

KEMI-TORNIO UNIVERSITY OF APPLIED SCIENCES

Developing an Innovative and Competitive Strategy in Chinese Market for a Small Company

Case study: Xi'an Ice-cream Handwriting Company

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Bachelor's thesis of the Degree Program in Business Administration

Bachelor of Business Administration

TORNIO 2011

ABSTRACT

Sun, Li. 2011. Developing an Innovative and Competitive Strategy in Chinese Market for a Small Company. Bachelor's Thesis. Kemi-Tornio University of Applied Sciences. Business and Culture. Page 57. Appendix 1.

The aim of this thesis research is to develop an innovative and competitive strategy for Xi'an Ice-cream Handwriting Company, which is a new established small company in China.

The research method used in this work is qualitative research. This Thesis consists of both theoretical and empirical parts. The primary and secondary data resources were acquired through literature on innovation, Chinese innovation orientation in addition to competitive advantage to support my theoretical part. As for the empirical part, I conducted interviews with the owner of Xi'an Ice-cream Handwriting Company and made a questionnaire survey for the existing customers of Xi'an Ice-cream Handwriting Company.

It can be suggested that innovation and competitive advantage processes are closely interconnected with each other, and the utilization of innovation is a crucial strategic option to achieve competitive advantage. An innovative and competitive strategy is able to highlight a firm's advantageous features to distinguish the firm from its competitors.

Keywords: innovation, innovation orientation, handwriting industry, competitive advantage

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1 INTRODUCTION

Nowadays, it is more and more difficult for companies to survive due to the keen competition among one another. In particular for small companies, it is even more stressful to maintain market shares than large companies. Since the development of Chinese economy during the last twenty years, lots of companies have been set up. However, at the same time, many companies are going bankrupt due to fierce competitions. Therefore, learning competition environment and making competitive strategies accordingly are crucial for companies' survival.

1.1 Motivation and background

In this part, I will provide the motivation for the selection of my topic, why I choose developing an innovative and competitive strategy as my research topic. In addition, I will explain the core ideas of this work as well as introduce Xi'an Ice-cream Handwriting Company's business generally.

1.1.1 Motivation of my work

The main topic of my Bachelor's Thesis is developing an innovative and competitive strategy. This topic is interesting since nowadays an increasing number of business people take innovative and competitive strategies into consideration before they set up business or during their business development process. This indicates that people realize the importance of innovation and competitiveness for their business survival. An increasing number of people try to make efforts to have a better utilization of innovative and competitive strategies to improve their business. Moreover, utilizing an innovative or competitive strategy can make a company become more attractive to their customers and more advantageous compared to their competitors.

An innovative and competitive strategy is a tactic with advantageous features based on being innovative. Porter (1985) suggests that firms create competitive advantage by

creating new methods to manage activities which is an act of innovation. From Porter's (1985) theory, innovation and competitive advantage process are closely interconnected. Furthermore, organizational innovation is an important strategic option to achieve competitive advantage. More detailed definition and explanation about innovation and competitive strategy will be presented in Chapter 2 and Chapter 3.

Innovation orientation is a new study field with lots of opportunities to learn and develop. It leads a new trend of novel creation of business ideas. Innovation orientation is a new concept which was drawn from work found in the innovation, management, and marketing literatures over the past 35 years (Simpson & Siguaw & Enz 2006). Relevant to this concept, there are many related hot topics such as market orientation, organizational learning, creative abilities, culture background's influence and customers' needs and wants analysis. Innovation orientation is meaningful not only to business people, but also to potential customers who are willing to consume those new products designed according to innovative ideas.

The reason why I selected this topic is for my case company's interest. The owner of the case company wants me do analyses of their current business situation and provide them valuable suggestions for improving their business at the end of my work. My case company would like to gain an available innovative and competitive strategy as the outcome of my Thesis. I will conduct a questionnaire survey for their existing clients. Therefore, the owner of the case company is looking forward to achieving valuable feedbacks from their clients through the questionnaire survey so that they can modify their business accordingly.

As for my own personal interest, I would like to study more business trends of the current Chinese market since in my future business career, there will be lots of opportunities to utilize certain knowledge on innovation orientation. In addition, from a young person's point of view, I really believe that the business idea of my case company is highly creative. There were only few companies offering such kind of DIY (Do It Yourself) service before my case company. Therefore, my case company is one of the leaders in handwriting business in China. I would like to study their business experience and accumulate more knowledge on creating unique and competitive business ideas.

1.1.2 Background information

In my thesis, I will conduct a case study of Xi'an Ice-cream Handwriting Company. Xi'an Ice-cream Handwriting Company is the organization where I completed my practical training during the summer in 2009. This company used innovative ideas to enter into their target market. They noticed that today an increasing number of young people would like to catch up trends, and most of these young people have the willingness to try something new they designed. After noticing this self-design psychology of their potential customers, they opened a platform to fulfill clients' demands by offering those young people the opportunity to DIY something special. In fact, their idea is popular among teenagers and young students. This case study will present how important it is for a small company to use innovative ideas to attract customers as well as utilize competitive strategies to survive under fierce competitions.

Xi'an Ice-cream Handwriting Company is a new established small company. It is an on-line shop, which sells products mostly via the Internet. The owner set up his shop through a personal trading web-based platform. He uses Taobao to help him do his business. Taobao is one of the most famous trading web-based platforms in China. It works similarly to Ebay. Many retailers and wholesalers open shops on the Internet to help them manage the advertisement and attract more clients.

The case company processes shoes and caps which are produced without any pictures on them. They help customers draw pictures on their shoes or caps according to different customer's requirements. Pictures can be designed by customers or the designer of the company. The company also provides the service of offering their clients those materials needed for hand drawing. Therefore, consumers can choose whether to do every step by themselves at home or just purchase the ready-made goods.

The owner of Xi'an Ice-cream Handwriting Company is Zhou Yun. He employs one of his college schoolmates who is good at drawing and designing. The main staff in his company is them two. Mr. Zhou also hires some IT talents to build up website for his company. They have fixed suppliers to obtain raw materials. They purchase their unprocessed commodities from some manufacturers in Guangzhou Province which is located in the south of China.

The company's main task is to extend and grow their business. Meanwhile, they also want to become famous by advertising via the Internet, to be known by more and more potential customers.

The target group of the case company is those young people who are at school age, since those students are willing to follow suite and have good ability to accept new trends. They are curious and sensitive to fashion trends. Furthermore, young people have more passion on getting to know new products and services. They would like to have a try in person. For these reasons, young people are the best potential customers for Xi'an Ice-cream Handwriting Company.

As for the price, those products offered by the case company are not high-end products. Their prices are affordable for young students. Even though students usually do not have much money, they can still afford the prices of the case company's offerings.

1.2 Research objective and questions

The objective of my work is developing an innovative and competitive strategy for Xi'an Ice-cream Handwriting Company. With the help of my study, I am supposed to provide my case company with general background information of the current Chinese market as well as offering them an available competitive strategy according to the customer survey I will conduct for them.

Innovation orientation is a creative trend of coming up with competitive business ideas. I would like to find out how current Chinese business innovation orientation affects a small company's business. I will get the answer based on the case study of Xi'an Ice-cream Handwriting Company.

During the research process, I mean to find answers to the following questions:

1. How is business innovation orientation implemented in Chinese market in general?

First of all, I would like to make clear of what business innovation orientation of the current Chinese market is, and how it is implemented. I will present the case company

analysis on their handwriting field. On the basis of the existing circumstances of their business that I will illustrate to them, they will be able to have a better overview of their competition environment.

2. How can business innovation orientation be developed into a competitive strategy for Xi'an Ice-cream Handwriting Company?

With the knowledge of innovation orientation, Xi'an Ice-cream Handwriting Company will be able to modify their business for future development. A competitive strategy can help them grow their business faster and attract more clients.

1.3 Research methods

The research method used in this work is qualitative research, which is often conflated with interview-based case studies. I do my case study based on Xi'an Ice-cream Handwriting Company. I will hold several in-depth interviews with the owner of my case company in order to collect useful information.

There are both theoretical and empirical parts in my Thesis. The primary and secondary data resources I achieved through literature on innovation and Chinese innovation orientation support my theoretical part. As for the empirical part, I will utilize my own working experience in my case company as well as the interviews with the owner of my case company. Moreover, I intend to make a questionnaire survey among the case company's existing clients for the sake of developing a competitive strategy for Xi'an Ice-cream Handwriting Company.

1.4 Structure of the study

In this thesis, the core theoretical part is Chapter 2 and Chapter 3. I will divide Chapter 2 into three segments as definition of innovation, types of innovation and models of innovation. I will introduce three crucial previous theories on competitive strategy

briefly in Chapter 3. In Chapter 4, I will present handwriting industry in China. In particular, more specific details on Xi'an Ice-cream Handwriting Company's current business will be described there. As for Chapter 5, I will elaborate Chinese market background and Chinese business innovation orientation in that part. Chapter 6 will discuss the methodology of this work. Afterwards, Chapter 7 will be the case analysis part where I will make a SWOT analysis for the case company, and according to the SWOT analysis, I will provide four types of competitive strategies for them. The last part of this work will be the final conclusions and recommendations, i.e. Chapter 8.

2 INNOVATION

Nowadays, it is common to see fierce competitions among different business fields. To maintain and increase market shares, companies have to make their products or services become more attractive and competitive to consumers.

For the existing long-time-running companies, in order to keep their customers' loyalty as well as expand their markets, they are supposed to improve their existing products or services. Unique features can help companies leave a deep impression in customers' minds. The Identification capability of certain product among other relative commodities is the key element to maintain customers. Large companies can invest money on exploit new production technology to keep their dominant leaderships in their fields.

As for small companies, to survive under keen competitions, they have to make their offerings distinctive so that they can attract more potential clients. Since small companies or new established companies usually lack of capital, they cannot avoid competing with large companies with limited investment money. In this case, they ought to work out something special or something new for their customers. Only when customers have particular good experience of those products or services offered by small companies, they will remember the brand and become regular customers of those new emerging companies instead of previous large companies.

Leaving customers good impression and satisfying clients are the most crucial two factors to keep customer loyalty of a certain brand. To stimulate customers' curiosity of attempting at their products or services, companies are supposed to make their offerings characteristic and easy for customers to distinguish from other competitors' products. Therefore, providing innovative products or services can help a company become more competitive and conquer more market shares.

Today, the idea of innovation is widely accepted since the ability to change and adapt is essential to survival for both large companies and new established small companies. Innovation is the key to winning – and keeping – leadership in world markets. New

ideas and new ways of doing things are the main ingredients in sustained business success. (Adair 2007, 1) Nowadays, more and more products designed with creativity ideas to become more competitive compared with other similar products. Creativity is an essential building block for innovation. As I mentioned above, innovation is such an important element in running business, what does innovation really mean? What is the definition of innovation? How to utilize it in real business? More specific details on innovation will be discussed in the following parts of this chapter.

2.1 Definition of innovation

For a start, it is necessary to check out what the definition of innovation is. Probably there are as many definitions of innovation as the number of supposed experts on the field around the world. Different people perceive innovation in different ways. However, generally, “innovation means literally to bring in or introduce something new – some new idea, method or device”. The novelty may be more apparent than real, for newness is a relative term, what is new to one person may already be familiar to others. (Adair 2007, 5.) It is not necessary for innovative products always be brand new (like an invention must). It can be a small piece of improvement or adjustment on existing products which could make the goods become better. It is concerned with the small modifications or alterations in what already exists. (Adair 2007, 8.)

From the market point of view, the definition of innovation is any idea, product, or service, which is perceived by consumers with certain amount of value. To be called an innovation, an idea must be replicable at an economical cost and must satisfy a specific need. Innovation involves deliberate application of information, imagination, and initiative in deriving greater or different value from resources, and encompasses all processes by which new ideas are generated and converted into useful products. In business, innovation usually results from the application of a scientific or technical idea in decreasing the gap between the needs or expectations of the customers and the performance of a firm’s products. (BusinessDictionary.com.) Innovation is the lifeblood of any business.

According to Stamm (2003), Innovation equals to creativity plus successful implementation. Creative ideas are the basics of innovation. Only have breakthrough thoughts are not enough. For the sake of making ideas come true, it is necessary to take actions to put those thoughts in mind into practice. The practical process of carrying out creative ideas in real life or real business is called implementation. A satisfying final result from implementation step will lead to the success of a company's whole business plan, since it shows the innovation proposal of the company is feasible. Therefore, innovation means coming up with creative ideas and putting those ideas into practice successfully. (Stamm 2003.) Adair (2007) also highlights the nature of innovation is more than having new ideas: it includes the process of successfully introducing them or making things happen in a new way. It turns ideas into useful, practicable and commercial products or services (Adair 2007).

2.2 Types of innovation

As early as 1942, Schumpeter made some observations regarding different types of innovation, which he referred to as 'discontinuities'. The two types of discontinuities he identified are, first, a competence-destroying discontinuity, which renders obsolete the expertise required to master the technology that it replaces, and second, a competence-enhancing discontinuity, which builds on existing know-how embodied in the technology that it replaces. (Stamm 2003, 5.)

Another similar kind of category of innovation shows by Figure 1 is that innovations are divided into two broad categories: evolutionary innovations and revolutionary innovations.

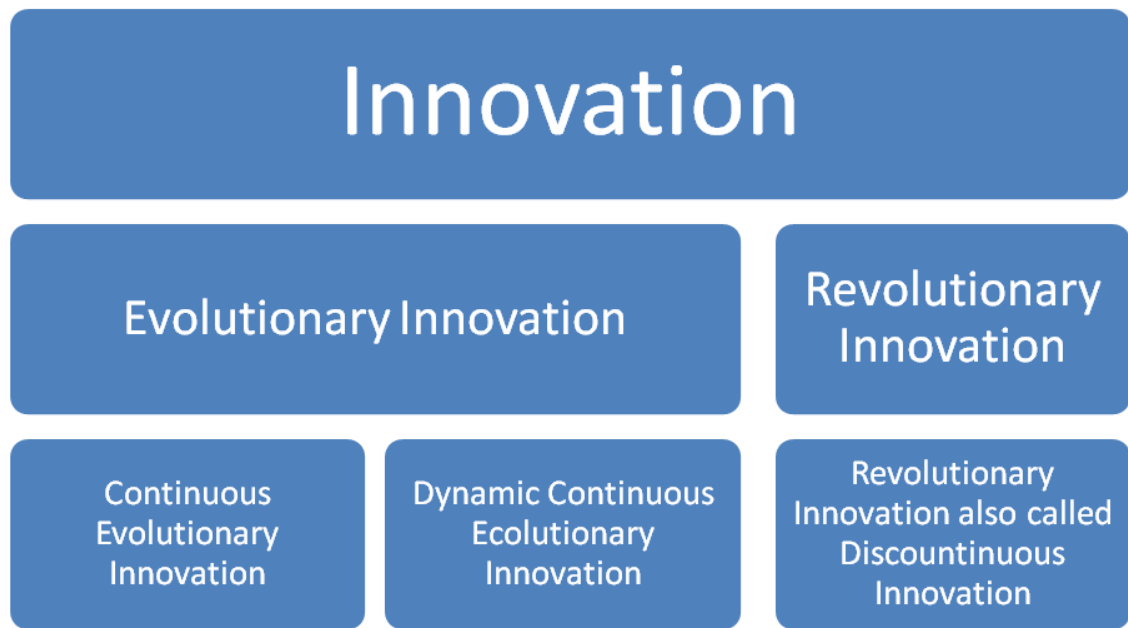


Figure1. Two broad categories of innovation

Evolutionary innovations are brought about by numerous incremental advances in technology or processes. It can be separated into two more specific types. The first one is continuous evolutionary innovations, which results in an alteration in product characteristics instead of in a new product, and do not require any user-learning or changes in his or her routine. The second type is dynamic continuous evolutionary innovations, which requires some user-learning but do not disrupt his or her routine. (BusinessDictionary.com.)

Revolutionary innovations (also called discontinuous innovations) require a good deal of user-learning, often disrupt his or her routine, and may even require new behavior patterns. Innovation is synonymous with risk-taking. For those firms which introduce revolutionary products or technologies take on the greatest risk because they have to create new markets. A less risky innovation strategy is that of the imitator who starts with a new product (usually created by a revolutionary-innovator) having a large and growing demand. The imitator then proceeds to satisfy that demand better with a more effective approach. (BusinessDictionary.com.)

Besides above two typologies of innovation, actually, there are many other kinds of innovation categories based on different classification rules. For example, according to

the fields which innovations take part in, we can divide innovation as technical innovation, economical innovation, political innovation, social innovation and cultural innovation. From a corporation's point of view, innovation can be classified as external innovation and internal innovation. In terms of specific sectors, the innovation of a company can be treat as designing innovation, advertising innovation, production innovation, marketing innovation, management innovation and service innovation. In a word, the types of innovation can be as many as different standards we classify it since different classification angle will lead to different outcomes.

However, in this work, I will specialize in Trott's (2008) theory which divides innovation into seven detailed parts from a perspective of an organization.



Figure 2. A typology of innovations from an organization's point of view

From Figure 2 we can see that a firm's innovation includes product innovation, process innovation, organizational innovation, management innovation, production innovation, marketing innovation and service innovation. I will explain them in details respectively below.

Product innovation means the development of a new or improved product. It can be changes in products or services which an organization offers. This kind of innovative products can be brand new which means totally new to the market, or they are just modified based on what already exist.

Process innovation is the development of a new manufacturing process, where some parts of the process is improved to bring benefits. It can be changes in the ways in which they are created and delivered.

Organizational innovation relates to any creative changes of an organization. Take my case company for instance, organizational innovation can be setting up a new venture division or utilizing a new internal communication system for their company.

Management innovation is about those developments on management systems within a corporation. It is focused on the systematic processes that organizations use to develop new and improved products, services and business processes. It involves harnessing the creative ideas of an organization's employees and utilizing it to bring a steady pipeline of profitable new innovations to the marketplace, quickly and efficiently, for example, improving the existing human resource management system.

Production innovation represents the methods which upgrade the production efficiency or increase the final profits gained from manufacturing process. For instance, making use of a new production plan or exploiting new technical production tools.

Marketing innovation refers to new ways to take more market shares or enter into target market more efficiently. It includes new financing arrangements, finding new sales approaches, establishing partnerships with retailers and seeking for direct marketing.

Service innovation means launching new or ameliorative service products (commodities or public services) based on some technology or systematic improvements. This includes innovation in service delivery systems, it can be for example a new customer interaction channel, a distribution methods or novel application of technology in the service process.

2.3 Models of innovation

Like types of innovation mentioned above, there are also many different ways to distinguish innovation models based on different fields and different criterions. In this work, I will only present two most common innovation models which are widely recognized in most fields, such as marketing, sociology, management, organizational systems, especially in technology field.

2.3.1 Linear models of innovation

An understanding of innovation as a process is crucial since it shapes the way in which people try and manage it. Early models (both explicit and, more importantly, the implicit mental models whereby people managed the process) regarded innovation as a linear sequence of functional activities. Either new opportunities arising out of research gave rise to applications and refinements which eventually found their way to the marketplace ('technology push'), or else the market signaled needs for something new which then drew out new solutions to the problem ('need pull', where necessity becomes the mother of invention). (Joe 2006.)

Under linear models of innovation, there are two specific patterns: technology push model and market pull model. The first linear description of innovation is the so-called 'technology push' model, which is closely related to Bush's (1945) theory in his groundbreaking science: The Endless Frontier report. According to the report, "discoveries in basic science lead eventually to technological developments which result in a flow of new products and processes to the market place" (Bush 1945). The step sequence is shown by Figure 3.



Figure 3. Technology push model of innovation

Figure 3 depicts that ‘technology push’ model means innovation happens based on existing technology and improved new high-tech skills. In this model, one does research first, research then leads to development, development to production, and production to marketing (Kline & Rosenberg 1986, 285–288). Usually technicians work out new modified commodities which are improved from what already exist or create out brand new products, after which companies will manufacture those advanced new products and put them into market. The main goals of the corporations are selling out what they produced to final users and achieving profits in return.

The linear ‘need pull’ (also called ‘market-driven’) model was developed not long afterwards in recognition of the importance of the marketplace and the demands of potential consumers of technology. The ‘need pull’ model points out that innovation is caused by existing demands of the market. This demand-led innovation supports the viewpoint that fluctuations in investments can be explained better by external events such as demands in the market than by trends in inventive activities. (Joe 2006.)

In the ‘need pull’ model, companies first have to realize the demands of potential customers. Doing research and studies is the next step for them in order to find out methods which can help them fulfill market demands. When they come up with the solutions, they will start to produce what they designed to cater for the market. Then finally, the end users from the market will get their products. The whole process of the ‘need pull’ model can be present as Figure 4.



Figure 4. Need pull model of innovation

2.3.2 Interactive model of innovation

Although both linear models are regarded as an extremely simplified picture of the generally complex interactions between science, technology and the market. The limitations of such an approach are clear since in practice innovation is a coupling and matching process, where interaction is the critical element. Sometimes the ‘push’ will dominate, sometimes the ‘pull’, but successful innovation requires an interaction between the two. It is necessary to have a deeper understanding and a more thorough description of all the aspects and actors in the innovation process. Therefore, people combine ‘push’ and ‘pull’ together, that is how interactive model of innovation have been created.

According to Trott (2008), the interactive model emphasizes that innovations occur as the result of the interaction of the marketplace, the science base and the organization’s capabilities. There is no explicit starting point since innovation can happen due to the demand of any segment. Figure 5 will help you have a better overview of the interactive model of innovation.

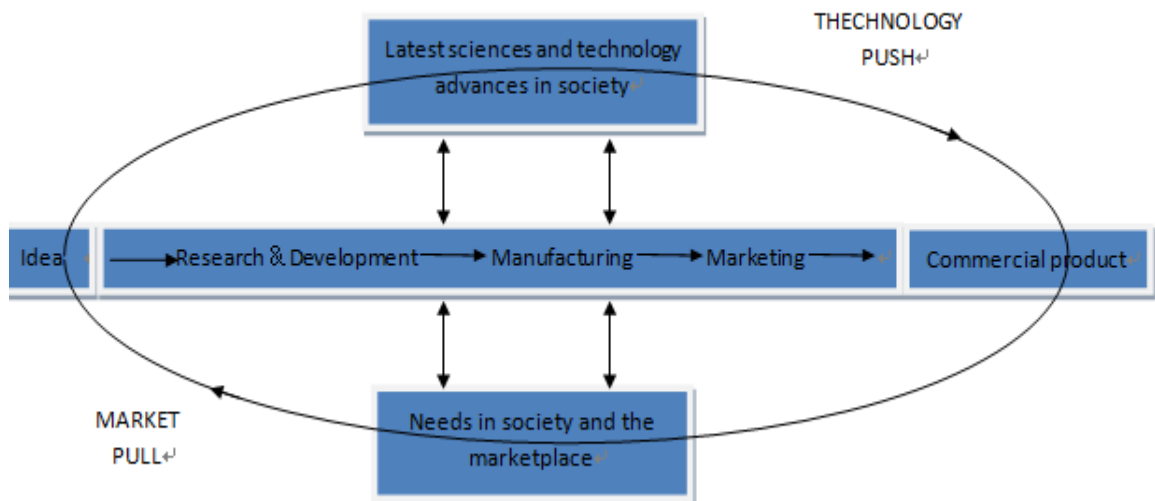


Figure 5. Interactive model of innovation

In such an interactive model, innovation is no longer the end product of a final stage of activity but can occur at various places throughout the process. It can also be circular (interactive) rather than sequential. This indicates innovation can happen at any point during the whole business developing process. A firm can combine its marketplace, its science base with its organization's capabilities to improve the existing products or services. Not only to fulfill the demands of 'technology push' or 'need pull', but to satisfy both requirements. According to Rothwell and Zegveld (1985), the overall pattern of the innovation process can be thought of as a complex net of communication paths, both intra-organizational and extra-organizational, linking the firm to the broader scientific and technological community and to the marketplace.

3 COMPETITIVE STRATEGY

Competition is the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture or good implementations. Competitive strategy is the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that demine industry competition. (Porter 1985, 1.)

In this chapter, I will introduce three existing theories of competitive strategy: competitive advantage, relationship marketing plus blue ocean strategy. This work relies on the competitive strategy approach. The main aspects of relationship marketing are touched upon below. The blue ocean strategy is introduced only briefly since this work does not rely on it. The reason for not relying on relationship marketing as well as the blue ocean strategy is the fact that they are not relevant to the main objectives of this work. As I mentioned in Chapter 1, the main purpose of this work is to make a competitive strategy for Xi'an Ice-cream Handwriting Company according to the questionnaire survey analysis among their existing customers. Therefore, the strategy offered by this research will be mainly from customers' point of view. I will not go into details in all the thirty relationships introduced in relationship marketing. Moreover, since my case company is already one of the leaders in their business field, indeed, they already made utilization of the blue ocean strategy.

3.1 Definition of competitive strategy

As was emphasized above, competitive strategy is the core approach of this research. A competitive strategy can be perceived as the approach that a company may take in order to differentiate itself from its competitors, and implement the task of obtaining customers. The main intention is to increase the demand for goods and services provided by the company, either by seizing a larger share of current consumer base, or by enter into niche markets that competing companies have not yet to recognize and

attempt to enter. In many circumstances, the configuration of a competitive strategy will contain elements that are both defensive and proactive.

With a defensive competitive strategy, the goal is often to respond to claims of competitors or even perceptions by consumers that the offerings provided by the company are somehow inferior to those provided by others. Part of the marketing and public relations efforts will be tailored to refuting the claims as false, and providing information that implies that the goods and services offered are actually of superior quality. Companies can increase their awareness through advertisement.

A competitive strategy that is proactive or offensive is usually aimed at cultivating new markets or developing new products that attract additional consumers, before competitors have such kind of opportunities. With this approach, the purpose is to establish the business as the criterion or benchmark that all competitors must match or exceed, a task that is sometimes hard to manage once customer loyalty is firmly entrenched and the brand name is widely known. Likewise, a business that is forward-thinking and develops products that fulfill emerging customer needs before other competitors will quickly build a reputation of being the only source for that product. If the strategy is particularly effective, the business is likely to maintain that status even when the competition releases similar product lines. (Wisegeek.com.)

Competitive strategies are not only marketing and publicity tactics but also refining the structure of the company in order to produce high quality products and sell them for benefits, within a price range that is affordable to as many clients as possible. This includes developing processes and procedures that allow the business to achieve materials for production at the lowest possible cost price as well as operate plant facilities with the highest efficiency. (Wisegeek.com.)

3.2 Competitive advantage

Porter (1985) develops three generic strategies and he argues that these three generic strategies can be used singly or in combination to create a defensible position and to outperform competitors, whether they are within an industry or across nations. Porter

states that the strategies are generic because they are applicable to a large variety of situations and contexts.

According to Porter (1985), a firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage. There are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies (showed in Figure 6) for achieving above average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus.

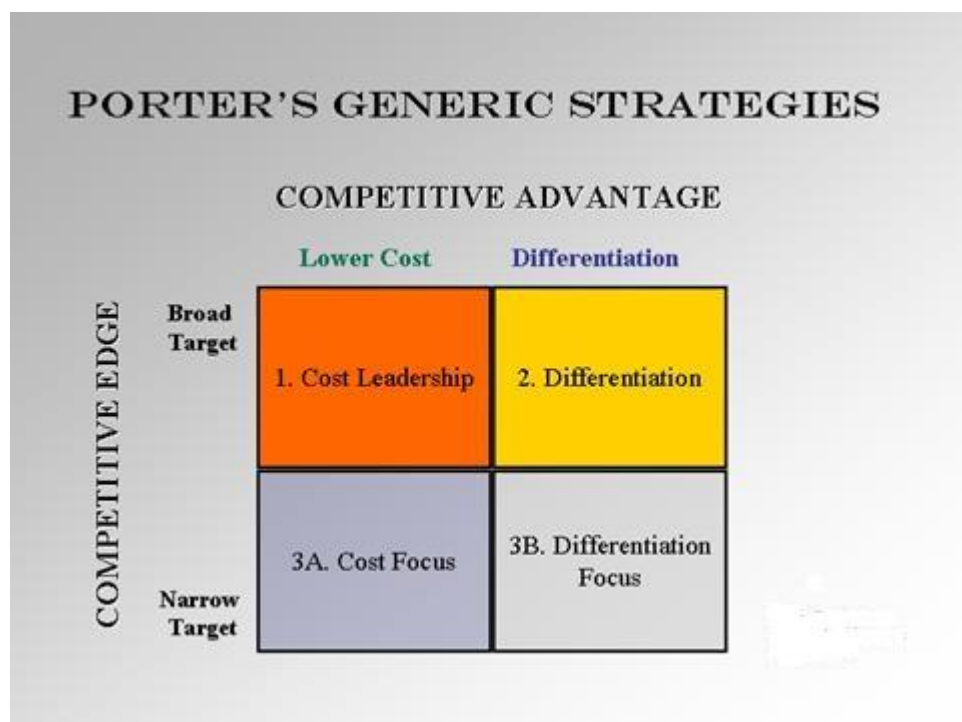


Figure 6. Three generic strategies

3.2.1 Cost Leadership

In cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other elements. A low cost producer must find and exploit all sources of cost advantage. If a firm can obtain and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average (Porter 1985, 13). The low-cost leader achieves competitive advantage by getting its costs of production or distribution lower than those of the other firms in its market.

3.2.2 Differentiation

In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by consumers. It selects one or more attributes that many customers in an industry perceive as crucial, and uniquely positions itself to fulfill those needs. It is rewarded for its uniqueness with a premium price. (Porter 1985, 14.)

Differentiation can be achieved through real product features or through advertising that causes the customer to be under the impression that the product is unique. Differentiation also can be attained through other features that make the product or service appear unique. Possible strategies for achieving differentiation may include:

- warranties
- brand image
- technology
- features
- service
- quality/value etc. (Referenceforbusiness.com.)

3.2.3 Focus

The generic strategy of focus relies on the option of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to them in order to exclude other competitors.

The focus strategy (also called niche or segmentation strategy) has two variants. (A) In cost focus a firm seeks a cost advantage in its target segment, while in (B) differentiation focus a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry. The target segments must either have potential clients with unusual demands or else the production and delivery system which serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behavior in some segments, whereas differentiation focus exploits the special needs of customers in certain segments. A focus strategy is usually appropriate for small, aggressive businesses that do not have the capability or resources to go in for a nationwide marketing effort. Such a strategy may also be appropriate if the target market is too small to support a large-scale operation. The underlying premise of the focus strategy is that a firm is able to serve a limited segment more efficiently than its competitors. Moreover, it can also serve a wider range of consumers compared with its rivals. When customers have distinctive preferences or specialized needs, a focus strategy will be the most effective approach to meet those demands.

3.3 Relationship marketing

A brief overview of relationship marketing is marketing based on interaction with networks of relationships. Relationships require at least two parties who are in contact with each other. The basic relationship of marketing is that between a supplier and a customer. A network is a set of relationships which can grow into enormously complex patterns. (Gummesson 2002, 3-4.) The parties enter into active contact with one another are called interaction.

Gummesson (2002) moved traditional marketing management from the 4Ps (product, price, promotion and place) to 30 relationships, i.e. the 30Rs. The 30Rs can be divided into classic market relationships (R1-R3), special market relationships (R4-R17), Mega relationships (R18-R23) and Nano relationships (R24-30).

The classic market relationships are divided into sub-categories as follows:

- R1 the relationships between the supplier and the customer
- R2 the customer-supplier-competitor triangle
- R3 network-distribution channels

The special market relationships are divided into sub-categories as:

- R4 relationships via full-time marketers (FTMs) and part-time marketers (PTMs)
- R5 interaction between customers and service providers
- R6 many-headed customer and many-headed supplier
- R7 relationship to the customer's customer
- R8 the close versus distant relationship
- R9 the relationship to the dissatisfied customer
- R10 monopoly relationship: the customer or supplier as prisoner
- R11 customer as 'member'
- R12 electronic relationship
- R13 parasocial relationships — relationships to brands and objects
- R14 non-commercial relationship
- R15 the green relationship
- R16 the law-based relationship
- R17 the criminal network

The Mega relationships are separated into sub-categories listed below:

- R18 personal and social networks
- R19 mega marketing — the real 'customer' is not always found in the marketplace
- R20 alliances change the market mechanisms
- R21 the knowledge relationship
- R22 mega alliances change the basic conditions for marketing
- R23 mass media relationship

The Nano relationships are categorized into sub-categories showed below:

R24 market mechanisms are brought inside the company

R25 internal customer relationships

R26 quality and customer orientation: the relationship between operations management and marketing

R27 internal marketing: relationships with the employee market

R28 the two-dimensional matrix relationship

R29 the relationship to external providers of marketing services

R30 the owner and financier relationship

The main purpose of the 30Rs is to make relationship marketing operative and useful for planning and implementation of marketing activities. Above all Rs are not applicable to every company and every situation, it is a matter of choosing a specific relationship portfolio for the marketing plan. (Gummesson 2002, 31.) Companies are able to improve and strengthen their business by utilizing these 30 relationships. (See Gummesson 2002 for full details of relationship marketing also for the 30Rs.)

3.4 Blue ocean strategy

Despite the fact that the theory of blue ocean strategy is not relied on by this work, a brief introduction of this theory is given below. (See above for the reason for the non-reliance.) Based on the perspective of Kim and Mauborgne (2005), blue ocean strategy challenges companies to break out of bloody competition by creating uncontested market space that makes the competition irrelevant. Instead of dividing up existing — and often shrinking — demand and benchmarking competitors, blue ocean strategy is about growing demand and breaking away from the competition.

Kim and Mauborgne argue that traditional competition-based strategies (red ocean strategies) are necessary, but are not sufficient to sustain high performance. Companies need to go beyond competing. To capture new profits and growth opportunities they also need to create blue oceans. Red oceans represent all the industries in existence today while the blue oceans stand for all the industries not in existence today, which is unknown market space. Blue oceans are defined by untapped market space, demand

creation, and the chance for highly profitable growth. Even though some blue oceans are created well beyond existing industry boundaries, most are created from red oceans by expanding existing industry boundaries. In blue oceans, competition is irrelevant because the rules of the game are waiting to be set by the leaders who enter into new markets. (Kim & Mauborgne 2005, 5.)

Blue ocean strategy is based on the perspective that market boundaries and industry structure are not given and can be reconstructed by the actions and beliefs of industry players. This is what the authors call 'reconstructionist view'. Assuming that structure and market boundaries exist only in managers' minds, practitioners who hold this view do not let existing market structures restrict their thought. To them, extra demand is out there, largely untapped. The core of the problem is how to exploit the extra demand, which requires a shift of attention from supply to demand, from a focus on competing to a focus on value innovation—that is, the creation of innovative value to unlock new demand. The problem can be solved through the simultaneous pursuit of differentiation and low-cost. New wealth is created by expanding the demand of the market. Such a strategy therefore allows firms to largely operate their businesses with high payoff possibilities.

4 HANDWRITING INDUSTRY IN CHINA

With the rapidly growth of economics and the development of living standards, more and more people start to enjoy their life and pursue fashion. People start to treat art from a fashionable and personality perspective. Today, it is easy to see young people create something characteristic and lead the trend which will lead to more and more people follow suit. Handwriting business is a new type of business which appeared since recent a few years ago. The main idea of handwriting is about art.

4.1 General description of handwriting industry

Handwriting industry is a new emerging industry with low business risks. It is quite popular among teenagers and youth. At the beginning, it were those art students whose major are concentrate on painting coming up the idea of drawing pictures on different articles. Their idea was popular and spread very quickly. To those students who are not good at drawing would like to pay art students to buy their work. In consequence, drawing pictures on different stuff such as T-shirts, caps, shoes and bags forms a sort of vogue among youth. At the meanwhile, a few companies established immediately to develop and fulfill the gaps in handwriting market. My case company, Xi'an Ice-cream Handwriting Company is one of the leaders among those companies.

Handwriting can be divided into many different varieties according to their purpose, such as architectural handwriting, landscape handwriting, mechanical handwriting, clothing handwriting and handwriting of bags. The main differences are pictures will be paint on different materials and the artistic style will be various.

4.2 Process of handwriting

Generally there are five steps during the production of a handwriting work. Drafting, outlining, coloring, modifying and finishing. Drafting is the first step of handwriting process which will determine the framework of the design. Normally people use pencil to draft on clothing. Outlining is to sketch the contours of the draft on clothing by a painting brush. This step is prepared for the next coloring procedure. With the help of the outline of the whole draft, coloring step will be more efficient, just put colors on the draft. After that, it is important to modify the whole picture in order to make it look better. People always outline the contours again to make the overall look clearer. Next is the final step, drying the paint. We can dry the picture either by using a hairdryer or wait till it dries by itself. Above is how a handwriting work is produced.

4.3 Handwriting business of Xi'an Ice-cream Handwriting Company

As I mentioned in Chapter 1, there are not many employees in the case company since it is a new established company with limited resources and capital. The case company has to overcome these drawbacks while running their business. The owner of Xi'an Ice-cream Handwriting Company Mr. Zhou set up his business with the help of one of his college schoolmates who is taking charge of product design as the main designer in their company. Besides them two, there are also several short-term employees or temporary workers working in their company. This makes their human resource management become very flexible. At peak seasons, they will employ more workers to help them, on the contrary, during off-seasons, they will downsize according to their workload. Due to the limitation of the scale of the company, they do not have many separated departments. However, basically, in the case company, they have several designers who take charge of drawing pictures on different commodities as well as a few IT clerks who help the company do promotion. As for purchasing part, it is Mr. Zhou who stocks up for the whole company. My case company has fixed suppliers where they replenish the stock of merchandise. They cooperate with several manufacturers located in Guangzhou Province where they purchase unprocessed commodity at a lower price compared to other producers.

The types of goods the case offered are only focused on clothing handwriting, such as T-shirts handwriting, trousers handwriting, shoes handwriting and caps handwriting. Painters in my case company will draw delicate and stylish pictures on different clothing according to the clothing style, fabric and customers' requirements. Based on keeping the original usability of clothes, adding extra artistic value for them is the main intention of Xi'an Ice-cream Handwriting Company. Those handwriting pictures can be cartoon figures, real people sketches, landscape paintings, decorative patterns or even story description by pictures or characters. The case company will draw all the pictures that are able to be drawn in accordance with the customer demands. They try their best to fulfill clients and make efforts to satisfy their customers with their offerings.

Product positioning is crucial to every company since it helps companies build images among customers. In order to achieve a large number of sales volume, Xi'an Ice-cream Handwriting Company made a product design plan before they started business. Their product design plan included target groups of consumers, product features, price positioning and sales channels.

It is quite clear that the target groups of consumers in the case company are teenagers and young students who are between thirteen and twenty-five years old. These youth have the willingness of pursuing art, following trend and creating something special by themselves. Handwriting business is set up to meet such kind of demands. Young people are always eager for something unique, creative, fanciful and unprecedented. Therefore, Mr. Zhou would like to offer them a platform where they can obtain what they expected. Xi'an Ice-cream Handwriting Company aims at leading a new fashionable trend of handwriting clothes among school age youth.

Fashionable, attractive are two of the most important elements which can affect young people's final decisions when they purchase a product. For this reason, to attract more attention of potential customers, my case company made efforts to make their products become more competitive and adjust their offerings according to customer feedbacks. The features of handwriting products provided by my case company are creative, modish, adding extra value to original clothes and making every cloth become unique since every design can be different. Moreover, customers not only can buy those ready-made products, but also can send their own clothes or articles to my case company, and telling their ideas about what they want to paint on their stuff. If they want to draw

pictures by themselves, they can just order painting materials from the case company as well as get guidance from the company about how to make the paint and what needs to be pay attention to. Customers are free to communicate with my case company about their suggestions and feedbacks.

As for the price positioning, due to the limitation of the pocket money of most youth, the sales prices are supposed to be reasonable for most consumers. Compared to other competitors, the case company's selling prices are at the middle level of the market price offered by different handwriting companies. However, most potential consumers can still afford the prices Xi'an Ice-cream Handwriting Company set.

Concerning sales channels used by the case company, the prime promotional tool is the Internet. As I already mentioned in Chapter 1, the case company set up their business via a personal trading web-based platform. They sell products through one on-line shop via Taobao. Taobao is the most famous website of consumer-to-consumer and business-to-consumer web-based trading platform in China. It captures 80% of the on-line trading market in China. In addition, Taobao has a high flow of information everyday which is a good advantage for sellers who open shops through Taobao. Xi'an Ice-cream Handwriting Company's business flourishes rapidly after the wide spread of their products by Taobao and returned customers.

5 CHINESE MARKET BACKGROUND

Thirty years has passed by since the reforming and opening-up policy was applied in China. Our government encouraged domestic corporations to build up partnerships with other foreign companies who have high-tech skills and plenty of capital. With the rapidly development of Chinese economy, our whole market system changed accordingly during last three decades. This led to our business model modified to fit continuous improved economic growth and survive under fierce competitions with both domestic and global competitors. In this chapter, I will discuss more about current Chinese market and the business innovation orientation nowadays in China.

5.1 Keen competition in Chinese market

It is common to see business competition in China, especially in some big developed cities. The more companies we have, the more fierce competitions we have to face. One of the biggest problems for most companies is that there are so many competitors fight for the same market. Since 1990s, our government invested a lot to establish local-government-owned enterprises. Our domestic corporations started to compete with those transnational companies invested by foreigners. At that time, most of graduates would apply their jobs in a government-owned company, they made contributions to the development of local corporations. Year after year, the amount of graduates is far more than the employment demands of local companies. For this reason, the local unemployment rate had increased year by year. After 2000s, more and more young college students started to set up their own business instead of struggling for jobs with other students under such an oversupply business environment. As a result, the number of private corporations increased rapidly during last 10 years. Among those young entrepreneurs, most of them were graduated from foreign universities. Due to their western and advanced education, they had open minds compared to our traditional graduates. That was one of the most important reasons why they preferred to give up an ordinary job and established their own business than just work in a local company as a common employee. Since they had farsighted minds and advanced knowledge and skills, they would like to take risks to run their own business. In fact, this had a good

effect in the past, establishing new business was a good method. However, still, there are too many competitors. More and more companies set up which also means competitions among different companies will become tougher.

According to Company Law of the People's Republic of China (2011), a productive company register requires at least 30,000 RMB, a retail company register needs at least 30,000 RMB and a wholesale company register requires at least 30,000 RMB (Company Law of PRC 2011). The lowest capital limitation of registering a new company is 30,000 RMB which is around 3,530 Euros. That is not a huge amount of money, therefore lots of people can register a new company easily and start their own business.

It is acknowledged that Chinese labor force is very cheap compared to the workforce of developed countries. That is the main reason why foreigners would like to invest money and set up factories in China. Our low-salary reduces cost price of companies which helps employers save money. At the meanwhile, since workers' wage is not high, their purchasing power will be affected by how much they earn. In this case, low salary also indicates poor purchasing power.

Based on Gorman's (2003) opinion, due to the limitation of general level of purchasing power, products' selling price cannot be higher than the bottom line crowd can afford. Consequently, price war is pervasive used by most companies. To survive under such a full of competitive atmospheres business environment in China, reducing cost price and lowering selling price are the two main measures used by every corporation. Usually, manufacturers do not earn a lot on one product, on the opposite, they gain only a little profit on each product but a large sales volume. In the end, they can still receive lots of money by the accumulation of small piece of profit gained from each product.

In conclusion, intensive competitions among different companies, less and less market shares of small companies, long-term price war are the common phenomenon in current Chinese market. It is easy to start up a business as well as go bankrupt in China.

5.2 Chinese business innovation orientation

According to Zheng (2010), who is the top manager of QQzone department in Tencent company, Chinese market has undergone a changing process of four steps: black market trades, copy-paste trades, innovative business based on improvements, and creative business trend.

Black market trades in another words is doing business go against conscience. People care little about ethics and rules of law, in order to earn money business people even cheat on consumers. For example, manufactures admix counterfeit and shoddy products with normal products and charge for a high price. This always helps them gain lots of profits in a short period. However, such kind of black business cannot survive for a long time. When clients realize they are fooled by those no principle manufacturers, they will never buy products produced by those factories any more.

Copy-paste trades indicate these trades actually have nothing to do with innovation, but just copy other forerunners' business ideas and business models. Usually followers will copy the pioneers' creation and apply them in another place where the local market is brand-new even the pioneers have not reached so that they can avoid competing with the founders. It is possible for followers to achieve substantial profits if the market demand is vast. The best example in such circumstance is Pepsi, it imitated Coca Cola. However, if the followers can run their business better than the founders, no matter better executive teams or better promotions they have, they can even defeat the founders and takeover the original leading companies. We have many examples of such kind of phenomenon in China.

In point of innovative business based on improvements, this sort of business means improving or modifying on business model, production model or techniques based on existing foundations. For the sake of perfecting what already exists, more and more companies require their personnel from research and development department to go to customers' home and observe customer behaviors veritabily when their products be used. With the help of such kind of observation, consumers have more opportunities to communicate with manufacturers and give feedbacks more effectively. The success of many companies shows that improving existing products or services step by step can

also create wealth for them. Moreover, it is those gradual improvements satisfied their market as well as offering the company more chances to grow and expand in a long term.

Creative business trend is necessary due to the keen competition in China. If a company wants to consolidate its position in their market, they have to own something unique created by themselves. However, this is the most difficult phase among above four stages of the developing business innovation process. Not many companies have the strength to invent some new by themselves. Therefore, both innovative business based on improvements and creative business are popular in current Chinese market since these two types of business models have huge potential space for development.

5.3 Niche markets

To get a bite of the cherry of survival and growth, small companies had better to avoid competitions with large companies. Nowadays, more and more small companies start their business in a niche market where there are not many competitors yet. It is impossible to keep every customer in mind, therefore even large companies cannot pay attention to every aspect that customers request. As a result, there are still some demands of potential customers are unmet. Those unmet demands are good opportunities for small companies because of less competitive stress.

Take Xi'an Ice-cream Handwriting Company for instance, their target is to fulfill the requirements of designing fashionable handwriting products for teenagers and young people who are between thirteen and twenty-five years old. One good advantage of my case company is that they seize the opportunity immediately when they realized handwriting industry has huge space to grow and there are lots of potential customers who are willing to purchase handwriting products. They saw the market and then they took actions. Facts prove that niche markets will be the best start point for small-scale companies or new established firms. After launching into target market, accumulating certain amount of business experience as well as capital, they can expand their business step by step and compete with other large companies to capture more market shares.

6 METHODOLOGY

A methodology is an approach to the process of a research, encompassing a body of methods. Research data can be primary or secondary data. Primary data is data generated from an original source. (Collis & Hussey 2009, 73.) Whereas secondary data is information collected in existing sources from others. In this work, I utilize my own experiments of my case company, a questionnaire survey for the case company's customers and interviews with the owner of Xi'an Ice-cream Handwriting Company as my primary data sources. I also make use of existing publications, databases as well as the Internet as sources for my secondary data.

6.1 Case study

According to Yin (2009), a case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. Case study research comprises an all-encompassing method—covering the logic of design, data collection techniques, and specific approaches to data analysis (Yin 2009, 18). Case study is not restricted to being a data collection tactic simply or even a design feature alone (Stoecker 1991). In fact, it is a flexible research approach that is fit for a range of different types of research questions (Marschan-Piekkari & Welch 2004).

I use single case study method in this Thesis since I focus on Xi'an Ice-cream Handwriting Company. I specified their current business in details in Chapter 4, and I will analyze their business situation in Chapter 7.

Case study method as the research method is based on Yin's (2009) theory. He argues that case study is one of several ways of doing social science research. Each method has peculiar advantages and disadvantages, depending upon three conditions: the type of research questions, the control an investigator has over actual behavioral events and the last condition, the focus on contemporary as opposed to historical phenomena. In general, case studies are the preferred method when "how" or "why" questions are

being posed; the investigator has little control over events and the focus is on a contemporary phenomenon within a real-life context. This situation distinguishes case study research from other types of social science research. (Yin 2009, 2-13.)

Both of my research questions are “how” questions. I use “how” questions as my research questions in order to find out the answers correctly via the study of contemporary real-life context. I conduct my research based on the current business position of Xi'an Ice-cream Handwriting Company. Moreover, Yin (2009) points out that the more research questions seek to explain some present circumstance, the more the case study method will be relevant. The case study method is also relevant the more when the research questions require an extensive and “in-depth” (original emphasis) description of some social phenomenon (Yin 2009, 4). As I described and presented lots of current information about handwriting industry as well as Chinese market background in-depth, furthermore, I will do my case analysis which will provide my case company a competitive strategy as the final result of my work based on those description and collected data of present circumstances of handwriting industry in addition to my case company's business environment, case study is the best option as my Thesis's research method to reach the aim of my work .

6.2 Interviews

Daniels and Cannice (2004) define an interview study as one where the data and findings are based on direct researcher-to-respondent conversations (in person or by phone). One good advantage of interviews is that it is easier for researchers to make clear of the respondents' viewpoints by holding interviews (Daniels & Cannice 2004). Since I did my practical training during the summer in 2009 in my case company, I have already got to know their business context. Moreover, due to my practical training in their company, the owner of Xi'an Ice-cream Handwriting Company wanted to support my research work. I conducted my research to help the case company learn more about their competition environment. Furthermore, my work will provide them with an innovative and competitive strategy to improve their business.

During my information collection process, I made several interviews with Mr. Zhou to learn more details about their business operations. We held our interviews via the Internet due to the long distance between Finland and China. However, we still overcame the gap and executed our interviews successfully.

6.3 Questionnaire survey

A survey methodology is designed to collect primary or secondary data from a sample, with a view to analyzing them statistically and generalizing the results to a population (Collis & Hussey 2009, 76). I conducted an analytical survey among the existing clients of my case company to determine the elements that affect customer buying behaviors during their shopping process. There are totally 16 questions in my questionnaire (see Appendix 1), among these 16 questions, 14 of them are closed-end questions and 2 of them are open-end questions. I delivered 70 questionnaires forms to selected customers among hundreds of existing customers of Xi'an Ice-cream Handwriting Company. Those 70 existing clients of the case company are selected from different age groups which cover the whole target age segmentation (between 13 and 25 years old) of my case company. Moreover, these selected respondents include middle school students, high school students, university students as well as graduates who are already in employment. The diverseness of the current status of those selected respondents is for a comprehensive overview of customer feedbacks from different angles of the case company's present customers. However, among the 70 questionnaires that I delivered, only 25 questionnaires were replied and returned. For this reason, I will do my questionnaire survey analysis according to these 25 respondents. Specific analysis outcomes will be presented in Chapter 7.

7 ANALYSIS AND FINDINGS

This chapter discusses the SWOT analysis of Xi'an Ice-cream Handwriting Company's current business. It shows the advantages of the case company as well as their disadvantages. After elaborating the SWOT analysis, I will provide four types of competitive strategies for the case company. At the end of this chapter, I will make a questionnaire analysis based on information collected from 25 clients of Xi'an Ice-cream Handwriting Company. These clients also provided some valuable suggestions to the case company from general customers' point of view.

7.1 SWOT analysis of Xi'an Ice-cream Handwriting Company

SWOT analysis is a simple and common method of analyzing business operations. The aim of SWOT analysis is to identify the key internal and external factors that are important to a company's business activities. It involves four different aspects concerned on the company's business state. SWOT stands for strengths, weaknesses, opportunities, and threats. Strengths and weaknesses are internal factors whereas opportunities and threats are external factors. With the help of the four square field method a company can easily evaluate its own operations.

I made the SWOT analysis of the case company based on several interviews with the owner of Xi'an Ice-cream Handwriting Company plus my practical training experience in their company during the summer in 2009. Details are presented in Form 1 as below.

Company: Xi'an Ice-cream Handwriting Company	
Object of assessment: SWOT Analysis	Date: 22.11.2010

Strengths <ul style="list-style-type: none"> ● Leadership in handwriting industry ● Few competitors at present ● Cost price is low ● Few risks of inventory and loss ● High liquidity of capital ● Novel business ideas ● Flexible business ● Peak season accounts for the most every year ● No cost for shop front 	Weaknesses <ul style="list-style-type: none"> ● Limited capital ● Slow growth ● Off-season in winter
Opportunities <ul style="list-style-type: none"> ● Extend their business into other field ● Seek for cooperators ● Attract more investment and sponsors ● Reduce cost price 	Threats <ul style="list-style-type: none"> ● Competitors can easily copy their business ideas ● More and more competitors will jump into their field and reduce their market shares ● Decrease sales amount and drop off in revenue caused by competition ● Loss market and get defeated due to the emergence of other larger companies

Form 1. Business Risk SWOT Analysis of Xi'an Ice-cream Handwriting Company

✧ Strengths

The best advantage for Xi'an Ice-cream Handwriting Company is that they are one of the leaders in handwriting field in Chinese market. They have few competitors at present. Therefore, they do not suffer lots of pressure from competition right now. Their cost price is low, just the basic cost of shoes and caps they need in addition with paint. They do not take many risks for inventory and loss since they do not purchase lots of goods and store them in advance. For this reason, their liquidity of capital is high. They can get back their investment in time. Their

business is quite flexible because they have novel business ideas. They can modify their business according to their needs. Furthermore, their business peak season accounts for the most of a whole year, spring, summer and autumn. In addition, they do not afford any cost for shop front since they sell products via the Internet.

✧ Weaknesses

The case company's biggest shortage is their limitation of capital. Their company is new established and small. They do not have adequate investment. Therefore, their business grows quite slowly, step by step. One big issue for them is their off-season in winter. Only a few customers purchase their products during winter time. People prefer to wear shoes and caps the case company processed when the weather is warm. This problem leads to a business stuck for Xi'an Ice-cream Handwriting Company during winter time.

✧ Opportunities

One good suggestion for the case company is to extend their business into other field. They can provide handwriting services not only for shoes and caps but also for bags or clothes. In this case, they will gain more opportunities to increase revenue. At the meanwhile, they can also seek for some cooperators who are interested in or relevant to their business. They can attract more investment and sponsors. Reducing cost price of their raw materials is also available for them.

✧ Threats

As for threats, competitors can easily copy Xi'an Ice-cream Handwriting Company's business ideas since it is easy to imitate. Their business has nothing to do with high-tech skills or special scientific techniques, which means everybody can imitate their business and set up a new company to compete with the case company. With time goes by, more and more competitors will jump into their field and share their market. This will lead to less sales amount and drop off in revenue for the case company. They may loss their market and get defeated due to the emergence of other larger competitor companies in the future.

7.2 Competitive strategy for Xi'an Ice-cream Handwriting Company

Here I will discuss the 4Cs strategy for the case company combined with Porter's (1985) theory, in addition to some other types of suggestions based on the SWOT analysis of Xi'an Ice-cream Handwriting Company.

7.2.1 4Cs strategy

Lautenborn (1990) recommends the 4Cs strategy to companies so that they can consider their business from a customer's perspective. In brief, the 4Cs are customer needs and wants, cost to the customer, convenience and communication.

Customer needs and wants

It seems that companies always design their products from their own point of view. Many companies' failure is due to their ignorance of their customers' real needs and wants. They think they know what they are supposed to produce, but actually, their offers maybe are not to their clients' appetite. To avoid such problem, one of my suggestions is when the case company wants to design or create something new, they had better ask what the opinion of their customers is so that they can modify their business plans flexibly. If the case company always puts customers in the first place, at least they will not digress. Customers' needs and wants are the core of all business no matter what the business is.

Cost to the customer

Cost to the customer indicates that the selling prices of the case company's articles have to be reasonable to consumers. According to Gorman (2003), a reduction in price increases the quantity demanded so that the seller's revenue increases whereby the seller can sell more by cutting his price. The case company can also take the option of lowering selling price into consideration. Cost advantage was also mentioned in Chapter 3 as one aspect of Porter's (1985) competitive strategy. Cost leadership requires firms to develop policies aimed at becoming and remaining the lowest-cost producer and/or distributor in their industry. Company strategies aimed at controlling costs include construction of efficient-scale facilities, tight control of costs and overhead, avoidance of marginal customer accounts, minimization of operating expenses, reduction of input

costs, tight control of labor costs, and lower distribution costs. The low-cost leader gains competitive advantage by getting its costs of production or distribution lower than those of the other firms in its market. (referenceforbusiness.com.) Hence, the cost price of goods in a low-cost leader company is relatively lower than other competitors' which means its sales price can also be mark down as a competitive advantage.

As I mentioned in Chapter 5, Xi'an Ice-cream Handwriting Company's selling prices are at the middle level in the handwriting industry compared to other competitors. They bear lots of pressures under competition. At the same time, they still have to concern themselves about their profits. If they reduce their offering price, they can try to make a little profit on each product but expanding their sales volume. In this way, they can still gain profit by the accumulation of small piece of benefit from each product.

Convenience

Convenience is the ability to easily find, select, purchase and in some cases, use products (Chaffey & Smith 2008, 144). Since my case company run their business through e-platform, it is convenient for customers to search their products and read detailed descriptions about both their company and their products via the Internet. Moreover, it is also relatively convenient for clients to inquire or communicate with customer service personnel online. After customers book selected products, they transfer their payment into the case company's bank account. The case company will post products to the customers' addresses as soon as the money is on their bank account. These processes make shopping on line more easy for consumers. They do not have to go to streets to search for goods. On line shopping helps clients save energy and time.

Communication

Communication contributes to the flow of opinions between customers and sellers. It is conducive to keeping companies close to customers as it can see and listen to what is being said. Communication provides clients the opportunity to discuss the brand, its applications, problems, issues, ideas, improvements and a broader array of topics linked with some of the brand values. The case company should make use of the ideas from customers and improve their products or services according to their customers' feedbacks. This kind of interaction between customers and sellers is good for developing strong relationships as well as reinforcing customer loyalty.

7.2.2 Differentiation from competitors

In sub-chapter 5.2, I discussed copy-paste trades in Chinese business innovation orientation. Even though my case company is one of the leaders in handwriting business field at present. With a growing business, they have to take risks of leaking business ideas by imitators. Others may follow their trend and set up another handwriting company to steal their market shares. Handwriting business can bring Xi'an Ice-cream Handwriting Company opportunities and profits, but also make them vulnerable to risks and losses. Their competition condition at present is advantageous to my case company because they set up their business earlier than their competitors and modified their business better due to experience achieved during previous business process.

Knowing the company's strengths and strengths of their competitors as well as knowing the company's weaknesses and the weaknesses of the competitors are significant for long-term business. The case company only knows the differences between themselves and their competitors, and therefore they can make full use of their advantages and make up for their shortages. Flexibility is always important for business activities.

Porter (1985) points out that the best way for a company to stay ahead is to create something unique, which are difficult for competitors to copy. In terms of my case company, they can design a series of special patterns which can reveal their core business ideas and their painting style. After they form their unique artistic style, it will become easier for clients to distinguish them from competitors. In addition, particular painting style will help Xi'an Ice-cream Handwriting Company increase product and brand awareness among customers.

7.2.3 Sustainable development

When the handwriting business of the case company reaches full maturity, if the company is only restricted to current level, they will miss the opportunity to expand their business. Furthermore, they will be defeated by their competitors someday if they just sustain what they already have and improve nothing. Therefore, in order to keep on growing their business, they are supposed to keep the consciousness of innovation always on their mind. Before their business starts to decrease, they have to take actions

to provide another new type of product or service to customers, always make efforts to keep their products and services innovative and attractive to clients. Therefore, when their customers get tired of their existing offerings, they can still provide them new supplies instead of old ones. This can help them maintain customers and decrease the rate of losing market shares.

From the long-term business running perspective, exportation is a good choice to stretch their business. Due to our cheap raw materials and labors, nowadays, there are many foreign companies import their raw materials or products from China. Xi'an Ice-cream Handwriting Company can also try to export their products to developed countries, such as America or European countries. One competitive condition is that the selling price offered by the case company is much cheaper compared with local foreign companies. Therefore, the case company can seek for some foreign merchants or companies who would like to import their handwriting products and sell those goods in local market. Exportation can not only expand my case company's business into foreign markets, but also increase their sales volume and bring them more profits.

7.2.4 Innovative promotion

Promotions could be held in many different ways. Xi'an Ice-cream Handwriting Company's main sales channel is e-platform provided by Taobao. Although Taobao is the biggest web-based trading platform in China, it captures 80% of the on-line trading market, there are still 20% of the on-line trading market left where the case company missed by ignoring other e-platforms. As a matter of fact, another big e-platform is spring up rapidly. This new e-platform is called Paipai. It has over 50,000,000 users. Among those 50,000,000 users of Paipai, my case company can attract potential customers for their hardwiring products. In this case, opening a second online shop via Paipai is worth to be considered. With the advertizing on Paipai, the handwriting products and handwriting service of Xi'an Ice-cream Handwriting Company will have more chances to be seen by potential customers. That means Paipai has the ability of widening the case company's customer ambits.

To sustain customer loyalty as well as attract more clients, the case company could encourage and reward their consumers by offering them small gifts in return. For

instance, if a customer purchases their handwriting products for a certain amount, they can reward him something relevant to their goods, such as a color pen or a pair of socks with handwriting pictures on its surface. As for those returned customers, they can provide them some discounts if they are their key customers. Both small gifts and discounts to customers are means to satisfy consumers. Sometimes, offering clients small gifts can reinforce their loyalty.

7.3 Questionnaire analysis

In order to learn more details about the current businesses situation and improve Xi'an Ice-cream Handwriting Company's products and services, I made a questionnaire survey among their existing clients. As I mentioned in sub-chapter 6.3, I delivered 70 questionnaires forms to selected customers among hundreds of existing customers of Xi'an Ice-cream Handwriting Company. Those 70 respondents are selected from different age groups which cover the whole target age segmentation (between 13 and 25 years old) of the case company. Moreover, these selected respondents include students, the graduates who are already in employment as well as the youth who are unemployed at present. The diverseness of the current status of those selected respondents is for a comprehensive overview of customer feedbacks from different angles of the case company's present customers. I sent them a questionnaire with 16 questions (see Appendix 1). However, among the 70 questionnaires that I delivered, only 25 questionnaires were replied and returned. For this reason, my analysis is based on the data collected from these 25 respondents.

Among these respondents, there are 13 females and 12 males. Their ages are between 13 and 25. In their responses, 12 of them are willing to try new handwriting products, while 10 of them are not sure whether they would like to have a try or not. Only 3 of the respondents are not interested in any new handwriting products. A total of 17 respondents buy handwriting products due to product availability, whereas 8 respondents buy handwriting products because of the decoration function which makes them look fashionable. Among the 25 respondents, 12 of them have purchase plan when they go shopping whereas 13 respondents usually just look around without a specific plan. Moreover, among these 13 respondents without a plan, only 4 are males. This

indicates that females are more inclined to go shopping at random without definite shopping plans, while most males usually go shopping when they already know what they want to purchase. According to the responses to the questionnaire survey, most clients prefer shopping on streets to shopping online. This result suggests that the case company could consider opening a shop front on a street to gain visibility among potential customers in the future. As many as 18 out of the 25 respondents are not very choosy with specific product brands, but perceive the quality of the goods they purchase as important.

In terms of the elements that can influence customer purchase behavior, I made a figure to show the importance of each element for customers' buying behaviors as indicated by the respondents replied in the questionnaire. More detailed statistics are illustrated in Figure 7.

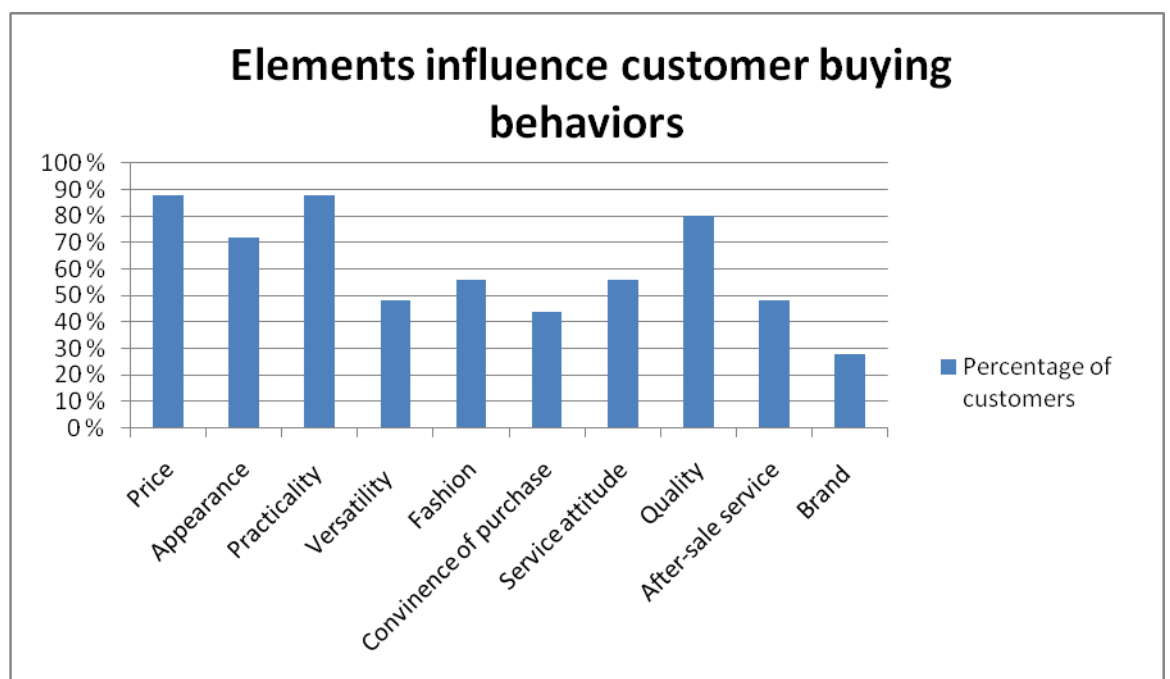


Figure 7. Elements influence customer buying behaviors

From Figure 7 it can be seen that the most important factors influencing customers' buying behaviors are the price, practicality and quality of products. Besides these factors, appearance of products, fashionable designs as well as service attitude are also crucial during customers' buying process. Versatility of products, convenient purchase options and after-sale service are not key elements. However, there are about 50% of the

respondents would like to take them into consideration. The least important element for the case company's consumers is the product brand.

At the end of my questionnaire, I also collected feedbacks and suggestions from my case company's customers. They pointed out that the quality of products should always be put in the first place. The clothing where Xi'an Ice-cream Handwriting Company draw pictures on should have good quality and can be used for a long time. The paintings drawn by my case company are supposed to be pithy, colorful and colorfast. Moreover, the responding customers would be satisfied if their delivery process could be shortened.

8 CONCLUSIONS

Today, business activities are stressful in Chinese market due to the keen competitions among different companies. Small companies have to provide innovative and competitive products or services to their potential customers so that they can survive and gain profits, as well as sustain certain market shares.

I conducted my Thesis based on both theoretical and empirical analyses. Porter's (1985) theory is the main theoretical support of the competitive strategy I made for Xi'an Ice-cream Handwriting Company. The analysis of the case company is based on those data collected during my practical training in the company in addition to several interviews with the owner of Xi'an Ice-cream Handwriting Company. The SWOT analysis was made based on my case company's current business circumstance, while the final competitive strategy available for the case company is complied according to not only the existing theory support but also the results of the customer questionnaire survey I made for the case company. I conducted an analytical survey among the exiting clients of the case company to determine the elements impacting on customer buying behaviors during their shopping process. Those respondents are reliable since they are the existing customers of Xi'an Ice-cream Handwriting Company. Their feedbacks were returned according to their own shopping experience relevant to my case company's offerings. Therefore, the competitive strategy my Thesis provides to Xi'an Ice-cream Handwriting Company can be regarded as reliable due to the combination of previous theories and my case company's own situation.

According to the strategy (see Chapter 7) I made for the case company, they are supposed to lower their cost price so that they can mark down their sales price. Moreover, to make their business differential and sustainable, they are supposed to create something unique which will help them to maintain customer loyalty as well as sustain their business a long-term running. Exportation is one option for their business expansion. Utilizing other media tools to do advertisement and promotion is another suggestion for them.

Limitation

During the research process of this study, there were some limitations mainly due to two aspects. First, although there is some relevant literature on innovation orientation at present, the literature is mostly written from the western point of view. It is hard to find published resources on Chinese innovation orientation, which indicates that Chinese market are still in need to be studied and explored in-depth. Therefore, the theoretical data lacks empirical support from Chinese contexts. The second limitation was caused by the customer questionnaire survey analysis I made for the case company. Despite the fact that I delivered 70 questionnaires among hundreds of existing customers of Xi'an Ice-cream Handwriting Company, only 25 questionnaires were replied and returned, which means that the remaining 45 questionnaires cannot be taken into consideration in this work. Since I did my questionnaire survey analysis according to these 25 respondents, my analysis is incomplete with unbalanced data collection to some extent. Due to the limitation of the low respondent rate, those opinions of those customers who did not respond were missed. This fact can affect the final result of my survey analysis to some extent.

Recommendations for further research

One of the available topics for further research on innovation and competitive strategy could be the question of how business innovation orientation of product design can be performed as a penetration strategy in Chinese market. This topic could include more details on product design industry which also includes the handwriting industry. The analysis could be done with the help of the existing theories such as market orientation, organizational learning capabilities, creative abilities, operational competencies as well as the relationship between exploitation and exploration of an existing business. Further research could be conducted not only by concentrating on the main offerings provided by the case company, but also with a focus on the structure of the company or the company's management method. Not only products can become innovative, but also the whole organization.

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Questionnaire Survey on Handwriting Clothes
(Translated in English)

Appendix 1

1 (2)

- 1 . What is your gender ?
A. Female B. Male
- 2 . What is your age?
A. Under 13 B. Between 13 and 16 C. Between 16 and 19
D. Between 19 and 25 E. Over 25
- 3 . What is your social status?
A. Student B. In employment C. Unemployed
- 4 . Have you ever tried online shopping?
A. Yes B. No
- 5 . Would you like to try any new handwriting clothes?
A. Yes B. No C. Not sure
- 6 . What is your intention for shopping?
A. For the utility of products B. For beautification
C. To show off via the products
7. What elements listed below do you take into consideration during your shopping process? (Multiple choice)
A. Price B. Appearance C. Practicality D. Versatility
E. Fashion F. Convenience of purchase G. Service attitude
H. Quality I. After-sale service J. Brand
8. Do you usually go shopping with a shopping plan or just go shopping without any plan?
A. Shopping with a plan B. Shopping at random

9. Which sales channels do you prefer?
A. Online shops B. shops on the streets C. Either way
10. What is your attitude to clothing brand?
A. Care nothing about the brand, but the utility
B. Put famous brands in the first place, other brands will also be taken into consideration
C. Only purchase famous brands' products
11. Would you like to do the handwriting decoration by yourself compared to buying the ready-made products?
A. Prefer ready-made goods B. Prefer do handwriting decoration by self
C. Either way
12. How often do you purchase clothes?
A. Once half a month or even more B. Once per month
C. Once per three months D Once half a year E. Once a year or even less
13. How many clothes do you purchase every month in average?
A. One or even less B. Between 2 and 4 C. Between 4 and 6
D. More than 6
14. How much do you spend on clothes every year in average?
A. Less than 500 RMB B. Between 500 and 1000 RMB
C. Between 1000 and 3000 RMB D. More than 3000 RMB
15. What is your opinion and suggestion on online shopping?
16. What is your opinion and suggestion on handwriting products?