

**Profitability factors and strategies for the Case Company X  
operating online business in the Finnish market**

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<p>Enterprises intend to gain profits and achieve sustainable growth from their business activities, but the reality interferes due to some financial factors and risks.</p> <p>The main purpose of this study is to help the case company X to operate successfully and gain profits in the Finnish market. The study analyzes the financial factors that have influences on the achievement of the company's business profitability.</p> <p>Based on the company's wishes, the research objectives are demarcated to four research aspects. They are: an overview of the Finnish taxation system, an estimate of online business operating expenses, a particular method of effective inventory management and appropriate strategies for gaining profits.</p> <p>The thesis is based on the qualitative research methods and focuses on comprehensive secondary data analysis. Information and figures are gathered from diverse academic publications and Internet sources.</p> <p>The results show that, firstly, an overview of the target market taxation system helps the case company, determine the right form, making desirable sales margin and reasonable product price. Secondly, an economic budget in operating expenses and effective inventory control can assist the company to advance sustainable management in the Finnish market. Thirdly, cost leadership and differentiation strategy are two suitable means to support the company to create cost effective opportunities, to build competitive advantages and to increase sales shares. Finally, the company can reach profitability optimization by means of various pricing strategies applied to different customers.</p>	
<p><b>Keywords</b> Online business, financial profitability factors, Finnish taxation system, operating expense, inventory management, competitive strategy</p>	

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# **1 Introduction**

This report demonstrates the process and outcomes of a research-oriented study for the case company, which is conducted between February 2013 and July 2013. In this introductory part, the contents of the thesis will briefly be presented. It starts with the research background, which illustrates how the thesis topic is induced from this certain research field. The second component is the explanation of the main purpose and objectives of the thesis. Subsequent section includes the research problem. After that an overlay matrix and key concepts are presented. At last, the passage ends with the simple introduction of the commissioning case company and its business.

## **1.1 Research background**

Nowadays the online business has grown as one of the rapidest fields in the world business. It is playing an increasingly important role in people's daily life because of its various advantages. Consumers can get various kinds of cheap products with convenient services through Internet shopping. Likewise, the small online retailers can operate a speedy and affordable business through Internet to start and capitalize their business in a new market. Through online business, companies do not need big start up capital. Moreover online business increases the opportunities to reach more consumers than normal retail stores. It can easily sell and market its products and services with lower costs. These advantages push many companies forward to operate an online business. (Truex 2013.) Nevertheless, one of the most challenges for business is in the initial stage, which is the transition from a business idea to reality. This is not just establishes a business but also needs to keep a continual growing in the future. In order to accomplish this goal, entrepreneurs need to have a clear understanding of some essential factors before making the final decision. (Kuratko & Hodgetts 2007, 212.) For instance, entrepreneurs need to have enough and clear business objective evaluation through investigation and research. Furthermore, in order to get a real insight into the target market, the business plan and budget are necessary.

Naturally, most companies run business in the form of activities that aim for earning revenues, achieving business profits to support its current business operation and future sustainable development. However, in practice, many small and medium sized enterprises feel difficult to successfully accomplish these goals because of some financial factors and uncertain risks, particularly when they attempt to expand new business outside domestic market. Every new market has its own economic environment, legal regulations and financial system. All these elements are tied up with SMEs' entry model, capital management, competitive advantages building, and business strategies setting. It is absolutely essential for entrepreneurs to get familiar with the target market business environment and to know compulsory financial issues before making their investment.

In the present study, the reasons why I choose this topic are because on one hand, I am always interested in investigating how the company works and gains profit. Except that, this topic is so vital in the economics field that it deserves every economics student to take into consideration. Another reason is that, as the case company has the intention to expand their online business in one of the Nordic market in the future, the manager would like to know abundant and detailed market information especially on fiscal matters. Based on the company's wishes, I have the opportunity to be the volunteer to help the case company do this research in certain aspects in the market of Finland with my several years' experience living here.

## **1.2 Commissioning case company**

The commissioning company is the Case Company X, which is located in Berlin, Germany. It is a small private company that specializes in selling various kinds of Asian products (Asian food products, special Asian kitchenware) through online interactions and phone orders in Germany domestic market. The company mainly utilizes DHL and UPS logistics companies' services to provide efficient direct delivery products packages to its customer's home or company address. (Company X Entrepreneur 10 Feb 2013.)

From the interview with the entrepreneur, the author gets the basic information about the case company. The Case Company X was established in 2009 and after two years operation the company's business became steady. In the year 2012, it successfully opened its first retail shop in Hamburg, Germany. The company has been well known for its lower price with high quality services compared to other competitors in this industry. Currently it becomes one of the dedicated suppliers of Asian products in the German domestic market. Company X has international business trade with several Asian areas. Their main products are imported from Mainland China, meanwhile it also has several suppliers in Hong Kong and Taiwan in order to meet customers' special product needs. Their business and services also spread to the nearby country Austria. (Company X Entrepreneur 10 Feb 2013.)

The company's mission is to become a competitive and efficient online delivery supplier of Asian products in Germany. It aims to establish strong customer relationships to ensure services in order to satisfy customers' needs and to provide easy, efficient, safety-ordering processes. The company has its advantages in building a loyal customer network and being well known for their lowering price within high quality services comparing other competitors. They hold the humble attitude to put customers' requests in the first position and to meet with whatever customers ask for, such request as to import as much various products as customers require. The entrepreneur thinks the reliability is a significant element of the company culture. The company should choose the most valuable and reliable products to maintain the products quality. Currently the entrepreneur is targeting at expanding his business and has turned his eye to the Nordic market. (Company X Entrepreneur 10 Feb 2013.)

### **1.3 Research purpose and objectives**

After the research background discussion, it is known the research is done for the Case Company X that attempts to start its online business in the Finnish market. As explained in the research background section, the main purpose of this study is to help the case company X to operate successfully and gain profits in the Finnish market. The study analyzes the financial factors that have influences on the achievement of the

company's business profitability. And the author also aims to find appropriate, efficient strategies to support the foreign case company optimizing profits and business sustainability implement in future.

To develop the thesis, four deeper research aspects are demarcated and created. The first objective is to clarify the Finnish taxation system, VAT payment standards and regulations for foreign entrepreneurs doing business in Finland. The next crucial objective is analyzing and estimating operating expenses based on the case company online business model. Then the following one is evaluating the useful economic inventory management methods. The last and most significant objective is to figure out suitable and function strategies for gaining profits.

#### **1.4 Research problem**

This chapter presents the thesis research problem. The final research problem springs from the thesis's research field and main research purpose. It is identified as "**Profitability factors and strategies for the Case Company X operating online business in the Finnish market.**" Investigative questions are created to guide the thesis research scope and activities. They demarcate the problem into smaller blocks that can be contended more easily. These investigative questions list below:

IQ1: What are financial factors for the case company X needed to take into consideration in order to achieve business profitability in the Finnish market?

- 1.1 What is the Finnish taxation system, standards and regulations of VAT payment for foreign enterprises doing business in Finland?
- 1.2 What are operating expenses of the case company to estimate carefully based on its online business model?
- 1.3 How to determine the optimal economic inventory?

IQ2: How these factors effect on the company's business operating profits?



IQ3: What are appropriate strategies to assist the case company to obtain effective operating business and finally optimize profitability?

IQ4: What are useful and suitable pricing strategies for the case company to apply?

The investigative questions above show the direction and aspects of this research. The first investigative question contains three detailed sub-questions. These sub-questions are focused on analyzing three main financial profitability factors: taxation, business operation expenses, and inventory management. The second investigative question is raised to study influences of these factors on the company's profit earnings. In order to help the company to gain profits fluency and to operate successfully, the continued investigative question needs to be resolved. The answer will be presented the effective strategies to benefit the case company's competitive advantages in the long run and optimization profits achievement. The last investigative question will find appropriate and functional pricing strategies to assist the company to set right products price for its target customers. There are variable and reliable theories applied to solve each investigative question and the answers are expected to give outcomes about these investigative questions. The detailed information is shown in the table below (Table 1.)

## 1.5 Overlay matrix

Table 1. The overlay matrix

<b>Investigative questions</b>	<b>Theory concepts</b>	<b>Outcomes</b>
IQ 1: What are financial factors for the case company X needed to take into consideration in order to achieve business profitability in the Finnish market?	2.1 Theoretical terminology related to profit	4.1. Taxation 4.2 Operating expenses 4.3 Inventory
IQ 2: How these factors effect on the company's business operating profits?	1.5 and 2.2 Cost management Inventory management Economic order quantity model Just in time system	4.1. Taxation 4.2 Operating expenses 4.3 Inventory 5. Strategy analysis
IQ 3: What are appropriate strategies to assist the case company to obtain effective operating business and finally optimize profitability?	2.3 Porter's generic competitive strategies model	5.1 Cost leadership strategy 5.2 Differentiation strategy
IQ4: What are useful and suitable pricing strategies for the case company to apply?	2.3 Pricing strategy Discriminatory pricing, Competitive based pricing Discount pricing strategy	5.3 Pricing strategy

Table 1 shows the overlay matrix for the research. It can be seen that the theoretical terminology related to profit are used in chapter 2.1 to help answer the investigative

question 1. The relevant outcomes are presented in chapter 4.1, 4.2 and 4.3 (taxation, operation expenses, and inventory). To answer the second question, key theoretical concepts in the chapter 1.5 and 2.2 (cost management, inventory management, economic order quantity model, just in time system) are applied. The solutions are concluded in chapter 4.1, 4.2, 4.3 and 5. The Porter's generic in competitive strategies in chapter 2.2 is to solve the investigative question 3 and the results will be brought about in chapter 5.1 and 5.2 (cost leadership strategy and differentiation strategy). The outcomes of analyzing pricing strategy in chapter 5.3 are supported by the theory from chapter 2.2 (discriminatory pricing, competitive based pricing, and discount pricing strategy) and also answer the investigative question 4.

## 1.6 Key concepts

**Net income** (earnings available to common stock) is “a figure representing a firm's profit or loss for the period. It also represents the earnings available to the firm's common and preferred stakeholders.” (Keown, Marti & Petty 2011, 50.) In accounting, the net profit (net income) refers to earnings after deducting losses and expenses from revenues and gains. In business, it is a measure of the fundamental profitability of a company after accounting for all costs in an accounting period. (Harrison, Horngren, Thomas & Suwardy 2011, 13, 666.)

**Cost management** is “the approaches and activities of managers to use resources for increasing value to customers and achieving the organizational goals.” (Horngren, Datar, Foster, Rajan & Itter 2009, 875.) Cost management related to methods of reducing company operate expense, minimize the cost of goods sold, achieve high profit margin and avoid bankruptcy (Bhimani, Horngren, Datar & Rajan, 2012, 36).

**Inventory management** refers to “planning, coordinating, and controlling activities related to the flow of inventory into, through and out of an organization.” (Horngren et al. 2009, 725.) Inventory management involves “control of assets used in the production process or produced to be sold in the normal course of the firm's operations.” (Keown et al. 2011, 452.)

It contains methods and systems to identify business inventory requirements, set targets, offer replenishment stock, record actual and projected status and deal all functions related to management materials. The effective inventory management methods might benefit on minimizing company inventory-carrying costs and optimize inventory levels. (Wachowicz & Horne 2008, 263-267.)

**The strategic management accounting** (SMA) is a form of management accounting that focus on companies' strategic positioning, competitor analysis, value chain concerns, market evaluation and product features determination. It aims at placing and integrating external factors as well as non-financial information that are relevant with the company into its strategy management accounting framework. (Bhimani et al. 2012, 757.)

## 2 Profitability theoretical framework

In this chapter the author will thoroughly demonstrate the main and the most significant theory concepts that are used in the study. All these concepts are selected from varied and reliable books, electronic publications and articles which are suitable for the research topic. These key theoretical concepts are not only briefly introduced in this particular section, but also demonstrated and applied in following practical phenomena research.

### 2.1 Theoretical terminology related to profit

**Gross profit** represents “the difference between net sales and cost of goods sold. Conversely, with steadily decreasing cost of goods sold, steadily increasing gross profit as a percentage of net sales revenue is considered a sign of increasing earnings quality.” (Harrison et al. 2011, 666.)

**Cost of goods** refers to purchase costs or costs for acquiring goods or services to be sold as for business purpose (Keown et al. 2011, 48).

**Operating expenses** are the expenses for keeping a company continually operation through carrying a product, business, or services. The biggest operating costs contain salaries, utilities and supplies expenses. In accord with, the company that effectively lower theses expenses, have the opportunity to get a more effecincient business operation and leading to higher profitability. (Harrison, et al. 2011, 666.)

**Sales margin** is a term focusing on profitability. It is the amount of income earned on every dollar of the sales, it shows how much operating income the company earns on its sales. Sales margin equals the operating income divide the sales. (Braun, Tietz & Harrison 2010, 633.)

**A corporation’s taxable income** is “founded by deducting all allowable expenses, including depreciation and interest, from revenues.” (Wachowicz & Horne 2008, 21.)

**Personal income tax** is “the subject of personal tax on individuals who own business, proprietorship, partners, members, and shareholders.” (Wachowicz & Horne 2008, 26.)

**Tax rate** is “the percentages of taxable income that must be paid in taxes. It is applied to each income bracket that referred to as a marginal rate.” (Wachowicz & Horne 2008, 21.)

**Value added tax (VAT)** is a kind of consumption tax that the end consumers need to pay. For business activities, such as selling goods or services or other certain transactions, the value added to goods or services is the sales prices charged to its consumers, subtracting the operating costs and other tax implications. It is also taxation payment similar as the corporate income tax or the personal income taxes that aiming at generating revenues to the state. (Ministry of Finance 2009, 105-106.)

## 2.2 Concepts for economic inventory control

**Economic order quantity (EOQ)** is the order quantity that minimizes total inventory holding costs and ordering costs. It is used to specify the optimum order quantity for a particular item of inventory, given its forecasts usage, ordering costs and carrying cost. In other word, it is the reasonable order quantity of an inventory item to order so that the company can minimize the total inventory costs over its planning period.

(Wachowicz & Horne 2008, 263-267.) The formula used to determine optimal EOQ is:

$$\frac{\text{---}}{\text{---}}$$

Where:

C = carrying costs per unit

S = total demand in units

O = ordering costs per order

**FIGURE 16-7 Total Costs and EOQ Determination**

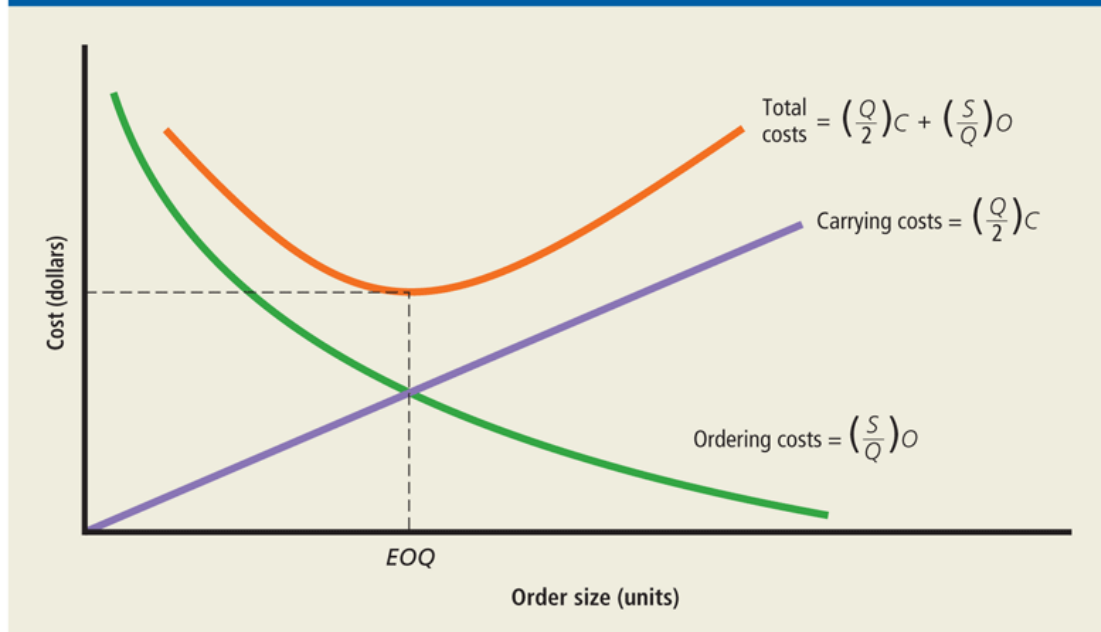


Figure 1. Total cost and the EOQ determination (Keown et al. 2011, 455)

The figure 1 presents that firstly the total carrying costs directly differ with the size of the order. Secondly the total ordering cost varies contrawise with order size. And the point EOQ is the minimum amount of total inventory costs. (Keown et al. 2011, 454-456.) The method for calculating the total cost, carrying cost, ordering cost are expressed in the following formula:

Total inventory costs = total carrying costs + total ordering costs

Total carrying costs = number of orders \* carrying cost per order =  $Q/2 * C$

Total ordering costs = number of orders \* ordering cost per order =  $S/Q * O$

**Lead time** is “the length of time between the placement of an order for an inventory item and when the item is received in inventory.” (Wachowicz & Horne 2008, 268.)

In practical business situation, the demand of inventory is normally not known with certainty, it usually fluctuates during a certain period time, especially for the demand of finished goods. Then the lead time is acquired to consider on receiving the orders. Especially for the overseas items delivery, which is always affected by various uncertain factors. (Keown et al. 2011, 457.)

**Order point** is the quantity used to determine how low inventory should be depleted before it is recorded (Keown et al. 2011, 456). The formula to decide the order point is:

$$\text{Order point (OP)} = \text{Lead time} \times \text{Daily usage}$$

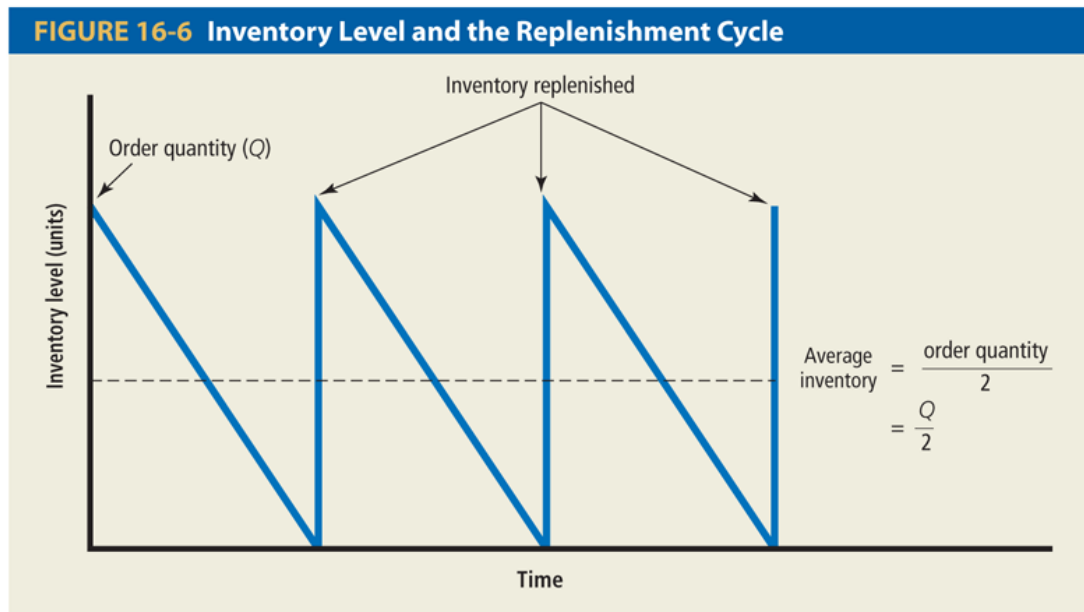


Figure 2. Inventory Level and the Replenishment Cycle (Keown et al. 2011, 454)

Figure 2 illustrates the typical cycle of the stock. The line is an example of how the stock quantity decreases over time consistent with its usage. At a certain point a purchase order is placed to avoid the stock running out. (Keown et al. 2011, 454.)

**Safety stock** is “inventory stock held in reserve as a cushion against uncertain demand or usage and replenishment lead time.” (Wachowicz & Horne 2008, 269.) In other words, it represents a sum of and above the average uses or a product demand.

**Delivery-time stock** is the need stock from the date to make new order to the date of receive the inventory (Keown et al. 2011, 467).



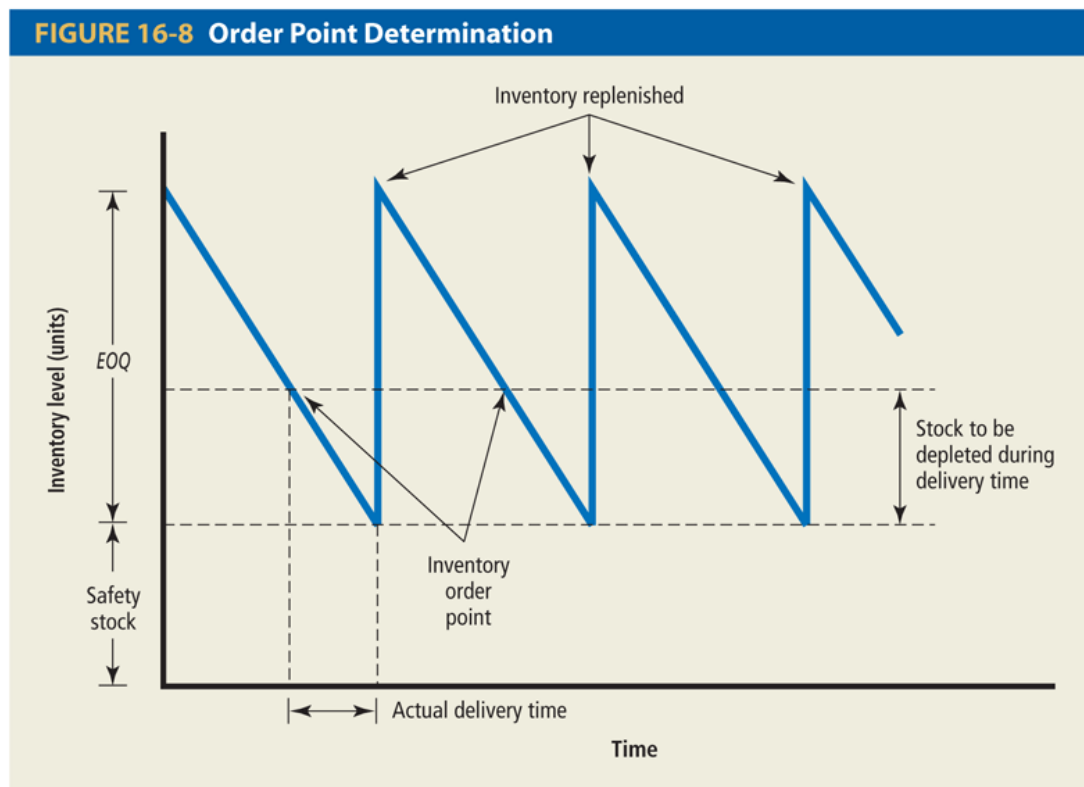


Figure 3. Oder point Determination (Keown et al. 2011, 457)

Figure 3 explains that in the real business environment, there is a fluctuation of the lead time that depends on the actual inventory usage (Wachowicz & Horne 2008, 269). Under this situation, the order point determination needs to use another formula as follows:

$$\text{Order Point (OP)} = \text{Average lead time} \times \text{average daily usage} + \text{safety stock}$$

One reason for the manager to keep the proper safety stock amount is to effectively control the inventory carrying costs. With this cost factor, the company cannot maintain too much inventory over the safety point. Since the greater stock the company carrying, the more costs it needs to pay for them. In order to determine the proper safety stock volumes, to contain the inventory balance possibility and the cost of carying inventory is required. (Wachowicz & Horne 2008, 268-270.)

Managing inventory takes time and costs, sellers always want to take in just enough inventories to avoid inventory empty as well as the minimum amount to satisfy

customer's needs. Nevertheless, holding bigger inventories will cause larger costs and inventory waste risks. In order to account and control the inventory value effectively, the just in time system is a great suitable model especially for small business to implement. (Bhimani et al. 2012, 735-736.)

**Just-in-time inventory** refers to an inventory management system with objectives of having appropriate inventory readily available to meet the customer's needs at exact time (Wachowicz & Horne 2008, 271).

In normal circumstance, small business is not able to afford big inventory without accurate sales demand beforehand. The reason is that the overstocks always require more spaces or additional management costs. Just in time model allows companies to reduce their overhead costs and to lower business operation expenses. It also can enhance companies' ability to keep and provide just enough inventory on hand to meet its target customers' requirements. (Keown et al. 2011, 458.)

### **2.3 Concepts for strategic management**

**Porter's generic competitive strategies:** For many entrepreneurs, building own sustainable competitive advantages is the foundation for achieving business stable long development. There are three kinds of strategies to support companies to achieve or maintain competitive advantages. They are cost leadership, differentiation and focus. Each of these strategies has its unique characteristics and roles to assist companies to get typical performance in its target market. (Porter 1998, 11-12.)

Companies that have succession business operation usually are closely associated with the strategic management in gathering information and applying it to compare their own prices with competitors' ones. In accord with, the company should make appropriate operation strategies. In practice, it assists manager to collect qualitative data with the company's strategic goals, to pursue the reduction of cost, to undertake cost factors, to analyze competitive advantages and to make good use of customer information. What counts is that in order to successfully survive in the industry, the

company needs to build competitive strength and to make use of them in business operation effectively. (Bhimani, et al. 2012, 754.)

**Cost leadership strategy** is “an organization’s ability to achieve lower costs relative to competitors through productivity and efficiency improvements elimination of waste and tight cost control.” (Bhimani et al. 2012, 756.)

**Differentiation strategy** includes one or more characteristics that are regarded as distinctively and crucial from the consumer's viewpoint that provided by companies. Enterprises apply differentiation strategy to offer special products or services along with some dimensions or add value for customers. (Porter 1998, 14.)

**Focus strategy** specifies one or more market segments and its special needs, wants and interests. A successful focus strategy depends on a company’s ability to identify the changeable environment and developing own skills to meet the changing. (Porter 1998, 15.)

**Pricing strategy** refers to set an appropriate product price to meeting customer anticipation as well as bring company earnings. With setting the appropriate pricing, small retailers have the prevailing advantages to obtain profitable growth and achieve company’s business strategy goals. There are various forms of pricing in order to meet differentiate purposes. (Holtz 1996, 18.)

Certainly, in order to mark the price of the products correctly, it is not enough only to think about the company’s model and business profit goal. The manager also needs to consider consumer's perceptions. It is wise to keep the price acceptable by the customers. Adjust the product price accordingly. Before setting prices, the company should think about the fixed costs and total utilize expenses and also consider to what extent sales margin needs to generate for every product or service. With the profitability plan, the company can get a clear idea of the limits of pricing setting. A nice price setting should include products' purchasing price, business costing, and sales margin the company wants to gain. Certainly a good price list also should contain both

prices with VAT payable and without VAT price on sales. (Suomen Uusyrityskeskukset ry, 2013, 18.)

**Discriminatory pricing** is making different prices for the same products or services to various consumers under different business situations (Horngren et al. 2009, 213).

**Competitive based pricing** is normally applied to small companies, which have to lower its goods or services price to meet the prices of competitors and gain market shares. It is used when company's products or services have a few differentiations with its competitors. (Suttle 2013.)

**Discount pricing strategy** is that companies offer customers various discounted price to increase their purchasing interest. The various discounts methods include volume purchase discount, seasonal merchandise discount, coupons and promotional discounts. Companies can get larger sales by using the discount pricing strategy. (Suttle 2013.)

The discounts are a motivation to inspire consumers and aims for increasing their interests to buy more from the seller. It can divide the product price into volume discount price, contract discount price and special discount price under different situations. (Kotler, Wong, Saunders & Armstrong 2005, 693.)

### **3 Research Methodology**

The research methodology part describes the research study procedure of the author's academic thesis. It contains the particular research design and data collection methods. The author also explains the reasons of applying them in this thesis research. Subsequent part is to clarify the interviews types and selection of interviewees.

#### **3.1 Research design and methods**

Considering the purpose of the study and the research characteristics, the qualitative research is considered to be the finest option of supporting the non-numeric collection of information and available methods of reaching the research goal. The goal of qualitative research is to gain insights and deep understanding of a situation based on smaller sizes samples. (Salkind 2006, 202.) The qualitative studies usually use an investigative framework of relevant categories and concepts to understand a fundamental process (Saunders, Lewis & Thornhill, 2007, 145). The whole research is aiming at providing abundant useful knowledge, detailed information and good suggestions for each investigative question that spring from the case company's requirements. That is why the qualitative research is the most suitable method used in the passage.

The research process starts with primary data gathered from targeted interviews. The author applies the semi-structured interviews to finish the above task in this research. Then the researcher will end up with a list that contains several subjects and questions to fully represent the primary data. In other words, the researcher might set questions for specific interview to provide particular context of the research topic. (Saunders, et al. 2007, 312.) Next the author emphasizes on secondary data collection and analysis, which is also the most important component of the whole research. The research objectives are to analyze and understand the feasibility of financial factors, the influence of the factors and the methods of final optimization of profitability management.

Accordingly, the author will go further into profitable element analysis, the company operating cost estimation and suitable strategy analysis, which are based on secondary

sources. Through this analysis, the author can bring information and insight for the foreign case company to clearly understand the important target market's financial factors and functional strategies for successfully operating its business.

Generally speaking, for this research the primary data analysis is used as background information and basic support for the secondary data. The secondary data analysis in this study is valuable and it helps the case company to utilize them as a good source for future business development. The detailed data analysis is presented in later chapters. At last the final findings and future suggestions would be got from various reliable theories and trustful secondary data evaluation. Conclusively, from these chapters the final findings and recommendations are expected to meet the respondents' perceptions.

### **3.2 Data collection**

Data collection is defined as a term to describe the process for the researcher to prepare and gather information. During this process, the researcher needs to gather varied and beneficial information and to carefully record and transcript them. The final purpose of data collection is to draw conclusions about a certain research objective. (Cason, Gilmore, Perry & Gronhaug 2001, 152.)

Accompanied by the research objectives and methods, as mentioned in the first part, the qualitative method is applied to the research subject. It contributes to provide valuable outcomes for this research topic. "The qualitative data is typically open-ended and related to a specific temporal and spatial domain." (Cason et al. 2001, 65.) The qualitative data collection contains diverse methods. Such as face-to-face interview, distance interview (through email or via phone), observations, focus group. (Blaxter, Hughes, & Tight 2006, 170.)

The thesis research will incorporate both primary and secondary data. The primary data refers to data that be collected to meet specific research project. The secondary data are data that originally gathered for some other purpose by some other person. It contains both raw data and published summaries. (Saunders, et al. 2007, 246.) For this

thesis research, the in depth interview is chosen to support the collection of the primary data. The interview methods involve questioning or discussing problems. The interview may be tightly organized with questions. It also can be discussed about certain subjects. It is always concerned as a functional technique to support researchers to collect data. (Cason et al. 2001, 73-75.)

As mentioned earlier, this research focuses on describing, comparing and combining secondary data. There are various advantages of using secondary data. Firstly, secondary data partly as a higher quality data is compared to the one collected by the researcher herself. Secondly, through secondary data, the researcher can get various comparisons and contexts of the data. In other words, the researcher can use a more general context or alternative findings to support her results. Thirdly, there are always unpredictable valuable findings that can be found when reanalyzing secondary data. (Saunders, et al. 2007, 259-260.)

### **3.3 Types of interviews and interviewees**

The use of interviews support the researcher to collect valid and reliable data that is relevant to her research objectives. The important thing is that the researcher should lead the interviews to meet clarified goals. (Saunders, et al. 2007, 310.)

In this study, the author chooses 6 interviewees to participate in research to gather information. The interview questions are designed in two different versions based on different purposes. The first interview version is designed for the case company manager, who has experience and knowledge of what the important financial factors effect is on the company's practical business profits. Through the interview, the author can get a clear insight in the company's business, product characteristics, and operation strategies. Meanwhile knowing problems the manager thinks they might meet with the new target market and her expectation of business goals in the future. The interviewer supports the author to modify relevant investigation questions for future secondary data analysis in order to reach the study purpose.

The second interview version is designed for the case company's potential customers in the Finnish market. The interview tries to figure out different customers' view of the firm's business, expectations of the company's services and acceptable price level of the products, intending to attract them to purchase. Briefly speaking, these data analyses are used to assist the company in choosing suitable products, offering valuable services, determining reasonable prices, setting efficient operating strategies, and gaining profits in the long run.

There are also different types of interviews. For the first interviewee, considering the company's location, the distance structure interview through email is used to gather information. The email offers the entrepreneur freedom to think questions patiently and to answer them without time limitation. On the other side, the author chooses five potential customers who live in Helsinki and are interested in the company's products or services. The five respondents are consisted of two Asian restaurant managers who lead their catering business in Helsinki, one Asian student who lives in Helsinki and the left two are the Finnish customers who have previous experiences on product purchasing in Asian food stores. The face-to-face interviews are selected to be the most effective method for these target interviewees, since it is a more convenient and easier way to reveal each respondent's feelings and attitudes during the discussion process. Moreover, this kind of interview is flexible with the interview time. (Hollensen 2007, 163.)

In conclusion, all interview questions are made simple and easy to understand. They will play good roles in guiding the interviewees to move around, clarifying topics and assisting the author to conduct the further work. During the interview the author tries her best to be a decent listener, respects all interviewees' perspectives and makes sure they feel free to express their thoughts and opinions. This environment-friendly will make the interviewees released and provide more good thoughts and information.



## **4 Profit factors analysis**

In this chapter, the author conducts the analyzing for three financial factors that have influences on the case company's business profitability in the target Finnish market. Generally speaking, the section contains three sub chapters, as mentioned in the research purpose part, these profit factors analyses used to develop the thesis and achieve the research purpose. The first part is the taxation factor analysis, which provides the foreign case company an overview of the Finnish taxation system and presents its effects on the case company's business profits achievement. The second factor is analyzing and estimating startup operating expenses based on the case company online business model. The last one is evaluating the useful economic inventory management methods to support the case company effective control its inventory and avoid capital losses.

### **4.1 Taxation**

For the case company that wants to establish its business in the Finnish market, one of the key financial factors the manager needs to consider is the country's tax regime. Many business financial decisions are affected either directly or indirectly by taxes. For instance, investors always want to know how the tax rate effects on the company's bottom line before making their investment. (PKF Worldwide Tax Guide 2012, 1.) Hence, as a foreign company that wishes to have favoring operation in the Finnish market, it is vital to be familiar with taxation payment regulations, business income and standards of VAT payment. This section presents foreign entrepreneurs basic information related to the Finnish taxation system. In particular, it contains taxation payment in Finland, business taxation in different forms of enterprise, standards of value added tax (VAT) payment.

#### **4.1.1 Taxation payment in Finland**

A foreign enterprise or individual that wants to start its business in Finland must submit a startup notification form (Y form) to the Finnish Central Tax Administration and the trade register maintained through the National Board of Patents and Registration

of Finland (NBPR). In other words, enterprise used the Y form notification to do the first registration when setting up its business in Finland. In accord with, the Finnish tax administration will use the submitted information to specify the new company registration types. Then with the same notification, the company enables to enter in other registers, for instance, the tax prepayment register, VAT register and the employer register. One important thing entrepreneurs need to notice is the time of sending the notification. Normally, they do not need to send it until its business operation or goods, services acquirement actually starting. It is also essential for foreign companies understand if it has a permanent establishment in Finland and pay its employees' salaries through the payroll system, then they have to register to the Finnish tax administration and following the Finnish registered employer's obligations. (Enterprise Finland 2013; Finnish Tax Administration 2011a.)

In general, if the enterprise has a permanent establishment in Finland, it has the liability to pay income tax of its business. This means companies that operating their whole business or part of the business of a corporation in Finland have to pay tax based on their business return. The business return is differed in two sections, earned income and capital income. The earned income contains the salaries, wages, benefits, and other payments. And the earned income taxation is based on progressive, which means when the business income increases, the percentages of taxation also rise. In other words, the higher earnings, the bigger amount of taxation the company needs to pay. On the other hand, incomes from the sales of assets, returns on capital or rental income are defined as the capital income. For this kind of income, the amount of taxation payment is based on the proportion of the business's assets. In 2013, the Finnish corporate income standard tax rate is 24,5 % of the taxable income. And the corporate tax that levied on the company's profits contains capital gains, passive income and business income. (Deloitte 2013, 1; Finnish Tax Administration 2011a; Suomen Uusyrityskeskukset ry, 2013, 34-36.)

The business taxation contains tax payment and declarations. Firstly, companies need to pay its business income tax and the calculation depends on its taxable profits. Secondly, it needs to pay the value added tax for its sales revenues. Thirdly, the company

also needs to pay taxes on wages that suspended at the social and source security contributions. Lastly, the personal income taxation of foreign entrepreneur's salaries and dividends must be paid. (Enterprise Finland 2013.)

Companies always need to know the tax year in Finland. It contains of financial period or periods that end during in the calendar year. Nevertheless, the final tax evaluation for the tax year is determined based on the company tax return. The enterprise must submit the tax return within four months of the end of their accounting period. If the company fails, frauds or delays the file return, then there will be fine charged on them. (PKF Worldwide Tax Guide 2012, 1.)

#### **4.1.2 Business taxation in different forms of enterprise**

In Finland, the business taxation paid by enterprises is depending on the company's form. Each enterprise form has its special taxation payment rules. The amount of taxation payment is also different from one to another. Some forms business taxation is targeted at the company while others might focus on the entrepreneurs' personal taxes. Such as, the private enterprise's capital income is taxed at 28% while the limited liability company pays the corporate tax and the rate is 24.5 % in the year 2013. (Suomen Uusyrityskeskukset ry 2013, 34-36.) Consequently, when entrepreneur establishes a new company, the company's form should determine under careful consideration. It is wise for entrepreneurs to choose a suitable company form. The following section presents different forms of enterprises' tax payment regulations.

**Private entrepreneur taxation payment:** The private entrepreneur's business income earned is subject to tax as his own income. Some of its earnings are taxed as capital income and others are taxed as earned income. The proportion of capital income based on net assets of the business. Company's net assets are calculated by subtracting total business liabilities from the total business assets. The capital income accounts for 20% (or the entrepreneur can decide to only be 10%) of the net assets for the previous year, and the remaining part is considered as the earned income. Instead, the entrepreneur may require the capital income proportion be calculated as 0 % and then the

whole business income is subject to taxation as earned income. In the business foundation year, the capital income share is calculated according to net assets of the last day of the first accounting period. (Suomen Uusyrityskeskukset ry 2013, 35.)

Table 2. Example of private entrepreneur tax payment calculation

Net asset =20,000	Net sales = 40,000 € Costs= 15000€ Business income to be distributed 25000 €
Capital income =4000 € (20 % of net assets) Tax on capital income =1120 (28 % of earned income)	Earned income = 21,000 (Business income - capital income) Tax on earned income = 4620 (22 % of earned income)
Total tax amount payment $1120 + 4620 = 5740€$ Net profit $25000 - 5740 = 19260€$	

Table 2 presents the method to estimate private entrepreneur's tax payment based on the capital income accounts for 20% of the net asset situation. And it shows the total amount of tax payment (5740 €) and the final net profit (19260 €) after tax the company can earn.

**Limited liability company taxation payment:** In Finland, the Limited Liability Company is the most common business form. And there are two types of this kind of company. One is the private limited company (Oy) and the other is the public limited company (Oyj). In Finland, this type of company is considered as an independent taxpayer that means its income taxed as company's own income. And currently, the 24.5 % income tax rate is applied to a limited company. And the company taxation has no direct effect on individual shareholders. Shareholders are not taxed until they withdraw earnings from the company in the wage, a loan or dividend form. Normally a limited company's profits can be allocated as dividends to its shareholders. Then the share-

holders need to pay tax for the dividend they receive from the company. (PricewaterhouseCoopers 2010, 9; Suomen Uusyrityskeskukset ry 2013, 36.)

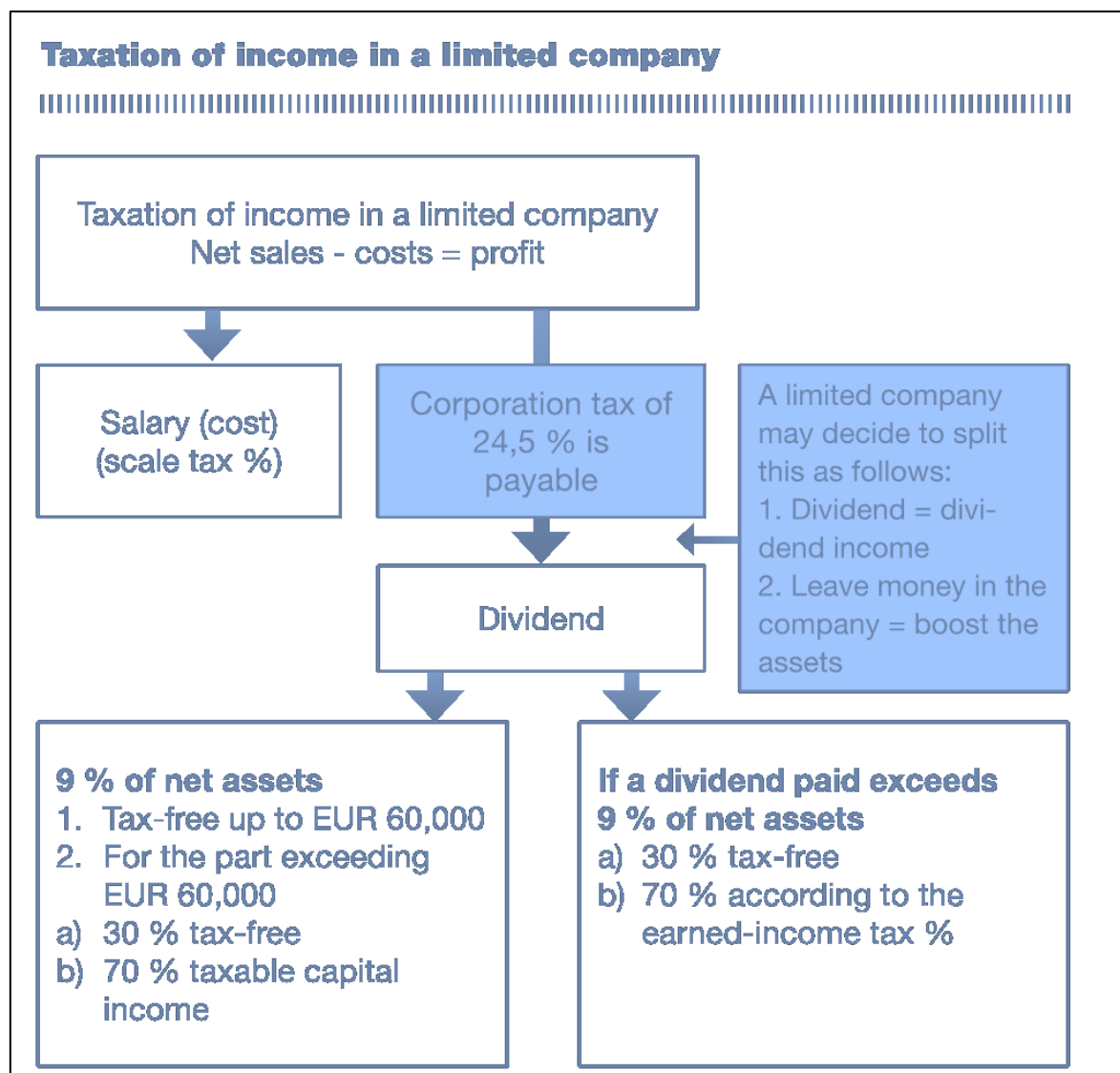


Figure 4. Taxation of income in a limited company (Suomen Uusyrityskeskukset ry 2013, 36)

Figure 4 shows the process and regulations of how a limited company be taxed as:

“Taxation of dividends depends on how much in dividends a company distributed and what the mathematical value of its shares is. The mathematical value of its shares is calculated on the basis of the the company’s net assets. If a company distributes less than 9% of the mathematical value of its shares as dividends, the dividend is deemed as totally tax-free income for a shareholder up to a value of EUR 60,000. For any element that exceeding EUR 60,000,

70% is regarded as taxable capital income and 30% as non-taxable income. If a company distributes more than 9% of the mathematical value of the shares as dividends, for the elements exceeding 9%, 70% is regarded as taxable earned income and 30 as non taxable income.” (Suomen Uusyrityskeskukset ry 2013, 36.)

**General partnership and limited partnership taxation payment:** The general partnership or limited partnership company is not subjected to taxation as separate taxpayers for taxable income. Nevertheless they have filed their own tax return based on the income of which tax must be paid. The taxable income calculated for the business is divided into partners in the proportion of their ownership. It will be taxed either as capital income or earned income (together with all other income partners may have). The calculation rules are first based on the capital income portion. In detail, the capital income accounts for 20 % of a partner’s share of the business net assets from previous year business activities and plus 30% of salaries paid. Secondly the rest will be taxed as the earned income. (Suomen Uusyrityskeskukset ry 2013, 35.)

#### 4.1.3 Standards of value added tax payment

In Finland, the standard rate of VAT is 24% of most goods and services since 1 January 2013, with reduced rates 14% applying on the food products; this also includes catering and food services. However this reduced rate is not applicable to sales of alcoholic beverages and tobacco products. VAT rates applied to books, medicaments, cinema, and exercise services are 10 %. (Suomen Uusyrityskeskukset ry 2013, 37.)

Table 3. Example of VAT calculation on the Case company's food product

Monthly	Including tax	Net of tax	VAT14%
Sales	8060	7070	990
Purchases	4340	3807	533
VAT payable			EUR 457

Table 3 illustrates the VAT payable amount (457EUR) that the entrepreneur needs to pay from its sales in one month. It explains that in order to know the final amount of the VAT payable, it is necessary to figure out both sales and purchasing price that including VAT tax as well as the net price without VAT (The net of tax price equals the price that including tax divides the 1.14). Thus, the final VAT payable can be determined by sales VAT payment minus purchase VAT payment.

Table 4. Example of sales price calculation

<b>Sales prices</b>	<b>EUR</b>
<b>Total costs of the product</b>	<b>50,00</b>
<b>Plus Target sales margin 30%</b>	<b>21,43</b>
<b>=Sales price of net tax</b>	<b>71,43</b>
<b>Plus VAT 14%</b>	<b>17,14</b>
<b>=Sales price including tax</b>	<b>81,43</b>

Table 4 presents the process of determining the final sales price with VAT at the company's 30% target sales margin. In order to determine the final sales price including tax the sales price of the net tax need first be calculated. In this example, as the company would like to have the 30% sales margin, the sales price of net tax is calculate as follows:

$$((\text{Sales price of net tax}-50)/(\text{Sales price of net tax}))100\%=30\%$$

The sales price of net tax is: 71.43 and the final sales price including tax is 81.43 EUR. This calculation shows that the VAT payment amount always needs to consider when the company setting its final product or service price. The company should clearly figure out the net price of the product under certain desired sales margin. Based on that the final sales price can be decided.

All entities that operating business and involving in taxation activities are required to register for VAT, even the sellers are foreigners or the selling is not done through the fixed establishment in Finland. In normal circumstance, if the foreigners that conduct business through a fixed establishment in Finland, it is asked to register as foreign taxable persons or organizations. On the other hand if the foreign sellers not having a fixed establishment in Finland, then the VAT on these sold goods or services is recorded and charged by purchasers. Foreigner registers have the equal rights, responsibilities and other regulations as Finnish taxpayers. (Finnish Tax Administration 2011b.)

The exemption of VAT is available if a company running a small business. In other words, the company does not need to register the VAT and there is no VAT charged on it. In practice, the small business is defined as if the total amount of business net sales does not exceed 8500 EUR in a certain accounting period of 12 months. However this rule does not apply to a foreign company that has no fixed establishment in Finland. The most important thing for entrepreneur to remember is being realistic when doing the business's net sales estimation. Once the amount of total net sale is exceeding the limit 8500 EUR in practical business, he must pay VAT backdated from the start of the accounting period even though his previous predictable net sales would be lower. In addition, there are fees charged for the delayed payment. (Suomen Uusyrittyskeskukset ry 2013, 38.)

## **4.2 Operating expenses**

Except for the taxation factor, another essential factor related to companies final profit is the business operating expenses. As mentioned in the theory part, the efficient cost management will help managers to cut costs subsequently or to handle price increase as well as to prevent unpredicted effects. (Bhimani et al. 2012, 5.) Therefore it is significant to have a thorough analysis on the requirements of business cost when starting the business in a new market.



### 4.2.1 Shipping costs with Posti company

The logistics costs account for a large portion of the whole business operating expenses in online business, compared to other commerce. It is also difficult to be effectively managed. From the online retailer's view, the shipping costs would deduct its business earnings, while regular physical stores do not need to pay this kind of fees to sell goods. The higher shipping costs are always seen as the main reason why consumers cancel their purchase and abandon their final orders. Therefore, it is essential for online retailers to manage the shipping costs effectively and to choose an appropriate method to deliver products. With effective costs management, companies will attract customers and maintain their purchasing interests. (Roennevig 2013.)

In normal condition, the delivery model would be the postal services. The service is always transferred to Logistics Company to deliver customer's parcels to the doorstep or to send parcels to local postal office. With this service, the delivery costs might be high and limitations of postal regulations might be strict. (Roennevig 2013.) This chapter concentrates on illustrating the delivery cost of the case company's online business with Finnish logistics companies. The final objective is to figure out what the appropriate and economic way is for the case company to optimize its delivery cost.

In Finland there are several logistics companies offering the packing and parcel delivery services. The author takes the Posti as an example to show the exact price and regulations for this kind of service. The Posti's leaflets show that there are different delivery costs and regulations for delivering various packages in the Finnish domestic markets. This information also can be found on the company's website.

## DOMESTIC PARCEL SERVICES

### Rates Based on Weight

Postal Parcel, to be collected at the Post				Parcel to the Doorstep, delivery by 2 p.m. to addressee's door						
1 parcel, MPS not available				1 parcel			MPS, 2–5 parcels			
Max. weight kg	Incl. VAT EUR	Excl. VAT EUR	To Åland EUR	Max. weight kg	Incl. VAT EUR	Excl. VAT EUR	To Åland EUR	Incl. VAT EUR	Excl. VAT EUR	To Åland EUR
2		7.20	8.85	2	<b>14.05</b>	11.33	14.05	<b>22.30</b>	17.98	22.30
5		8.50	10.45	5	<b>14.90</b>	12.02	14.90	<b>23.40</b>	18.87	23.40
10		9.75	12.00	10	<b>15.90</b>	12.82	15.90	<b>25.00</b>	20.16	25.00
15	<b>12.95</b>	10.44	12.95	15	<b>16.85</b>	13.59	16.85	<b>26.60</b>	21.45	26.60
30	<b>18.00</b>	14.52	18.00	30	<b>20.80</b>	16.77	20.80	<b>31.85</b>	25.69	31.85
				60	–	–	–	<b>42.35</b>	34.15	42.35
				100	–	–	–	<b>56.75</b>	45.77	56.75
				150	–	–	–	<b>73.55</b>	59.31	73.55

Figure 5. Delivery prices for parcels in Finnish domestic market (Posti 2013, 12)

The figure above explains that there are two types delivery service offered by this company for domestic parcels delivering. Each of them has its single delivery price and regulations. One of them is the doorstep delivery that parcels are delivered by 2. pm to the customer's address. This kind of service can be used for both one parcel and multiple package shipment (MPS). The other delivery type is the postal parcel delivery. For this kind of delivery service, the MPS is not available. And customers need to pick their parcels during the post office business hours. The rates for services are based on parcel's weight. For the post parcel service the range of parcel's weight is 15-30kg, however, if using the parcel to the doorstep service, the range is from 2-150 kg. (Posti 2013, 12.)

## Additional Services

	Postal Parcel			Parcel to the Doorstep		
	Incl. VAT	Excl. VAT	To Åland	Incl. VAT	Excl. VAT	To Åland
	EUR	EUR	EUR	EUR	EUR	EUR
Morning	-	-	-	<b>7.70</b>	6.21	-
Flex	-	-	-	<b>2.35</b>	1.90	-
Large Parcel	-	-	-	<b>11.20</b>	9.03	11.20
Fragile	<b>6.20</b>	5.00	6.20	<b>6.20</b>	5.00	6.20
COD (excl. VAT)*	-	3.90	3.90	-	7.70 **	7.70 **
Registration	<b>4.90</b>	3.95***	4.90	-	-	-
Long Parcel				<b>12.90</b>	10.40	12.90

Figure 6. Additional services prices for delivering parcels (Posti 2013, 13)

Figure 6 shows there are extra payments if customers using additional services for post parcel or doorstep delivery services. These additional delivering services include Morning, Flex, Large parcel, fragile, COD, registration and long parcel. The regulations and prices are different in each service. (Posti 2013, 13.)

### 4.2.2 Delivery products with own transport

The figures above show that delivery by the Post Company is costly also limited by many delivery regulations. The delivery costs depend on the product weight, amounts, delivery distance and time. High shipping costs features the service of the Post Company especially with priority delivery and doorstep services. Turning to the case company's products, unlike other online products such as clothes, jewelries, digital products or other small accessories, which usually have lighter weight and do not have expired time, the food products and kitchenware have more restrictions and limitations. They have heavier weight, expired time and more packing requirements. Obviously, using the postal service seems not to be a suitable option for the case company. This higher post-delivery fee will discourage clients to make orders. It is unreasonable for customers paying more than 10 Euro delivery fee for some sausages or dry food. Moreover there are restrictions on picking time and places with the postal

services. Firstly, the parcels always need time for delivery to the customer's address. Secondly, customers need to pick parcels by themselves in the post office if they do not want to pay additional fees for doorstep services.

Consequently, owing to the case company's products, service characteristics, business size and target market (Helsinki, Espoo, Vantaa areas), in the beginning of the business, using the company's own van as transport tool to deliver products is more appropriate. This method can bring advantages to both company and its clients. Firstly, the parcel's weight and delivery time will not have a big effect on the delivery costs and packing costs. Additionally, it can offer the door-to-door services to the customers according to their timetable. Thirdly it can reduce the delivery time to manage the delivery route effectively. Customers can get their parcels, one day after their orders. Finally it offers customers another payment option that they can pay by cash when they get their orders. All these elements can make the company's services more attractive and to arise their interests to make orders.

From interviews with customers, the author understands the factors that affect the customers' final purchase decisions. Most customers such as the Asian restaurants would like to get the free delivery of their orders at the required time. In their manager's opinion, this is the most important factor to choose and make orders from the case company. (Interview 1, 2 15 March) Single customers tend to choose products with lower price and good quality as well as convenient services, which results in the final decision: the online store rather than retailers. They also expect to have more various kinds of Asian food products shown in the company's website. The Finnish customers would like to have more detailed products introduction on the back of package. (Interview 3, 4, 5 27 March)

Certainly, the case company might use the Finnish logistics company's services in the future when the company's sales increase and the market expands to other cities. However this future plan must be carefully considered with the pricing setting and the company should negotiate with customers about the delivery costs. All in all, currently

in the start of the business, in order to fulfill different customer's various requirements, the most economic and suitable delivery method is to use its own van.

### 4.2.3 Other operating costs analysis

Every business has its unique capital needs. Some business can start with a small amount of money while others might require bigger investment in certain areas, such as the inventory, business equipment or other necessary operating factors. Except for the logistics costs, there are several operating expense factors for the case company to consider before starting its business operating. They are advertising costs, equipment costs, inventory costs, monthly renting expenses, payment services expenses, labor costs, permits and license costs. All these cost factors need to be budgeted carefully as they are crucial foundation to keep the business operation. If any of these factors become out of control in a special situation, the company's final business profits will be directly affected. (Harrison, et al. 2011,666.) In order to ensure that the company is able to proper investment, the next section will present some major cost factors analysis for the case company. It is a primary budget for the first 12 months and based on predictions. It roughly presents the basic operational costs for the case company to consider before starting its business in the Finnish market.

**Permits and Licenses expenses:** It is important to get familiar with this particular industry permits requirements and license registration fees at the start of business. There are certain regulations to establish the food business in Finland. Companies that operate restaurants, food shops must submit a written notification to the local food control authority before the beginning of the business. The registration fees for business in 2013 charge differently based on various enterprise forms. In detail the registration fee for private entrepreneur is 105 EUR, for general partnership and limited partnership is 225 EUR, and for Limited company, co-operative, branch is 380 EUR. (Suomen Uusyrityskeskukset ry 2013, 24-31.)

**Rent expenses:** It is a challenge to select a correct business location for most regular retailers. Sometimes, the unsuitable location or higher warehouse rent expenses might

cause undue strain on the small retailer's business operation. However, as an online retailer, this problem might be solved more easily. Since the case company does not need a location in the city center or good shop decoration to attract customers.

(Startupnation 2013.) For the case company, considering the higher rent expense in Helsinki area, the author suggests the company to locate their inventory in Vantaa where the monthly renting expense would be cheaper. Also the size of the warehouse does not need to be large since the business is small sized. It can be an 80 square meter, which is enough for starting the web store. This can help the company to reduce the infrastructural costs and to save quite lots of money. There is no certain location requirement in Vantaa. Then the budget for renting the place is up to 1000€/month. This will make the rent expenses up to 12 000€/year.

**Equipment expenses:** The online business provides chances for companies to reduce the equipment expense. In general, for the case company, the basic start up equipment include website establishment, computers, needed furniture in the office, vehicles used for delivery goods, and necessary communication equipment like phones, fax machines, printers. Obviously, an attractive website is the key for the online business to achieve success, since all trades and dealings are made through the company's website. (Anthony 2013.)

In Finland, the company Hostingpalvelu can offer great services relating to the online business website establishment and monthly website holding. Using its services package, the case company can easily start its online website registration and business operation. There are various service types the case company can choose. The different service prices can be found on the hosting service website. (Suomen Hostingpalvelu Oy 2013.) For the transportation tool, the vehicle purchase budget is planned from 11000 to 15,000 EUR, and other necessary equipment purchased budget is 2000 EUR.

**Monthly utilize expenses:** The monthly expenses of business include office supplies and normal utilized expenses. For the case company, the packing parcels equipment expenses contain tape, boxes and dispatch note pockets, monthly telephone and fax bill. (Brookins 2013.) These expenses are predicted to be 200 Euro per month.

**Advertising expenses:** Appropriate advertising plan and budget setting are vital for the company to market their products to achieve more sales revenues successfully. It determines the exact marketing way and costs based on its specific business model. For the case company, the suitable advertising methods can be internet website, Facebook, Twitter. These methods have lower costs, and are efficient to reach most of the potential customers for online business. Of course the Finnish newspaper, sales leaflets and informational letters are possible for later use, however promotion event can be excluded of the case company's marketing plan due to the higher costs. Internet advertising is an efficient and economic method for the case company to market its products and service. The case company's home website is a wonderful place to advertise products and service. (Anthony 2013.) Some other platforms can be online websites established by Asian person who live in Finland. These websites are great places to post the case company's advertisements.

In order to attract customers, Facebook or Twitter are two great and efficient advertising methods. It is basically free of charge and information will spread quickly and easily among people. Through these networks, the case company becomes more easier to get touch with customers, to be familiar with their buying behavior and preference and to build customers network. Meanwhile the case company can use facebook to update new products information, to tell customers upcoming discounts and to announce the latest company's promotion events. Setting a online chat room is also a good marketing method for online business. It provides a platform for customers to give their feedback. The company can make quick changes according to their requirements. This adds additional value to the company's products. (Anthony 2013.)

Using local newspapers is another great way to advertise the case company's products and services. Two big newspapers like Helsingin Sanomat and Metro city are quite suitable ones for attracting the Finnish customers. Through them, the case company can reach to a larger number of consumers. Of course it will cost certain fees but still less than that of other advertising methods. This would be also a good way to

implement company's brand advertising. Briefly speaking, the case company's the marketing budget will be 600 Euro per month in the first two months of its business, and then keeps it at a around at 200 EUR per month.

**Employee Expenses:** It is important to estimate the salary expenses in the initial business budget because over wage payment might result in lower business return. Especially it is unlikely making profits in the first period of time. (Brookins 2013). Based on the case company's business model and size, at the beginning, the business will be run by two people. Then the salary would be 5000 EUR per month.

**Online business payment service expenses:** For online business, the payment option is a significant element to influence the decisions of customers purchase. Offering a convenient and safe payment option is the key to attract clients to make their orders. Online business has several payment choices to satisfy the clients' needs. For the case company, the bank's online payment service might be the most suitable one. The reasons would be: firstly it is very safe and convenient for both consumers and sellers. Consumers do not need to expose their personal information when they pay their bills of online shopping. Secondly, compared to other payment methods, it is the most common way that the Finnish customers use to pay their online bills. (Truex 2013.)

In Finnish market, there is a company named Paytrail that offers the Finnish online retailers a high quality customized service program with the payment options. By cooperating with it, online retailers are able to satisfy each customer's preference to pay the bill. For the case company it is wiser to use this service since it might require lots of time and money to make contracts with every single bank in Finland. Through Paytrail services, the case company can easily get all payment options of almost all Finnish banks with only one contract and few expenses. The detailed information can be found on the company's website. There is no initial fee and the monthly fee for online banks payment service is 59 EUR. (Paytrail 2013.)



**Inventory expenses:** The company has to think about the initial expenses for its preliminary inventory. The inventory costs differ from companies to companies based on the business products and sales model. (Brookins 2013.) More detailed analysis of the case company inventory setting and related items will be illustrated in the following section.

### **4.3 Inventory**

Inventory management is another essential factor related to SME's profitability since it is considered as a large financial business investment and current assets on the company's balance sheet. The inventory is closely tied up with the company's purchasing plan and capital resources in various periods. (Wachowicz & Horne 2008, 263.) Turn to the case company, whose main business is about online food product selling. Considering the particular product characteristics, for instance food products usually have shorter maintain time than other products, and each product has its own expiration date, and some products have seasonal offering time and special maintain requests, the inventory management is more significant. Another important reason for the case company's needs to set effective inventory control is the return in distance online selling. Customers holding reasonable reasons can return the products in 14 days. This regulation also has a big impact and increases the difficulty in the business inventory control. The manager needs to consider this possibility of inventory control of returning products in quantity as well as in certain period and to make relevant changes in product purchasing plan.

In this chapter the author will discuss relevant inventory management in order to help the company to understand the methods of determining the optimal economic order quantity (EOQ), suitable time to make new order and the functions of the Just in time system comprehensively.

#### **4.3.1 Economic order quantity**

Attempting to obtain the accurate order quantity and to minimize the total inventory costs, the economic order quantity (EOQ) model is used. The meaning of this model

and the formula for determining the optimal EOQ are explained in the theory framework part. In order to know how this model function, the author applies it in a practical example calculation with a real business case.

The Case Company X sells product A to its customers, it purchases the product A from China at the 40 Euro per package purchasing cost. And assume the inventory usage during a 100-day planning period is 2000. The ordering costs is 100 € per order and carrying costs is 10 €. Then with the formula, the calculation of the EOQ for product A is:

$$\frac{2 \times 2000 \times 100}{2 \times 40} = 200$$

This shows the amount of EOQ will be identified during the planning period 100-day is 200 units. In total there is demand for 2000 units and per order 200 units will be ordered, which means 10 times for ordering in every 100 days.

Then the author also considers to calculate the new EOQ under other changeable situations. First is determining the new EOQ if period unit sales change, as customers demand. For instance, the unit sales doubled (all the other items staying same), then the new EOQ would be 280 units. This is determined by substituting 2000 to 4000 in the previous equation. The calculation is:

$$\frac{2 \times 4000 \times 100}{2 \times 40} = 280$$

These two calculations illustrate that when sales volume has increased by (double)100%  $((4000-2000)/2000)$ , the EOQ only increased by 40%  $((280-200)/200)$ . Then the elasticity of EOQ with respect to sales volumes can be determined as:

$$\text{increase in EOQ} / \text{increase in sales} = 40\% / 100\% = 0.4$$

This means that the EOQ is inelastic with the respect to the sales volume – it changes less than the sales growth. Therefore, it tells the manager that although the sales amount increased double, it does not mean the company needs to add double inventory, the EOQ model gives a rule for determining the inventory amount. It provides this small case company's owner an opportunity to get better control over on its total stock amount and to avoid bigger inventory carrying risks. (Wachowicz & Horne 2008, 267.)

#### **4.3.2 Order time and safety stock**

In addition to the economic order quantity, the ordering time is also vital for the company to effectively control and manage its inventory. As mentioned in the theory part, it affects the inventory carrying costs and business favoring operation. For instance, the case company might face the situation that inventory for certain products will run out, if it makes the order too late. This will cause the delivery postpone to its consumers. Otherwise, if the case company make the order too early, it will be under a situation of higher stocks carrying costs and old inventory waste risks. In order to avoid the two situations, the order point and lead-time are necessary for the manager to clearly figure out. They will help the case company determine the right inventory level. (Keown et al. 2011, 455-457.)

In previous EOQ example calculation, it is assumed the inventory can be ordered and received without delay. However, in real business situations, there is a time gap between purchase order and inventory reception, thus, a lead-time must be taken into consideration. Based on the previous EOQ calculation, the EOQ for product A was 200 units and made the order being replaced and filed in every 10 days during the planed periods. It is known the daily usage of 20 units, if the usage remains steady and assumed it will take 10 days between the company making the purchase order from the supplier and receiving it in the warehouse. The order point be determined is:

Order point OP = 10 days × 20 units per day =200 units.

Then the new order is received 10 days later, the product A will exhaust its existing inventory. And the case company needs to order 10 days before product A ran out of stock or at 200 units of stock on hand. (Wachowicz & Horne 2008, 268.)

Compare to the EOQ that presumed the demand and purchase order lead time are certain with having long term contract client's situation, the safety stock is used as a useful item against unexpected demand rises or lead time and inaccessibility inventory from suppliers. Therefore, it is not wise for the company to let the stocks go to empty and then to make the new purchase. The company should consider what is the safety inventory amount for this product with the lead time. It is shown in previous calculation, the safety inventory is 200 units, now consider the lead time factor, the new order point should change to:

$$10\text{days} \times 20 \text{ units} + 100\text{units} = 300 \text{ units}$$

### **4.3.3 Just in time system**

As mentioned in the theory part, the just in time system assists companies to effectively control its inventory. In practice, there are several advantages for the company to adopt the just in time inventory control. Firstly, consider the case company's product characteristics and its small size, the surplus inventory will cause lots of money and spaces to manage them. Nevertheless, through implementing JIT system, the company can effectively to reduce the amount of on hand inventory and to keep carrying costs lower through avoiding much old or expires products inventory waste. Secondly, applying the just in time system, the company will be more efficient and competitive in dealing with suppliers and improving supply chain management. The reason would be the case company need purchase products from China and in manufacturing businesses, materials don't move forward on the line until the next upcoming step or stage is ready. This might result in the finished goods always take time for delivery to the final consumers especially the overseas delivery. The case company that has an

efficient inventory control system is easier to reduce time and costs in their supply chain management and to make their business more smoothly.

Last but not least implementing the just in time model helps the company meet and satisfy the customers' anticipated demands more efficiently by having appropriate on hand stocks. In other words, it assists the company to deliver the products to their customers more faster based on their various requirements and changeable purchasing interests. (Bhimani, et al. 2012, 713-717.)

## 5 Strategy analysis

After analyzing three main financial factors, which are related to the case company's business profitability in the Finnish market, the next step is to construct the appropriate strategy analysis for the company's business operations and profitability achievement. The strategy analysis is based on the environment of the target market, potential customers needs and the company's operating goals. Having a succinct, concrete and practical business strategy is obviously the foundation for the company to achieve its long-term business goal. Moreover, competitive strategies are the key components that generate revenues and profits for the company. (Bhimani, et al. 2012, 766.) In the following sub-chapters the author will focus on relevant issues of strategic management that assists the manager to accomplish clear strategic objectives. It contains an illustration of what these strategies are and how they function in the case company. In general, the company has two choices to improve its profits: increasing sales or decreasing operating costs.

### 5.1 Cost Leadership Strategy

As mentioned in the theory part, this particular strategy works with low cost as a competitive advantage. There is no doubt that if the case company cost more money than earned, it is impossible to gain profits. In this case, a cost leadership strategy can help it avoid this financial mess. (Horngren et al. 2009,490.)

In practice, the cost leadership strategy could be a desirable strategy to apply because of its unique online business model. The costs of the case company to run the online business are relatively smaller than a regular physical store. First of all, the operating costs of an online business are low. It does not need big offices or warehouses and it is not tied to a certain attractive location in the center area, thus the equipment expenses can be reduced. The advertising costs are also low in online business. The case company can use the Internet as a wonderful platform to effectively market its products. Furthermore tight cost policy can be used for labor costs since there is no need for many employees when conducting online business. Compared to other

physical retailers, the company's online store is functioning on its own without anyone behind the counter all the time, and no sales person is sent to market products.

(Chaffey 2013, 31, 292.)

Moreover, for the case company, lowering inventory cost is another key to achieve cost leadership. The reason would be mentioned in inventory factor analysis part. Effective economic inventory model and JIT purchasing (Just-In-Time) method would be great support in controlling company's inventory and avoiding stocks carrying risks. Special orders would be transferred to suppliers right after purchase decisions made by customers about what to buy from the company's website. (Keown et al. 2011, 458.)

Additionally, the company's online business does not need huge inventory since it has enough space to negotiate with customers about their needs and to offer them right products. What's more according to the records of purchasing order made by customers, the company can get customers' feedback so that it is easier to be familiar with their preference. Then it is possible to make categories of changing products in order to have a clear view on future product purchasing lists. (Berman 2013.)

When the case company competes with a low cost through cost leadership strategy, it generates more market shares and sales revenues. For example, with this cost leadership strategy, it might be more likely for the case company to successfully importing business brand and selling their quality products at a lower price in the Finnish market and finally be able to increase sales and achieve profits. (Horngren et al. 2009, 489.)

## **5.2 Differentiation strategy**

Undoubtedly, cost leadership is a competitive factor to increase market share and to gain profit, however it is not the only way. The differentiation strategy is another useful method for the company to increase business profits. The customers' loyalty can be maintained through getting distinctive products and services from the case company.

For customers with special needs, instead of choosing the lower price product, they prefer products with unique characteristics that can meet their needs. For example, customers need one-day delivery service. What they need is certainly not the cheaper price, but the shortest time to keep the food fresh. In this case, a special need of the delivery will determine the special form of the service that the case company provides. With this kind of products or services, customers not only just purchased the product, but also want to gain more special values, thus they are usually willing to pay additional fees or accept a higher price for them. The differentiation strategy assists of the company to attract potential customers and improve its ability to encouraging customers' loyalty with unique services or high quality products. Using the strategy, the case company can set appropriate products price to get higher profit margins even though there are not so many sales. (Porter 1998, 14.)

For the case company, it will sell unique and various categories of Asian food products that other competitors do not have in the current Finnish market. Through previous market research investigating, the author finds that currently most Asian shops in Helsinki area do not offer so many choices for their customers. Interviewees state similar sentiments on this site; most customers are unsatisfied with the local Asian shops because sometimes they cannot find the goods they want. These complains show that there are demand needs of the case company to expand business in this market. Those customers' needs can become an opportunity for the case company to apply differentiation strategy in their business to gain self-competitive advantages. This implies that the company will import and sell various Asian food products that the local Asian shops currently don't offer. These various kinds of products will attract customers and meet their needs. For the case company this can be easy to implement as it has already operated the same business successful in its domestic German market. It has abundant experience in choosing suitable Asian products which are accepted by both Asian and western customers. Meanwhile the company has experience about knowing the appropriate time to import special products to meet Asian consumer's needs. For instance, in every Mid-autumn Festival, there are many orders for the moon cakes (a special food for this festival), and when the Chinese New Year is coming the



customers turn to various traditional dry food products. All these seasonal products are having larger needs than usual.

Owing to the differentiation of services, compared to other physical Asian retailers the case company offers this door-to-door service with free delivery for target customers who live in Helsinki, Espoo and Vantaa. This is another advantage to attract customers with added values. After customers making their order online or via phone, the company would deliver the products to their personal address according to their schedule, which gives convenience to customers. With the case company's door-to-door services by using vehicle it will let the customer not to be limited by the parcel picking time in post. The differentiated services also help the company to meet customer's special requirements in a flexible way. The company accepts special orders to help customers purchase their intended food products or kitchen ware.

### **5.3 Pricing strategy**

Price and pricing strategy are among the most significant factors that affect the success and profitability of a company. Part of the product's sales price affects the case company's sales margin and represents business profits. The company can get benefits and maximize profits from effective pricing strategy setting. Therefore, careful consideration of business model and adjust of the right price level for the case company's products are crucial. The company can get a great idea of reaching the balance between price and quantity from profitability calculation. (Suomen Uusyrityskeskukset ry 2013, 18.)

Table 5. Example of products pricing

<b>Pricing</b>	<b>Competitor's price EUR</b>	<b>Price is 10 % lower</b>
<b>Sales Price</b>	45,00	40,50
<b>-VAT 14%</b>	-5,53	-4,97
<b>Price of net VAT</b>	39,47	35,53
<b>Purchase price VAT (0%)</b>	-20,00	-20,00
<b>Profit margin</b>	19,47	15,53

Table 5 gives an example of using competitive based pricing strategy, which is to set a lower price than its competitor's to attract more customers. It presents the difference between the profit margin of the company with the price 10 % lower and that of its competitor. The calculation shows that one product purchased at 20 EUR, and the competitors sells this product at 45 EUR including VAT. With this 45 EUR price the competitor gains 19,47 EUR profit margin. If the company sells the same product 10% lower than its competitors, which means the company's selling price is 40,5 EUR, this leads to less profit margin at 15.53 EUR. Under this situation the company needs to increase the sales quantity to reach their desirable profit goal. While with this lower price, the company might attract more customers who want the cheaper price. Then with higher sales volume, the company has the chance to achieve desirable profit level.

On the other hand, with unique products or special orders, the company might set a normal or a little higher price to gain bigger profit margin. Then company does not need to sell so much to get the same profit goal. This is also possible, for customers who need unique products to meet their special requirements are willing to pay additional fees. (Suomen Uusyrityskeskukset ry 2013, 18.) Two kinds of policies are both useful in assisting the company to achieve profits.

Generally speaking, for the case company there are several suitable pricing setting strategies. Considering the business model, market environment, competitor's product prices and customers' perceptions, the main applied price strategy for case company is competitive based pricing strategy. In practice, the case company online product price will be 10 to 15 % lower than its competitor's price in their regular stores. This is as one main strategy for the company to attract customers and to increase sales and market share. This can be done through minimizing operating costs according to online business model and choosing cheaper suppliers. The practice setting can be connected with the cost leadership strategy. In addition, the case company has abundant experiences about choosing reliable suppliers to get the privilege in minimizing purchasing costs of Asian products. Besides the main price policy, discount-pricing strategy can also function. For certain customers such as Asian restaurants that need Asian food products and raw materials offered in the long term with almost the same amount, the company will offer volume discounts for them. If they would like to sign long-term contracts with the case company, they will get the special price for certain products. With these flexible strategies, the case company can determine the basic tariff at the diverse levels to attract more customers and also achieve prospective sales increasing (Suomen Uusyrityskeskukset ry, 2013, 18).

For single customer the company can adopt a loyalty program. In detail, customers who purchase products over 50 euro at one time they can get a 5 euro discount coupon for purchase next time. This method could encourage customers to make orders in the future. Moreover if the customers make one order over 30 Euro, they will get free shipping services. Additionally, there will be a discount for package purchase for kitchenware such as soybean maker, rice cooker or other Asian kitchen merchandise. Furthermore as most of the company products are food products with expiration dates, the company also gives 30 % discount to sell these products one week before its expiration date. Ultimately, the company also can apply seasonal discount price to season products in certain periods, such as the Mid-autumn festival, the Chinese New Year, the Christmas and the Easter Day. For some special orders that required from singular customer, the company does not apply the previous lower price

policy. On the contrary, the case company will set an exact price to bring favorable sales margin and profits. Naturally in order to get these kinds of products, customers are willing to pay the price without bargaining. Through this certain service the company is more likely to earn higher profits.

## **6 Discussion**

As mentioned earlier, the thesis aims to explore an entire research about providing abundant and useful financial information for the foreign case company that wishes to successfully operating its business in Finland. The research field is applied to the case company's small sized online business model. In general, there are four crucial research objectives are studied and evaluated. And after qualitative data collected and analyzed, this research might be concluded as a useful source for the case company to familiar with basic financial factors influence on business profits in the Finnish market. Meanwhile it had provided the company some practical Finnish business operation suggestions. The author thought the thesis investigation questions had been answered. And the suggestions had met the case company's expectations.

### **6.1 Main findings and recommendations**

In conclusion, after conducting a thorough research, four factors that might influence the company's profitability can be summarized: taxation, operating expenses, and inventory and strategy management.

First of all, the high taxation expense has a negative impact on the company's final business profit. In practice, it restricts the total revenue that can be earned after tax payment. It is possible for a company to lose more profits from taxation payment due to its form of ownership. Furthermore, due to different countries' taxation regulations, there might be additional taxation expenses to import business. Consequently, if the company has to pay a bigger total amount in taxes, the business would suffer from smaller net profits or a lower return on investment rate. Eventually, the company would have difficulties to meet a decent growth in long run. Therefore, it is important for the case company to get familiar with and fully understand the Finnish taxation system and VAT payment standards before making its investment and entering the market. This preparation will assist the company to choose the right corporate form and to set a suitable sales margin and final appropriate product prices.

Secondly, the company that has bigger operating costs might suffer from a lower or not profitable business situation. Moreover, the whole business might be subject to liability. On the contrary, the company can manage and optimize business-operating costs as a method to earn profits. By means of this, it has the possibility to reach a lower operational cost goal as its competitive advantages. Hence, a comprehensive operational cost budget is fundamental for the company to achieve business success. Thus, for the case company as a small online business retailer, having a clear basic start up operating expenses estimation is significant.

Thirdly, effective inventory management is essential for a small business since it always has a numerous capital or cash tied up to the inventory. Inventory management reflects how well the company controls orders from customers and suppliers to optimize the inventory level. Moreover, effective inventory management is important to maximize shareholders' wealth and business profitability as well as to satisfy customers' requirements. (Keown et al. 2011, 452-453.) From the research, the author understands that the economic inventory quantity model and just-in-time system are two functional methods to support inventory management. They assist the company to lower economic inventory costs, to reduce carrying inventory risks and to avoid huge investment losses. Therefore, the case company needs to effectively apply these two methods into its inventory management process.

Lastly, strategy management with efficient strategies can support the company to deduct the costs, to sustain competitive advantages, to increase sales and finally to gain profitability. These efficient strategies include cost leadership, differentiation and various pricing strategies. In particular, a cost leadership strategy offers the opportunity for the company to lower the prices more than its competitors to attract more potential customers and to increase its market share. The differentiation strategy provides the opportunity to add special values to customers. These added values allow the company to gain a higher profit. Moreover, with the various pricing strategies applied to different customers, the company can meet customers' needs and reach profitability optimization. Consequently, it is useful for the case company to implement these effective strategies when it starts to bring its business into the Finnish market. These strategies

will help the company to reach its business profit target and achieve a sustainable growth. In particular, the company should effectively control its operating costs. Furthermore, the company needs to differentiate its services and products from competitors. Finally, the company can offer different prices for various customers to meet their demands.

All in all, the company that pursues profitability has to pay close attention to the four essential aspects mentioned above, fully understand their features, functions, and effectively apply them in company business operations.

## **6.2 Validity and reliability of the study**

The author tries to use reliable theories and practical information to promise the reliability in this study. In the theoretical part, there are various kinds of relevant academic literature (books, publications and Internet sources) applied in the research problem and objectives. The academic literature is given to increase the research's variability and reliability. As the research focuses on the secondary data, it is essential to select and collect right secondary data sources that match the particular research objective. As for the Finnish target market taxation analysis, which requires new information from the government regulations or other external factors, the author uses lots of latest electrical sources to keep the reliability of the data. Since the research contains lots of calculations, the author pays attention to the final results accuracy. After calculation, the author always checks the outcomes again to avoid calculation mistakes.

For the interview, as mentioned in the research methodology part, the author chooses various interviewees to conduct the different interview questions. The correct interview types are also selected appropriately to meet each research objective. In the end, the information gathered from the first interview assists the author to narrow the research scope effectively and to decide the investigative direction. The information also makes the author understand how to guide later work with the potential customers in the Finnish market.

When conducting the distance interview with the case company's entrepreneur, the author employs a well-structured interview questions list to avoid misunderstanding. In order to increase the results reliability, the author contacts several times with the entrepreneur and sends all the results to her to avoid transparency mistakes. When doing the face-to-face interviews the author tries to behavior appropriately and to provide interviewees with a favorable in discussions that can let all interviewees feel free to express their opinions and thoughts honestly. Meanwhile the author makes herself to be a decent listener, and a careful recorder. The author respects all interviewee's perspectives and keeps neutral when transferring the interviews record notes to the research results. Furthermore as the author is Chinese, when doing the interview with Chinese interviewees, the nationality is used as an advantage to conduct the interviews more fluently. However the cultural difference might influence the interpretation with the Finnish customers. At last, the purpose of the interviews with these potential customers is to figure out their thoughts and opinions on Chinese food products and services provided by current local Asian retailers. There are no personal confidential items related to the interviewees, thus the results reliability can be maintained.

### **6.3 Challenges**

During the thesis's working process, it has been noticed that there exists some challenges for the case company to operate a new business in the Finnish market. The major challenge would be to broaden targeted customers. In the beginning period of the business, it is hard to attract enough customers or to maintain sales volume in the new market. The reason would be company's unrecognized brand. Most of Finnish customers are not familiar with the Asian food products. There are fewer motivations to push them to make orders. Furthermore, the company is lack of information about Finnish customers' preferences and consumption behavior. This challenge might be the biggest obstacle for the company to expand its business and to increase market share.

Another challenge is that the case company might face unsatisfying business profit margin. The research findings indicate that there are higher business operating expens-



es in Finland than in its domestic market. It is reflected on the high-level taxation payment and other business operation expenses. Hence, setting policies, desired sales margin and operation strategy of the original price of the case company's products might not function any more.

The third challenge is to survive the competitors. Currently there are several competitors existing in this market. Some of them even have quite enough experiences of Asian food products business in the Finnish market. Although the case company has its own unique services, product quality and added value, it is still difficult to win over other competitors and to gain great sales volumes at the beginning of the business.

#### **6.4 The future research suggestions**

Previous analysis shows the challenges for the case company when establishing its e-commerce in the new Finnish market. This part will point out some suggestions for future research to assist the case company with improvement and development. Firstly the information about the thesis is collected and analyzed at a general level. In the research, there are not enough amounts of semi-structured interviews with Finnish customers. Therefore in the future the case company can carry out a thorough Finnish market research or consumer questionnaires to figure out more detailed information on their needs and expectations about the company's services and products. For instance what kinds of Asian food products the Finnish customers are interested in or willing to purchase and at what price level?

Another possible research idea is to find an effective approach to promote the case company's business. One way is to think about how to infamously its brand among a bigger market share and then increase sales. Also topics on how to gain new customers and how to maintain customer loyalty can be discussed further. The thesis only considers the company's business operations in Helsinki, Espoo and Vantaa areas through its own transportation tool in the first year. The future research can focus on the possibility of expanding the business to nearby cities, carrying out a detailed budget calculation on transportation costs, and on possible profits evaluation.

Thirdly, as the thesis is focused on studying the analysis of basic profitability factors in the target market (Finland), the future study could deal with the practical transport logistics costs for delivering merchandises from China to Finland. That means the future research can focus on what the exact total costs are for different products delivery and how they can be minimized. Also future research direction could be in discussing the most economic transport method of delivering products. These issues are vital as they influence the business inventory management greatly. What is more, in this study the discussion about how to choose suppliers which is in China is not mentioned. Then the strategy of filtering reliable and qualified products to fit Finnish customers' requirements might be another topic.

Last, the study reveals the case company business idea in the Finnish market, however; only the profitability issue is considered. The future research can get into a broader business plan that covers legal regulations, business registration requirements, business culture, marketing methods, insurance, banking loans and possible supporting organizations.

## **6.5 Self-evaluation**

Turning back to the whole research procedure, the author is enthusiastic about conducting this particular bachelor research topic for the case company. Through the writing process, the author has the opportunity to gain a great deal of useful knowledge related to her specialization area financial accounting and experiences of applying them to a real business case.

Certainly there are many benefits in the thesis writing process. To highlight the author tries her best to receive benefits to a great extent. One of the biggest benefits is the acknowledgement of the skill of limiting the scope of the research. Another benefit is that the author learns how to make sure appropriate topic to satisfy the case company. It is vital to find the theories which are suitable for the author's thesis from large numbers of documents and literature. Other benefits include that the author learns to

put theories into the case of the German company appropriately. The study helps the author to get conclusion and to give suggestions from the research with objectivity. Besides the author is becoming familiar with the Finnish customers and their attitude towards Chinese food. Except that, the author also gets a knowledge of qualitative research methods and learns good skills of organizing interviews in research. For instance, how to make the clear structure of interviews and how to set appropriate timing of the interview. It is necessary to set reasonable schedule to make sure a smooth research procedure, because it is a heavy work to gather information and to analysis it, to collect important secondary data and to understand it. Under the help of the thesis's advisor, the author goes into the whole procedure quickly and finds a clear direction of the thesis.

Overall, the most valuable experience of this study is that the author's multicultural sensitivity and ability in analyzing financial profitability factors is enhanced in a real environment. As an Asian student, the author has personally benefited a lot from this particular topic. The process shows that the author receives a solid understanding of various financial information and knowledge to help the case company.

The valuable writing gives a comprehensive and clear guide for the author to differ some business etiquettes, financial system and regulations from her home country. The author believes that the significant experience will play vital role in her future study and professional career.

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# Attachments

## Attachments 1. Interview Questions for Case Company

Company Case Company X GmbH Location Berlin, Germany

Main Business Import Asian food products Interviewee position The Entrepreneur

1. What are the crucial products of your company and what the sales price of them in your domestic market?

2. Are there price difference of products between your online market and retail shop? How many percentages of the differences?

3. What do you think is the most important financial factor to affect your whole business profitability?

A. Taxation B. Social costs C. Inventory costs D. Cost of good sold E. Other expenses

4. What is your current company pricing strategy in domestic market?

5. What are major services cost when you cooperate within local logistic company DHL and UPS to deliver package?

6. Based online business what are the vital factors you consider when making discount to your customers?

7. How you think the role of inventory control, are you satisfying your current inventory management model?

8. What the most factors you want to know about the target Finnish market?

A. Economic environment B. Difficulties for foreign entrepreneur to starting business C. Competitors in same industry D. business E. Business operation barriers

9. What is your business goal in this new Finnish market that you want to achieve?



10. Do you familiar within Finnish market and customers attitude to the Asian products?

11. What financial aspects you want the research process to figure out that can assist the company to gain profits and sustainable development in the Finnish market?

12. At start-up step in another new market, which kinds of financial support and plan you think you needs

## Attachment 2. Interview Questions for Finnish potential customers

Dear Interviewee

The purpose of the following questionnaire is to get the basic information of your opinions about the Asian food products and kitchenware offered by current Asian retailers in the Finnish market. Through this interview, the company will know your feedbacks and perspectives about their business and then provide better services for you in the future. Thanks for your cooperation.

1. Are you satisfying the current Asian food retailers' service in current Finnish market?
  - A. Unique products B. Cheap price C. Flexible payment D. Good services
2. How do you know the Asian food stores?
  - A. From Internet B. From local newspaper C. Company promote brochures D. Friends E. Others
3. Do you think the price of products is proper?
  - A. Acceptable B. A bit expensive C. Too expensive
4. What special products you want have but not be provided by current Asian food stores?
5. How many times you purchase the products from the Asian food stores in a week?
6. What the most favorable products for you?
7. What exact services you would like the online service provide to you?
8. Will you pay the shipping cost if we offer you the door-to-door service?

10. What your expectations for the online Asian food stores?

### Attachment 3. SWOT analysis for the case company in the Finnish market

Beneficial to reach the company's goal	Obstacles to reach the company's goal
<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> <li>• Unique and quality products</li> <li>• Add value on delivery services</li> <li>• Lower price</li> <li>• Convenience order through Internet</li> <li>• Company positive attitude and higher motivation</li> <li>• Wide network in products sourcing</li> <li>• Personal contact with Chinese suppliers</li> </ul>	<p style="text-align: center;">Weakness</p> <ul style="list-style-type: none"> <li>• Lack of experiences of doing business in the Finnish market</li> <li>• Difficulties to get higher sales volume in the initial periods</li> <li>• Unrecognized brand in the beginning of the business</li> <li>• Lack of Finnish cultural knowledge and language skill</li> </ul>
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> <li>• Customer's demand</li> <li>• Good market with currently few competitors</li> <li>• Potential growth opportunities</li> <li>• New services and products expansion</li> </ul>	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> <li>• Government intervention higher VAT payable and taxes on import products</li> <li>• Higher business operating costs</li> <li>• Lack of Finnish consumers buying behavior on certain Asian products</li> <li>• New competitors easier to entry the same business</li> <li>• Exists competitors</li> </ul>