



# A feasibility study of market expansion for company X

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Lengen, Xaver

**Laurea University of Applied Sciences**  
Laurea Leppävaara

## A feasibility study of market expansion for company X

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Xaver Lengen

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This thesis was undertaken for company X which prefers anonymity due to its business field. The case company is of small size and operates in the gold recycling industry in Finland. The goal of this thesis is to contribute to the company's understanding of international markets in general, and, specifically to analyze the feasibility of a market expansion to Switzerland.

The main theoretical concepts covered in this thesis relate to internationalization, market and country analysis, and the corporate decision making process. The market entry strategy is based on requirements rather than classical models. Country analysis is based on the four dimensions model defined by Hofstede and the four factor model as defined by Dlabay and Scott. The decision making process model used is based on the ProACT system.

Research was completed in two stages: in the first stage a research report was compiled and presented to the case company. In the second stage the initial research was analyzed in co-operation with the case company and a focus for the secondary research was developed. Initial research was undertaken in the form of desktop research and secondary research was undertaken in the form of interviews.

The result of the research process provided a means of market comparison and feasibility analysis. The main conclusions that could be drawn are that the gold recycling industry is more competitive in Switzerland and as such a market expansion should only be undertaken in cooperation with a local partner. The case company should furthermore reassess its goals and objectives for international markets and analyze their willingness to take risk in relation to the overall investment.

**Key words**      Switzerland, feasibility study, market analysis, decision making process

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## 1 Introduction

The introductory segment of this thesis consists of four segments. In the first segment the objectives behind conducting this thesis are discussed. The second segment elaborates on the background for this thesis and the chosen topic. The third and fourth segments concentrate respectively on the limitations and the structure of this thesis.

### 1.1 Objectives

This thesis has primary and secondary objectives, which are as follows:

The primary objective is to analyze the economic viability of a market expansion to Switzerland for the case company.

The secondary objectives are: assisting the case company in developing an understanding of this relatively new market and to develop a means by which viability analysis can be undertaken. A further goal is the creation of insight into the industry to facilitate future market research.

### 1.2 Background

During my studies as a degree student in Finland I came into contact with various companies. One of these companies was the case company, which was interested to work with me. After brainstorming various topics my Swiss background came to be discussed due to their interest in expanding to central Europe. The case company voiced their interest in the topic of market expansion and after brief research my interest for the topic rose and cooperation was decided.

The two sub headings of this section will provide a brief background on the case company and the gold recycling industry.

#### 1.2.1 Case company

The case company for this thesis requires anonymity due to the business field in which they operate. The case company which was founded in 2011 operates from Helsinki, the capital region of Finland. Their business is web based and provides a service through which customers can sell their old jewelry. The purchased jewelry is chemically tested for its purity, its value calculated and the customers' payout is determined. The jewelry is then labeled as either scrap metal or resale jewelry. Jewelry labeled as scrap metal is smelted externally and

stamped into gold bars which can then be sold. Jewelry labeled for resale is sold to antiquity or jewelry stores.

### 1.2.2 Gold recycling industry

Gold has a long history amongst mankind, earliest findings date back to 4000 BC (The History of Gold 2004). The unique color, shine, and properties made it an attractive possession synonymous with wealth and power. Numerous currencies were once tied to gold and the gold standard is one of the oldest monetary standards (The History of Gold 2004). Towards the end of the last millennia the gold standard was abandoned due to massive economic growth. Even so gold has not lost its appeal and is seen as a safe asset in economically tumultuous times. The price for gold is closely linked to the perceived health of the global economy or national currencies. Due to the recent turmoil in the global financial market and the accompanying downturn in the Euro and US Dollar the gold price rose drastically (Gold price history 2012).

Due to the high gold price related industries seem attractive to investors. Since the majority of gold is processed into jewelry or art most gold owners are unable to sell to banks and investors directly. Banks predominantly purchase gold only in its purest form and therefore require middlemen. Middlemen, such as the case company, purchase old jewelry and other precious scrap metals with the intention of smelting and stamping it into gold bars. The precious metals are then ready to be sold to banks, gold traders, or private individuals. There are different names used for this industry but throughout this thesis the industry will be referred to as the gold recycling industry. The purity of gold can be denoted in different ways, in this thesis the karat system will be used, in the karat system 24 karat refers to a purity level of 99.9% (The History of Gold 2004).

### 1.3 Structure of this thesis

The thesis process has three main stages: in a first stage the theoretical background for this thesis was established and research for the initial report for the case company was undertaken. In a second stage the initial report on the market situation in Switzerland was presented to the case company and the means of feasibility analysis were developed. In the third and final stage all gathered material was analyzed, additional theory was incorporated and the thesis report was compiled.

This thesis report is divided into three parts:

Part one: Introduction and background.

Part two: Theory and methodology

Part three: Empirical study

## 2 Theoretical background

The theoretical background of this thesis covers three major theoretical aspects which are used to facilitate an understanding of the premise on which this thesis is built. The three theoretical aspects needed to develop this thesis are:

- i. Internationalization process, activities, and models
- ii. Economic and cultural analysis
- iii. Corporate decision making process

The three above mentioned aspects are discussed in the above stated order in the following sections.

### 2.1 International business

The goal of this thesis is to support the partner company in its internationalization process. It is therefore in a first step important to identify what international business consists of. According to Griffin and Pustay (2010, 29): “International Business consists of business transactions between parties from more than one country.” While this definition aptly describes international business it lacks in focus; a more focused definition is given by Czinkota, Ronkainen and Moffett: “International business consists of transactions that are devised and carried out across national borders to satisfy the objectives of individuals, companies, and organizations.” (Czinkota, Ronkainen & Moffett 2003, 4). This definition suits this thesis well and allows for further development of the theoretical background.

Under the heading of international business the following theoretical aspects are examined: international business activities in conjunction with foreign direct investment and lastly market entry strategy.

International business activities can be broken down into three main areas: International trade, International investments, as well as other forms of international business activities (Griffin & Pustay 2010, 31, 33, 34). International trade consists of importing and exporting of goods and services, wherein the trading of goods is referred to as tangible trade while the trading of services is referred to as intangible trade (Griffin & Pustay 2010, 31). The partner company as a service provider does not have a physical product and therefore belongs to the category of intangible trade. Another form of international business is international investment which can be defined as: “...capital supplied by residents of one country to residents of another [country].” (Griffin & Pustay 2010, 33).



Out of the two main forms of investment, direct and portfolio investments, direct investment suits the partner company's requirements best. According to Griffin and Pustay (2010, 33) direct investments provide a great deal of control over the investment. Direct investment has inherent risks since liability lies with the investor but if properly managed the risk is outweighed by the level of control it allows over an investment. Due to the partner company's interest in controlling the planned subsidiary, direct investment is the most suitable course of action (Case company representative 2012).

## 2.2 Market entry strategy

When choosing a market entry strategy it is important to analyze first what option may be most suitable for the market and the company's unique situation. The different deciding factors demanding consideration are ownership advantage, liability of foreignness, and internationalization advantages (Griffin & Pustay 2010, 361-363). The concept behind the term ownership advantage refers to a means through which a company can gain leverage over their competition (Griffin & Pustay 2010, 362). This concept of being at a disadvantage in a host country market is referred to as liability of foreignness (Griffin & Pustay 2010, 362). Whether internationalization proves to be beneficial to a company depends largely on the nature of the business (Griffin & Pustay 2010, 364). A company that can readily pass on its competitive advantages may choose to opt for market entry methods based on partnership rather than ownership while a company that cannot do so easily may choose to use foreign direct investment or turnkey projects (Griffin & Pustay 2010, 364).

In most cases turnkey operations are for large scale endeavors and as such not as readily applicable to the given situation. The reason to consider turnkey projects, even though it is unlikely to be applicable, is the advantage that can be gained by using a specialist in the market to help expediting the market entry process.

Hammond (2004, 280-282) states that a combination of experience, resource availability and type of service determine what form of expansion may suit a company best. While these factors play a significant role in deciding the best possible mode of expansion there are external factors to be considered. Companies have differing priorities in terms of risk aversion, control and flexibility, in order to find the most suitable market entry mode a compromise between the three needs to be struck (Hammond 2004, 283).

The risk aversion of management can substantially influence the amount of control excerpted. Assuming that management is unwilling to take risk it is unlikely that they will invest a large sum into a fully owned subsidiary and will as such cede control in favor of reduced risk (Hammond 2004, 283). Less control generally means decreased decision making power and

lengthened reaction times resulting in less flexibility (Hammond 2004, 283). Initial meetings with the case company representative showed that the preferred expansion model would be in the form of a fully owned subsidiary, as this would allow the utilization of the same business model used in Finland.

Sales subsidiaries can only be truly beneficial if the target country offers a positive long term market outlook and a stable business environment (Hammond 2004, 338). This is mainly due to the substantial commitment in terms of time and money (Hammond 2004, 338). The risks associated with a fully owned subsidiary are considerable as the result of failure can be damaging both in terms of financing and reputation (Hammond 2004, 338). As such setting up a subsidiary should be reviewed minutely. The future outlook of the industry is something the case company has to monitor carefully, since a recovery of the international financial market place will likely have a deteriorating effect on the gold price. This time constraint further stresses the need for careful analysis of the market situation.

The second theoretical aspect covered in this thesis focuses on the means of market and industry analysis as well as economic and cultural analysis.

### 2.3 Industry analysis

In order to successfully analyze the viability of a market expansion three main stages need to be considered. The three stages, as described by Griffin and Pustay (2010, 356), can be seen below:

Stage one: Assessment of alternative markets

Stage two: Evaluation of costs, benefits and risks

Stage three: The selection of the right choice.

In relation to the above process this thesis belongs to the second stage and tries to provide answers towards solving the problem faced in the third stage.

Analyzing any industry poses certain difficulties; this is more so the case if less information is available. In order to successfully analyze an industry it is important to gauge the overall market size, its growth, sales cycles, and profits (Lehmann & Winer 2008, 63). Other factors to be considered are the threat of new entrants to the market, buyers bargaining power, and lastly environmental aspects.

The size of a market is a key determinant of the profit level that can be attained but bigger markets tend to attract larger competitors (Lehmann & Winer 2008, 64). Larger competitors

or a higher number of competitors can result in an over saturation where smaller companies are unable to compete. When determining the feasibility of international expansion it is of importance to analyze the saturation within the market. There are tools that can be used to quickly assess likely markets including gross domestic product per capita and population size, it has to be noted that these tools only provide shallow insight into a market and more effort is required to gain meaningful insight (Griffin & Pustay 2010, 358).

Profit for industries can be regarded in two ways: expected profit margins in the industry and profit risk over time (Lehmann & Winer 2008, 67). Depending on the industry profit margins may differ significantly, profit margins for the same industry may also vary from one country to the next. It is therefore crucial to understand profit margins for the target market. The second aspect to be considered when analyzing profits is the distribution of profits over time; this is also referred to as industry risk (Lehmann & Winer 2008, 67). As mentioned before the viability of a Swiss subsidiary is time sensitive and industry risk is as such a key consideration. Since the gold price is global, industry risk needs to be a concern for the case company as a whole and will not be discussed in detail in this thesis.

The theory outlining competitor analysis will be discussed next.

## 2.4 Competitor analysis

Griffin and Pustay (2010, 358) summarize the information needed to understand the competitive situation in a market as follows: “...the number and sizes of firms already competing in the target market, their relative market shares, their pricing and distribution strategies, and their relative strengths and weaknesses, both individually and collectively.” In relation to this thesis it is furthermore relevant for the case company to determine how the competitive environment in Finland compares to that in Switzerland.

Key questions that should be asked when gathering information on competition are listed in the following table.

Who are the main competitors?
How do the competing products/services stack up against each other?
What are the objectives of the major competitor products?
What is the current strategy being employed to achieve the objectives?
Who has the competitive edge?
What are they likely to do in the future?

Table 1 Questions for competition research (Lehmann & Winer 2008, 94).

Despite the numerous sources available; information can be limited due to issues of confidentiality and access. Understanding what sources of information are available and their credibility is key in developing an indicative understanding of the competition. The sources most applicable to this thesis are: newspapers, annual reports, news releases, promotional literature, government sources, electronic data services, and lastly information attained from the competition directly (Lehmann & Winer 2008, 96-103).

In order to provide a context for the competitor analysis the economic and cultural environment of Switzerland needs to be understood both on its own and in comparison to Finland. Methods of cultural analysis will be discussed next.

## 2.5 International environment and culture

According to Dlabay and Scott (2006, 16) the international business environment is made up of four factors, these four factors are displayed in the following figure.



Figure 1 International business environment according to Dlabay and Scott (2006, 16)

The four factors displayed in the above figure describe the composition of a country, the factors which influence and discern how a country functions are interrelated. The four factor model allows for effective analysis and is applicable to the given situation. In order to further expand on the concept; Hofstede's cultural dimensions will also be used in the analysis.

Hofstede originally defined four dimensions along which cultures differ; at a later stage he introduced a fifth dimension (Hollensen 2004, 205-207). The five dimensions as defined by

Hofstede are: power distance, uncertainty avoidance, individualism, masculinity, and time perspective formerly known as Confucian dynamism (Hollensen 2004, 205-207). Hofstede's initial research was conducted in cooperation with IBM in the years 1967 to 1973, in this initial research employees' value scores were collected from 70 countries, initially the study covered only 40 countries and was later on expanded (Geert Hofstede 2012). In later studies Hofstede increased the number of countries and since 2010 a total of 76 countries are covered in the cultural dimensions research which is based on a range of sources (Geert Hofstede 2012). Hofstede's research scrutinizes how culture influences work values, according to Hofstede's official website (Geert Hofstede 2012) his studies have proven to be consistent and other studies largely correlate with his findings (Geert Hofstede 2012). As part of the empirical study Hofstede's work will be used as published on his official website (Geert Hofstede 2012). For the case company involved in this thesis it was important to ensure that a market expansion will be undertaken to a country with a similar culture in order to ensure that the cultural risk is at a minimum (Case company representative 2012).

The last theoretical concept to be discussed is the corporate decision making process.

## 2.6 Corporate decision making process

This last section of the theoretical background of this thesis focuses on the decision making process; with which the question whether or not to expand to Switzerland will be answered.

The act of decision making is defined by the Oxford dictionary of Business English (Oxford University Press 1994) as: "a process of discussion by which an organization determines its policy and resolves any problems and issues". During the thesis process cooperation and discussion with the partner company was a determining factor in outlining the empirical study. The thesis process made the need for an academic decision making tool apparent. While daily business operations demand various decision making processes, these are often not scientific enough for the purpose of this thesis. Managers need to make decisions frequently which can result in the manager becoming accustomed to the process which in turn may lead to decisions being based more on experience than sound logic.

Investigation of the theory behind the decision making processes in business has shown that while there are a number of sources these are generally rather similar in their approach, the goal was to find a model which allows both the author and members of the case company to easily understand how decisions were arrived at.

While the thesis process involved a lot of cooperation with the case company the decision making process itself was done solely by the author with the information provided by the case

company. Due to this decision making models based on brainstorming and nominal group technique are not feasible under the given situation.

Eisenführ and Weber (2003 1-3) state that there are a number of inherent risks involved in the decision making process, these risks are in general due to the unfamiliarity with the decision problem at hand, the level of complexity associated with the decision problem, the bias of the decision maker and a decision maker's need for safety and the status quo. The goal is therefore not to find the best decision making model but to find a model that alleviates as many of the risks involved in the decision making process as possible. After having read a number of articles the choice fell on the ProACT model as it is simple and straightforward to use but allows for meaningful decisions; a further consideration was the experience associated with the authors of the ProACT model.

Since the ProACT system may not be as familiar to the reader as the other theories that were covered, it will be discussed in detail.

#### 2.6.1 The ProACT system

The ProACT system is a tool that can be used in a number of situations in order to make smart and thought out decisions. The term ProACT stands for problem, objectives, alternatives, consequences, and tradeoffs (Hammond et al. 1999, 4). The idea behind the ProACT system is to create a step by step tool for overcoming problems and making educated decisions (Hammond et al. 1999, 4). "The essence of the ProACT approach is to divide and conquer." this is especially helpful when a decision needs to be made involving large unknowns as is the case for this thesis (Hammond et al. 1999, 6).

#### 2.6.2 Problem

In the first stage of the ProACT system it is important to precisely and creatively state the problem (Hammond et al. 1999, 16). A problem should be formulated without prejudice as doing so may obscure reality ergo changing the result of the whole process (Hammond et al. 1999, 20).

#### 2.6.3 Objectives

Similar to formulating the problem to be solved it is just as important to analyze the goal of the process (Hammond et al. 1999, 6). It is crucial to prioritize expectations, needs, and

wishes in order to decide on the final objective, not doing so may result in the process lacking orientation (Hammond et al. 1999, 34).

#### 2.6.4 Alternatives

Creativity and honesty are of importance when defining alternatives, the risk lies in ignoring alternatives as a means to achieve what is desired most (Hammond et al. 1999, 47-48). It is essential to define alternatives from the ground up and to avoid pitfalls (Hammond et al. 1999, 48 ). According to Hammond, Keeney, and Raiffa (1999, 48-49) the most common pitfalls are due to laziness; they state that decision makers often follow a business as usual approach or take the first possible alternative.

#### 2.6.5 Consequences

In the next stage of the decision making process is it critical to analyze the consequences of each alternative (Hammond et al. 1999, 65). In order to successfully choose between the different alternatives it is important to understand how well the alternatives match the objectives (Hammond et al. 1999, 7-8). One tool that can be used to do this is a consequences table, such a table allows the decision maker to compare the different alternatives and match them with the objectives (Hammond et al. 1999, 71). Consequence tables are useful in the context of this thesis as they allowed the partner company to understand the way in which decisions were arrived at.

#### 2.6.6 Tradeoffs

At this stage of the ProACT decision making process it is important to note that the alternatives may conflict each other and that some compromise needs to be made (Hammond et al. 1999, 83). It is essential to analyze the tradeoffs of the different alternatives to find the course of action with the highest return.

### 3 Methodology

The research process for this thesis is divided into two parts, research for the initial report for the case company and research in conjunction with the case company for the thesis report and feasibility analysis.

Research for the initial report was based on desktop research and the output was tabulated for qualitative analysis. The analysis of this initial research was needed in order to develop the interviews necessary for secondary research.

The second round of research was undertaken in the form of open interviews with the case company representative, the output of which was analyzed qualitatively.

The research was completed in a deductive fashion where a theoretical basis was built before in-depth research was undertaken. This was necessary in order to develop a focus for the research and to develop corresponding objectives. The use of a deductive research method supported the data analysis since patterns could be developed and searched for early on which allowed for realistic comparison of the two country markets. The use of a deductive research method was chosen as it facilitates an effective straight forward feasibility study.

The employed techniques are discussed in more detail after elaborating on some of the key terms required for the empirical study.

### 3.1 Definition of key terms

An unstructured interview according to Gillham (2005, 45) allows the researcher to analyze possible topics that can be examined in more detail at a later stage.

Élite interviews	Gillham (2005, 54) defines Élite interviews as: "...talking to people who are especially knowledgeable about a particular area of research or about the context within which you are researching."
E-Mail interviews	A means of conducting an interview across distance that allows the interviewee to manage his time freely, the use of E-Mail interviewing furthermore allows for "material that is personal, [and] descriptive..." (Gillham 2005, 108).
Case study	Robson (2002, 178) defines a case study as a means of doing research: " ...which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence."
Qualitative research	Qualitative research is often based on a case which is analyzed by studying the phenomenon under which it operates, the hypo-



theses used is developed as part of the research process rather than being developed at the beginning of the process (Silverman 2011, 5). Qualitative research is focused on soft data and contextual data.

Reliability	“Reliability refers to the extent to which your data collection techniques or analysis procedures will yield consistent findings.” (Lewis, Thornhill & Saunders 2009, 156). In other words, a reliable research method will yield similar outcomes every time it is used, as long as the environment does not change significantly.
Validity	Validity is concerned with the accuracy of findings. In other words, validity measures the trustworthiness of the results and conclusions that are the output of research (Lewis et al. 2009, 157). There are a number of tools that can be used to analyze validity in qualitative research, one of these tools is triangulation.
Triangulation	“Triangulation usually refers to combining multiple theories, methods, observers and empirical materials, to produce a more accurate, comprehensive and objective representation of the object of study.” (Silverman 2011, 369).

### 3.2 Initial research - desktop research

The initial research was designed as a combination of desktop research and structured interviews with industry representatives. The desktop research was chosen as it provides an effective tool for gathering larger quantities of information. The planned interviews did not come to fruition due to problems of access and general unwillingness to cooperate on the side of companies in the Swiss market. The goal of the initial research was to provide a market insight for the partner company; the therein gathered data was a key consideration in determining the focus and scope of the second stage of the thesis process. The collected data was analyzed in a qualitative fashion.

The initial research was required to assist the case company in developing their goals and prioritize their expectations and requirements for a market expansion. After presenting the findings of the initial different decision making tools were taken into consideration and the choice fell on the ProACT system as described by Hammond, Keeney and Raiffa (1999).

The main problems with the initial research stemmed from the lack of cooperation of industry representatives. Due to the delicate and competitive nature of the industry most companies were unwilling to participate in interviews and all companies rejected after being informed on the nature of the research.

A further limitation evident in the desktop research was the lack of information attainable on private individuals who trade gold in small quantities. These individuals do not need to register or report on their activities since gold, as a form of financial asset, is not applicable to value added tax in Switzerland. As a result the research had to be focused in some form, this was done via the creation of a set of criterion which each company had to fulfill in order to be considered in the research. The criterion was as follows:

- i. The company in question has to trade with gold jewelry.
- ii. The company has to be registered in the commercial registry of Switzerland.
- iii. The company has to have some form of online appearance.

The first criterion was chosen to exclude the companies that only trade in precious metals in the form of bars or coins. This type of company is not competing for the same customer group and can therefore be excluded from the research. The second criterion was chosen to ensure only legitimate companies were taken into consideration. The final criterion was chosen in order to focus on companies that operate in a similar fashion to the case company and as such compete for the same customer group.

### 3.3 In-depth research with case company - interview

Gillham (2005, 4) states that: "The 'real-world' researcher is constantly having to adapt or compromise on methods because of the constraints encountered." The main constraints encountered when interviewing the case company representative were time and access. As such a method of interaction had to be found which allows for detailed answers while still being time efficient. For this reason the decision was made to carry out the first interviews in person and the rest via E-Mail.

In a first unstructured interview the questions were outlined and developed in cooperation with the interviewee, who is a senior member of the case company. The output of this process was a number of topics deemed important for analysis of the final report. These topics were then formulated into specific questions or topics which were then answered by the interviewee via E-Mail.

Interviews are a common tool for qualitative research; the gathered information was analyzed in a qualitative fashion. The findings of the initial report were cross referenced with the findings of the interview to provide further insight.

Appendix 1 contains the topics and areas as defined after the first interview with the case company representative. It is worth mentioning that since the interviews are of unstructured nature the listed topics and questions were broadened and detail was added to existing topics as the need arose. Certain topics were excluded by request of the case company.

As a final segment of the methodological section, the reliability and validity of the empirical study will be discussed.

### 3.4 Reliability and validity

In order to ensure that the empirical study is reliable attention was paid that all information gathered during the research process was carefully documented. Gathering more data than necessary for analysis ensured that the results were not biased by extremes encountered in the research process. Research can become biased when preconceptions are made early on and analysis is focused on data supporting ones point of view. Since there was close cooperation with the case company it was important to separate case company wishes and hopes from the research itself. During the initial research this was ensured by carefully documenting the case company's goals while separately developing the focus of the research via established theory and only then checking whether the developed method correlates with the case company's objectives. Care was also taken not to present the initial research in an academic fashion to the case company but rather in a format suitable for the target audience, the intention behind this was avoid creating a bias for the interviews to be undertaken at a later time. Presenting the initial research to the case company was necessary in order to further develop the thesis process and the company's goals but not to have the case company interview partner adjust his answers to best fit the portrayed situation.

The validity was ensured via triangulation of data, method and theory, these three methods will be elaborated on here. Data was triangulated by using government-, company-, and media sources, the reason to use these three sources of data was to ensure that analysis incorporated different viewpoints. The use of government data was an important instrument in analyzing the actual situation of the investigated companies, this was mainly due to the biased nature of the information published by companies. Government sources were also required to discern between company policy and legal restrictions in the market, this was necessary to understand the level of freedom companies within the gold recycling industry have when determining their policy.

Triangulation of method was ensured via the use of different data collection and analysis methods, data was collected from both interviews and desktop research and was analyzed on its own and in comparison to other sources. Doing so was necessary in order to ensure that the collected data is portraying the actual market situation rather than only an aspect of it. The main concern in this was paying too much attention to the interviewee's opinions and by extension the case company's expectations and hopes rather than real life market forces.

In order to build a balanced base on which analysis could be undertaken a range of theories were taken into consideration to ensure the validity of the study.

The information collected was frequently discussed with the case company representative and care was taken that the conclusions drawn from the interviews were illustrative of the case company representative's opinions.

The use of triangulation and member check should ensure that the conclusions and recommendations presented under section 4.3 are valid.

The problems with validity and reliability will be commented on under section 4.4, the following section presents the empirical study of this thesis.

#### 4 Empirical study

The empirical study is based on desktop research and interviews with the case company representative and the collected data is focused on the gold recycling industry in Switzerland. In a first step the case company's overall mission and the goals for the Swiss market will be discussed.

The case company representative stated in an interview that: "Our mission is mainly to finance gold purchases from customers or whole sellers. We furthermore strive to develop the business model in this new industry and to develop best practices for it. It is also important to us to achieve an understanding of the international gold recycling industry and its national variances, where competition and income margins seem to vary a lot. In order to achieve these goals various market studies are undertaken for the different markets and business concepts are worked out for the different market activities." (Case company representative 2012). As can be seen from the above mission statement one of the case company's key goals is to develop an understanding of other national markets.

The empirical study is divided into three stages: in a first stage the Swiss market is analyzed and comparisons to the Finnish market are made. In a second stage the decision making

process determining the feasibility of the market expansion is undertaken. In a third and final stage the outcomes are discussed, analyzed, and conclusions and recommendations are presented.

#### 4.1 Country and market analysis

In this first stage of the empirical study the similarities and differences between the two countries will be discussed. This is done in order to establish the risks and opportunities involved in cross cultural business. The cultural and economic situation will be analyzed in terms of Hofstede's cultural dimensions and Dlabay and Scott's four factor analysis.

The second part of the market analysis will focus on industry specific analysis. The sheer amount of data involved makes presenting all of it impractical, therefore a balance between attention to detail and brevity had to be struck. The focus will therefore lie on the following issues for market comparison:

- i. Number of competitors
- ii. Size and type of competitors
- iii. Market share
- iv. Cost of operations
- v. Size of likely customer base
- vi. Margin per 1 gram of 24 karat gold

The chosen factors should provide ample insight into the market and provide points of comparison as well as background information on which the PrOACT decision making model can be based.

In the following section a brief overview of Switzerland and Finland is given and a short cultural comparison is provided. This information is required as a background to the analysis carried out further on.

##### 4.1.1 Finland according to the four factor theory

Finland is located in northern Europe bordering the Baltic Sea, Russia and Sweden and is the fifth-largest country in Europe with a land area of 338'424 square kilometers (The world factbook - Finland 2012) (Finland in facts 2011). Finnish climate is harsh in winter and rather mild in summer, Finland's natural resources are: timber, iron ore and lead (Finland in facts 2011). Finland has a population base of roughly 5.4 million with life expectancy of around 76 years for men and 83 years for women (Finland in facts 2011). The majority of Finns are Lutheran

Christian and the main language is Finnish which is spoken by around 91% of the total population (Finland in facts 2011). Other cultural factors will be discussed under section 4.1.3.

Finland is part of the European Union and uses the Euro as its national currency, gross domestic product per capita was at 33'618 Euros in 2010 (Finland in facts 2011). Finland can be described as a: "highly industrialized, largely free-market economy..." (The world factbook - Finland 2012). The dominant industries in Finland are forestry and manufacture of high tech goods (The world factbook - Finland 2012). While the economic situation is stable it has suffered somewhat from the recent global financial slowdown (The world factbook - Finland 2012).

Finland is officially a republic with a parliamentary democracy which gained its independence from Russia in 1917 (Finland in facts 2011)(The world factbook - Finland 2012). Overall Finland enjoys a stable and well established political system and a healthy economy.

#### 4.1.2 Switzerland according to the four factor theory

Switzerland is situated in central Europe bordering Austria, France, Germany, Italy, and Liechtenstein (The world factbook - Switzerland 2012). Switzerland has a total productive land area of 30'753 square kilometers which can be divided into three main areas: the Jura, the Plateau and the Alps (The Swiss Plateau 2010). Switzerland is mostly temperate but has acute temperature differences due to the extremes in elevation (The world factbook - Switzerland 2012).

Switzerland has a population base of approximately 7.7 million (The world factbook - Switzerland 2012). The Plateau area of Switzerland is by far the most densely populated, with an average population density of about 450 inhabitants per square kilometer, making the Plateau one of the most densely populated areas in all of Europe (The Swiss Plateau 2010). Switzerland has four official languages, German, French, Italian and Romansh. According to a study completed in 2000 by the Swiss department for statistics 63.7% of all Swiss speak German as their mother tongue (Wohnbevölkerung nach Hauptsprache 2001) (Wohnbevölkerung nach 5-Jahres-Altersklassen und Geschlecht 2010). The predominant religion in Switzerland is Roman Catholic making up 41.8% of all Swiss followed by 35.3% Protestant (The world factbook - Switzerland 2012). Life expectancy in Switzerland is at 78 years for men and 84 years for women (The world factbook - Switzerland 2012). The culture of Switzerland will be discussed in more detail later under section 4.1.3.

Even though Switzerland is surrounded by the European Union, Switzerland is not a member country. Switzerland uses the Swiss franc, a well established and stable currency but the

Swiss central bank recently pegged the Swiss franc to the Euro in order to stem overvaluation (Swiss National Bank acts to weaken strong franc 2011) (Geldpolitische Lagebeurteilung vom 15. September 2011 2011). The Swiss central bank was also recently pressured into changing its banking secrecy law after surrendering to international demands (The world factbook - Switzerland 2012). "Switzerland is a peaceful, prosperous, and modern market economy with low unemployment, a highly skilled labor force, and a per capita GDP among the highest in the world." (The world factbook - Switzerland 2012). Switzerland's economic strength is mainly due to its stable currency and strong service sector, the country possesses little in terms of natural resources other than hydro power potential (The world factbook - Switzerland 2012).

Switzerland is officially a confederation but in essence functions like a federal republic, the Swiss confederation was founded in 1291 (The world factbook - Switzerland 2012). Switzerland has a long tradition of stability and the democratic rule is well established.

#### 4.1.3 Cultural analysis based on Hofstede's cultural dimensions

The differences between Finnish and Swiss culture will be analyzed according to Hofstede's cultural dimensions. As was mentioned under section 2.5 the information used for the cultural analysis is as published by Hofstede's official website (Hofstede 2012). Hofstede's five cultural dimensions are listed in the following table for Finland and Switzerland.

	Finland	Switzerland
Power distance	<b>33</b>	<b>34</b>
Uncertainty avoidance	<b>59</b>	<b>58</b>
Individualism	<b>63</b>	<b>68</b>
Masculinity	<b>26</b>	<b>70</b>
Time perspective	<b>41</b>	<b>40</b>

Table 2 Hofstede's dimension index - Finland and Switzerland. (Geert Hofstede 2012)

As can be seen from the above table Finland and Switzerland only differ significantly in terms of masculinity. While the two countries are not physically close they share many similarities. Citizens of both countries believe in the rule of the people, are hard working, punctual, and demand that rules are followed (Geert Hofstede - Switzerland 2012) (Geert Hofstede - Finland 2012).

As was mentioned previously the main difference is in terms of masculinity, while Finland scores low; Switzerland scores high. In terms of business behavior and code of conduct this means that in Finland conflict is typically resolved via compromise and negotiation (Geert Hofstede - Finland 2012). Finnish employees value: "Incentives such as free time and flexibility..." (Geert Hofstede - Finland 2012) and a Finnish manager typically takes on a supportive role while a Swiss manager is typically: "...decisive, and the emphasis is on equity, competition and performance." (Geert Hofstede - Switzerland 2012) (Geert Hofstede - Finland 2012).

Attaining an understanding of the cultural similarities between Finland and Switzerland was important to the case company as it alleviates initial concerns with a foreign market expansion. The case company believes that there is a sufficient number of potential markets in Europe that it is imprudent to expand to a market with significant cultural difference to Finland (Case company representative 2012).

In the following sections the industry specific situation in Finland and Switzerland will be discussed, the presented data is based on interviews and desktop research.

#### 4.1.4 Findings on market situation in Finland

The findings presented for the Finnish market are based almost exclusively on information gathered through interviews with the case company representative.

The case company's market research has shown that approximately half of the market for gold recycling is controlled by jewelry shops in Finland. The interviewee stated that cooperation with these stores is relatively difficult as the business is relatively new and customers are not accustomed to sell back the jewelry they once bought (Case company representative 2012). The jewelry stores in the Finnish market are mostly single store companies run by the owner, there are a few exceptions but these are concentrated in the major population centers (Case company representative 2012). The case company representative estimates that 300 jewelers operate in Finland; he furthermore stated that these stores operate in a very different fashion to the case company and are as such not considered as direct competitors (Case company representative 2012). This mainly has to do with the newness of the gold recycling industry which jewelers have so far largely ignored (Case company representative 2012).

The case company considers there to be five direct competitors in the Finnish market, except for one competitor, these companies are all of the same size or smaller than the case company (Case company representative 2012). The other half of the market which is not controlled by jewelers is divided between the six companies, including the case company (Case company



representative 2012). The largest competitor has a market share of approximately 5-10% (Case company representative 2012). Market share is rather fluid in this industry which is mainly due to the fact that the gold price fluctuates daily, therefore companies have to reassess the offered price often (Case company representative 2012). While offering a better price leads to customers being more likely to use the companies' services, doing so is risky since the gold price may fall momentarily and erode the company's resell value and thus its profit margin (Case company representative 2012).

The case company's cost structure consists primarily of wages and rent with advertisement making up a further large cost factor (Case company representative 2012). Due to a lack of long term reference figures it is difficult to assess the company's overall advertisement expenditure, as a reminder the company was established in 2011. The case company has five fulltime employees resulting in wage costs between 10'000 Euros and 15'000 Euros per month; in addition to this the case company has rent costs of approximately 1'500 Euros per month (Case company representative 2012). These are only the permanent costs for the case company and depending on market activity further staff is required (Case company representative 2012).

Assessing market size is difficult in the gold recycling industry, this is due to the lack of in depth customer knowledge and the high cost of detailed customer research. The case company developed a method of projection to assess the size of the potential customer base from the composition of their customers (Case company representative 2012). The case company's customers are chiefly females between the age of 30-60 (Case company representative 2012). Finnish population statistics show that in 2010 there were 1'057'657 women age 30-60 in Finland (Population according to age (1-year) and gender by area 1980 - 2011 2012). The case company estimates that around 60-80% of all women age 30-60 in Finland own gold in the form of jewelry, this includes miniscule amounts (Case company representative 2012). The case company therefore projects that the potential customer base is 60-80% of these women; this as result means that the case company estimates the customer base for the whole industry to range in between 630'000 to 840'000 potential customers (Case company representative 2012). The case company representative (2012) stated that the case company has a market share of approximately 5%, including this in the calculation and assuming ceteris paribus this would result in around 30'000 to 40'000 potential customers for the case company (Case company representative 2012). As a side note it has to be mentioned that it is unlikely that all jewelry owners will sell their possessions. This method of projection may not be an accurate depiction of the actual customer base but serves as a tool to assess market size.

This shows that the potential customer base does not necessarily have to be large in order to be considered economically attractive. This is mainly due to the high profit margin for gold on

the Finnish market. The case company has a profit margin of 20-40% per gram of 24 karat gold, depending on the market price and amount sold (Case company representative 2012). There is only a small amount of 24 karat gold in private possession therefore it is not commonly traded but it allows for realistic international comparison and profit margins are similar for lower purity standards.

The next heading covers the market situation in Switzerland.

#### 4.1.5 Findings on market situation in Switzerland

The multilingualism of Switzerland poses a few problems, in order to negate this problem the decision was made in conjunction with the case company to focus on the German speaking part of Switzerland; the presented findings are based on desktop research. The German speaking part of Switzerland makes up approximately 65% of the Swiss population (Wohnbevölkerung nach Hauptsprache 2001) (Wohnbevölkerung nach 5-Jahres-Altersklassen und Geschlecht 2010).

The research is based on the criterion presented under section 3.2. The output of this research was tabulated and showed that there are 28 companies operating in the German speaking part of Switzerland. These 28 companies range in size and also vary in their business form as well as their customer interaction model.

There are a number of different business models represented in the gold recycling industry in Switzerland. For the sake of easier comprehension three main types will be concentrated on; precious metal trading companies, jewelers, numismatic- and antiquity shops.

Precious metal trading companies generally concentrate on the trading of pure metals in the form of bullions and coins. These pure metal objects are treated as financial assets. Purchasing of old jewelry is a side business for some precious metal trading companies while others built their business model around it. The share capital for these companies ranges from 30'000 CHF to 1.6 million CHF, with a median of 100'000 CHF (Zentraler Firmen- und Identifikationsindex 2012). The most commonly used legal form amongst precious metal trading companies is stock company. Eight out of twelve precious metal trading companies covered in the research are stock companies.

Switzerland is known for producing luxury goods, as such jewelers have a long tradition. Purchasing of old jewelry with the intent of smelting it is a side business for jewelers. The share capital for jewelers ranges from 20'000 CHF to 200'000 CHF out of the six jewelers covered in

this research, three operated as stock companies and three as sole proprietress (Zentraler Firmen- und Identifikationsindex 2012).

The decision to put numismatic- and antiquity shops under the same heading is due to the often overlapping business field. Numismatics is the trading of antique coins and bills. Numismatic- and antiquity shops often also trade in old jewelry as well as other luxury goods. Same as with jewelers purchasing of old jewelry with the intent of smelting it is more of a side revenue stream. Numismatists often attend different fairs and exhibitions which allows them to develop a network of contacts, within both the industry and the customer base. Having close customer relation is of great value in a largely trust based industry such as this.

Due to a lack of findings on the topic of market share it is impossible to make detailed analysis. Assuming the market is divided equally across all 28 competitors this would result in a market share of around 3.5% per company. This is not an accurate figure and only serves to provide a numerical representation of the level of competition within the market. It has to furthermore be mentioned that there are unseen elements in the market that compete for the same customer base. These unseen elements are private gold traders that are not required to report on their activities and it is therefore hard to assess the actual competitive situation.

For the Swiss market the same method of projection will be used that the case company employs in Finland. There are a total of 1'705'145 women age 30-60 which live in the German speaking part of Switzerland (Wohnbevölkerung bei Zivilstand (aggregiert), Alter, Kanton, Statistikjahr, Geschlecht und Bevölkerungstyp 2010). Assuming once again that 60-80% of these women own gold in some form and ceteris paribus, this would result in a total customer base of 665'006 - 886'675 women for the whole industry. Calculating a market share of 3.5% and ceteris paribus this would result in a customer base of 23'275 to 31'033 customers per company. It has to once again be noted that this is merely a tool for comparison and not an accurate depiction of reality.

As discussed previously little to no information is attainable from companies operating in Switzerland, as such the profit margin per gram of 24 karat gold had to be calculated differently. The calculation is based on the gold buying price offered by the UBS bank minus the prices offered by metal trading companies for old gold jewelry per one gram of 24 karat gold, on the same day (UBS 2012). The profit margin calculation is based on information gathered on precious metal trading companies as these operate similarly to the case company.

Since these calculations are not based on company internal information they may not represent the competitors' actual profit margin calculations. The following graph illustrates

the difference between the price offered by precious metal trading companies and the bank gold buying price on the same day.

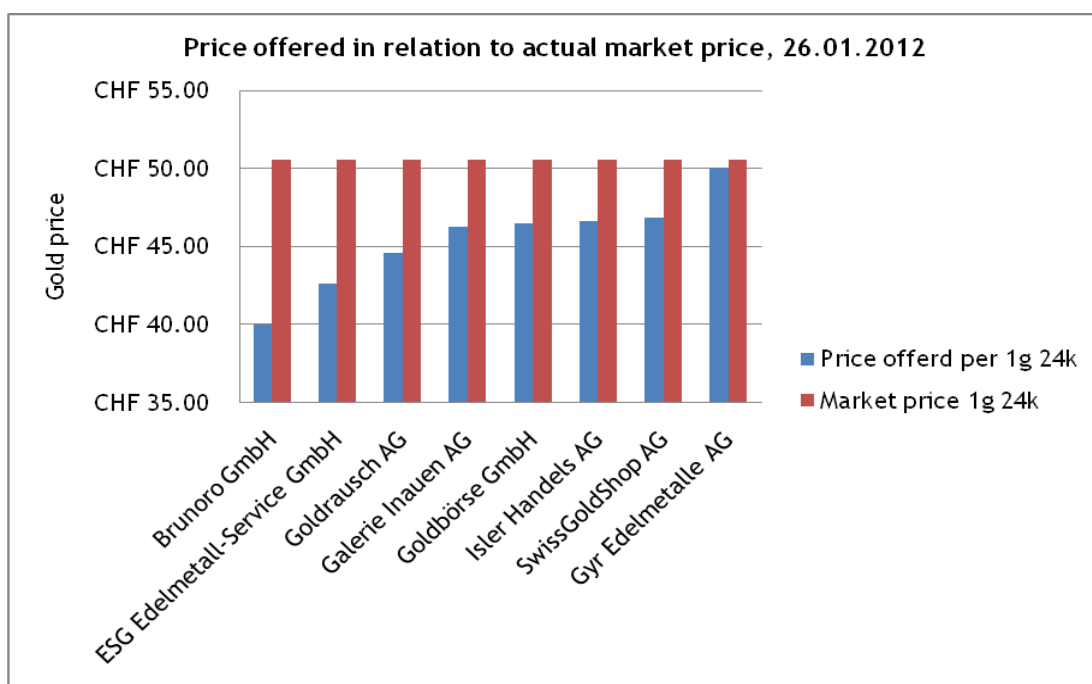


Figure 2 Price offered in relation to actual market price, 26.01.2012

Two conclusions can be drawn from the above graph: first of all it illustrates how there is a significant difference between the prices offered by the different companies and second of all it illustrates how the majority of companies offer prices close to the actual market price.

In the following graph the difference between the price offered by companies and the actual market price is illustrated.

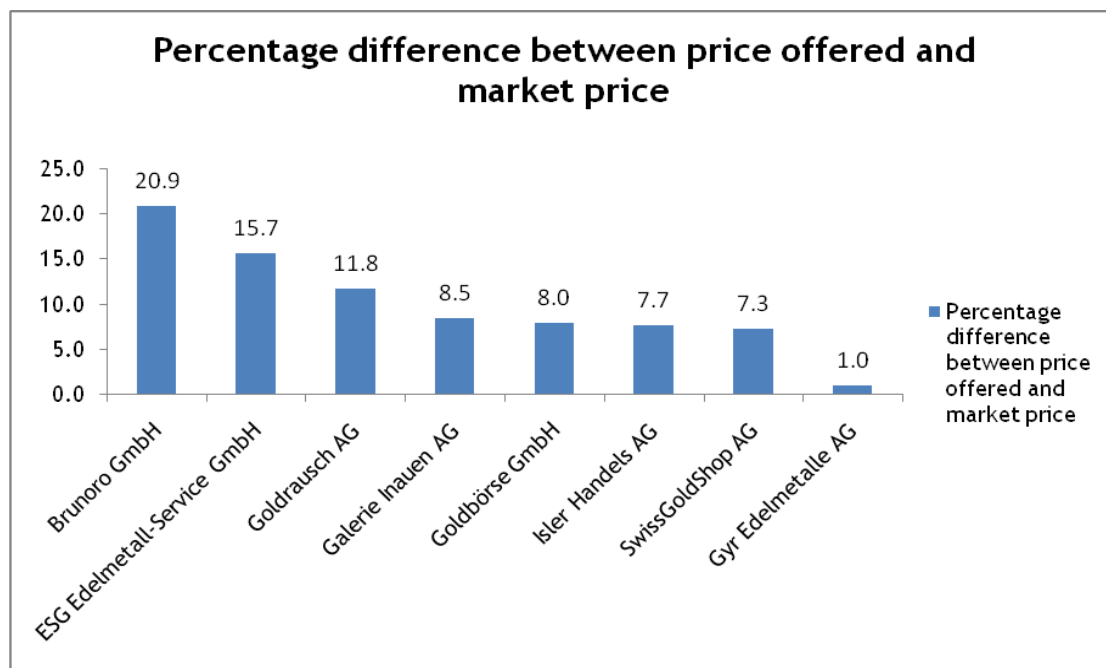


Figure 3 Percentage difference between price offered and market price.

The percentage values in the above graph range from 20.9% down to 1% even when considering that this information may not be absolutely accurate it nonetheless illustrates how small the profit margins are in Switzerland in comparison to Finland.

The above presented information on the two markets will be analyzed in the following section.

#### 4.1.6 Comparison of the Finnish and Swiss market

When comparing Finnish and Swiss culture and economy it is evident that while there are some differences these are generally of a superficial nature. As was stated under section 4.1.3 Hofstede's cultural dimensions analysis showed that the main difference lies in the masculinity of the two countries. Since the case company plans to employ host country management this should not be of consequence (Case company representative 2012). The two countries both enjoy a high level of economic freedom, democratic rule, and gross domestic product per capita is at a similar level. Cultural and economic differences do not pose significant barriers to the case company's expansion endeavors.

While there is a language barrier between the two countries host country management should also alleviate this concern. As was previously mentioned the problems associated with multiple languages can be circumvented by concentrating on the much larger German speaking market. Doing so also allows the case company to develop an understanding of the other

German speaking markets. This will benefit any future plans the case company has in this regard. A last point to be noted is that while Switzerland is not part of the European Union, it has ratified a number of agreements with the European Union such as the Schengen agreement as well as numerous other trade related agreements (Freihandelsabkommen 2010). This effectively means that Switzerland can be considered as if it were a member country.

In summary it can be said that while there are cultural and economic differences these are not significant enough to influence an expansion from Finland to Switzerland.

In the following table the key points of industry comparison between Finland and Switzerland are listed alongside.

	Finland	German speaking part of Switzerland
Number of direct competitors	5	28
Size of competitors	Small-Medium	Small-Large
Type of competition	Precious metal traders	Mixed
Cost	Average wage	3'325.00 Euros
	Average rent largest city	4'792.00 Euros
	300€ pr. sqm. pr. year	194€ pr. sqm. pr. year
Customer base	630'000 - 840'000	665'006 - 886'675
Margin on 1g 24k Gold	20-40%	1-20%

Table 3 Comparison of Finnish and Swiss industry.

The above table illustrates the key differences between the two markets alongside each other. In Finland the gold recycling industry is still relatively young and as such not as sophisticated. This can be seen from two key points: the number of competitors present in the market as well as the type of competition. There are more than five times as many competitors in the Swiss market in comparison to the Finnish market. This is even more significant when considering that the customer base is only slightly larger in target market. As was previously stated the case company representative (Case company representative 2012) argues that the majority of Finnish jewelers have not yet understood the economic viability of the industry. In Switzerland this is not the case, numerous companies and private individuals have understood the economic opportunity in entering into the gold recycling industry. The result of this is that the Swiss gold recycling market is more diverse and as such more customer group specific demands can be satisfied. A high level of sophistication is also present in Swiss consumers who generally appear to be more aware of the actual value of their possessions; this is evident in the much lower profit margin present in the Swiss market in comparison to the Finnish market.

The costs of operations in Switzerland are higher than in Finland in terms of wage level but lower in terms of rent. As a side note the rent level in Switzerland is highly dependent on the location chosen, this will be discussed in more detail at a later stage.

After having established the market situation in Switzerland the next part of the empirical study will focus on the process by which the decision is made whether the market provides an economically sound basis for expansion.

#### 4.2 Feasibility analysis based on the PrOACT decision making process

The PrOACT decision making process presented under this heading is structured into subheadings according to the different stages of the process.

##### 4.2.1 Problem

The main problem with which the case company, and as such this thesis, is faced is the lack of knowledge and experience on which a decision can be based. The case company has no experience on the international market and therefore lacks the tools necessary for international market analysis. The goal of the PrOACT decision making process is to provide answers to the just stated problems.

##### 4.2.2 Objectives

The case company's main objective is to achieve profitability at a realistic and controllable risk level. For the PrOACT decision making process this means that the case company only considers a market expansion to Switzerland as feasible if it provides greater profit at lower or equal risk to another country's market, under the condition that the cultural risk is at minimum (Case company representative 2012).

Since the focus of this thesis is only Switzerland the objective for the PrOACT decision making process is the development of alternatives that represent the most profitable market outlook at the lowest possible risk level in Switzerland.

##### 4.2.3 Alternatives

There are some constraints in developing alternatives under the given situation: lack of experience for market expansion, wish to control the investment, as well as a need for host coun-

try management. As was previously discussed the case company is interested in utilizing the same business model used in Finland. The alternatives are therefore focused on fully owned subsidiaries. In order to ensure access to customers and management the three major population centers in the German speaking part of Switzerland will be focused on. This also limits the number of alternatives; while this is not optimal it is necessary due to time and resource constraints.

During the thesis process it became apparent that there are two models of operation that fit both the company's requirements and also work within the market context. The business models are both based on fully owned subsidiaries. The first model is based around only providing a web based service after the same model used in Finland, while the second model focuses on opening a physical storefront in combination with the web based service.

Based on these two models there are six alternatives:

Model one:

- i. Operations based in Basel
- ii. Operations based in Bern
- iii. Operations based in Zurich

Model two:

- iv. Operations based in Basel
- v. Operations based in Bern
- vi. Operations based in Zurich

#### 4.2.4 Consequences

Not all consequences are listed in the following table as they influence all alternatives equally and are as such not conclusive. The consequences listed below were chosen as they provide a means of finding the best outcome possible. The catchment areas (Credit Suisse Economic Research 2011, 13), wage levels (Monatlicher Bruttolohn nach Grossregionen 2011) and rent levels (Colliers International 2011, 11,14,27) discussed throughout the empirical study were taken from various publications and are a part of the desktop research.



The following table lists the consequences to the previously discussed six alternatives.

Consequences		Model one			Model two		
		Alt. 1	Alt. 2	Alt. 3	Alt. 4	Alt. 5	Alt. 6
City		Basel	Bern	Zurich	Basel	Bern	Zurich
Rent in CHF per square meter per year	High-end	-	-	-	250-360	310-440	300-550
	Low-end	120-190	110-190	120-200	-	-	-
Catchment area in millions (Journey time by private vehicle)	20 min	-	-	-	0.5	0.4	0.8
	40 min	-	-	-	1.2	1.1	2.1
	60 min	-	-	-	2.8	1.7	3.5
Wage level in CHF		6'220	5'890	6'349	6'220	5'890	6'349
Number of competitors per city		-	-	-	2	2	5
Estimated number of competitors in catchment area		-	-	-	5	5	15

Table 4 Consequences table for model 1 and model 2.

The above table illustrates the various consequences of the six alternatives. As can be seen from the above table there are few consequences on which a decision for model one can be based. This is due to the fact that model one is a purely web based business model and as such does not take into account factors such as location other than the previously mentioned accessibility to management. The decision is therefore based on cost considerations.

In a next stage the different consequences will be rated numerically from most to least favorable, wherein the most favorable consequence is assigned a one and subsequent less favorable consequences are assigned ever increasing numerical values.

		Model one			Model two		
		Alt. 1	Alt. 2	Alt. 3	Alt. 4	Alt. 5	Alt. 6
City		Basel	Bern	Zurich	Basel	Bern	Zurich
Rent in CHF per square meter per year	High-end	-	-	-	1	2	3
	Low-end	2	1	3	-	-	-
Catchment area (Journey time by private vehicle)		-	-	-	2	3	1
Wages		2	1	3	2	1	3
Number of competitors per city		-	-	-	1	1	2
Estimated number of competitors in catchment area		-	-	-	1	1	2
Total score		4	2	6	7	8	11

Table 5 Numerically rated consequences table, with total score.

The above table illustrates the different consequences rated numerically. While the best choice for model one is apparently Bern the choice is not as clear for model two. Zurich scored the most points and is therefore the worst alternative numerically speaking. In order to take the catchment area and in turn potential customer base into account it is of essence to reevaluate table 4.

The following table is repetition of table 4 focused on model two.

		Model two		
		Alt.4	Alt.5	Alt.6
City		Basel	Bern	Zurich
Rent in CHF per square meter per year	High-end	250-360	310-440	300-550
Catchment area in millions (Journey time by private vehicle)	20 min	0.5	0.4	0.8
	40 min	1.2	1.1	2.1
	60 min	2.8	1.7	3.5
Wage level in CHF		6'220	5'890	6'349
Number of competitors per city		2	2	5
Estimated number of competitors in catchment area		5	5	15

Table 6 Repetition of consequences table 4 focused on model two.

By going through the different consequences for the above table it becomes clear that some consequences are similar for all three alternatives and are as such not as important in determining the final decision. In order to account for the large difference in catchment area evident in the three cities the ratio between immediate catchment area and number of competitors per city will be calculated.

The ratios yielded from this calculation are:

$$\text{Basel} = 1/250'000 \quad \text{Bern} = 1/200'000 \quad \text{Zurich} = 1/160'000$$

The above ratios illustrate the number of inhabitants per one competitor; it becomes apparent that Zurich while having the largest catchment area still has the least favorable inhabitants to competitor ratio.

The choice is therefore either alternative 4 or 5 for model two. While alternative 5 offers lower wage levels this is offset by the higher rent cost and the smaller catchment area.

Therefore alternative 5 can also be disregarded and the choice falls on alternative 2 for model one and alternative 4 for model two.

In the following section the results of the PrOACT decision making process are discussed briefly before the final analysis is presented.

#### 4.2.5 Outcomes of the PrOACT decision making process

The outcome of the PrOACT decision making process yielded two alternatives based on two different business models in two different cities.

The best alternative for model one, web based business only, is the city of Bern. The city of Bern offers the lowest operation cost but is still large enough to not hinder the search for management.

The best alternative for model two, combination of a physical storefront and web based business, is the city of Basel. This is chiefly due to Basel having the best potential customer to competitor ratio at the second lowest cost level.

The city of Zurich while having by far the highest potential customer base also had to be excluded based on the large number of competitors.

The two outlined alternatives correspond with the objectives of the PrOACT decision making process and should allow the case company to make an educated decision.

#### 4.3 Analysis of the feasibility - conclusions and recommendations

Prior to presenting the conclusion and recommendations it has to be mentioned that further insight into the case company's financials and its willingness to take risk are required for definitive answers. Insight into the case company is lacking mainly due to the case company still developing their strategy for international expansion. Due to this only cursory observations and conclusions can be made, the focus will therefore lie on recommendations.

The economic and cultural differences between Finland and Switzerland are largely insignificant under the given situation and should provide ample opportunity for the case company. The economic situation specific to the gold recycling industry is quite different. The competition is more diverse and appears to be more sophisticated in comparison to Finland. Customers are more knowledgeable which has a deteriorating effect on income margins. Cost of operations are high; the Swiss foundation for small and medium sized firms estimates that initial

investments need to be as high as two million Euros in the startup phase (Kapitalbedarf von Unternehmen 2011). A further factor to consider is the high rate of failure amongst startups (Überlebensraten neuer Unternehmen 2007). This may be of less importance in this case since the interviewee repeatedly stated that the case company estimates the gold boom to subside within the next few years, therefore a Swiss subsidiary would not be a long term investment (Case company representative 2011). The downside of shorter market exposure is the fact that returns on investment need to be higher. With the low margins common in the Swiss market, this is unlikely.

In summary, the main conclusion that can be drawn from the empirical study is that the Swiss gold recycling industry is highly competitive and that income margins are minute compared to those evident in the Finnish market or as Hammond (2004, 283) put it; “When the intensity of competition is high in a host market firms will do well to avoid internationalization, as such markets tend to be less profitable and therefore do not justify heavy resource commitments.”

In relation to which of the two business models to focus on reference should be made to a Swiss consumer advocacy group that warns consumers against the use of purely web based services (Gierige Altgoldhändler: So zocken sie Kunden ab 2009). Research confirmed very few companies operating in the Swiss market offer web based services only and generally rely on a physical market presence.

The recommendation for the case company is therefore to consider partnership with an established company within the Swiss market. Direct investment is unlikely to be successful and will almost certainly not prove to be highly profitable, especially with the short estimated market exposure. Should there nonetheless be a wish to expand to Switzerland via the use of a fully owned subsidiary a secondary income stream should be found and the focus should lie on direct physical customer contact which seems to be the best working model in the Swiss market. Case company management should also further develop their internationalization strategy and their understanding of the level of risk they are willing to take in relation to the investment. Under the given situation with the available information, a market expansion should not be attempted.

#### 4.4 Evaluation of the empirical study

The limitations discussed throughout this thesis can be attributed mainly to issues of access during the initial research, whether this is in the case of artificial restrictions put in place by competitors or the lack of access to customers. In the initial planning phase of this thesis the issue of access was considered but underestimated and as such research lacks in certain areas. Initial research was also hindered by the requirement for a set of criteria by which the

information could be filtered, see section 3.2. While using such criteria is not optimal it was created after much deliberation and allowed for a realistic representation of the overall market situation. A further limitation evident in the initial research was the lack of reference material for this industry.

The PrOACT model of decision making proved to be useful and was a valuable means of sharing findings with the case company. During the decision making process a lack of experience on the side of the author of this thesis became apparent, the PrOACT model was useful in providing a means of overcoming such problems. Overall the PrOACT model is readily applicable to a number of situations and can be adapted to given situations and as such there were no weaknesses which stood out other than the mentioned lack of experience.

The main limitations encountered in using interviews are due to the biased answers provided by the interviewee. A bias was to be expected due to the case company's eagerness to expand. In order to restrict the effects of this bias; the questions were designed with a focus on facts rather than expectations. The developed questions concentrated on the situation in the Finnish market and how decisions are made in Finland rather than what the company aims to accomplish abroad. This focus alleviates concerns of biased material and should ensure the accuracy of the information gathered through interviews.

The encountered problems were taken into consideration and solutions were developed; as such the presented conclusions and recommendations accurately depict the market situation and support the case company's needs. Reliability should as such not be a problem for this thesis and validity was ensured through triangulation of data, method, and theory. The empirical study should therefore be reliable and the presented results valid.

As a final note, in the planning phase further insight into the industry should have been gathered from the case company and a more official approach should have been created towards competitor interaction. Competitors may have felt more obliged to participate in research if the schools backing was more direct, doing so is of course ethically questionable as it coerces competition into complying.

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Appendix 1 Topics as defined after presenting initial findings.

### Company specific topics

- Description of mission
- Goals
- Future outlook
- SWOT
- Number of employees
- Costs
- Advertising expenditure
- Spatial requirements
- Turnover
- Profit/income margin
  - Purchase
  - Per gram
- Volume traded
- Market share
- Mode of operation/customer <—> company interaction
- Main market
- Main customer segment/group
- Market assessment tools/means
- Date company was established, Finnish company number/ company specific information, etc.
- Ownership/financial backing

### Competition

- Number and size of competitors
- Market share
- Typical mode of operation/interaction model

### Internationalization strategy

- Profit goals
- Investment goals/targets/limits
- Market share goals
- Preferred means of operation
- List of priorities for internationalization