

# **How to Market Finnish Forest Machines to China**

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<p>Abstract:</p> <p>The aim of the thesis is to find out how a Chinese company becomes an importer by researching the process of Qingdao Tongrun applied to become a distributor of Finland AFM-Forest. The research question is how a Chinese company can become an agency or a distributor of Finnish Companies. The purpose is to describe the negotiation process between a Finnish and Chinese company for a dealership in China and compare and discuss the negotiated agreement with the ICC model contract. The literature has been applied about choosing export channel, international trade negotiation and ICC Model Distributorship Contract. And interviews have been done many times by various ways. The thesis was limited in the scope of the primary stage of the business. The result is the China forest cover is on the top five in the world and the man-made forest is on the top and it was keeping growing every year. But the forests were mainly in the South and the North East of China. These indicated the development direction of harvest head machines business. Companies can choose agency or distributorship as the ways to cooperate with foreign companies. The negotiation is important for the business life. It should be good to refer ICC Model contract to sign international trade contracts. After compared and analyzed the signed contract with ICC Model Contract, there were still some terms that Qingdao Tongrun expected to be contained in the contracts.</p>	
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## 1. INTRODUCTION

China is one of the fastest growing economies with one of the largest area and population in the world. When China's economy started to develop dramatically and the consuming capacity of Chinese consumers increased, foreign companies began to seek opportunities to cooperate with China. Chinese enterprises also started to be interested in importing foreign advanced technology. There emerged a lot of joint venture companies, agents or distributors of foreign companies in China. Especially, Finland which is a developed country with high technology, as China's economic development and international cultural exchange, makes Chinese entrepreneurs more and more interested.

How to be an importer has always been one of the most popular topics in China. The Author of this thesis would like to describe one case how a Chinese company applied to be a distributor of a Finnish forest company.

In China and especially in South West of China, man-made forest is on the top of the world. For example in Guangxi Province, forestry is one of the mainstay industries. During China's five thousand year history, it has always harvested trees by man power. In recent years, China's economic boom has meant that both domestic and foreign companies have had an increased demand of workers, thus, recruitment difficulties have started to appear. Meanwhile, the demand for timber increased rapidly. The wood industry is also suffering from the increasing high costs and pressure to increase prices. However, in China forest harvesting machines were never used, except by some foreign companies.

China Qingdao Tongrun Weiye Trading Limited Company (hereafter be shorted as Qingdao Tongrun) started to notice the demand for harvesting machines in China and was interested to apply to be an agency or distributor of Finland AFM-Forest Ltd Company (hereafter be shorted as AFM-Forest).

## **1.1 Background**

Mr. Liu Dianzeng, the director of the Qingdao Tongrun visited Finland in 2009. That was the first time he saw a real wood harvester machine. That kind of machine was not common in China and he realized that he needed such a machine, because his wood factory should harvest thousands of trees every year. As the labor costs rose rapidly and there were less and less hard working people available, it was always a tough problem to organize enough workers for harvesting the trees and the labor costs was quite close to the cost of a harvester head machine. That's the reason he thought the harvester machine would have a market potential in China. His company would like to import a forest head machine and he applied to be a distributor or agent of the Finnish harvester Machine Company in China.

As he didn't speak English, the Author took part in all business negotiations. Through this business, the Author got a strong interest in international trade, so she decided to study this topic. This thesis has been written with the permission of the Director of Qingdao Tongrun.

## **1.2 Research Aim**

The purpose of this thesis is to describe the negotiation process between a Finnish and Chinese company for a dealership in China and compare and discuss the negotiated agreement with the ICC model contract.

The author would like to try to find out whether Qingdao Tongrun can have a successful business as a distributor of AFM-Forest in China?

## 1.3 Thesis Structure

There are six parts constituted this thesis:

1. **Introduction:** it has described the background and motivation, research aim, research method, scope limitation of the thesis and thesis structure to provide a general picture.
2. **China forest situation** is very important for the forest machine business. It can indicate the direction of the business development.
3. **Theoretical framework** provides the theory foundation for analysis the following forest business process, including export channel, international negotiation, and international trade contract.
4. **Company analysis section** according to the theoretical framework to describe the process of the corporation of the two companies.
5. **The harvest head business:** background of the business and the corporation situation.
6. **Discussion** about the whole process that how Qingdao Tongrun applied to be a distributor of AFM-Forest. And provide suggestion for the further research.

## 1.4 Scope and Limitations of this Thesis

The Author limited the scope on the initial stage to the harvest head machine business of Qingdao Tongrun and AFM-Forest. Described how to negotiate and sign a dealer agreement. The running of the business is not described.

## 1.5 Research Methods

There are two kinds of research methods that had been applied in this thesis. The primary method is mainly interview (face to face, telephone and email). The Author has interviewed many times Mr. Liu Dianzeng (Director of Qingdao Tongrun, the Marketing manager of Finland AFM-Forest and three times with the Marketing director of China

Ponsse. The purpose is to find out the situation of the forest machine business in China and in each company.

The secondary methods are mainly from collecting and analyzing data from electronic sources (internet source) and bibliographic (newspapers and library books, etc) to find out China forest situation and to provide the theoretical support for choosing export channel, negotiation and contract.

## **2. CHINA FOREST SITUATION**

Is it smart to buy a huge and expensive forest harvester machine? What if there is no more forest to be cut in China? Yes, it is true that the overall forest area in the world is decreasing and people shouldn't cut too much wood. But there may be good solutions that can solve the conflict between the environments and the economic demands for example in China people plant man-made forests that needs to be cut after certain years according to the economic requirement of the forest.

### **2.1 China forest recourse**

The China forest cover was about 5 percent of the global forest cover in the year 2005. The forest has been growing for years. For example, in the year 2003 the forest cover in China was about 18.21% , but in the year 2009 it had grown to 20.61%.

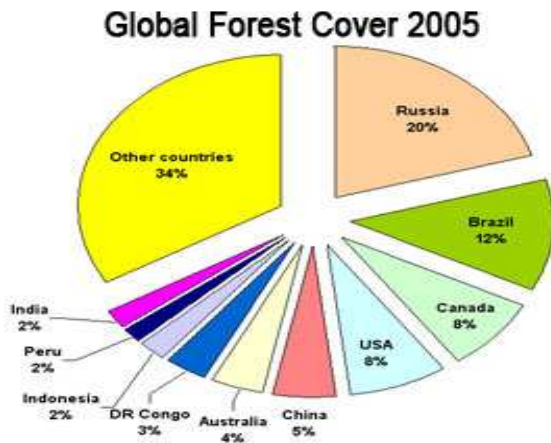


Figure 1: Forest cover in 2005.

(Source: mongabay, 2007)

### 2.1.1 China's man-made forests

China's man-made forest is the biggest in the world. China's forest coverage reached 20.36 percent and the forested area reached 195 million hectares by the end of year 2008.

The China State Forestry Administration (SFA) announced on 23<sup>rd</sup> Feb 2009, by the Director Jia Zhibang at a news conference in Beijing: "Man-made forest saw a net increase to 8.43 million hectares from 2004 to 2008 to cover an area of 62 million hectares, more than in any other country in the world, according to a survey released at the conference." (China economic review, 2009)

### 2.1.2 Forest distribution map of China

The following map is forest cover of China according to FRA 2000. In this map, there were quite large forests in the North East and South parts of China.

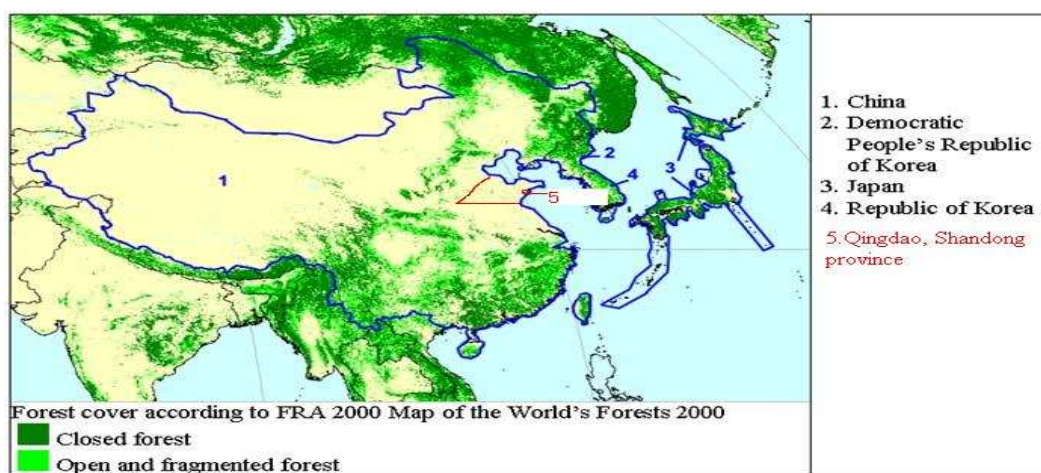


Figure 2: Forest cover according to FRA 2000 Map of the World's Forests 2000 (Food and Agriculture Organization, 2000)

The following table shows the regional distribution of forest resources about year 2000. It shows that most of the plantation forests belonged to people collective or the State. Most of the forests were located in the Southern (e.g. South Collective Forest Region and Sichuan, Yunnan, etc) and north eastern (Heilongjiang, Inner Mongolia, Jilin).

Table 1: Regional distribution of forest resources (million m<sup>3</sup> and million ha)

Forest regions	No. of provinces	All forests		Natural forests		Plantation forests <sup>[40]</sup>	
		Area	Volume	Area	Volume	Area	Volume
South Collective Forest Region*	10	38.40	17.79	31.43	13.96	54.40	52.05
Tibet	1	2.66	12.42	3.81	13.82	0.002	0.0001
Other 10 provinces with little forest**	10	9.61	3.65	3.64	2.49	18.72	13.99
State Forest Region***	9	49.33	66.14	59.12	69.73	26.88	33.96
Heilongjiang, Inner Mongolia, Jilin	3	25.66	31.52	32.03	33.02	11.06	18.01
Sichuan, Yunnan	2	17.04	27.07	19.74	28.95	10.85	10.13
Other provinces	4	6.63	7.55	7.35	7.76	4.97	5.82

Source: SFA (2000a)

\* Anhui, Fujian, Guangdong, Guangxi, Guizhou, Hainan, Hubei, Hunan, Jiangxi and Zhejiang.

\*\* Beijing, Hebei, Henan, Jiangsu, Liaoning, Ningxia, Shandong, Shanghai, Shanxi and Tianjin.

\*\*\* Inner Mongolia, Jilin, Heilongjiang in Northeast China; Yunnan and Sichuan in Southwest; Sha'anxi, Gansu, Qinghai and Xinjiang in Northwest.

Figure 3: Regional Distribution of forest resource (Food and Agriculture Organization, 2000)

The available forest for harvesting was mainly from plantation forests. Planted forests are generally defined according to the extent of human intervention in the forest's establishment and/or management, which depends, to a large extent, on the purpose of growing the forest. (Food and Agriculture Organization, 2000)

Of course, it is not easy to exactly know how much forests were allowed to be harvested in China. If the total plantation forests was 133.960 million m<sup>3</sup> (calculated from the above table), then, plantation forests of Shandong Province was about 1% of all China plantation forests. Compared with the southern forests, Shandong province indeed does not possess a lot of forest for large-scale forest harvesting. Meanwhile, the warm, sunny and humid climate of the southern China could assist trees to grow rapidly. For these reasons, in the Southern, the demand of harvest machine should be much more than Northern.

### **2.1.3 The policy of harvesting forest trees in China**

All the forest provisions in China were according to the Forest Law of the Peoples Republic of China which was amended in the year 1998.

According to the forest harvesting part from Forest Law of the Peoples Republic of China, “The State strictly controls the annual rate of forest harvesting in accordance with the principle that the rate of consumption is lower than the rate of growth”, “Anyone who intends to harvest timber must apply for a harvesting permit and the harvesting must be carried out pursuant to the provisions of the permit”, the organizations and individuals who were planning to harvest forests, the harvesting permits shall be issued, “upon examination and verification”. (The Central People’s Government of the People’s Republic of China, 2005)

The limitation on harvesting trees is on the purpose to protect the forests and environmental balance in China. Big companies that have money to purchase a harvest machine usually have their own plantation or they have good financial foundations. If they have the requested documents, because they are big companies, they are more trustful, better replanting forests plan, could pay enough deposits and no big legal

problems and so on, there shouldn't be difficult to get the cutting license. In conclusion, there are many limitations for harvesting the forests in China, but actually, harvesting is still done quite freely.

#### **2.1.4 Get a harvesting license in China**

In the Article 32 of the forest law of People's Republic of China, *“anyone who intends to harvest timber must apply for a harvesting permit and the harvesting must be carried out pursuant to the provisions of the permit”*.

The processes of applying the license in different area of China were different, according to the different economic level, concrete environment condition, and local government plan, and so on. Let's take Qingdao, Shandong province for example. When the diameter at the breast height is over 5cm, applying a cutting license is obligatory.

#### **2.1.5 Conclusion**

China forest cover is on the top five in the world. It is still growing year by year as same as the China's man-made forest which coverage is also on the top of the world. The forest resources mainly existed in the South and North East of China. Timber forest is the main resource of the wood industry. According to the Chinese forest law, getting a harvesting license is necessary, although some of the processes are required. In China, wood harvesting is still done quite freely.

## **2.2 Demand of harvest machine**

### **2.2.1 China needs the harvest machine**

As a result of the development of the Chinese society and economy, the demand of

forest harvesting machines has become increasingly obvious. The following reasons are based on Director of Qingdao Tongrun's practical reasoning to show why China need harvest machines.

- ◆ The salary costs are growing rapidly. They have doubled in five years. The salary has grown from 1000 RMB/Month in the year 2005 to 2000 RMB/Month in the year 2010 (1RMB=0.109EURO year 2010). Although it was still much lower than in developed countries, the trend shows that the cost of the machines will be lower than the costs of labor in the near future.
- ◆ Recruitment is difficult. Many kinds of companies are hiring employees in China. For example, some foreign companies like NIKE and ADIDAS. Their factories were moved to China for cheaper labor. Meanwhile, many Chinese companies have been established since the year 2008. Because of the financial crisis, the Chinese Government started to expand domestic demand and encouraged people to set up their own businesses by lowering taxes.
- ◆ Motivation. Another truth is that nowadays most of the young people are the only child in their families (one child policy carried out in the year 1982). Quite many of them are not as hard working as the older generation. They prefer working in a warm and comfortable room than in the cold and wet forest.
- ◆ Because of the harvest law in China, the harvest issues in North became seasonal work, which means they could only have work from October to April (North of China). Thus, workers have to find other jobs during the rest of the year.

Take Qingdao Tongrun's year 2009 and 2010 harvesting cost for a comparison.

	<i>Without Machine</i>	<i>With Machine</i>
Period	10.2008-----4.2009	10.2010---4.2011
Forest Area(Mu*)	10 000	10 000
Trees/ Mu	50	50
Total Trees	500 000	500 000
Available Wood per Tree	±0.1 m <sup>3</sup> /Tree	±0.1 m <sup>3</sup> /Tree

Available Wood in total(m <sup>3</sup> )	50 000	50 000
Cost(RMB)/ m <sup>3</sup>	50	35 (Labor: 20 + Fuel: 15)
Total Cost( RMB)	2 500 000	1 750 000
The machine depreciation, repairing		80 000
Total saved expense by machine	2 500 000-1 750 000-80 000= 670 000	
Expense of Whole machine(RMB)	700 000( head machine)+ 900 000(almost max. price of Excavator) =1 600 000	

\* 1Mu=666.67 m<sup>2</sup>

Table 1: The cost comparison of Qingdao Tongrun in year 2009 and 2010

The purpose of this comparison is to assist to indicate clearly why a machine is a better choice than using labor. According to the Chinese forest law, the harvesting period in year is from October to April in North of China where Qingdao Tongrun located (Northern). The harvest period is about half a year. They needed to harvest about 10 000 Mu forest per year. The number of trees is about 500 000, because of 50 trees per Mu. The available wood (useful parts) per tree was about 0.1 m<sup>3</sup>. Therefore, the total available wood was about 50 000 m<sup>3</sup>. In the year 2009 without a machine, the cost of labor was about 50 RMB for harvesting 1 m<sup>3</sup> wood. Thus, the total cost was about 2 500 000 (RMB). But with a machine in the year 2010, the labor was about 20 RMB (mainly for carrying the harvested wood to the truck) and 15 RMB for fuel. The cost per m<sup>3</sup> was about 35 RMB. Therefore, the total cost was about 1 750 000 RMB. If the machine can be used for twenty years, then the depreciation of the machine would be 80 000 RMB. Therefore, the machine can save costs about 670 000 RMB (Total cost of 2009 {2 500 000RMB} minus total cost of 2010 {1 750 000 RMB} and take off the depreciation of the machines 80 000). It is close to half price of two parts of the machines (800 000 RMB). The excavator was the best and most expensive part for this head machine. But if somebody bought a second hand machine, the cost will much cheaper. Or even, the depreciation could be longer than twenty years.

It is true that the calculation is conservative. Of course, it is not so easy to calculate the exact result. But in general, it can be found out that for northern China (whose harvest

period is about 7 months), it would take about 2 years to recover the cost. But in southern China, where trees can be harvested all year around, the cost is recovered in about one year. Even if the calculation is not very exact, it couldn't take a long period to recover the costs.

### **2.2.2 Whether there is any wood harvest machine in China**

The Author has searched from internet and called the General Administration of Customs of P.R.C. According to them there isn't an exact HS code for these products. The Author had also interviewed the Managing Director of China Ponsse in May 2010. He told that there were only some of the Ponsse machines working in China for the Finnish paper company Stora Enso. Stora Enso Company had bought the machines from Ponsse. And Ponsse was in charge of the harvesting, training and service of the machines. And he said they have sold three machines to some Chinese companies. But the machines were working in Russia and never entered and worked in China. They had never sold any machine directly to the Chinese market yet. He told that there was not any other brand of harvest machine yet in the Chinese market. That's why if AFM-Forest could sale their harvest head machine to Qingdao Tongrun. It would be the first one sell to China and Chinese. It will have historical meaning.

### **2.2.3 What kind of harvest machine is needed in China**

The purchasing power in China is not as strong as in European countries. Compared to purchasing a whole harvesting machine, it would be much cheaper and useful to buy a harvest head and use it with an excavator as a base machine. When people need to harvest trees, put the harvest head on. If they need to dig a hole, exchange to an excavator head. In northern China, there are laws that have limited the harvesting period. From October to May one is allowed to harvest trees after getting the Government permission. From a convenience aspect, definitely, it is an intelligent idea to purchase a

harvest head instead of a whole harvest machine.

The Author had a survey from 15 planted forests in Shandong province in five cities (including Qingdao, Yantai, Rizhao, Weihai, linyi), saying that the average tree situations are:

Diameter of a cross-section of a tree is from  $\pm 20$  CM to  $\pm 50$  CM. ( $\pm 20$  CM to 30CM is common. 50CM is unusual). The perimeter of tree at breast height is from  $\pm 60$  CM to  $\pm 80$ CM. The main tree species is Poplar. The distance between trees is about 3 M (Width) \*4 M (Length).

Therefore, the smallest harvest machine is suitable for the Shandong Province and other places in China. For example, in all AFM-Forest machines, the smallest Harvest Head is 45L: “The AFM 45 L is suitable for both softwood and hardwood operations. The AFM 45 L is suitable for small and mid-size forest machines and light excavator bases.”

#### AFM 45 L Technical Specifications

Felling and cutting		Delimiting	
felling diameter, max	50 cm	delimiting knives	3
crosscutting diameter, max	50 cm	fixed delimiting knives	1
cross cutter type	chain saw	movable delimiting knives	2
saw output	45 kW	delimiting diameter	4-35 cm
chain speed	40 m/s	proportional delimiting pressure adjustment	
chain pitch	.404"		
saw bar length, max	67 cm		
saw chain tensioning	automatic		
chain oil tank volume	6 l		
Feeding		Hydraulic system	
feeding system: 4 motors and 3 rollers		valve type	LS
feeding force	18-22 kN	max pressure	320 bar
feeding speed	0-5,5 m/sec		
Dimensions		Recommended base machine	
max fr knives opening	480 mm	weight	8-14 tons
max rollers opening	500 mm	engine output	60 kw
max back knives opening	-	min oil flow	180 l/min
max width	1100 mm	type	forest machine or excavator
length	890 mm		
height of the frame	800 mm		
weight, incl. rotator	760 kg		

Figure 4: AFM 45L Technical Specifications

(AFM-Forest Company, 2011)

It is true that the smaller machine is cheaper. The max felling diameter of AFM 45L is 50 cm and in China most of the forest trees are less than this. It was uncommon to see

trees thicker than 50 cm in the planted forests, that's why the machines like AFM 45L should be most suitable for a large area of China.

### **3. THEORETICAL FRAMEWORK**

#### **3.1 Choice of export channel**

##### **3.1.1 Direct export**

Direct exporting occurs when a manufacturer or exporter sells directly to an importer or buyer located in a foreign market area. A manufacturer can export directly to a buyer domiciled in a foreign market in many different ways. (Gerald Albaum, Edwin Duerr and Jesper Strandkov, 2005, p.295)

##### **3.1.1.1 Foreign-based distributors and agents/representatives**

This method of exporting is distinguished from the method of indirect export using similar type (in terms of operation characteristics) intermediaries than when direct export is being conducted, the distributor or agent is foreign based. The terms 'distributor' and 'agent' are often used synonymously. This is unfortunate because there are distinct differences between them. (Gerald Albaum, 2005, p.303)

A distributor is described as a Company that purchases products from a supplier firm, takes the title, and assumes the trading risk. Selling in its own name offers the opportunity to reap greater profits than does acting as an agent. (Michael R. Czinkota and Ilkka A. Ronkainen, 2001, p.287)

##### **Advantages of a distributor**

- Manufacturer can supervise the market by the report of the distributors.
- Manufacturer can reduce the receivables and decrease the capital cycling risk.
- Manufacturer can maximally decrease non-performing assets.
- It can cut down the manufacturer's marketing expense.

#### **Disadvantage with distributor**

- It could slower the marketing occupation rate.
- Because of the distributor is the owner of the products, if they did not make a good deal with each other, the company's principle may not be carried out well.
- After the distributors have sold in certain scale, they might have higher requirements.

(Tianwan Lawyer Company's official website, 2008)

**The agent is described as:** The Principal and the agent sign an agency agreement. The principal authorize agent can trade or deal with certain services or issues with third parties on the behalf of principal in a certain range (such as contracts or others, etc.) in a certain region.

Let's analyze the characters of agent system

- Sales agents are independent corporate bodies.
- Only have sales agents right, they do not have the ownership of the commodity.
- Sales agents by the will of Principals act within the limits of authorities.
- The principal should bear the legal responsibility of their agent's actions.
- The income of sales agents is the Commission but not the price differentials.

(Tianwan Lawyer Company's official website, 2008)

From the theory definition there are three differences between agency and distributor:

1. The distributor system is buyer-seller relationship. But the agency is an agent relationship.
2. The distributors operate marketing sale in their own name, but the agency in the name of the principal. And they sign sales contract.

3. The income of distributors is the price difference. Agency gets the commission.

(Tianwan Lawyer Company's official website, 2008)

But it could be seen that the distributor system is good for the manufactures. From the manufacturer's angle, distributor mains that they can transfer the products risk from themselves to the distributors. Distributors purchase the products from them. But in the agent system, the manufacturers need to hire people, rent a place, purchase the office equipment and set up an office in a far place. Firstly, it costs more. Secondly, it is hard to manage an organization from a far distance. Moreover, they do not know well the local markets and culture. Of course, a manufacturer prefers distributorship.

Root (1994, pp.85-92) has suggested that selecting a foreign distributor or agent is a four-phase process, as follows: Drawing up a profile (List 1); Locating prospects; Evaluating prospects; Choosing the distributor or agent.

There are some elements in the profile of potential distributor or agent:

- Overall experience in the market
- Market area(s) covered
- Products handled
- Size of company
- Experience with exporter's product line
- Sales organization and quality of sales force
- Willingness and ability to carry inventories
- Capability to provide after-sales service (if needed)
- Experience with, and knowledge of, promotion techniques
- Reputation with customers
- Financial strength and credit rating
- Relations with local government:
- Language known
- Willingness to cooperate with exporter

List 1: Elements in profile of potential distributor or agent

(Gerald Albaum, 2005, p.304)

Relatively recent research indicates that commitment and financial strength are the two most important criteria in the foreign distribution selection process. (Gerald Albaum,

2005, p.304)

## **3.2 International trade Negotiation**

“In business you do not get what you deserve, you get what you negotiated. ---Chester L. Karras” Negotiation is a process by which two or more parties reach agreement on matters of common interest. (Claude Cellich and Subhash C. Jain, 2004, p.1)

### **3.2.1 Prepare to Negotiation**

There is a Chinese idiom: “To know the enemy and know yourself, you can fight a hundred battles with no danger of defeat.” Before entering into any negotiation, people need to know about the opponent, the market situation and themselves as much as possible before face to face meetings.

#### **1) Analyze one’s Position**

##### **Goals**

Negotiators should clearly define their goals. This requires stating all of the goals they wish to achieve in the negotiation, prioritizing the goals, identifying potential multi-goal packages, and evaluating the possible trade-offs among them.(Claude Cellich and Subhash C. Jain, 2004, p.55)

#### **2) Determine the other party’s Position**

To determine the other party’s position is as important as the first part. It needs to research all kinds of the ways, to know as much as possible, such as from resident buying office, other buyers or some government organizations and so on.

Usually, a negotiator attempts to obtain the following information about the other party: Current resources (including financial stability), Interests and needs, Goals, Reputation and negotiation style, Alternatives, Authority to negotiate, Strategy and tactics (Claude Cellich and Subhash C. Jain, 2004, p.57)

### 3.2.2 Set the Stage for Negotiation

In the skillful negotiator's eyes, the other side people are not the enemy, but the people who hope the business arrives at a positive outcome. Negotiators should always prepare to change according to the changes of the people and the circumstances.

#### **Build Rapport**

In China, all the business people know how important the rapport is. Of course, not all the countries treat rapport as important as China, but negotiators know that establishing an open, warm atmosphere will help immeasurably when get to tough issues.

### 3.2.3 Developing a Negotiation Strategy

Skillful negotiators know that in a successful negotiation, "win-win", no one lose, is the best result. A negotiator should prepare strategies according to the company's goals, the other party's goals and position, competitor's situation and other related information. (According to Claude Cellich and Subhash C. Jain, 2004, p.67)

#### 1) Negotiation Tactics

Negotiating individuals should be aware of their objectives before selecting tactics for negotiations. Negotiator need to understand the limits of their own power, and recognize the limits of the other party's power.

Here comes some of the more commonly used negotiation tactics:

1. **The Take It or Leave It Tactic** is used when there is a deadlock or no time
2. **Limited Authority Tactic:** authorized to pay up to X euro
3. **But You Can Do a Little Better Tactic:** do a little bitter to finalize the deal.
4. **But I Can't Make up My Mind Tactic**
5. **Facts and Data Tactic** is overwhelming can also help to get the outcomes.
6. **What If Tactic uses questions like:** "What if I paid in 10 days instead of 30 days?"
7. **Time-pressure Tactics** are also commonly used.

A person entering negotiations should concentrate on tactics and only use compromise at the end. Being prepared to negotiate and taking the initiative are important for leverage during negotiation. (Richard Clodfelter, 1993, p.280)

## **2) Negotiation Checklist**

Before entering negotiation, make a list of areas to guide the negotiations. Some of the more important ones include: Price, Discounts, Transportation terms, Allowances, Return privileges, Exclusives, Off-prices, Specification buying, private brands, Promotions, Delivery. (Richard Clodfelter, 1993, p.280)

With this list, it seems a guide to lead people to realize the objective during the negotiation. When preparing the negotiation, finding out how much is the minimum and maximum amount that can be accepted and given up. During the negotiation, trying one's best to reach the set objective.

### **3.2.4 Outcomes of Negotiations**

Negotiator should understand the situation. Successful negotiations are not just some concessions, who win more benefits, how good the tactics are, but a "Win-Win" situation and long-term business relationship.

The outcomes of negotiations will result by signing a contract on paper. it should be equal and mutually beneficial to both sides and should provide the rights and obligations of both parties. "Understanding, acceptance, respect, trust, and a lasting business relationship will be the outcome of successful negotiations." (Richard Clodfelter, 1993)

### **3.3 ICC Model Distributorship Contract (Sole Importer-Distributor)**

In the following section the structure of the ICC Model Distributorship Contract is described. The structure is:

Article 1: Territory and Product

Article 2: Good faith and fair dealing

Article 3: Distributor's functions

Article 4: Undertaking not to compete

Article 5: Sales organization

Article 6: Advertising and Fairs

Article 7: Conditions of supply Prices

Article 8: Sales Targets-Guaranteed Minimum Target

Article 9: Sub distributors or agents

Article 10: Supplier to be kept informed

Article 11: Resale prices

Article 12: Sales outside the Territory

Article 13: Supplier's trademarks and symbols

Article 14: Stock of Products and spare parts- After-sales service

Article 15: Sole distributorship

Article 16: Direct sales

Article 17: Distributor to be kept informed

Article 18: Term of the Contract

Article 19: Earlier termination

Article 20: Indemnity in case of termination

Article 21: Return of documents and products in stock

Article 22: Arbitration –Applicable law

Article 23: Automatic inclusion under the present contract

Article 24: Previous agreements- Modifications- Nullity- Assignment

Article 25: Authentic text

ANNEX I: Products and territory (Article 1.1)

ANNEX II: Commission on direct sales

Annex III: Products and suppliers represented by the distributor

Annex IV: Names of existing customers (Article 5.2)

Annex V: Advertising, fairs and exhibitions (Article 6)

Annex VI: Conditions of Sale-Discounts (Article 7)

Annex VII: Guaranteed Minimum Target (Article 8.3.)

Annex VIII: Stock of Products and spare parts (Article 14.1.)

Annex IX: After-sales service, repairs and warranty (Article 14.2.)

Annex X: Change of control, ownership and/or Management in the distributor [COMPANY] (Article 19.5.)

Annex XI: Indemnity in case of termination (Article 20B)

All in all, The ICC Model Distributorship Contract (Sole Importer-Distributor) provides the comprehensive information and introduction to help people to understand and improve their distributorship contracts in the international trade (the detail of the contract model can be found out from the Appendix). The Author will apply this contract model to compare with the contract signed between China Qingdao Tongrun Ltd. Co and Finland AFM-Forest Ltd. to find out the agreed parts and the terms which expect to be modified.

### **3.4 Conclusion**

Choosing a suitable export channel is very import for the company's business strategy. The agent merely markets the supplier's products, leaving the sales contract to be concluded directly between the Supplier and the Customers. The agents get a percentage commission as the income. The distributors purchase the products and then re-sell in his territory. The income is from the price difference. Negotiation is very important in all

the business life. Preparing beforehand, analyzing own and the other party's position should be done in advance. The Next step should be setting up the stage by building rapport, asking questions, listening and watching, developing negotiation strategy and try to realize the negotiation list. The successful outcome should be to sign a win-win contract building up trust and a lasting business relationship. The ICC Model Distributorship Contract (Sole Importer-Distributor) provides an innovative and comprehensive introduction to international trade in distributorship.

## **4. THE HARVEST HEAD MACHINE BUSINESS**

### **4.1 The Target Customers**

Due to the big expense of the harvest machine, working for small forest owners is not very cost effective. Therefore, the best approach would be to work for bigger companies who own large forests. In addition, some machine leasing companies are also potential customers as they are harvesting forests for their customers.

### **4.2 Competitor**

As it has been mentioned previously, Ponsse has at this moment some machines working in China. AFM-Forest and Ponsse have been competitors for long time around the world. Almost in all the AFM-Forest target countries there have also been Ponsse's branches.

Ponsse was established by forest machine entrepreneur Einari Vidgrén in 1970. Ponsse has its headquarter in Vieremä, Finland. The company's shares were quoted on the NASDAQ OMX Nordic List. The group operates in approximately 40 countries and has

about 15 subsidiaries around the world. {Ponsse Company (2011): *Ponsse Group*}

Ponsse has a lot of products, for example, harvesters, forwarders machines, dual machines (harvester and forwarder together), harvester heads, cranes and loaders and so on. The net sale for year 2007 was 310 million euro, 293 million in year 2008 and 146 million euro in year 2009. Ponsse is one of the biggest forest machine companies in Finland. {Ponsse Company (2010) *Annual reports*}

In 2007, Ponsse established a subsidiary in China to assist global paper, packaging and forest Products Company like Stora Enso in creating a harvesting and transporting wood with an annual delivery capacity of three million cubic meters of eucalyptus.

After many years competing with Ponsse, the Managing director of AFM-Forest Marketing Director had much confidence and experience and he felt that he knew his competitors well. He knew what his advantages were and what Ponsse's disadvantages were. For example, AFM-Forest is good at head machines. Their head machines are designed for many kinds of excavators, tractor and similar base machines. But Ponsse's head machines were designed for their own base machines. Of course, they could also sell the head machines to some excavators, but they were not as good as with their own base machines. Thus, Ponsse would like to sell whole harvester machines and not only the head machines. To sale the whole harvesters is the main purpose.

Another thing is that Ponsse is a big company compared to AFM-Forest, but the disadvantages of big companies cannot be ignored such that it takes a long time to make decisions when quick changes are needed.

The Marketing Director believes that there shouldn't be big problems because of the competition. If Ponsse have some market strategies, AFM-Forest could have reversely countermeasures.

## **4.3 Company descriptions**

### **4.3.1 China Qingdao Tongrun Trading Ltd. Co.**

#### **1) Description**

Mr. Liu Dianzeng owns the Qingdao Tongrun, the China Fu You Wood Factory and Fu You Li Company in Qingdao, Shandong Province, China.

The Wood factory was established in year 2005. The factory covers the area of 15,500 m<sup>2</sup>, the workshop area is 600 m<sup>2</sup>. It would be a good place to install machinery and train persons. Turnover is about 300,000 RMB-500,000 RMB per year and there are 26 permanent workers. In the busy time, the need is about 200 to 300 persons. In the year 2010, there is still a need to harvest at least 50,000 trees and almost every year the same amount must be harvested. The main businesses are to harvest trees, to produce board, to provide wood materials to some factories and other related wood business.

Fu You Li Company was established in 1998. It mainly wholesales and resells kitchen furniture and appliances. It is also a distributor of many kitchen products brands.

Qingdao is the second biggest ports in China and the seventh biggest in the world and locates in Shandong province. Shandong is the second densely populated province and the biggest agriculture province in China. It means that most of the Chinese are fed by Shandong. Qingdao is the most developed and richest city in Shandong province. Qingdao is between Shanghai and Beijing, which means has good connections both to the South and to the North of China. Overall, it has a very important strategic position. Qingdao is also close to Korea and Japan. The trade between Qingdao, South Korea and Japan is very frequent.

#### **2) SWOT Analysis**

In the following sections Qingdao Tongrun is analyzed using SWOT method. By analyzing internal and external factors useful advice for corporate strategies may be

found.

#### **A) Strengths**

- ◆ Owns large plantation. As time goes, they can become specialists.
- ◆ Located near to the biggest wood market in China. Good for advertising.
- ◆ Sufficient experience in wood business and machines
- ◆ High quality workers in the company

#### **B) Weaknesses and Solution**

- ◆ Small or medium sized company. The financial foundation is not very strong.
- ◆ No export and import right. The company may have to register as a Trading Limited Co.

#### **C) Opportunities**

- ◆ New products. It means less competitors, substitutions and imitations.
- ◆ China is a country with rapidly growing economy.
- ◆ Chinese labor force cost gets higher.
- ◆ Policy. China's government encourages businesses, with measures such as lower taxes.
- ◆ Higher technology, higher competitive ability.
- ◆ Big market openings to extend the company's brand name.

#### **D) Threats**

- ◆ Entry of potential new competitors. After AFM head machine enters, the Chinese market may start to understand its advantages and other companies may follow.
- ◆ Substitutes may start to appear.
- ◆ Technological imports or changes.
- ◆ People do not accept the products.
- ◆ Foreign currency exchange rate.

#### **SWOT Conclusion**

The strategy of trying to cooperate with a forest Machine Company might be a correct decision and there are also a lot of good opportunities, but the process might be difficult.

It would be wise to clarify the internal and external situation, make full use of the product's advantages and all the positive conditions. It could be even better if the companies could try to turn the weakness into advantages, such as the spare parts are far from China in Finland, if they can try to find a supplier who can produce as good as AFM-Forest, the cost will be much lower and customers will be more satisfied. Trying to capture the opportunities and overcoming the difficulties, it is not hard to believe that Chinese market will bring surprise.

#### **4.3.2 AFM-Forest**

AFM-Forest was established in the year 1993 and is located in Jyväskylä, Finland. It is a company manufacturing single-grip harvester, processor, combi and energy wood heads for demanding forest operations. AFM harvesting heads have been developed in co-operation with both customers and base machine manufacturers and are installed on excavators, wheeled and tracked harvesters, harwarders, trucks, agriculture and other machines. They can be found working worldwide from Arctic forests to tropical plantations. According to the "Kauppalehti (2011)", the turnover of AFM-Forest was 2.264 Million in 2009. The main products are harvester heads, combi heads, energy wood heads and felling heads. The company is good in installing their head machines to many kinds of base machines.

Customer service is the most important for AFM-Forest. They could provide installation support and recommendations how to choose base machine, how to modify the base machine according to the head machines and they would help to install the machines. They could deliver the spare parts by local distributors. AFM-Forests would also provide training for their customers. They have high quality workers that can serve their customers. {AFM-Forest Company (2011): *AFM Services*}

Their networks are already extended into 25 countries. Most of them are AFM-Forest's

distributors. In China, the company does not have a distributor yet was very interested in entering China. Therefore, Qingdao Tongrun would be the 26<sup>th</sup> distributor of AFM-Forest. {AFM-Forest Company (2011): *AFM Sales Network*}

## **4.4 How to cooperate**

### **4.4.1 Approaches to cooperation**

Qingdao Tongrun preferred to be an agency of AFM-Forest in China. But AFM-Forest did not have an agency system but distributorships. Therefore, their possible cooperation was going to be a distributorship relationship.

### **4.4.2 Investment**

On the process of registering a trading LMD Co., Qingdao Tongrun will spend 5000 RMB for registration cost and 500 000RMB for the registered capital. For the demands of their own plantation forest and marketing advertisement, Qingdao Tongrun will invest in an excavator machine and a head machine. The excavator will cost 900 000 RMB. And the head machine will cost about 700 000 RMB.

High quality workers are extremely important for a company's development. Qingdao Tongrun would like to hire two machine operators; two experienced marketing managers and one translator for co-operating with AFM-Forest.

The factory area covers 15,500 m<sup>2</sup> and the workshop area is 600 m<sup>2</sup>, the machine can be showed and kept in the factory.

### **4.4.3 Running the business**

#### **4.4.3.1 Advertisement**

After the first head machine arrived, Qingdao Tongrun would like to advertise through many channels. Near Qingdao, there was one of the biggest wood trade market (Lin Yi Wood Trade Market) in China. Various wood products came all around the country. The wood price of this market can be better than the general wood price in China. Therefore, it could be one of the best places for advertising the machine. The news would fly to all around China immediately.

The way to advertise would be to set up one shop or office, or some salesmen to hand out advertisement materials and to show the videos in the trade market. And if somebody was interested about the machine, they could visit the plantation to check how the machine works.

Meanwhile, the product advertisements and information would be put on the website, newspapers, magazines etc.

#### **4.4.3.2 Sales**

Qingdao Tongrun planned to harvest its own plantation forest during the cutting period. After that, they could lease the machine to the companies in southern China. They expected to have more development in southern, such as setting up a subsidiary or a sub distributor, as forest resources are sufficient and trees grow fast.

If customers plan to purchase a machine, they should pay the ordering money which is some percentages of the full price. Qingdao Tongrun will send the money to Finland and AFM-Forest will start to produce the machine. When the machine is ready and before the delivery, the rest of the money will be paid. The machine will be delivered to

Qingdao port by the contract. But if customers are in south of China far from Qingdao, the machine can be delivered to the nearest port to the customers. But the customers are charged for the customs declaration. Qingdao Tongrun will send people to check the machine and to help in installation and training. Big warehouse facilities are not necessary.

#### **4.4.3.3 Delivery**

According to the contract, AFM-Forest will be in charge of the delivery to the Qingdao port. So Qingdao Tongrun will only pay attention on the customs declaration in Qingdao port.

According to calculation from website “Time and Date”, the distance from Helsinki Port to Jinan China port is about 7050 kilometers by air. Jinan is the capital city of Shandong province. It is about 400 kilometers to Qingdao from Jinan. According to the shipment contract, place of receipt is Helsinki and the place of delivery is Qingdao. The shipment period is about 40-50 days.

The customs declaration documents are much simple. The import tax is thirty percentages. The following documents are mainly needed for the customs declaration:

- Certificate of Quarantine
- Commercial invoice
- Certificate of origin
- Packing list
- Production contract
- Bill of Lading

The wood package has to be tested by the Finnish Plant Production Inspection Centre

(KTTK). AFM has the certificate to show that “the packaging material used is free of all kind of insect damages”.



Figure 5: The plywood box and the stamp on the box

(From an email of AFM-Forest, 2011)

The box of the head machine is about 1000 KG. The Volume is about 2.30 CBM.

Standard delivery of AFM harvester heads includes the following: harvesting head, Motomit measuring systems, EME and Suregrip joysticks, Cable kits, Pressure filters Rotators and links, Hose coils, Swivels. (AFM-Forest Company, 2011)

#### **4.4.3.4 After sale services**

Qingdao Tongrun will be responsible for the relationship between the customers and manufacturer. They will help customers arrange the spare parts from manufacturers, provide the service in the warranty procedure, provide advice for the installation instructions and training for the customers. AMF-Forest head machines have a warranty of 6 months or 1500 hours according to the AFM-Forest warranty policy.

According to customer needs, there are following spare parts for the machine: installation kits, boom links, nose cones, boom attachments, saw bars, saw chains and chain tools, rubber rollers, rotators and swivels, hydraulic motors and pumps, hose protectors, loading grapples, ANAB saw chain sharpening machine, and so on.

## **5. COMPANY ANALYTICAL SECTION**

### **5.1 Company export channel**

#### **5.1.1 Choice of distributorship**

According to the marketing director of AFM-Forest Mr. Klaus Grenberg they did not have agency system but only a distributorship system. Therefore, they can provide only a distributorship contract for Qingdao Tongrun.

#### **5.1.2 Compare with List 1, analysis Qingdao Tongrun**

The supplier could use the list of “elements in profile of potential distributor or agent” to judge whether one company is suitable to be a distributor. But companies should beforehand evaluate themselves and find out the weaknesses and try to improve them as much as possible.

In the following, Qingdao Tongrun will be described according to this list.

- Overall experience in the market
- Market area(s) covered
- Products handled
- Size of company
- Experience with exporter’s product line
- Sales organization and quality of sales force
- Willingness and ability to carry inventories
- Capability to provide after-sales service (if needed)
- Experience with, and knowledge of, promotion techniques
- Reputation with customers
- Financial strength and credit rating
- Relations with local government:
- Language known
- Willingness to cooperate with exporter

List 1: Elements in profile of potential distributor or agent

(Gerald Albaum, 2005, p.304)

1. **Overall experience in the market:** China Fu You was established in 2005. They have good relationships with local companies, customers and government. Knowing the wood business well is one of their primary strengths.
2. **Market area(s) covered:** The wood business, including purchasing, harvesting and marketing, spread all over Shandong province.
3. **Products handled:** The business includes purchasing wood from farmers, harvesting trees, producing board and providing wood materials to some factories and also other related wood businesses.
4. **Size of company:** The factory of China Fu You covers the area of 15,500 m<sup>2</sup>, the workshop area takes 600 m<sup>2</sup>. It is a good place for showing and installing machines as well as training persons. The turnover has been about 300,000 RMB-500,000 RMB per year.
5. **Experience with exporter's product line:** They have never used the machine before and there has not yet been any kind of this machine in the Chinese market. They started to know and to study the machine in March 2009, when Mr. Liu visited Finland and saw how the machine works in the forest.
6. **Sales organization and quality of sales force:** Qingdao Tongrun has registered a new trading limited company with 500,000 RMB register funds with import and export rights. Sales force contains five people that have many years marketing and sales experience as well as sufficient knowledge about technical machines.
7. **Willingness and ability to carry inventories (if needed) & financial strength and credit rating:** They have enough funds to purchase sufficient head machine, excavator and spare parts for customers' after-sale service. As a small company, they can only buy one head machine and one excavator.
8. **Capability to provide after-sales service (if needed):** In the contract the supplier has committed to assist Qingdao Tongrun in providing efficient after-sales service. They have trained some technical workers and product training person.

9. **Experience with, and knowledge of, promotion techniques:** Due to twelve years of business experience in Qingdao, they know very well the local market and its characteristics. Additional five years wood factory experience made them to understand the wood business locally and in the whole country. Mr. Liu has passion for machines and his partner who is one of the earliest excavator drivers in Qingdao has plenty of experience from machines. They were able to modify the excavator machine into stand-by ready before AFM-Forest expert even arrived.
10. **Reputation with customers:** Qingdao Tongrun did not have customers of the harvest head machine before. Until now they had customers only in wood products, in which they had good local reputation.
11. **Relations with local government:** There had no problem with the local Government; actually they have had a quite good relationship with the local Government, especially with the local forestry department and customs.
12. **Language known:** There are some workers who can speak English. There are even two workers who have lived in foreign countries many years.
13. **Willingness to cooperate with exporter:** Qingdao Tongrun started to communicate with AFM-Forest from April 2010 and signed contract in August 2010 by writing many emails and calling almost every week. Qingdao Tongrun had visited AFM-Forest two times for communication and negotiation purposes. Later, at the end of 2010, Qingdao Tongrun invited the marketing director of Finland AFM-Forest to visit China and to check the factory and to install the head machine. The willingness to cooperate with each other could be seen major factor during the process.

All in all, they have sufficient experience, are familiar with the local market, have ability to provide services, have good relationship with local people and have a willingness to cooperate with the supplier, but because it is a small company, the financial situation is not very strong, but enough.

## 5.2 Negotiations

### 4.2.1. Negotiation preparations

#### 1) Analyze one's position

##### Goals

Qingdao Tongrun has had set up the following goals before the negotiations:

- ◆ Purchase one head machine for their plantation: Since they have the contract to cut 50 000 trees.
- ◆ Lower price: Low distributorship price
- ◆ Apply to be the exclusive distributor of head machines in China: Because of they know forest business situation and the future development in China.

#### 2) Determine the other party's position

It was also very important to investigate the other party's business situation. Because of Qingdao Tongrun and its director were in China far from Finland they requested friends in Finland to make a visit to AFM-Forest to check how the company looks like: it does look like a decent company and try to find out the other party's attitude. It was however not yet real business negotiations.

##### Goals

- ◆ To enter Chinese market and to get as big market share as possible
- ◆ To choose the better entry model for the first step

##### Strengths

- ◆ Wide geographic coverage and strong global distribution capability.
- ◆ Quite good reputation and high technology.
- ◆ Cheaper price. Only a head machine is much cheaper than a whole machine.
- ◆ The after-sale services are one of the most important parts for the company.
- ◆ Long-term work experience in this business area.
- ◆ Advantages of the harvest head machine itself:
  - Multi-choice of base machines. Excavator, tractor or others as long as can satisfy the technical requirements. For example, Harvester Head

45L should be installed on at least a 13 ton base machine.

- Easier transportation compared with the whole harvester machine. Take AFM Harvester Head 45L for example, it only needs 1 m<sup>3</sup> box and its weight is about 760kg. However, The small size harvester machine likes PONSSE Beaver, the length is 7070 mm, width 2640-2840 mm, transport height is 3570 mm and the net weight is about 14 900 kg. Thus, the cost should be much cheaper when the weight is about 20 times less than the weight of a harvester machine. (Ponsse, AFM-Forest, 2011)
- Different types of the AFM harvester heads. AFM EUCA which is suitable for hard trees, such as eucalyptus.
- The price is much cheaper than the price of whole harvester machine.

### **Weaknesses**

- ◆ Small and medium sized business: funds not as strong as in big company, such as Ponsse
- ◆ Higher overall unit costs
- ◆ Long production time, it takes long time to produce one unit
- ◆ Far from the target market, long delivery time and high delivery costs
- ◆ No experience from Chinese market and strong competitor, Ponsse

### **5.2.2. Negotiations**

#### **1) Beforehand**

At the beginning, Qingdao Tongrun contacted AFM-Forest and sent a detailed business plan to purchase a head machine with distributor price and become exclusive distributor in China. Qingdao Tongrun called AMF-Forest's marketing director and asked more details from AFM about what kind of machine is suitable for Qingdao Tongrun's business: how big are the trees in China, how the land looks like, how the forest condition was, and the speed of the harvest machine, and so on. AFM-Forest got interested about China business and provided suggestions to Qingdao Tongrun.

## **2) Negotiation meeting preparation**

Qingdao Tongrun needed the machine in a hurry because there were only a few months left before the harvesting period started. Thus, they did not have time to apply for a visa and meet face-to-face. They had to contact by phone and sent the Author to have a simple negotiation.

The Author called the Marketing Director many times before a meeting to find out what kinds of questions he wanted to know from Qingdao Tongrun. He was interested in the Chinese market, the China forest situation and how to serve customers. Some of the questions were:

- ◆ How does Qingdao Tongrun serve the customers, especially after sales?
- ◆ Do they have enough high qualified workers to provide the services?
- ◆ Who are the customers? How many are they?
- ◆ Where are the ultimate customers?
- ◆ How to sale? Where is the market?
- ◆ How many machines is the expected presale amount per year?

Before the negotiation, the Author had prepared the negotiation checklist which should be discussed during the negotiation. It looked like following:

Price, First machine discount, Transportation terms, Allowances: distributor price, exclusive: all the AFM-Forest products and in whole China, Delivery, Promotion, Services: what kinds of services were AFM-Forest's duties, Know how to organize the purchase of the first head machine, the time schedule of the production of the first head machine, and so on.

## **3) Negotiation meeting**

The Marketing Director invited the Author to visit AFM-Forest Company in Finland. At beginning, he showed around production factory. The offices and product manufacture place are connected. All the spare parts, machine installations and machine examinations were showed. He also showed all the spare parts of the machine which Qingdao Tongrun was interested and the package wood box which had been fire treated had been explained.

Later, they sat down around table and started to negotiate. The Marketing Director firstly introduced their business and production. The Author answered the questions which AFM-Forest had sent beforehand and talked advantages and hopes. AFM-Forest provided information about product customs declarations. Due to the fact that head machine is a new product in China, there was not a certain name for the machine and Chinese customs might check it strictly.

Finally they discussed about contracts (including product purchase contract and distributorship contract).

### **5.2.3 Negotiation outcomes**

The negotiation was very comfortable, successful and smooth with no difficulties. The parties signed purchase contract and distributorship contract soon after the negotiation. Both parties conducted business according to the contract and overall they built up rapport and trust during the whole process.

## **5. 3 Distributor contract**

The Author will state some terms of the distributor contract which was signed between Qingdao Tongrun and AFM-Forest according to the form of the ICC Model Distributor contract. This part contained company confidential information. Please contact the Author if you want to get more information: keleyun0701@hotmail.com

### **5.3.1 Company Contract**

### **5.3.2 Analysis of the signed distributor contract**

#### **5.3.3 Conclusion**

All in all, in the signed contract, there were basic and important terms. There were not big differences or totally depart from the ICC Model Distributor Contract. But there were still some terms that could bring Qingdao Tongrun more benefits were not contained or mentioned. After comparison, Qingdao Tongrun could know better about the signed contract and supposed to modify in the next negotiation.

## **6. DISCUSSION**

### **6.1 Conclusion**

So far, the process of a Chinese company to become an agency or a distributor of Finnish Companies is from applying and choosing a export (import) channel, negotiating, signing a contract, finally to start running the international business, and so on.

Chinese Companies as importers can do it in a variety of ways. Choosing the most suitable way is important. An agent or a distributor is a good choice for those who expect to have long-term cooperation with foreign companies. Of course, both forms have their own advantages and disadvantages. According to the companies' ability and the cooperation willingness of foreign companies to decide is necessary.

Negotiation is one of the essential processes of the business life and also a very crucial step of international cooperation. Prior knowledge and the minimum and maximum

goals of each other are indispensable assignment. In the negotiation process, the appropriate using of various strategies and methods can assist to achieve the goals.

The outcome of negotiations will finally reflect on the contracts. Before signing the contract, if there are problems not satisfied, people need to continue negotiate and to modify, until both parties are satisfied with the results. After the contract has been signed, both parties should try their best to follow the contracts. If problems occur, both parties should communicate with each other and according to what actually happened to modify and compromise. The ICC Model Distributorship Contract (Sole Importer-Distributor) provides full and complete introductions for distributorship of international trade. It can bring substantial helps for signing a distributor contract. After compared, there were still some terms that Qingdao Tongrun supposed to be contained in the contracts.

The forest cover in China was about 20.61% in the year 2009. The man-made forest reached 195 million hectares by the end of year 2008 which was on the top of the world. And the figures are growing yearly. Therefore, there should be a demand of the harvest machine. According to the “Table 1: The cost comparison of Qingdao Tongrun in the year 2009 and 2010”, the cost recovering period shouldn't be very long. For the enterprises that have stable and rich forest resources, it is quite cost effective. The competition is not too high. In a word, developing space is relatively large in Chinese marketing for the harvesting head machine. According to a survey, the forest condition was suitable for the harvest machine work. However, by studied the forest resources status of China and Shandong, it shows that the forests are not very sufficient for large-scale harvesting business in Shandong Province. It indicated that the focus of the harvest head machine business should turn to the South of China. Because, where are the forests, where are the target customers.

## 6.2 Suggestions

In this thesis the Author has just mentioned the primary stage of the whole distributorship business. Due to the limitation of the conditions and opportunities, there is some extending interesting topics from this area cannot be studied here. If somebody interested about Chinese available harvesting forest, I would like to suggest studying the distribution of the available forests in China. It also can provide great suggestions and references for China harvesting machine business if the harvesting machine marketing development process in other countries be searched. Last but not the least, it should also help much, if somebody is interested to study customer's purchasing behavior in the harvesting machine business and products life cycle of harvest head machine.



Picture 1: The imported head machine of Qingdao Tongrun was working in Qingdao China

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# Appendix:

## ICC Model Distributorship Contract (Sole Importer-Distributor)

The contract signed between 'the Supplier' and 'the Distributor'. It is agreed as follows:

### **Article 1: Territory and Product**

The Supplier grants and the Distributor accept the exclusive right to market and sell.

### **Article 2: Good faith and fair dealing**

The parties will act in accordance with good faith and fair dealing.

### **Article 3: Distributor's functions**

The Distributor sells for its own account and shall protect the Supplier's interests.

### **Article 4: Undertaking not to compete**

Without written, the Distributor shall not represent, manufacture, market or sell .

### **Article 5: Sales organization**

The Distributor shall set up and maintain an adequate organization for sales.

### **Article 6: Advertising and Fairs**

The parties shall discuss in advance the advertising program and participating fairs. The costs shall be shared between the parties or each party bear the expenses it has incurred.

### **Article 7: Conditions of supply Prices**

The Supplier shall supply ordered, and provided payment is adequately warranted. The price payable by the Distributor shall be those set forth in the Supplier's price-list.

### **Article 8: Sales Targets-Guaranteed Minimum Target**

The parties agree annually on the sales targets and shall attain the targets agreed upon.

### **Article 9: Sub distributors or agents**

The Distributor may appoint sub distributors or agents, inform and response.

### **Article 10: Supplier to be kept informed**

The Distributor shall keep the Supplier informed and shall answer reasonable request.

### **Article 11: Resale prices**

The Distributor is free to fix the resale prices of the Products.

### **Article 12: Sales outside the Territory**

The Distributor agrees not to advertise, establish or distribute outside the Territory.

**Article 13: Supplier's trademarks and symbols**

The Distributor not to register the Supplier's trademarks, names or any other symbols, shall notify reputation infringement and shall cease to sell when the contract expired.

**Article 14: Stock of Products and spare parts- After-sales service**

The Distributor agrees to maintain a stock and agrees to provide after-sales service.

**Article 15: Sole distributorship**

The Supplier shall not grant any other person to represent or market the Products.

**Article 16: Direct sales**

The Supplier shall be entitled to deal with the special customers listed. The Distributor shall be entitled to the commission.

**Article 17: Distributor to be kept informed**

The Supplier shall provide the information. The distributor shall return all documents.

**Article 18: Term of the Contract**

The period of this contract enters into force. This contract renewed for periods.

**Article 19: Earlier termination**

Each party may terminate this contract with immediate effect. Any failure by a party is entitled to expect under the contract. The violation of the provisions under % of contract is to be considered a prima facie evidence of a substantial breach of the contract.

**Article 20: Indemnity in case of termination**

In case of termination by the supplier for reasons other than a substantial breach by the Distributor, the latter shall be entitled to an indemnity according to Annex XI.

**Article 21: Return of documents and products in stock**

Upon expiry, the Distributor shall return all promotional material and samples. The Supplier will buy back all Products sold by the Supplier in original price.

**Article 22: Arbitration –Applicable law**

The Rules of Conciliation and Arbitration of the International Chamber of Commerce

**Article 23: Automatic inclusion under the present contract**

If the parties have not made a choice, alternative A shall be considered applicable.

**Article 24: Previous agreements- Modifications- Nullity- Assignment**

This contract replaces any other preceding agreement between the parties on the subject.

**Article 25: Authentic text**

The English text of this contract is the only authentic text. Signature, place and date.

**ANNEX I:** Products and territory (Article 1.1)

**ANNEX II:** Commission on direct sales

**Annex III:** Products and suppliers represented by the distributor (Article 4.3.)

**Annex IV:** Names of existing customers (Article 5.2)

**Annex V:** Advertising, fairs and exhibitions (Article 6)

**Annex VI:** Conditions of Sale-Discounts (Article 7)

**Annex VII:** Guaranteed Minimum Target (Article 8.3.)

**Annex VIII:** Stock of Products and spare parts (Article 14.1.)

**Annex IX:** After-sales service, repairs and warranty (Article 14.2.)

**Annex X:** Change of control, ownership and/or Management in the distributor  
[COMPANY] (Article 19.5.)

**Annex XI:** Indemnity in case of termination (Article 20B)

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