnish national hockey team. Handling the merchandising for these sports entities as well as acquiring the Finnish importer firm Rotor Form in 2017 has produced impressive increases in the firm's annual revenues, more than doubling them in 4 years.

Similarly to the other companies already covered, Company C also holds a presence in multiple cities across Finland, holding showrooms in Tampere, Helsinki and Pori as well as their own warehouse. The company does not however store the merchandise for the WRC and the Finnish national ice hockey team within their own facilities, but has outsourced the storing and logistics operations to a third party company, Logistikas, which operates in Rauma. In an effort to capture value from global collective wisdom, Company C maintains an active membership in WAGE Group, a self-described association of the most qualified and best promotional products and brand marketing companies across the globe. As only one representative firm from a single country is eligible for a membership, having exclusive access to the group's global information and logistics networks certainly is a major advantage to Company C as it now tries expand its business abroad, reaching international clientele of the WRC among others.

Apart from marketing and selling tangible products, similarly to other firms included in this analysis, Company C also offers digital solutions such as the RotorStar online store platform. The webstore's concept of promoting healthy lifestyle choices and leisure activity through a product catalog, comprised of brands related to sports and exercise, offers continuity to the firm's apparent strategic focus towards sporting franchises. Importing brands such as Abacus Sportswear from Sweden and the golf and lifestyle brand Peter Millar from the United States as well as having gained a BtoB distribution partnership with Amer Sports Finland for Wilson, Salomon and Suunto from the firm's acquisition of Rotor Form, targeting recreational activities is evidently a major part of Company C's strategy and a method of differentiation. Coupled with their expansion into fan merchandise from 2014 onwards, by landing distribution deals with the aforementioned sports entities, the latest addition being the Finnish baseball team Pesäkarhut as of May 2019, Company C is on a trajectory towards capturing a strong hold of the sports franchise segment in the market.

From Porter's five forces, the threat of new entrants and the threat of new products are still unremarkable as with Company A and Company B. Even though the bargaining power of suppliers is also standardized for general products offered by all the competitors in this analysis, similarly to the other two companies Company C also has exclusive partnerships with different brands to combat some of this force's effects. While somewhat alleviated by exclusive brand distribution deals, the effects of the bargaining power of buyers again stay mostly constant throughout all competitors. As a market challenger, the rivalry among existing competitors is currently Company C's biggest concern and they are responding to this force by implementing a focus strategy.

Company highlight	
Company profile	Well known company within the industry with a focus towards sports and exercise.
Key competitive advantage	High profile clientele within their segment of focus.
Marketing	
Overview of brand positioning	An experienced and well-deserved expert organization with the strong brands and e-commerce solutions.
Value proposition	Finding core solutions to tailor to customers without any restrictions on industry or size, operating in three areas of activity: customer and promotional gifts, event products and brand products.
Online presence	Search engine optimization for related key terms. Active social media accounts and updates on company website. Lackluster representation in online databases such as Kompass.
Strengths	Exclusive distribution deals and a growing focus towards internationalization.
Weaknesses	Not standing out among the competitors due to ineffective differentiation.
Opportunities	Capturing majority market share within their focus segment.
Risks	Unforeseen complications related to expanding a business abroad.

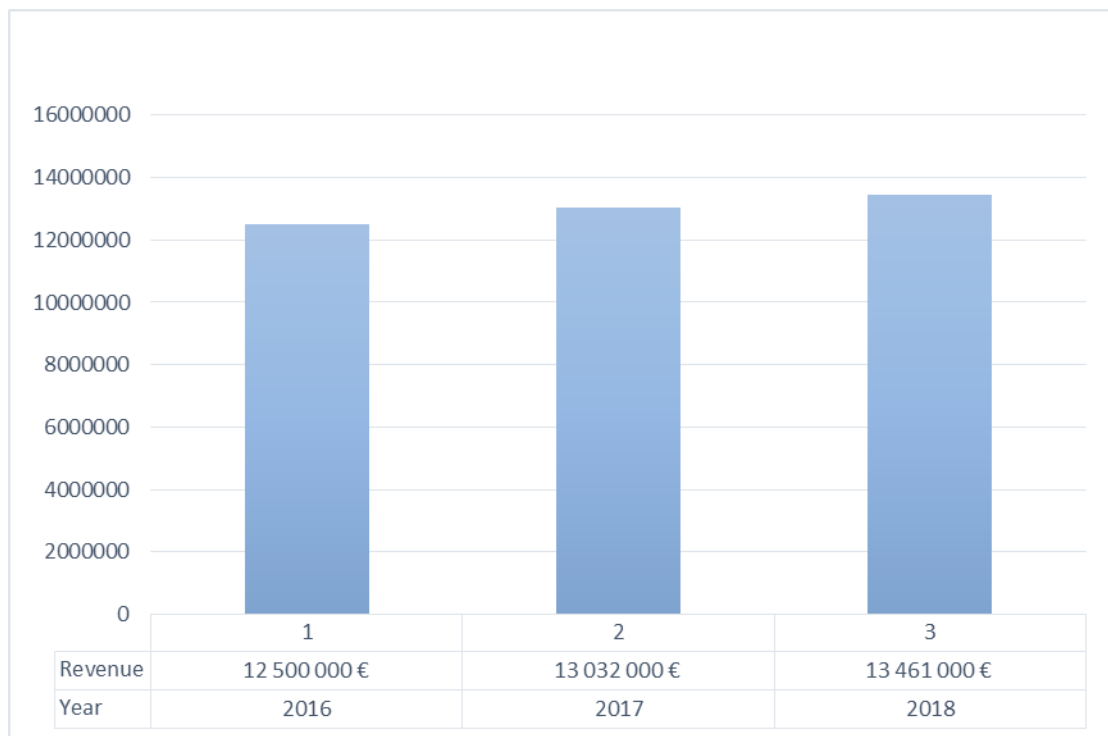
Graph 4. Competitive analysis summary of Company C

7 FINANCIAL STATEMENT ANALYSIS

This chapter contains detailed discussion derived from figures and ratios extracted from the balance sheets of the competitors to the commissioning company discussed in previous chapters. All balance sheets were sourced from the Finnish Trade Register and the currency values are displayed in Euro. The balance sheets utilized in this chapter were composed for the fiscal year 2018 and figures from the years 2016-2017 are also included for the purposes of drawing conclusions regarding the developments happening in the businesses. Figures representing the size and growth, solidity and profitability are taken under analysis whereas liquidity ratios were not included. It should be noted that only the financial figures of the parent company in the Company A group were taken under assessment.

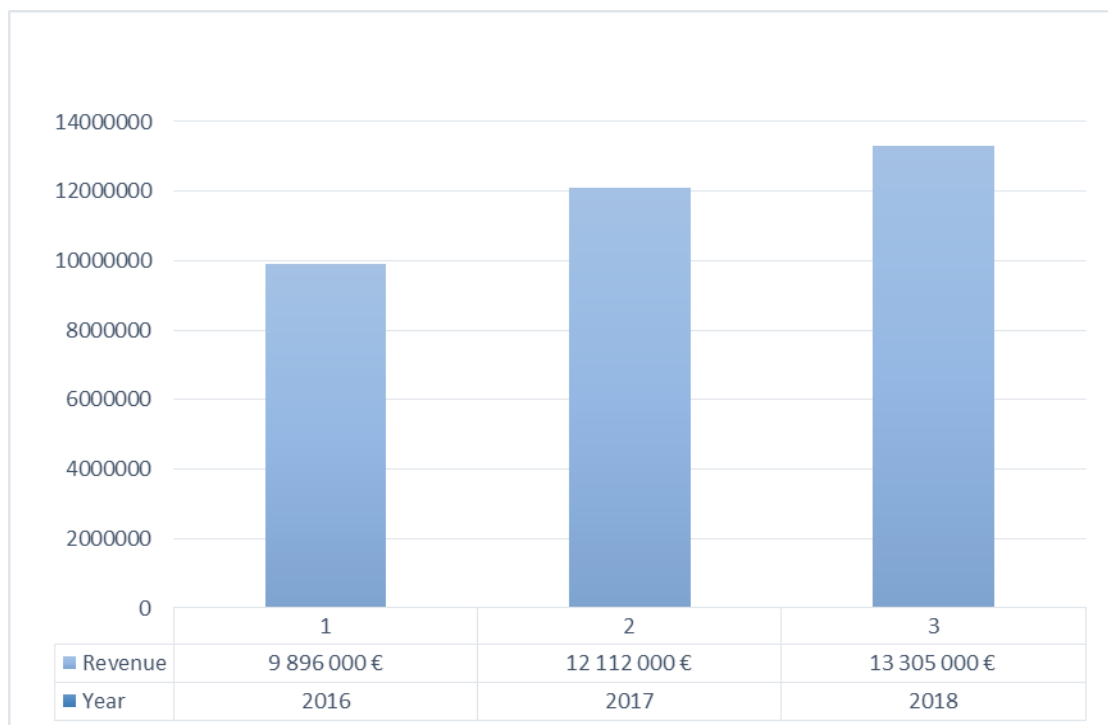
7.1 Size and growth

As all the companies under assessment here have vast but similar offerings, ignoring the few brands the companies hold exclusive deals with, it is ideal in this situation to compare size and growth solely through revenues and their developments. Although in some instances companies' size can be compared through their product catalogs, this method is impractical for this analysis due to the above stated reason.



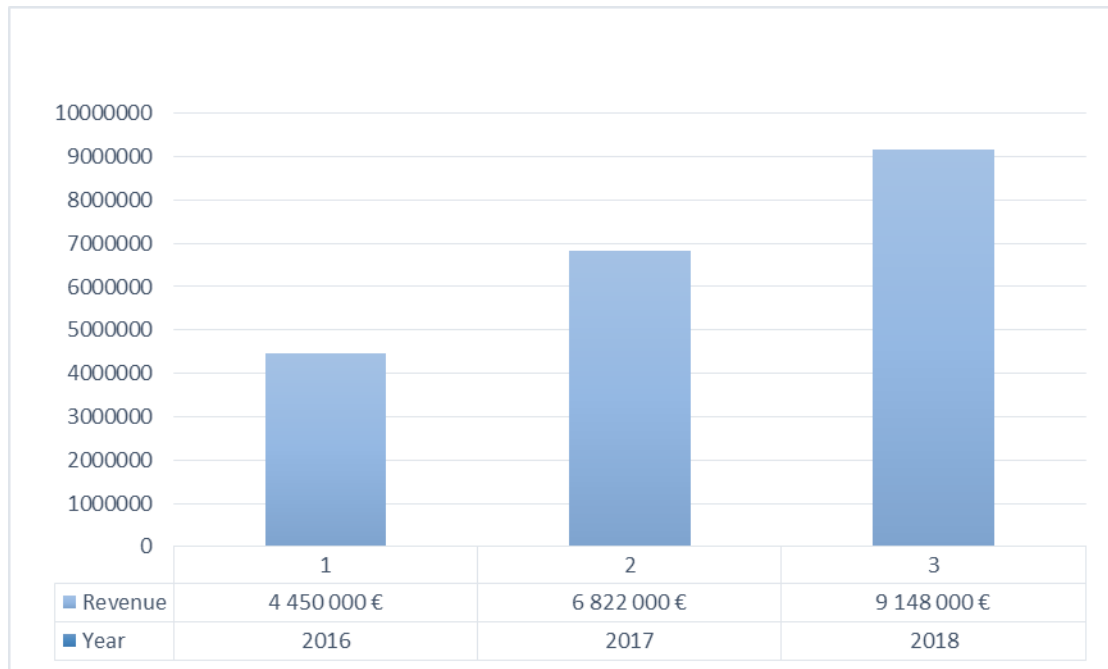
Graph 5. Company A's revenue development (Kauppalehti)

From Graph 5 it can be concluded that Company A's revenues have grown during the period of assessment at a rather steady pace of 3 to 4 percent a year (Kauppalehti).



Graph 6. Company B's revenue development (Kauppalehti)

Company B has also performed well during the same time period according to Graph 6, growing their annual revenues by double digit percentages every year. Revenue growth however was almost cut in half during the fiscal year 2018 compared to the year prior (Kauppalehti).



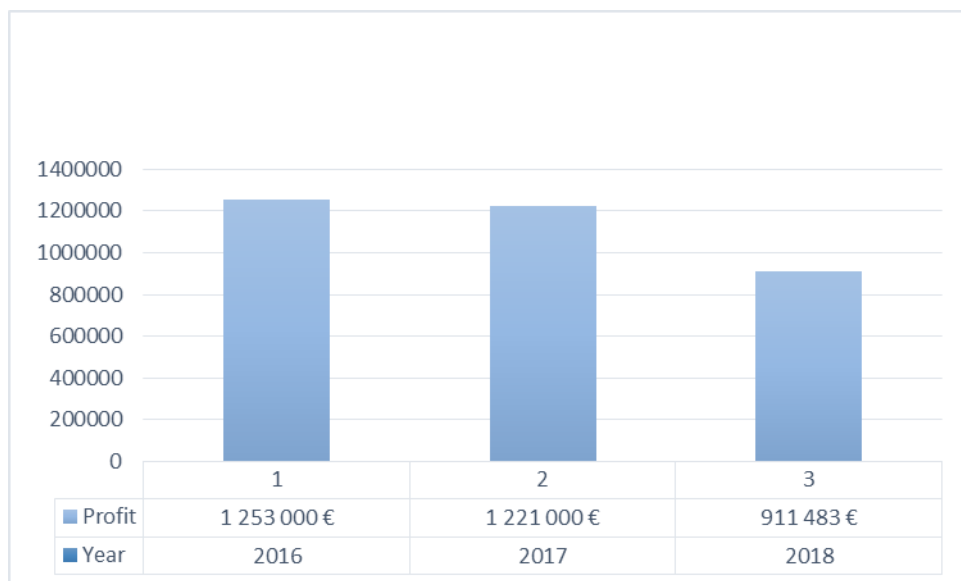
Graph 7. Company C's revenue development (Kauppalehti)

In this comparison Company C clearly has outperformed its competitors in this metric, increasing revenues over 50% in 2017 and 30% in 2018 respectively according to Graph 8 (Kauppalehti). As with Company B, growth has been tremendous yet evidently slowing down.

Both Company B and Company C have demonstrated impressive growth during the specified time period compared to the market leader Company A. In the case of Company C, signing just a few major clients have without a doubt been a crucial factor in their financial growth. The potential financial benefits in landing a deal with even one large customer can be immense for a relatively small market cap company such as Company C. In such a fragmented field that the business gift industry is, it can be argued that focusing efforts in landing few

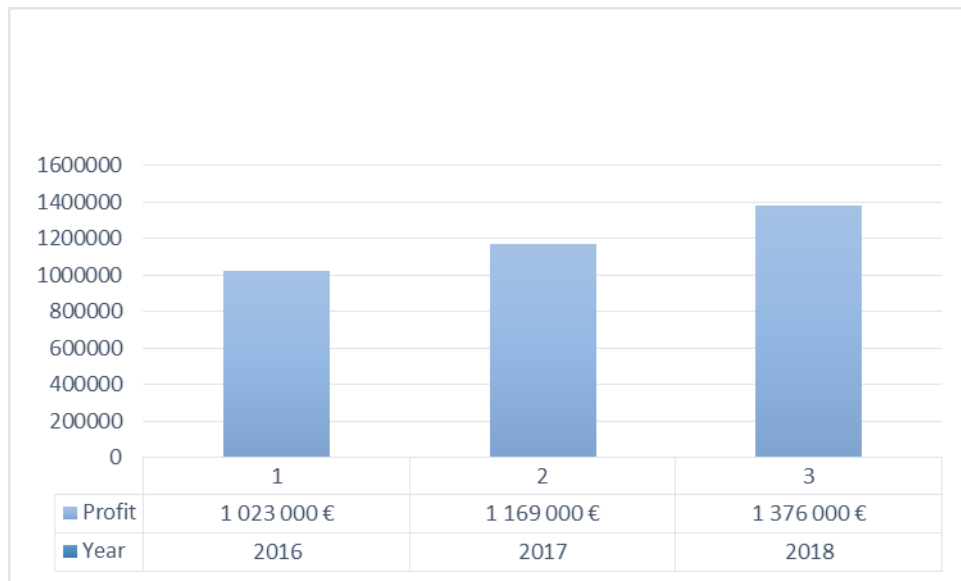
big clients produces much greater financial benefit compared to engaging in price competition with dozens of similar sized businesses with identical product offerings. Company B also revised their branding to its current form in 2017 which effects certainly should not be underestimated. Questions however do arise about the sustainability of these developments displayed by both Company B and Company C, showing noticeable decrease in growth year to year whereas the market leader Company A has been able to sustain an admittedly slower yet more consistent growth during the same time period.

7.2 Profitability



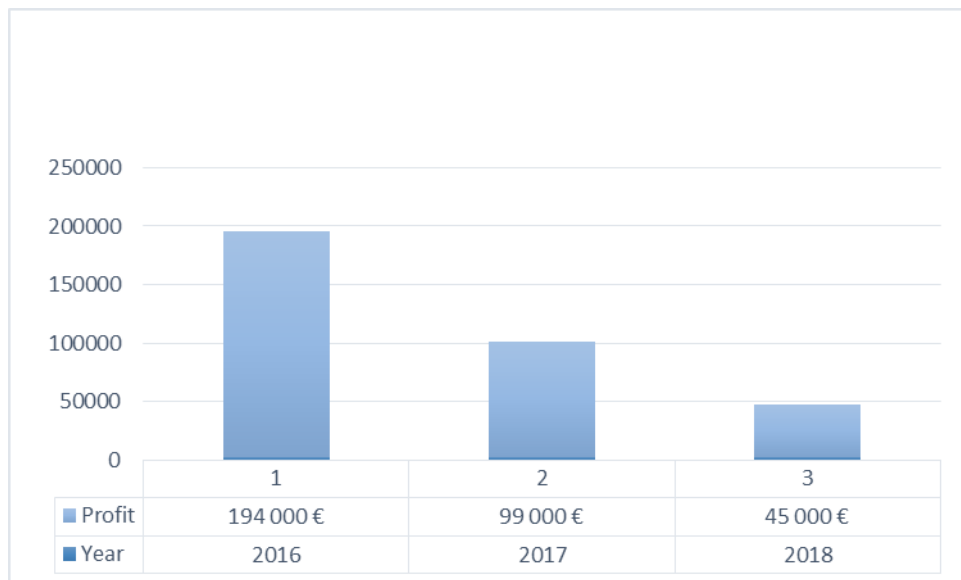
Graph 8. Company A's financial result development (Kauppalehti)

Graph 8 illustrates Company A's decreasing financial results over the 3-year period of assessment, going from 1 253 000€ in 2016 to 1 221 000€ in 2017 and 911 483€ in 2018. The financial results haven't followed the positive trajectory of the company's growing revenues which were discussed in the last chapter.



Graph 9. Company B's financial result development (Kauppalehti)

As shown in Graph 9 Company B's growing revenues are also reflected in the company's annual financial results, increasing in double digit percentages during both years, 14% in 2017 and 17% in 2018 respectively (Kauppalehti).



Graph 10. Company C's financial result development (Kauppalehti)

Among the companies under assessment, Company C's financial result development has been the most disappointing. Approximate 50% decreases during both fiscal years, dropping from 194 000€ to 99 000€ in 2017 and from 99 000€ to 45 000€ in 2018 (Kauppalehti).

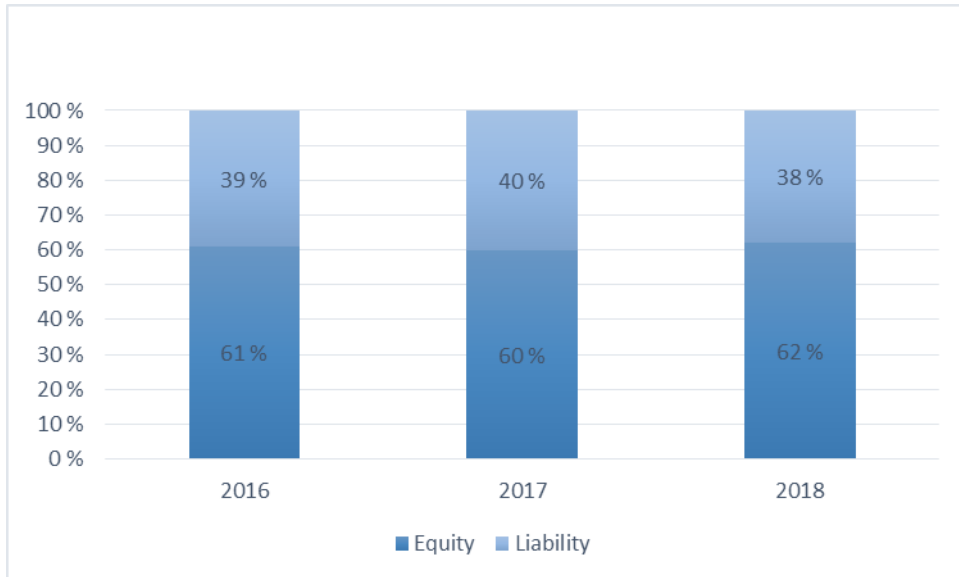
Contrasting Company C's financial results against their revenue development raises questions regarding the long term sustainability of their current business model and the true profitability of the supposedly lucrative deals made with the prominent sport franchises mentioned in earlier chapters. It remains to be seen at the time of writing this analysis whether the Finnish national hockey team becoming world champions in 2019 will have a positive boost on sales. The obvious problem with targeting sports entities is the volatility in sales, largely caused by a team's or a player's success effecting the general audience's enthusiasm and its likelihood of leading to a purchase. Although entering into an exclusive partnership with a large client can have an enormous effect on a small company's financials, pricing out the competition seems to produce lackluster results if Company C's financial results are concerned. The company won itself a distribution deal with the WRC outbidding its competitors with a bold offer yet this 10 million euro deal has obviously not produced larger profit margins (Talouselämä, 2018). Companies should therefore try to find other ways of creating value than just undercutting competitors with unit costs to entice potential partners into business relationships.

7.3 Solidity



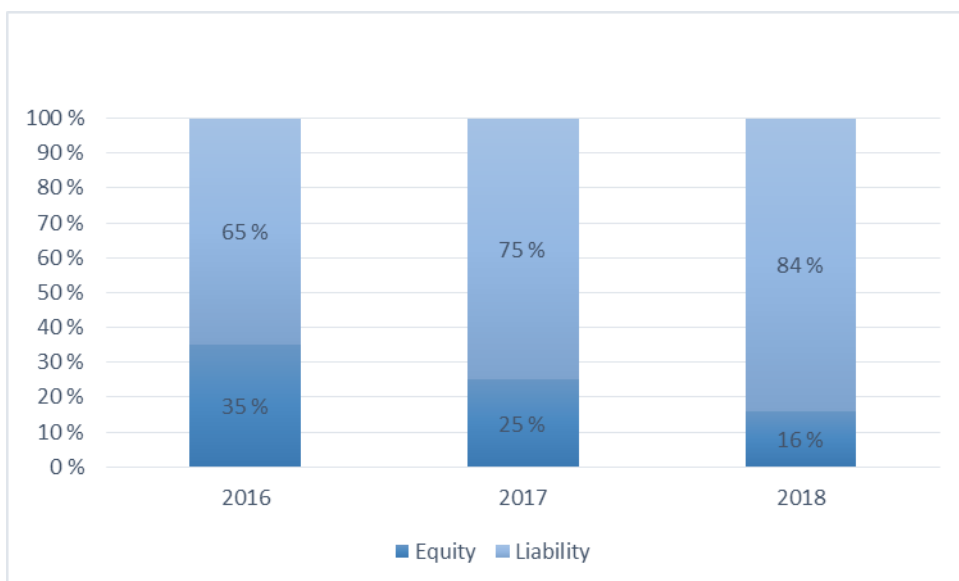
Graph 11. Company A's Balance Sheet Structure (Appendix 1)

Company A's solidity can be determined through an analysis on structure of their balance sheet which is illustrated above in Graph 11. The company has sustained an equity ratio of just under 80% through the years (Appendix 1).



Graph 12. Company B's Balance Sheet Structure (Appendix 2)

Company B's balance sheet structure pictured above in Graph 12 helps in figuring out the company's solidity through the same method as with Company A. Company B has maintained a stable equity ratio of around 60% for the entire assessment period (Appendix 2).



Graph 13. Company C's Balance Sheet Structure (Appendix 3)

Pictured in Graph 13 is the development of Company C's balance sheet structure through our assessment period. The percentage of equity has decreased by roughly 10% each year, in turn growing the liabilities' dominance within the company's holdings (Appendix 3).

Both Company A and Company B have demonstrated an ability to maintain stable balance sheet structures, which can be taken as a positive indicator for financial stability in the future as well. Both companies also possess relatively high equities to liabilities ratios, which if needed can certainly act as buffers against economic downturns, making it easier to withstand losses and securing cheaper outside capital. Whether either equity ratios are optimal for the companies is hard to determine, but the levels of debt financing certainly reveal the different stages in development the companies are in. Company B's current capital structure is slightly placed geared towards growth, whereas Company A's decision in keeping the levels of outside capital in about 20% implies less haste for expansion. Company C however has been extremely aggressive in financing its growth with debt, with liabilities as of 2018 making up 84% of the company's total holdings. With decreasing financial results over the same time period, Company C is currently engaging in very high risk behavior and quick unforeseen economic shifts to the downside could pose a significant threat to the company's existence.

8 CONCLUSION AND SUGGESTIONS

The Finnish business gift industry has slowly been growing and maturing into a field of commendable size and competition over securing market share needs ever more innovative, out of the box thinking. Low barriers for entries and exits as well as the core product offerings between competing firms in many cases lacking diversity are just some of the contributing factors leading to a saturated market full of firms effectively indistinguishable from one another. The bargaining power of the buyers is extremely high with switching costs between different suppliers being virtually nonexistent. So how should the commissioning company approach this challenge?

In such market conditions high attrition customers and distribution operations rise to a critical role in a company's competitive edge. Enjoying the benefit of an earlier entry point, market leader Company A controls its share of the industry through pure volume and reputation. Undoubtedly enjoying huge negotiating power with their distribution partners as well as high equity ratio and cash reserves, the continuity of their operations is safeguarded for example from adverse changes in the economic conditions. Attempting to challenge the market leader with only price competition in the preponderant market conditions is not an advisable approach for growth. In the author's opinion the profit margins with this strategy do not justify the added risk associated with borrowed capital needed for expansion. Smaller market challengers should therefore try to expand their markets shares through diversification and focus tactics.

As evidenced by Company C's revenue growth discussed in detail in earlier chapters, gaining just one or few bigger clients can have a tremendous effect on a small company's growth prospects. The issue however is the method in which said company goes about claiming these partnerships. Considering Company C's value proposition doesn't seem to offer anything unique compared to its competitors, it is a fair assumption that the company gained its bigger business partnerships by outbidding the competition. Evidently from their capital structure, engaging in highly aggressive and potentially detrimental financing in order win a race to the bottom for partnerships with large customers produces disappointing profits. Leveraging future growth with debt financing to such extremes as Company C has, puts an immense pressure on sales efforts. The extra disadvantage that comes with these particular clients (WRC,

Finnish national hockey team) is the volatility with sales stemming from seasonal changes in popularity that the sports themselves suffer from. But Company C certainly has the right idea in trying to capture a certain corner of the market with their focus towards sports franchises.

Another optimal route for businesses matching the description of a market challenger is differentiating one's company from its competitors like Company B is doing. The company's image, from website layout to images, color choices and fonts used in digital and printed material alike, and product offering centering around in-house developed digital solutions, for what it's worth cannot be mistaken for any of their competitors. The aforementioned are distinctly Company B's. Moving away from being another unremarkable retailer for dispensable products in an extremely price conscious market, to a solution oriented business model with cutting edge imagery is in the author's opinion necessary at this point. Encouraging memory retention and customer commitment among other benefits of effective branding seems to be a winning strategy, going strictly by the data gathered from their financial statements.

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APPENDICES

Appendix 1. Company A's balance sheet

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Appendix 2. Company B's balance sheet

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Appendix 3. Company C's balance sheet

1 (3)

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