



# **BUSINESS PLAN FOR ESTABLISHING A SAUNA CLUB IN LU'AN, CHINA**

**Thesis**

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Accepted \_\_\_\_ . \_\_\_\_ . \_\_\_\_ \_\_\_\_\_

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Abstract <p>Lu'an and Varkaus became twin cities in the year 2004. Since then, the two cities have done different kinds of cooperation successfully. There is an educational cooperation project between Savonia University of Applied Sciences and West Anhui University, and there are also several cultural projects such as two cities exchanging cultures and celebrating festivals together. However, there is still a big gap for business connection and there is great need for business cooperation between the two twin cities. Therefore, a sauna club project between the two cities becomes a very interesting and promising idea.</p> <p>The original goal of this thesis is to find a possible cooperation way between Lu'an and Varkaus. The main purpose of the thesis research is to make a decent business plan for the potential investor in Varkaus, so that this project can become a reality one day. On one hand, Lu'an city is willing to be more international, and it needs to open its gate for more economic and cultural cooperation with different nations. On the other hand, the sauna club will bring the twin cities closer together, so there will be more cooperation opportunities in the future.</p> <p>The research was carried out by investigating the market in Lu'an, which including analysis of the potential target group, online survey with Lu'an citizens, and SWOT analysis for Lu'an service market. There are also interviews with Varkaus city officials and director from Spa Hotel Kuntoranta, so that more specific cooperation plans between the two cities can be made, in a more reliable way. The results of all researches represent the respondents' interest and opinions towards this sauna club idea. The researches will help the potential investor to estimate the opportunities and threats might occur while undertaking the project. The objectives of this thesis are to draw people's attention to sauna business market as well as to spread Finnish sauna culture into China.</p>		
Keywords twin cities, sauna business, potential investor, SWOT analysis, cooperation plan		
Note		

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## 1 INTRODUCTION

In the year 2004, Lu'an, China became a twin city of Varkaus, Finland. Since then, the two cities have had significant business and culture cooperation. One of the projects is educational cooperation, so the university in Lu'an, West Anhui University, has sent a group of students to study at Savonia University of Applied Sciences, Varkaus. As one of the students who had the chance to come to study in Varkaus, making a final study about the two cities becomes a great idea. Struggling with different plans in mind, a choice of writing the thesis about sauna business cooperation between the two cities was finally made, in order to bring the twin cities closer together.

The title of the final thesis is *Business Plan for Establishing a Sauna Club in Lu'an, China*. This thesis will offer people a new business idea, and introduce the process of establishing a sauna club in China. Some basic information will be given through the plan, including the planning process, SWOT analysis for Lu'an market and several marketing strategies. The research was carried out by investigating the market in Lu'an, which includes analysis of the potential target group, online survey with Lu'an citizens, and SWOT analysis for Lu'an service market. There are also interviews with Varkaus city officials and director from Spa Hotel Kuntoranta, so that more specific cooperation plans between the two cities can be made.

### **Purpose of the Study**

The main purpose of the study is to make a decent business plan for the potential investor in Varkaus, and the final goal of the study is to find a possible cooperation way between Lu'an and Finland. Lu'an city is willing to become more international and it needs to open its gate for economic and cultural cooperation with different nations. After the three-year study experience here in Varkaus, Finland, learning

how to some cultural and business contribution to the two cities is no doubt a very useful and interesting study area. Hopefully this plan can get some attention from the two cities, so that one day some Finnish investor from Varkaus can be interested in this project and help to make this business plan become reality and build such a club in Lu'an city in China.

### **Structure of the Study**

After the introduction part, chapter two mainly describes the business planning process. This theoretical part explains the most common elements of preparing a business plan for setting up a new business, which is very important for the following chapters. Service marketing mix and marketing segmentation are also two important parts in this chapter because they are widely used in the practical part for further planning.

Chapters three and four deal with the process of the research, which includes theme interviews, questionnaires and the analysis of the target market, Lu'an city. Chapter five describes the sauna building process, so it is the implementation part of the thesis. It also introduces ways of promotion and cooperation plans with Varkaus, Finland. Chapter six is the conclusion part of the study.

### **Limitations of the Research**

The plan aims to make the sauna club idea reality, but due to the small sample size, the research findings cannot be generalised. It is also a pity that the online questionnaire didn't get a large number of respondents. The total number of the respondents was quite small, which was not reliable enough considering a further project.

The sauna club idea is international and both Varkaus and Lu'an cities are involved in the research. So the opinions and attitudes from Lu'an government towards this sauna club project are also rather important. However, although many emails were sent to government officials and business organizations both in Lu'an and in Varkaus, asking for face-to-face interviews, telephone interviews or online survey, there were not many responses. So eventually, only were completed three interviews and one online survey. This project should have a much larger number of responses for further planning.



## **2 BUSINESS PLANNING**

To make a business successful, there are a lot of possible options: the product or the service is innovative or unique, the time for entering the market is just perfect, the company has enough capital and is willing to take a risk, the product or the service is of great quality, the labour costs are low, or/and the marketing strategy is well designed. (Learn marketing.net, 2010) However, in this chapter, the importance of a business plan, marketing strategy and business culture are mainly discussed.

### **2.1 Creating a Business Plan**

One of the most common and effective activities in management is planning. Planning is setting the direction for something or some system then making sure the system can follow the direction. Planning helps the planners to define the objectives and strategies of the business in order to achieve the mission. (McNamara, 2010)

Business plan is a written summary of the entrepreneur's proposed venture, its optional and financial details, its marketing opportunities and strategy and its skills and abilities. There is no substitute for a well prepared business plan and there are no shortcuts to creating it. Some business consult describes the business plan as a road map, which shows the direction the company is going to and what its goals are, where it wants to go and how it's going to get there. (Deakins 1999, 252)

“A business plan has to be flexible and every business plan has to be different and produced for different requirements. It is not desirable to include all of the sections, not everyone will have the time or resources to produce a full and detailed business plan.” (Deakins 1999, 256)

### **2.1.1 The Basic Concepts of Planning**

There are five terms included in business planning: goals, strategies or activities, objectives, tasks and budgets. The five terms can be explained briefly as below ((McNamara, 2010) :

#### **Goals**

Goals are which the company has to accomplish in order to achieve their mission, or to achieve some larger results.

#### **Strategies or activities**

Strategies or activities are methods or actions needed to achieve goals, and it can be actions that the company takes, such as plans, promotion or cooperation.

#### **Objectives**

Objectives are tools that must be accomplished so that goals can be achieved in the plan. Objectives can be seen as “milestones”, which are essential parts of implementing the strategies and reaching the goals.

#### **Tasks**

In order to carry out the plan, different tasks will be set up. The scope of tasks and activities follow the scope of the plan.

#### **Resources and budgets**

Resources include people, materials, finance, and technologies and so on, which are the requirements of making the process of the strategy. The costs of these resources are displayed in a budget form. (McNamara, 2010)

### **2.1.2 Elements of Business Plan**

Business plans are required to raise finance, sell a business or to provide a blueprint for management in the future. Designing and writing the business plan is a result of a careful research process and planning procedure. A business plan can serve as a strategic plan for the company, to guide the business. There are also other reasons why a business plan should be prepared. (Deakins 1999, 254)

- A well organized plan is essential to assess the financial proposal.
- It gives more chances to look ahead and avoid problems before they occur in the future.
- It helps to analyze the customers, the market and competitors.
- A good business plan helps to understand the mission and goals in the company.

The basic elements of a business plan consist of information about the business, financial data and supporting documents. The business means description of business, marketing plan, location of business, competition, management and personnel. Financial data includes sources and application funding, capital equipment and a supply list, a balance sheet, a breakeven analysis, a project income statement, a cash flow projection and a sensitivity analysis. (Deakins 1999, 255)

#### **Business description**

The nature of the business and the objectives should be introduced as background information in a business plan. Then a plan should also include description of the product or service so that the customers know what the offer is and how they will benefit from it. The location of the business plays an important role in its success or failure. Choosing a good location will open a wide path to gain more customers. (Bangs 1998, 7)

## Competition

This part of the business plan describes the nearest competitors by analyzing their advantages and disadvantages. Finding out how their business is and if the business is increasing or decreasing steadily are necessary because then you will learn from their mistakes and experiences, which will help you to operate your own business more smoothly. (Bangs 1998, 39)

However, it is important to keep an eye on the competitor, not only when the business is starting but also when it is growing. Collect data as much as possible about the competitors, their ads, brochures, trade show handouts and any other material that shows their marketing strategies. Analyze the results you get, and be aware of when and how the marketing advertisements are made, which media and public relations are used. Here Bangs (Bangs 1998, 40) suggests this kind of table form to analyze the competitors.

*Table 1. Competition Analysis (Bangs 1998, 40).*

Customer seeks	Competition offers	Your offer
Quality		
Exclusivity		
Lower prices		
Product service		
Product line		
Reliability		
Delivery		
Location		
Information		
Availability		

Credit cards		
Credit line		
Warranty		
Customer advice		
Accessories		
Knowledge ability		

## **Management**

“If you keep in mind the necessity of managing your business rather than letting your business manage you, you will drastically reduce the odds against you. Keep this section short, direct and honest.” (Bangs 1998, 42)

This section of the business plan shows the background information of the management team, personnel and previous business experience. This is necessary because knowing their strengths and weaknesses will strengthen the internal power of the business. The clearer the duties and responsibilities each person takes, the more smoothly the business can operate in the future. (Learn marketing.net, 2010)

## **Personnel**

“Business stands or falls on the strength of their personnel. Good employees can make a marginal deal go to the right direction; poor employees can destroy the best business.” (Bangs 1998, 47) The importance of good personnel is obvious. So it is a major task for a company to hire responsible and hardworking people, who can bring the business profit and benefits.

A good personnel team means everything. From CEO to the manager, from specialists to each department member, all the people have their tasks and

responsibilities. Individually they need to focus on their own duties, and make a contribution to the company. Being a member of the business team, they also have to work with others and learn to sacrifice if necessary. The quality of the employees can directly or indirectly affect the quality of the product or service, the quality of the whole business. (Bangs 1998, 47)

Personnel management becomes a big issue for business owners. It is valuable for them to hire a consultant to set up the personnel systems, help in hiring, educating and training the chosen employees. Personnel management also requires careful planning. The planning includes many factors such as the needs and demands of the personnel, the skills and qualifications the applicant has, the salary and benefit demands of the personnel, and the cost of training the personnel. (Bangs 1998, 47)

If a company decides to set up its business in a new place or a new country, then hiring local people is very important. In order to communicate with the local government, local markets and people better, to learn more about the target market and to understand the local culture, the company should be inspired to take more local talents, and select carefully the right people for the positions. (Bangs 1998, 50)

### **Financial data**

Before starting a business, it is essential to have a competent accountant to set up a system for adequate accounting records because the accounting system is the heart of business operations.

The first step for a business to manage its profits is to establish a bookkeeping system, which will provide the company raw data for the following 5 control documents (Bangs 1998, 55):

- Balance sheet

- Breakeven analysis
- Income statement
- Cash-flow projection
- Deviation or sensitivity analysis.

This system must contain cash controls and a cash register tape and it should be easy for the owner to keep it up-to-date on a daily basis. The five control documents provide the structure for the planning efforts. They can act as budgeting tools, a working model of the business. Two of the most important financial statements are the income statement and the cash-flow projection. These two statements show clearly the two main objectives of the business owners: to make profit and to pay the bills that are due. The income statement shows how good the company's operations are, and the cash-flow projection shows how well the company is managing its funds. (Bangs 1998, 56)

## **2.2 Marketing Planning and Strategies**

The focus of a business plan is on a particular product, service or program while the focus of a strategic plan is usually on the entire organization. (McNamara, 2010) Before making a clear marketing plan, one should get to know what marketing really means and how it influences people's everyday life.

People will have some kind of an idea about marketing since they are exposed to marketing in some form more or less every day. Every time we buy or use a product or service, go window shopping, and see an advertisement on TV or on internet, we are reaping the benefits of marketing activities. (Brassington and Pettitt 2007, 1)

Brassington and Pettitt mentioned in the book two popular and widely accepted definitions of marketing. The first is written by the UK's Chartered Institute of Marketing (CIM), which says that marketing is the management process responsible

for identifying, anticipating and satisfying customer requirements profitably(CIM, 2001) The second definition is offered by the American Marketing Association (AMA), which believes that marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchange and satisfy individual and organizational objectives.

Therefore, the marketing definition Frances and Stephen give in the book Essentials of Marketing can be concluded as: Marketing is a management process about giving customers what they want and it identifies and anticipates customers' requirements. (Brassington and Pettitt 2007, 3)

### **2.2.1 Marketing Plan**

“You want to make sure you don't lose the marketing war by making avoidable mistakes. Your business succeeds or fails according to how well you satisfy your market's perception, wants and expectations. This means that you have no option but to learn what your customers and prospects are, why they buy from you and what you can do about getting more customers.” (Bangs 1998, 20)

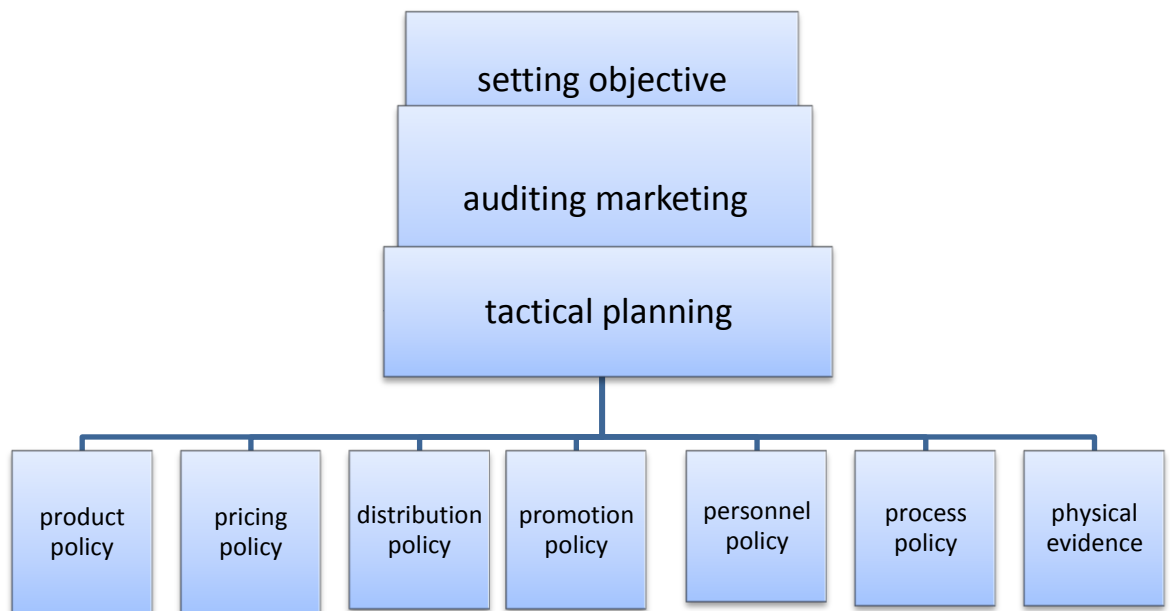
It is important to define the target markets. A marketing plan helps to understand and satisfy the target markets. Three basic questions build a strategic marketing plan:

- What business are you in? By asking this question, you get an idea on what place your business should be put in the market.
- What are your target markets? It is essential to limit the markets in order to focus on the potentials and cut the costs.
- What do your customers buy? It will answer the question that customers always wonder, what they can benefit from the business.



The key element of a successful marketing plan is to know the customers, their demands and needs, their expectations. By acknowledging these factors, a marketing plan can be developed to meet the satisfaction. (Bangs 1998, 21) When we decide to make a marketing plan, we are responsible for marketing management, which is also known as identifying customer needs, satisfying customer needs and perceiving marketing strategy. (Brassington and Pettitt 2007, 469)

The operational detail, turning strategies into implementable actions will be developed in a marketing plan. The marketing plan is a detailed, written statement specifying marketing objectives, target markets, marketing programmes, responsibilities, time scales and resources to be used within defined budgets. Most of the marketing plans are annual, but different types of organizations will have a different number and focus. The plan might be geographically based, product based, business unit based or oriented towards specific segments. An overall corporate marketing plan in a large organisation is going to bring together and integrate a number of plans specific to individual Strategic Business Units. Planning at SBU level and then consolidating all the plans to ensure that the corporate picture has enough details, and allows overall implementation and control to be managed. (Brassington and Pettitt 2007, 417) The basic process of a marketing planning is shown below in figure 1



*Figure 1. The Marketing Planning Process (Blythe 2001, 2).*

### **2.2.2 Marketing Strategy Process**

After realizing the importance of a marketing plan, one should focus on how to implement the plan. The marketing strategy defines target markets, what direction needs to be taken and what needs to be done in broad terms to create a defensible competitive position. Therefore, a marketing strategy is needed and here the strategy process will be explained briefly. (Brassington and Pettitt 2007, 417) The marketing strategy process is clearly illustrated as a flow below in figure 2:



*Figure 2. Marketing Strategy Process (Lees-Castro, 2009).*

### **Understand Customers**

It means developing a clear picture of the target customer. To achieve this goal, using market research and analysis is essential. Business owners need also to understand their pain points and the benefits of their solutions (Lees-Castro, 2009).

### **Analyze the Market**

There are plenty of ways to do a market analysis. Some basic market researches allow people to find market data such as total available market, market growth (historical numbers and projections), market trends etc. Further data can be collected by deep research methods such as interviews, questionnaires and marketing promotion results.

## **Analyze the Competition**

When a business launches into the market, what other choices the target customers have should always be considered, in order to solve their pain point. Research and assess the strengths and weaknesses of each competitor and make a comparison between them and your own business.

## **Research Distribution Channels**

Channels of distribution provide the essential linkages that connect the producers and customers. (Czinkota1998, 384) What is the best way to deliver the product or service to the target customers? This impacts the sales strategy and your financials, as well as the marketing mix.

## **Define Your Marketing Mix**

The four essential elements in marketing are product, price, place and promotion. They are often summarized as marketing mix, or four P's. Altering the strategies for each element will lead to different result for the marketing.

Chris Birch from Staffordshire University has described the marketing mix as baking a cake. The cake mix is flour, sugar, eggs and milk. The final cake will always taste very different depending on the way you alter the four elements. He also mentioned the right marketing mix attitude. The product should be targeted towards the need of the market, the price should be within the budget of the market, the distribution or the place should be where the products are easy to be seen by customers in the market and the promotion should communicate how the product solves the pain point of the target customers. (Lees-Castro, 2009)

### **Analyze the Financials**

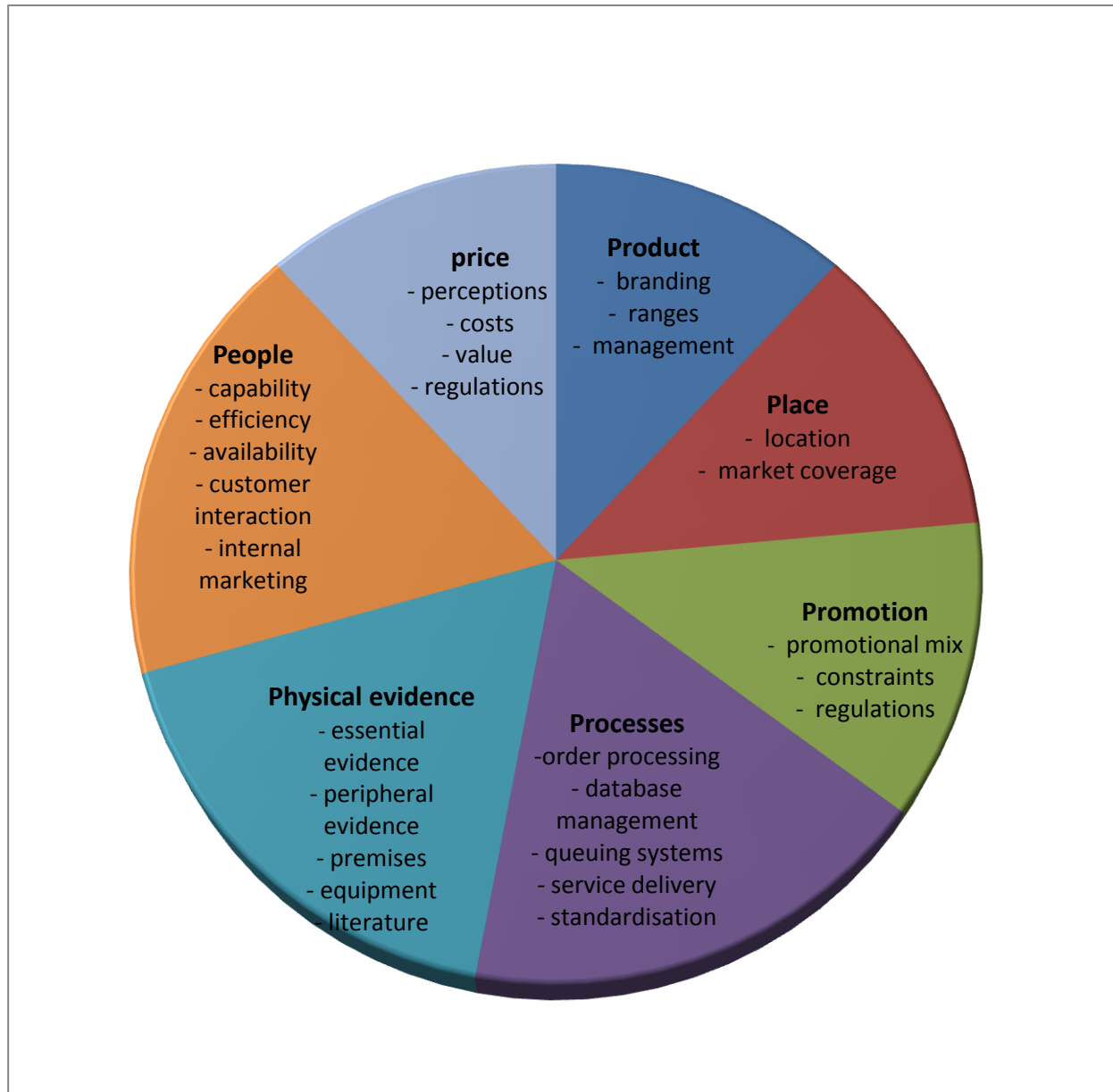
Put together the marketing budget and evaluate projected marketing ROI (return on investment), customer acquisition costs, etc. (Lees-Castro, 2009)

### **Review and Revise**

Continuously evaluate the effectiveness of the marketing strategy, and revise or extend as needed. (Lees-Castro, 2009)

### **2.2.3 Service Marketing Mix**

The traditional marketing mix consists of the 4Ps, which are Product, Price, Place and Promotion. Nowadays international service marketing is becoming a major component of the world business. However, for service products such as hotels, airlines or sauna clubs, additional elements should be paid attention to because they reflect the special characteristics of service marketing. These additional elements are People, Physical evidence and Processes. (Brassington and Pettitt 2007, 466) It is illustrated in the pie in Figure 3.



*Figure 3. The Services Marketing Mix (Brassington and Pettitt 2007, 466).*

A service is any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product. (Andreasen and Kotler 2003, 317)

## **Product**

It doesn't matter whether you are entering normal marketing or service marketing, when planning to set up a company, it is essential to have a good product or service. "Product decisions are the first of the marketing mix decisions because they present the first practical considerations and are prerequisites to other marketing decisions." (Lahtinen & Isoviita 1994, 77)

In order to achieve the targets of sales, image and profitability, product decisions must be made. When an organization tries to introduce one product to the market, they must ask themselves many questions such as whom the product is aimed at, what benefit so they expect, how do they plan to position the product into the market and what advantages does this certain product offer so that it can compete with the competitors. Making a product strategy can help answering all the questions, therefore help the organization to succeed in the market. The basic elements for a good product strategy are to ensure the quality, to build the branding and product image, and to offer great after-sale service. (Lahtinen & Isoviita 1994, 111)

## **Price**

A key to success is to have a well-planned pricing strategy. According to Lahtinen et al, (1994, 119) a price is the value of a product in monetary terms. Price has an essential influence on how well the product sells. In marketing mix, price is the only element which represents revenue, while others stand for costs. Price is also the most flexible element, and it could change quickly depending on internal and external factors. Pricing reflects the supply and demand relationship in business. Pricing the product too high or too low will lead to failure of sales.

The pricing strategy is based on what objectives the organization sets up to achieve. There are several different pricing strategies in the market. Penetration pricing is to set a low price to increase sales and shares in the market. Skimming pricing is to set up a relatively high product price so that it can skim profits of the market layer by layer. Competition pricing is to set a price with comparison of the competitors. Product line pricing is to price different products within the same product range. Bundle pricing reduces a group of products in order to draw large scale of customers and encourage consumption. Psychological pricing considers the psychology of pricing, for example, a price of 99 Euros instead of 100 Euros. Premium pricing helps to reflect a product's exclusiveness. Optional pricing is to sell optional extras along with the product to maximize the profit. (Learn marketing.net, 2010)

## **Place**

Distribution/place decision is one of the basic competitive tools of marketing. It answers questions such as "How are the goods going to be distributed and how are they to be sold? What outlets are being used? Are direct selling methods to be used or are agents being used?" (Deakins 1999, 258)

Channels of distribution provide the essential linkages that connect producers and customers. (Czinkota 1998, 384) The distributor carries a large responsibility for a company's sales and future, so it is important to know the basic requirements for the distributor. A potential distributor should have an advantage at a certain level. There are many criteria for choosing an international distributor; the marketer can choose its distributor based on its size, its financial strength, its reputation experience or its after-sales capability. It depends on the marketer's own situation.

However, place decisions are different between an industrial company and a service company. An industrial company makes place decisions based on the channel of



distribution, while a service company focuses mainly on the easiest way for customers to purchase and use the service.

## **Promotion**

Promotion means activities that communicate the merits of the product and persuade the target customers to buy it. (Armstrong 2006, 97) The purpose of promotion is to bring the product and the company to the public's attention, to influence and to improve company image and to increase sales. (Lahtinen 1997, 171)

Promotion includes personal selling and sales support. Floor selling, field selling and television marketing belong to personal selling, while sales support includes advertising, sales promotion and public relations.

As it is more and more important to communicate with customers to generate sales and profit, promotion is becoming more crucial for companies. A company's marketing communication strategy always involves the use of tactical elements of the Promotional Mix, which utilizes four promotional tools. The most common tool is advertising, which is a media oriented incentive that is intended to persuade and inform customers in a non-personal way of communication. The two main aspects of advertising are the message (what information is delivered) and medium (how the information is delivered). The second tool is personal selling, which represents face-to-face communication with potential buyers with the aim to make them purchase a product. The third tool is called sales promotion and it is represented by a variety of incentives which encourage the purchase of a product. These incentives usually lead to quick sales as they possess short term validity. The final tool in the mix is public relations. Its method requires that companies provide important information or a complimentary presentation about the product to the media without

paying for it directly. When a business uses these four tools effectively and in combination with other strategies, it will definitely lead to some form of success. (Learn marketing.net, 2010)

## **People**

In service marketing, an essential and most important element is the use of appropriate staff and people. If the organization wants to obtain a form of competitive advantage, it is essential to recruit the right staff and to train them appropriately. The employees have direct interacts with customers, so the customers' judgments and perceptions of the service are based on them. The staff should have the appropriate interpersonal skills, attitude, and service knowledge to provide the service that the consumers are paying for. People add great value on the marketing mix, in the ways that they are part of training, personal selling and customer service team. (Brassington and Pettitt 2007, 469)

## **Process**

Process refers to the systems used to assist the organization in delivering the service. It can be seen as a means to achieve the outcome. Process in the service marketing helps the organization to see customers experiencing the offering and follow their demands, so in the future the service can meet their satisfaction better. (Brassington and Pettitt 2007, 469) Process is a customer focused element in service marketing mix, it is based on customer's points of view. For example, when you go to a restaurant, you are greeted, taken to a nice seat, then you are served nicely with the food you want, and you enjoy your time. This is a process you are experiencing as a customer. The restaurant owner sees through the process, gets to know which part needs to improve, so he/she makes better marketing decisions. (Learn marketing.net, 2010)

## **Physical evidence**

Where is the service being delivered? Physical evidence is the element of the service mix which allows the consumer to make judgments on the organization again. The same as before, let's take a restaurant service as an example. If you walk into a restaurant your expectations are of a clean, friendly environment, you will judge it from the first impression and this is called physical evidence. So if you don't like the atmosphere, you can leave the restaurant and make another choice. Consumers will make perceptions based on their sight of the service provision, which will have an impact on the organization's perceptual plan of the service. (Brassington and Pettitt 2007, 469)

## **2.3 Market Segmentation**

When asking what the most important step is for a new business, a businessman always says that it is market segmentation. Mr Tommi Impivaara, the director of Spa Hotel Kuntoranta in Varkaus suggested paying special attention to market segmentation while doing business. (Impivaara, 2010) Market segmentation can help a company to realize its specific target. Market segmentation includes two parts: the planning process and division of target groups. Through different marketing activities, marketers can categorize different products or services to different groups, which will lead to greater chances of achieving goals and making profit. (Lahtinen & Isoviita 1994, 40)

### **2.3.1 The Meaning of Segmentation**

Segmentation is concerned with grouping consumers in terms of their needs. The aim of segmentation is to identify a group of people who have a need or needs that

can be met by a single product, in order to concentrate the marketing most effectively and economically. (Blythe 2007, 57)

Market segmentation is a good method to help companies to avoid mass cost in the marketing process. It is said that a company has three alternative approaches towards marketing. According to Lahtinen and Isoviita, (1994, 40) the three approaches are as follows.

### **Undifferentiated marketing**

In an undifferentiated market, the marketers do not need to segment by customer's factors. The marketers can provide same products or same sales model to face all potential customers. (Lahtinen & Isoviita 1994, 40)

### **Segmented marketing**

In a segmented market, the marketers have to divide potential customers into different target groups. Different products or services play different roles in different given groups. Once segmentation has been made, some groups are neglected either temporarily or permanently. Marketers mainly implement sales in the target groups. (Lahtinen & Isoviita 1994, 40)

### **Concentrated marketing**

Concentrated marketing usually focuses on a specific segmented group in isolation. The marketers choose a group which has biggest business opportunities, then set up a specific target on the market. Although concentrated segmented market has a smaller number of consumers than other marketing segmentation, the stable and

loyal customers group will indeed save the marketer a lot of cost and time. (Lahtinen & Isoviita 1994, 41)

### **2.3.2 Market Segmentation Process**

After choosing the suitable marketing segmentation, targeting and positioning the product are on the next step. At this point, the customers' wants and needs must be translated into a standard and real product, service, price, promotion and distribution. There are five steps a marketer should take after the segmentation. The figure below shows the five basic factors included in a segmentation process. (Lahtinen & Isoviita 1994, 42)



*Figure 4. Segmentation Process (Lahtinen & Isoviita 1994, 42)*

### **Identifying the potential customers**

This is the first step of marketing segmentation process. A company should identify all the potential customers in the market and try to find new markets for their products or services. By identifying the potential customers, the marketer can find out ways to distinguish customers, which will help the company to find which segments are most profitable and which are the target groups. (Lahtinen & Isoviita 1994, 42)

### **Determining segmentation criteria and segmenting the market**

This step indicates what size of potential customers the marketers should determine. Always be aware that potential customers' responses may be different. So when marketers make segmentations, they should pay attention to the criteria. The criteria can distinguish customers buying behaviours. A great marketing segment might directly lead to companies' business strategies in future marketing implementations. There are four requirements in segmentation. Firstly, the number of customers in each segment must be measured in an accurate and reliable way so that marketing operations for the segment can be determined. Secondly, the size of segmentation should be large enough for companies' future benefits. Thirdly, the segmented group should be easily reached. Fourthly, different segments should be obviously separated and isolated. (Lahtinen & Isoviita 1994, 43)

### **Selecting the target groups for marketing**

This step is needed after the markets have been distinguished into segments. Companies do not have to target all customers and segments, they just need to find out which segments are the most suitable and profitable ones. They only need to choose those customers and segments that can increase the profitability of the company in the future. (Lahtinen & Isoviita 1994, 43)

### **Deciding the marketing activity**

After the marketer chooses a target group or multi suitable target groups, then he/she needs to decide which product or products will be implemented in each specific segment. The marketer also needs to consider what kind of marketing strategy should be used in the segmented market. So in this step the marketer

should always think how to communicate with segmented target market. (Lahtinen & Isoviita 1994, 43)

### **Performing Marketing and Monitoring the Results**

After marketing planning, a real marketing implementation takes place and it needs careful monitoring. The marketer first puts the product or products into target segmented market, then evaluates the final consequences to see if they are successful or not. If a company acquires stably increasing profitability, marketing is certainly successful. If the profit aim fails, then the marketer should collect feedback from the customers and the market, trying to improve the operational activities and services in order to make it successful in the future. (Lahtinen & Isoviita 1994, 44)

## **2.4 Doing Business in Different Cultures**

After acknowledging the basic factors of marketing planning and strategy, service marketing and marketing segmentation, finally it is time to expound the relationship between business and culture. Multicultural cooperation in business is growing at a significantly fast speed all over the world. There are thousands of European and US companies entering or expanding their operations in Asia every year, the fastest-growing region of the world. The new challenge for the marketing manager is how to handle the differences in values and attitudes in different cultures. (Czinkota 1998, 63)

### **2.4.1 Cultural Analysis**

“Culture is learned, shared and transmitted from one generation to the next. Culture is primarily passed on from parents to their children but also by social organizations, special-interest groups, the government, the schools and the church. Culture is also



multi-dimensional, consisting of a number of common elements that are interdependent. ” (Czinkota 1998, 64-65)

In what way does culture influence business? First there is an interesting example, in some countries people like to discuss business in the sauna (this is the case in Finland and Russia), however, business people from the USA and UK would probably be shocked by this way of doing business. Another example is that in many countries it is quite normal to stand very close to other people and to touch them on the arm when talking. This is quite normal behavior in Southern Europe and Latin America. The Northern Europeans, on the other hand, may feel very uncomfortable about this. Another example is when meeting Asian business partners, it is essential to offer your business card with both hands. They will not expect a hug, but like to start talks with an exchange of business cards. If you don't know the culture in the country you are doing business with, you might make mistakes and seem unprofessional. This will lead to business failure in some cases. (World business culture.com, 2010)

Therefore, understanding the cultural differences and analyzing the culture are important steps in international marketing. Adjusting to the differences requires the marketers to put their own cultural values aside. In order to reduce the influences, some analytical approaches are recommended:

- Define the problem or goal in terms of domestic cultural traits, habits or norms
- Define the problem or goal in terms of foreign cultural traits, habits or norms, make no value judgments.
- Isolate the self reference criterion influence in the problem and examine it carefully to see how it complicates the problem.
- Redefine the problem without self reference criterion influence and solve for the optimal goal situation. (Czinkota 1998, 86)

### **2.4.2 Dealing with Cultural Differences**

After becoming aware of cultural differences and the fact that they greatly influence international business, ways to deal with cultural differences should be carefully considered and used in order to make sure that communication and cooperation will go smoothly. (World business culture.com, 2010)

If marketers want to make culture work for their success, it is necessary to use the 6 steps below to understand the cultural differences and deal with them carefully.

- Embrace local culture
- Employ locals to gain cultural knowledge
- Build relationships
- Adapt products to local markets
- Help the employees to understand you
- Coordinate by region (Czinkota 1998, 62-63)

### 3 ANALYSIS OF THE POSSIBILITIES FOR A SAUNA CLUB IN LU'AN

Finland is well known as a country surrounded by thousands of lakes. Although it is far away from China, Finland shares a long and traditional friendship with China. Finland is one of the earliest western countries which began to have a diplomatic relationship with China. The two countries established diplomatic relations 60 years ago and since then the two countries have developed fast and stably together. In the new century the visits between the leaders of the two countries have effectively promoted bilateral relations, especially economic and trade relations. In recent years, Sino-Finnish trade and economic relations have been developing rapidly, and the trade volume has been increasing significantly. According to Chinese custom statistics, trade volume between China and Finland in 2008 reached 10.86 billion U.S. dollars, increasing up to 4.9 %, and Chinese exports to Finland were 73.3 billion U.S. dollars, increasing up to 11.7 %. China is now becoming the most important trade partner in Asia for Finland. Vice versa, Finland also is the most important trade partner in northern Europe for China. (Finland.cn, 2010)

As an export-oriented economy based country, Finland needs to develop its overseas market and China has a huge market for investment. Currently, not only large enterprise groups such as Nokia, UPM and Finnish KONE increase investments in China, many small and medium enterprises are also actively involved in investments in China. China's rapid economic development has benefited both countries. (Finland.cn, 2010)

Due to all these facts, a Finnish sauna club which represents Finnish culture and wood industry will be introduced to a small city in China – Lu'an. This small cooperation plan might bring bigger economic trade and cooperation between Finland and China in the future.

### **3.1 Cooperation between Finland and China**

Finland is located in Northern Europe and it has extremely cold weather in winter time and is lacking of domestic energy resources. So its energy resources mainly rely on imports from abroad. For this reason Finland attaches great importance to energy efficiency and energy conservation. In the paper, transportation, construction, energy conservation and renewable energy field, Finland has world-advanced technology and long experience. It is reported that Finland is preparing to provide the best environment protecting products and technologies to China, in order to meet the needs of environmental protection. In the future the two countries can achieve long-term sustainable development in environmental protection clean energy technology fields. (Xinhua Net, 2009)

Both Finland and China pay great attention on further cooperation and development. On June 25 to 27 in 2009, Chinese Vice Premier Li Keqiang visited Finland, to discuss further promotion of Sino-Finnish relations. Next year will be the 60th anniversary of establishment of diplomatic relations between China and Finland. The Prime Minister Matti Vanhanen said that Finland is willing to take this opportunity to comprehensively strengthen cooperation with China to further enhance the level of friendship and cooperation. (Xinhua Net, 2009)

#### **3.1.1 Economic and Technological Cooperation**

In 1986 Finland and China signed the Agreement on Scientific and Technological Cooperation. Since then, the scientific and technological cooperation between the two countries has made remarkable progress especially in recent years. (Finland.cn, 2010)

In the recent China-Finland Relation report, it is said that China's main exports to Finland are textiles and garments, cereals, oils and foodstuff, light industrial

products and mechanical equipment, China's main imports from Finland are paper-making machines, paper and paper board, composite fertilizers, wires and cables and telecommunication equipment. (Chinese Embassy in Finland, 2010)

The report also mentioned that by the end of 2000, loans granted by the Finnish Government to the Chinese side has totaled up to US\$ 485 million in financing 83 Chinese projects. In 1988 the Finnish Airlines opened the Helsinki-Beijing direct air route. In 2002 Finland invested US\$64.65 million in 19 projects in China. By now, the two countries have already signed a total of 150 investment projects, with contracted investment worth US\$560 million and the capital actually utilized totaling US\$400 million. According to a survey there are over 110 Sino-Finnish joint-ventures in China. The main ones are Valmet (Xian) Paper Machine Co. Ltd., Nokia (Beijing) Mobile Telecommunications Ltd., Kone Elevators Co. Ltd. in Jiangsu Province. Among all the enterprises, the biggest one in China is Nokia. It has more than 20 sales offices, eight joint ventures and two product development units in China. (Chinese Embassy in Finland, 2010)

### **3.1.2 Cultural and Educational Exchange**

According to a report by Chinese Embassy in Finland, in 1980, Finland and China signed the Program on Cultural Exchange and Cooperation. This program brought great benefit for the countries and ever since then the cultural exchanges between Finland and China have increased dramatically. The following table shows the cultural cooperation between the two countries.

*Table 2. Cultural cooperation between Finland and China (Chinese embassy in Finland, 2010).*

<p>Chinese opera and dance Troup which have visited Finland</p>	<p>China Central Opera House  Dalian Peking Opera Troupe  Shenyang Acrobatic Troupe  Tibetan Song and Dance Troupe  Kun Opera Troupe  Zhejiang Yue Opera Troupe  Beijing Opera Troupe  Some others</p>
<p>Finland opera and dance Troup which have visited China</p>	<p>Finnish Ballet Troupe  Sibelius Academy Orchestra  the Symphony Orchestra of Turku  Finnish Chamber Music Orchestra  Helsinki Dance Troupe in 2000  Puppet Troupe</p>

The Bilateral Agreement on Exchange of Students was signed in 1973. Nowadays the number of students exchanged has increased year by year. There were about 1 500 Chinese students in Finland studying various subjects in 2002, and the number of Finnish students studying in China was more than 160. In September 2002, Beijing Foreign Language University started to teach Finnish. (Chinese embassy in Finland, 2010)

### 3.1.3 Cooperation Projects

A cooperation project can be set up between a company and a school, business to business, company to company. The aim is to make the organizations work together until the desired results have been achieved and that cooperation thereafter will continue for the mutual benefit of both sides. (China Economy, 2010)

Savonia University of Applied Sciences is a good example. It has educational agreement projects with five different universities in China. They are Zhongshan University, Hebei University, West Anhui University, Shijiazhuang University of Economics, Fudan University and Wuhan Institute of Technology. Some universities in China send some students to study at Savonia every year. Students come to study in Finland, bring Chinese cultures and learn Finnish technology and culture. These are proved to be successful projects, so Savonia has continued making the same agreement with some other universities in China every year. (Finland.cn, 2010)

Another example is Finnfund finances with Finnish and foreign partners, such as Shanghai Elete Packaging Technology Co Ltd. The company is located in Shanghai, the Finnish sponsor of the project is Eltete TPM Oy, whose main line of business is the manufacture of transport packaging products and related technology. Some other scientific and technological projects have proved to be quite successful as well, such as Beijing-Miyun Winter Water Supply Project, Ice Prevention Project at the Lower Reaches of the Yellow River and Hebei Fur Processing Project. (Chinese Embassy in Finland, 2010)

No matter what kind of cooperation projects they are, the objectives are to make improve communication between Finland and China, so that the two countries can develop together in every filed.

### 3.2 Lu'an as the Target Market for the Sauna Club

Lu'an city is located in the west of Anhui Province, in the middle-east of China, along Dabie Mountain and Huai River, which makes it an important part of the Yangtze River Delta Economic Cycle. The size of the city is 17 976 square km, and it has a population of 6,95 million in total in the year 2007. (Lu'an on Baidu, 2010)

In 2009 the annual gross domestic product (GDP) of Lu'an city was 58.4 billion yuan, with an increase of 13.3 % compared to the year 2008. Among them, the primary industry added value by 13.84 billion yuan, with an increase of 6.4 %; the secondary industry by 23.77 billion yuan, with an increase up to 21 %; the tertiary industry counts to 20.79 billion yuan, with an increase of 9.2 %. So the per capita GDP is 9,637 yuan (equivalent to 1411 U.S. dollars), which is 869 yuan more than last year. From the above figures it is obvious that the economic condition of Lu'an is getting better, and it is developing at a rapid speed. (Lu'an on Baidu, 2010)

Lu'an city was established in 2000 and since then its opening up has expanded gradually. In 2004 a city in Finland called Varkaus became a twin city of Lu'an. Ever since then, there has been all kinds of cooperation between the two sister cities. In 2007, The Switch Oy in Finland signed a cooperation agreement with Lu'an city, which opens the door of business cooperation between Lu'an and Finland. The Switch company invested 30 million RMB (about 3.3 million Euros) as registered capital to establishing a company in Lu'an Economic Development Zone, and invested 20 million RMB for the production of wind power equipment. (Lu'an on Baidu, 2010)

Another Finnish company set up in Lu'an is Immtech company. It offers business service for companies, enterprises and even to single persons. After entering Immtech company introduced to Lu'an city a concept of international service business based on extensive networking. Immtech has done a great job in



international transfer of technology and intellectual property protection area, which helps many Finnish enterprises move towards the process of internationalization. (Lu'an Government, 2007)

Due to all the facts Lu'an became the target city for this Finnish style Sauna club. A decent plan was made for this sauna club and it is introduced in chapter 5 and after the market analysis, it becomes clear why Lu'an city has great advantages for making such an idea come true.

### **3.3 Researches Results**

In the year 2003, China entered the World Trade Organization (WTO), which boosted its economic growth. Since then China has become the fourth largest trade body in the world following the United States, the European Union and Japan. The entry to WTO makes China a huge investment market for foreign companies. The business and culture cooperation has grown at a rapid speed. (China Economy, 2010)

Lu'an, a city in the middle-east China, has benefited from the entry to WTO as well. It has begun to open its international gate during the past few years. In the year 2004 it became the sister city of Varkaus in Finland. Therefore the two cities have had different type of cooperation and culture exchange. Savonia University of Applied Sciences has been recruiting students from West Anhui University in Lu'an for the past 3 years. Some Finnish companies such as The Switch and Imtech entered their business to Lu'an and China. (Lu'an Government, 2007)

In order to strengthen the friendship between the two sister cities, the thesis research is going to make a business plan and marketing plan for a potential sauna club investor. This is a large and difficult project, a lot of support and help is needed

to finish this plan. With the help of respondents from the interviews and questionnaires, the thesis research went smoothly. The analysis of the interviews and the questionnaires are illustrated in the following part.

### **3.3.1 Interviews**

In order to make the thesis research more reliable and to analyze the potential marketing better for the investor, three face-to-face interviews with both Varkaus city officials and spa hotel businessman, and one online questionnaire with 68 people living in Lu'an city were accomplished.

#### **Interview with Mr Timo Tuunainen, Head of Education Department in Varkaus**

Mr. Timo Tuunainen has been in charge of education department in Varkaus for 2 years since 2008. The interview with him was made on June 7<sup>th</sup>, 2010, in the city hall of Varkaus. Unfortunately he is quite new in Varkaus, so he was not able to give much information about Lu'an and Varkaus as sister cities. However, he was very helpful to give suggestions and his opinion about this thesis idea.

Mr. Timo Tuunainen has never been to Lu'an, but from what he has heard, it is a much bigger city than Varkaus, and he would love to visit it one day. When asking about business and culture connections between the two cities, he thought they were both important. He said people have to know culture when doing business. So he gave approval to this idea, because it can bring Finnish culture to Lu'an as well as increase business cooperation between the two cities in the future.

At last, he suggested me to visit some spa hotels in Varkaus such as Kuntoranta hotel and Vesileppis company to get some more information and support from them.

### **Interview with Ms Anne Puurunen, Head of Culture Department in Varkaus**

The interview took place in the city hall on 8<sup>th</sup> June, 2010. Ms. Anne Puurunen witnessed how Varkaus and Lu'an became sister cities. She has worked in the cultural department for many years, although she has not been to Lu'an, she has met many guests from Lu'an since the friendship began. In her opinion, Lu'an is a large city, has lots of people and beautiful landscapes. She told me the former mayor of Varkaus visited Lu'an in 2004. As for cooperation, she could remember several activities the two cities have had together. One of the biggest projects is the educational exchange between Savonia University of Applied Sciences and West Anhui University. There are also some medical exchange projects between the hospitals of the two cities. When Varkaus had its summer children's festival, Lu'an has sent some kids with talent to Varkaus, so the two cultures were connected.

However, Anne was not so positive about business cooperation with Lu'an, for the reason that she thought now it is very bad business time for Varkaus, since the economic situation is not good. So she doubted if Varkaus can give any financial support to this project. "It is a nice thought, a nice idea, but it is very difficult to start and operate. The government cannot give any financial support to this sauna club, hopefully there are some businessmen who are interested in this project." said Ms. Anne Puurunen.

Ms. Anne Puurunen gave a good suggestion about this idea which is to visit some sauna associations in Finland and ask them for further help. She said there are many different associations in Finland which can help people with a business idea. Sauna associations are very common in Finland. So after the interview, she showed the website to find sauna organization. Unfortunately the sauna associations were not able to give any response when wrote them.

## **Interview with Mr Tommi Impivaara, Director of Spa Hotel Kuntoranta**

Spa Hotel Kuntoranta is located in Varkaus, in the middle of the beautiful Lake Saimaa district in eastern Finland. Mr. Tommi Impivaara as the hotel director has been to Beijing, China, and has business cooperation with Ai Lin therapy company in China. So the spa hotel includes not only a traditional Finnish sauna but also traditional Chinese therapy centre. The reason to make an interview with Mr. Tommi Impivaara is because his hotel has had business contacts with China before, and he is familiar with Sauna business. (Spa hotel Kuntoranta, 2010)

The interview took place in the spa hotel Kuntoranta on 8<sup>th</sup> September, 2010. When asking Mr. Tommi Impivaara about his interest in sauna business in Lu'an city, he admitted that as a businessman, he was interested in all kind of business cooperation. He pointed out that when establishing a sauna club, the first step was to research the market, in this case was to research if there was so much interest in sauna for Chinese people. It was very important to do the market research carefully. He knew there were many different kinds of saunas in the world. He said that he had tried sauna in Beijing, it was very different from the Finnish sauna. So with this project, he suggested to think if people in Lu'an can really accept the different culture. The second thing he advised was to make market calculations, to analyze the market profitability. All businesses have the same objective, which is to make profit. So it is also very important to make calculation beforehand, to see if the business is going to win the market and make great profit. Because there has never been a sauna club in Lu'an, it is difficult to make the calculations; however, the non-competitor fact is a great advantage for this project.

Mr. Tommi Impivaara also said if he ever invests in this sauna club in Lu'an, he would try to deal with the culture problem carefully. In China, the clubs are normally for businessmen, so the first and the most important thing for him is to make right

market segmentation. Of course for him, the biggest objective is to make profit, so whether the sauna club is for families or for business people has to be decided after the marketing analysis, and he has to know which customer group segment is most profitable then choose the right target in the market.

### **3.3.2 Survey**

#### **Body of the Survey**

By using Sojump's questionnaire creating website, a simple online questionnaire was created and it was made to gain more information about potential customers' demands and opinions about this sauna club. 68 people who live in Lu'an have answered this questionnaire. The number is not big, but it can show some general attitude of Lu'an citizens towards this idea. 10 simple questions in Chinese formed this questionnaire. The questionnaire began with explaining the purpose to the respondents. The questions were easy and simple so that the respondents didn't need to worry about spending too much time on it. The questions covered the age of the respondents and their gender. By asking if they knew sauna is from Finland, it is easy to know whether sauna is already familiar to the respondents. By asking if they wanted to try real Finnish sauna and to pay for a visit, it is easy to get a basic idea about the potential demands and demanding groups. By knowing how often the respondents would like to visit the sauna club, it is easy to understand their needs of visiting the sauna club. The question about membership card and the acceptable price for it helped me to prepare for the profit and loss. The last question was to make sure that this idea is generally approved by the respondents so that it builds up confidence for the future process.

The questionnaire itself was written in Chinese, so that there would have more people able to answer. Here is the English version of the questionnaire.

Dear Respondent,

Thank you so much for spending your precious time on this questionnaire. I am researching in my thesis project establishing a sauna club in Lu'an, so I would love to know real opinions about it from citizens in Lu'an. The questionnaire is going to take only 5 minutes to answer, but it means a lot to me, so please help 😊

1) Your age

\_\_\_\_\_

2) Your gender

Male

Female

3) Do you know that sauna comes from Finland?

Yes

No

4) Do you want to try a real Finnish sauna in Lu'an?

Yes

No

5) If some Finnish people build this sauna club, are you willing to pay for visiting it?

Yes

No

Not sure

6) How often will you visit the sauna club per month?

0 - 4 times

5 - 8 times

9 - 12 times

7) For you, what is the acceptable price for one visit?

10 - 20 RMB

30 - 40 RMB

50 - 100 RMB

8) Do you think a membership card is useful?

Yes

No

9) If the season membership card exists, how much you can accept for pass?

Under 200 RMB

Under 300 RMB

Under 500 RMB

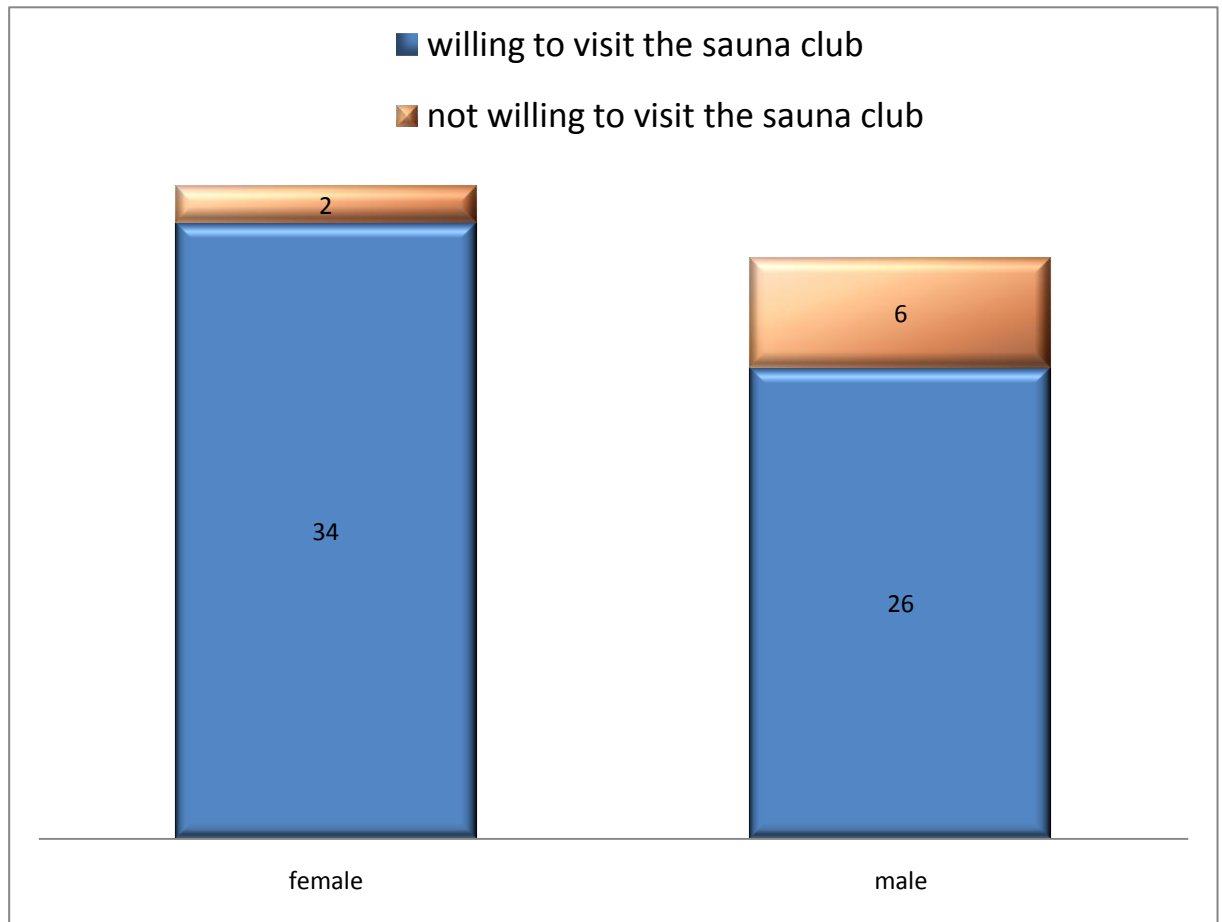
10) Overall, what is your attitude towards this club?

Positive

Negative

Not sure

## Survey Results



*Figure 5. Respondents' willingness to visit the sauna club, n = 68.*

There were 32 males and 36 females answering this questionnaire. 52.9 % of the respondents knew that sauna comes from Finland. Among all the people who gave answers, 60 people would like to try real Finnish sauna, and only 8 people were not interested. From the figure we can see clearly that 2 of the female respondents and 6 of the male respondents are not willing to visit the sauna club.



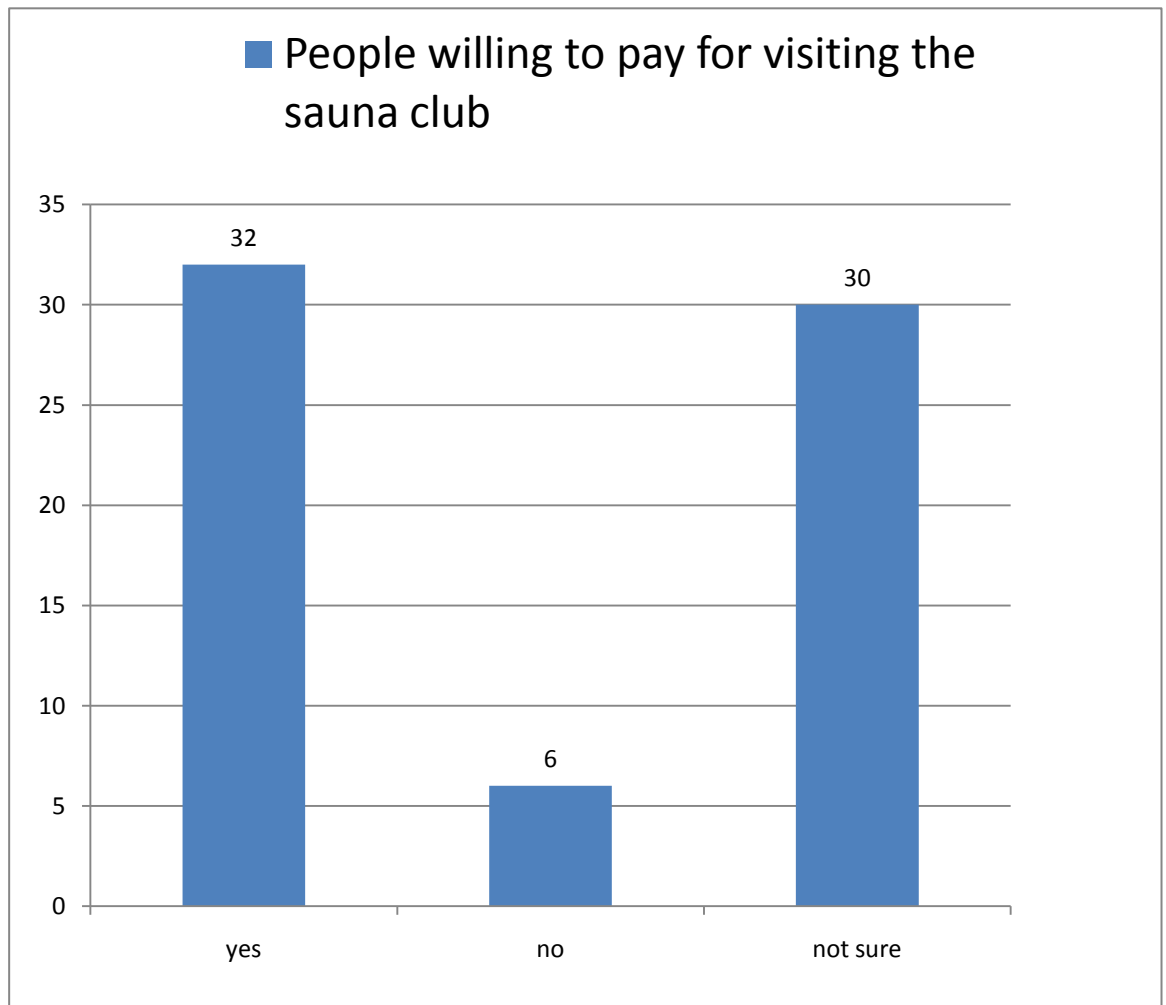
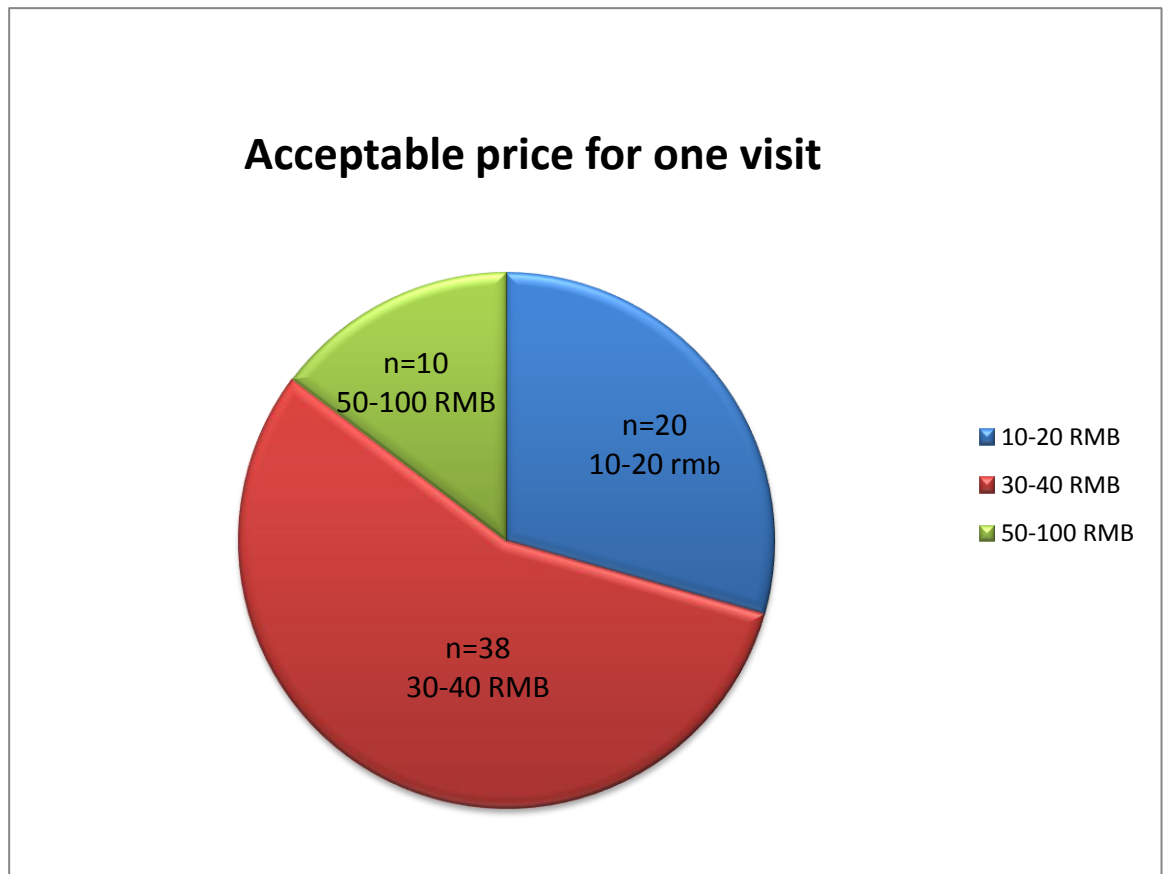


Figure 6. Amount of respondents willing to pay for visiting the sauna club, n=68.

There were in total 68 respondents and the figure above shows the number of the respondents willing to pay for visiting the sauna club. From the figure, we can roughly calculate the potential visitors in reality. Only 8.8 % of all respondents show no interest towards the club, which is positive for the marketer.



*Figure 7. Acceptable price for one visit to the sauna club, n = 68.*

From the above chart, it is easy to see that 20 respondents (29.4 %) can accept one visiting price between 10 - 20RMB, 38 of the respondents (55.9 %) can accept it between 30 - 40RMB, and only 10 respondents (14.7 %) could accept 50 - 100RMB. This result can help the marketer to set up a right price level for the single visit.



Figure 8. Acceptable membership card's price for the respondents.

97.1 % of the respondents think it is useful to have membership card. 30 of the respondents (44.1 %) can accept a seasonal card with a price of 200 RMB, 26 people (38.2 %) can accept with a price of 300 RMB, and only 12 people (17.6 %) can accept it with a price of 500 RMB. Be aware that the average salary in Lu'an is not so high, about 2000 RMB, and also the majority respondents of this questionnaire were young people who use internet more often.

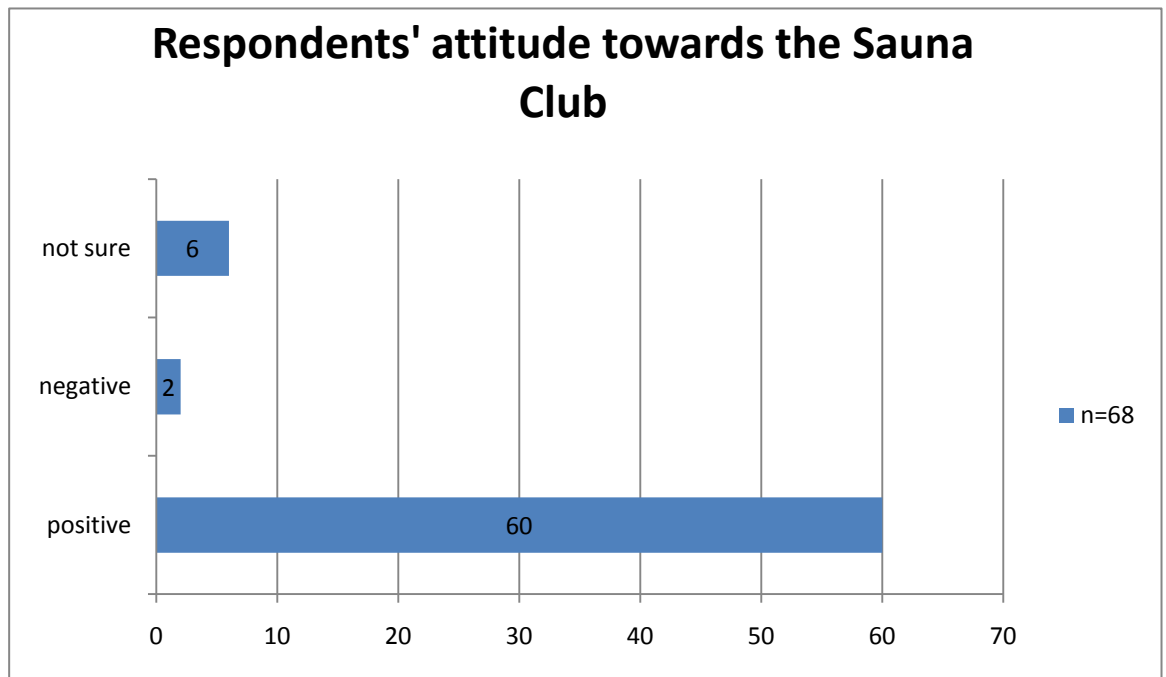


Figure 9. Respondents' attitude towards the sauna club idea.

From this final chart we can see that the attitude of the respondents towards this sauna club is quite positive in general. 88.3 % of the respondents had a positive attitude. Overall, potential customers' opinions are very important. They can help a company to set up the objectives, the price level and future marketing mix plans.

### 3.4 SWOT Analysis for the Sauna Club in Lu'an

SWOT analysis is used to identify the internal and external factors of the sauna club. Internal factors include strengths and weaknesses, for example the attractive points and weak points of a sauna club. External factors include opportunities and threats, (Learn marketing.net, 2010) in this case why to choose Lu'an as the target market, and what advantages and disadvantages are linked to opening this sauna club.

The analysis helps to realize the current situation of the sauna club and its business environment in Lu'an.

### 3.4.1 Internal Factors

#### Strengths

Sauna club is a totally new idea in the service market in Lu'an. It is attractive because it is exotic. People are interested in experiencing something different, something from North Europe. In other words, there are no competitors for this sauna club. The club itself offers people a new and interesting activity, which includes typical Finnish style sauna with a snack and coffee bar and a public shower house.

The plan is to make this sauna club original, just like a public sauna in Finland. So Finnish design and technology are strongly needed and used. High quality is the biggest strength of such a club. This club brings a novel idea to the service industry in Lu'an city.

Another strength of such a sauna club is that the investing costs in Lu'an are relatively low. In establishing a sauna club in Lu'an there is a strong economic advantage. The fact is that the consumption level in Lu'an is considered quite low in the whole China, so the labor costs and other construction costs are relatively low as well. The table below shows the list of investment costs in Lu'an in Euros.

*Table 3. Investment costs in Lu'an (Lu'an Government, 2007).*

Road transport freight fees	0.04 euros per ton-kilometre
Average worker's salary	100 euros per month
Brick construction costs	50 euros per square meter
Large industrial electricity fees	0.05 euros per unit
Commercial electricity fees	0.10 euros per unit
Industrial water use fees	0.15 euros per cubic meter
Commercial water use fees	0.18 euros per cubic meter

## **Weaknesses**

There has never been a sauna club in Lu'an city or even in the whole China before, so there is no existing market image. In Hong Kong, however, public sauna is very common. But making sauna into a club, where people spend spare time and enjoy it like in Finland, it is a very original and challenging idea. When a new idea especially a new service enters the market, it is always quite challenging. Unlike the already existing service, where demand, target customers and objectives are clear; a new service has to face a certain period, when the demand and requirements are unknown. (Learn marketing.net, 2010)

High cost is another weak point for the club. The original sauna uses the typical pine wood in Finland, so the material should be imported from Finland. Finnish design and quality is costly as well as the construction costs.

### **3.4.2 External Factors**

#### **Opportunities**

Lu'an city has more than 600 000 urban inhabitants. The large population offers a great opportunity for service market investment. Thus the number of the potential customers is quite positive. Nowadays as the economy of the city has developed rapidly, the demand of high quality life is increasing as well. Where there is big demand, there is good opportunity. (Lu'an on Baidu, 2010)

Lu'an has very distinct four seasons, which means in summer it is quite hot, and in winter very cold. The sauna club is the best place in winter time where people can warm up and get rid of the coldness. In the future, the club can expand itself with an indoor swimming pool. So far, Lu'an city hasn't got its own indoor swimming pool, so this further expanding plan can meet many citizens' requirements. If the sauna club

also includes this kind of indoor swimming pool, then no matter summer time or winter time, there are a lot of potential customers.

A Finnish invested sauna club will definitely gain a lot of support and high reputation from Lu'an government. So it is easy to promote in the whole city. Promotion is the best tool to build up a strong image in front of customers. Advertisement on Lu'an TV station or other media tools can be used so that the reputation spreads fast to everyone in the city.

### **Threats**

There is always a threat that a similar club might occur in the future with a lower price. When competitors come, if the sauna club wants to take the lead in the market, cutting the price or improving quality should be taken into action. That means the cost will increase or the income will decrease, in the same words, the profits of the club will be infected in a negative way.

Other entertainment or service market is always a threat for the sauna club. For example some public massage shops also include public showers. If a similar service market has a better marketing strategy, the sauna club needs to change its marketing plan to attract more customers. Some other entertainment place such as a KTV (public karaoke bar) is so popular that most of the young people would prefer to spend time there instead of a sauna room.

#### **4 IMPLEMENTATION PLAN FOR THE SAUNA CLUB**

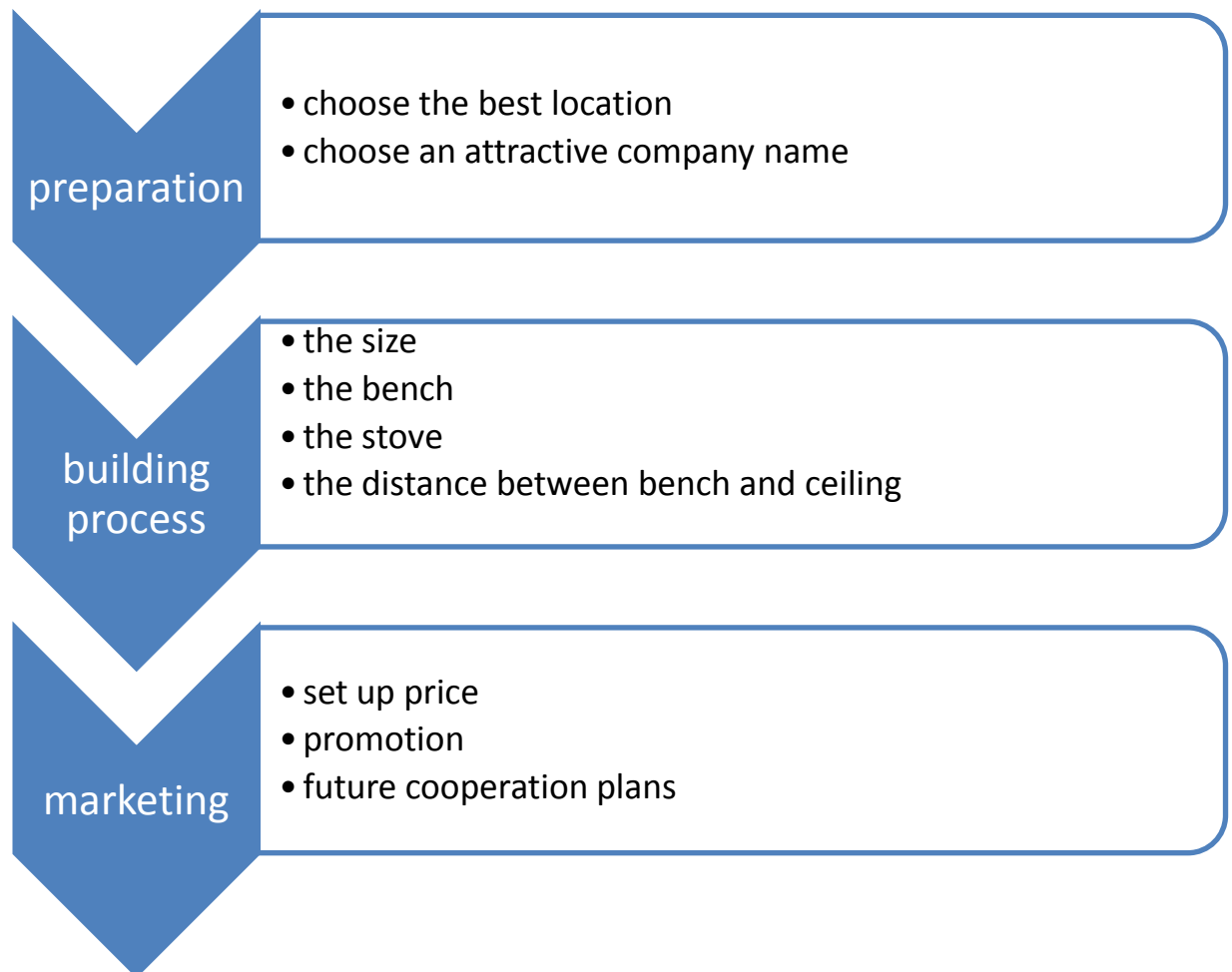
According to statistics, the total number of all different forms of sauna in Finland is more than 1.6 million, which means that about three people share one sauna, it has the highest range in the world. (Finland.cn, 2010) Today, Finnish sauna is considered to be the best social place, and even a dispute resolution of labor disputes have been solved in the sauna room. Finnish people believe that the sauna environment will help improve the atmosphere, and it is a better place to frank opinions and talks.

In this chapter, the plan for establishing the sauna club is discussed and the written plan includes the process of building a sauna club, which materials will be used, what steps need to be taken to make it happen, the marketing plan and the promotion plan for the club and at last it describes the possibility for the sauna club cooperating with Varkaus city.



## 4.1 The Process of Building a Sauna Club

In this part, a basic process of building a sauna club is introduced. The steps and the important elements included in a sauna club are both explained based on the researches on some Finnish sauna building websites such as saunasite. It is showed generally as the figure below:



*Figure 10. Sauna club's building steps*

### 4.1.1 Making Good Preparation

Before starting building the sauna club, careful preparation is needed. The basic preparation here includes choosing a good location, and choosing a good name. Both of the choices are important for the whole project. Location influences

customer numbers directly, while name influences the reputation and future branding possibilities. (Learn marketing.net, 2010)

An industrial company makes place decisions based on the channel of distribution, while a service company focuses mainly on the easiest way for customers to purchase and use the service. Creating a brand identity involves a name with high recall ability. The name has real impact on consumers' minds. (Learn marketing.net, 2010)

### **Choosing the best location**

Sauna club is not that kind of club for youth to highlight their nightlife. It is kind of family entertainment activity for public use. The main point of this club is to improve people's life standard and their health. The sauna club should be located somewhere near parks, a sports centre or hotels, so that families or friends can enjoy the whole day by just relaxing, and breathing fresh air. The suitable location in my mind is next to Centre Park in Lu'an, where it is not far away from the city centre and is full of people during the weekends.

### **Choosing the best name**

People remember a product or a company by recognizing its name. A suitable and successful name can bring great benefit for the company or the product. Some of the companies choose simple and short names, because they are easy to remember, some others make the name unique so that customers wonder and want to know more. Nowadays some naming companies are set up to help with choosing a good name for the new company.

For this sauna club's name, one personal idea that could be taken into consideration in the future is to call the club HOT FINN CLUB. Due to that fact that the sauna club is made by Finnish standards and it is from Finland, also because of the feeling inside the sauna is very hot this name could describe the club quite well. Another reason to choose this name is that this is quite an easy and great name when translated into Chinese, it sounds like HAO KE FENG, which means the wind that brings and welcomes guests. Of course this is just one idea, any better names for the club are warmly welcomed.

#### **4.1.2 Building a Good Sauna**

Sauna is the most important element for the sauna club. The main point of this club is to offer people an original public sauna room, made by Finnish standards. So it is necessary to be familiar with the process of building a good sauna in Finland. The following steps and instructions are introduced by some sauna experts in Finland. By taking these instructions and suggestions, the sauna building process is much easier. By following this plan, a good sauna club in Lu'an can be established successfully.

##### **The size**

A sauna club is not like a normal family sized sauna in Finland, so it is much more difficult to build. In Finland, the large capacity saunas are often located in spas, swimming pool facilities, health clubs and hotels. To build a sauna club in Lu'an, the first thing to consider is the size. It is not the larger the better for sure. If a sauna room is too large, the sauna is very ineffective in space utilisation. Considering this, a maximum of 20 people in the sauna room is a suitable size for a club in Lu'an.

(SaunaSite, 1997)

## **The bench**

The basic design of a sauna club must include the steam sauna room, bathroom and dressing room. Steam rooms are built with unpainted pour wood. The bench for people to sit is made of spruce or aspen, which are widely grown in Finland. Aspen is particularly popular, as it was highly breathable and will not accumulate so many calories that make people feel uncomfortable. (SaunaSite, 1997)

The bench in the sauna must be wide enough for people to lean back and lift legs comfortably. The aim of this sauna club is to let people feel relaxed and comfortable using Finnish sauna, so it is good to make sure that customers can achieve the feeling of luxury in the sauna.

## **The stove**

The most important element in a sauna is the stove. The best stove should have the following features (SaunaSite, 1997):

- The heat is stored in a large amount of stones
- The temperature in the sauna is quite mild, about 60~80°C
- The warm feeling is gained by throwing hot water on the hot stones

The stove is the heart of a sauna. All the luxuries and money spent on the construction will be wasted if the stove is not a good one. Stoves are safer and better than heaters, but also more expensive. When building a sauna, we have to consider the type, the effect and the size of the stones chamber of the stove. In Finland, the price level for a stove and a heater in dollars is listed in the following table. (SaunaSite, 1997)

*Table 4. Price level for a stove and a heater in dollars ( SaunaSite, 1997)*

Electric heater, wall model	3-9 kW	\$ 100-300
Electric heater, standing on the floor	12-36 kW	\$ 600-2,000
Wood-burning heater		\$ 100-300
Electric stove, type always-on	3-8 kW	\$ 700-1,200
Electric stove, Magic Stove	4-30 kW	\$ 2,400-7,000
Wood-burning barrel-stove		\$ 800-2,000

### **The distance between the bench and the ceiling**

If the distance between the bench and the ceiling is too long, the heat will remain up to the ceiling and it will be difficult to get the sauna hot enough. So the distance should be well planned for a sauna in order to make it easy to get hot. It is said by sauna experts that in a good sauna the best distance between the bench and the ceiling is between 110 and 120 cm. (SaunaSite, 1997)

Once it is clear what basic elements are needed in the sauna, the building process can start. The materials used in a sauna can be purchased in some big city. There are some potential distributors in the Chinese market who are able to import the wooden products for sauna. The biggest UPM products' distributor in southern China is called Xin Tianli company. It imports Wisa antiseptic wood, charring wood, Sauna board and pine wood from Finland, mainly from UPM. They are eager to find industrial users in the whole country.

### **4.2 Marketing Planning for the Sauna Club**

The building process is going to take about two months and during this time, a decent marketing planning can be made for the sauna club. The plan should include

the way to enter the market, how to promote and at last to find ways to remain successful in the market.

In the service market, a marketing plan includes 7Ps (product, price, place, promotion, physical evidence, process, and people) and all the 7 elements have to be considered carefully (Learn marketing.net, 2010) if the sauna club wants to gain a large number of customers and achieve its aim. Here in this part of the thesis, a few possible marketing plans are discussed, mainly focusing on the promotion plan.

#### **4.2.1 Entering the Market**

When a new service enters the market, it needs to draw people's attention. What is attractive about this service? Why people are going to try this service? How to meet their satisfaction considering the money they spent? By answering these questions, the sauna club will be able to make the first step to the market.

The very first step for this sauna business is to get in contact with the city government. This is related to the business culture in China. If a company wants to succeed, it needs support from the government and from all sorts of people. The advantage of this sauna club is that this is foreign culture related business, so it is always quite popular and welcomed in China. Lu'an is also a sister city with Varkaus, Finland, so it is easy for the club owners to convince the city of Lu'an to give support on this project. This project can be seen as a bridge of the friendship between the two cities. Once the government gives its support, it will be easy to make a stand in the market. The culture department in Lu'an can spread the news of this project, which can make a great impact on the people's attitude towards this club.

The second thing before entering the market is to make sure the customers are aware of such an idea and want to know more about it. So some preparation needs to be done. Brochures and leaflets can be sent to people introducing the club and

sauna culture, introducing Finland and Finnish culture, introducing Varkaus and friendship between Varkaus and Lu'an. In this way people in Lu'an will be more interested to experience the sauna club. Thus the potential customers are targeted.

From the online questionnaires results, it is easy to see that the main group that is interested in this club is the young group, where people are eager to try new things, and adapt new cultures. However, families are also the target group, or even the main target group, since this sauna club is meant to be a family activity that keeps the family together and helps everyone to relax.

Once the target groups are clear, the sauna club can set up the objectives and goals more clearly. Then the next step is to set up suitable price lists.

#### **4.2.2 Setting up the Right Price**

A key to success is to have a well-planned pricing strategy. (Learn marketing.net, 2010) There are many factors to determine the price. According to the online survey it is clear that for the beginning of the business, it is good to make everything easy and cheap. For example a single ticket for one visiting to the sauna club is 20 RMB per person, and 50 RMB for a family. The service will include shower, traditional sauna and free water. Also people can purchase snacks or other drinks from the snack bar inside.

When the business steps into the mature part, there must be a certain number of regular customers, then a membership card can be introduced. From the online survey, an acceptable price for the season membership card differs from the youth to the old. Young people under 35 years old can only accept the price of a membership card within 200 RMB, while older group can accept it within 500 RMB. So the seasonal price can be put into two groups, one is that for a normal adult, which is 500 RMB per person, the other one is for students and youth, which is 200

RMB, and for children it is 100 RMB only. In this way all different levels of people can have chance to use and enjoy the service.

After setting up the suitable price for a single ticket and for membership cards, it is important to move to the next stage, which is to manage the club successfully and make sure it can remain successfully in the market. How to make this happen? Promotion is the best way.

### **4.2.3 Promotion Brings Success**

At an early stage of the business, it is hard to get people's attention and trust, because the company's image and reputation have not been built up strong enough. (Lees-Castro, 2010) Some investigation and researches about promotion tools and methods are still required. Here in the business plan four different ways of promoting for the sauna club are listed.

#### **A three-day free experience**

One very useful idea for promoting a service is to offer people a chance to try it and experience it for real. So for example, the club could offer a three-day free sauna experience to the public. People are the best media tools, once they try it and spread the news to others, it will have the strongest influence on the public.

#### **Sauna and health**

For Finns, sauna is a holy place where body and soul can be cured. Taking a sauna bath is recommended for anyone except the little babies whose body temperature control is not well developed. A moderate sauna bath is good for physical and mental well-being, but it doesn't prevent or cure any diseases. The skin temperature



and blood circulation increases, thereby increasing sweating. To some extent, sauna bath is equal to physical sports and exercises. (SaunaSite, 2007)

Sauna is considered as a very healthy activity in Finland. This fact can be put on the brochure and the leaflet for the sauna club. People who get the brochure and leaflet can read this piece of information and realize that sauna club is a club for getting healthy. Nowadays people don't mind spending money on healthy life, in this way the promotion goal is achieved.

### **Spread sauna culture in the media**

Media is a very powerful promotion tool. The best way to get people's attention is to use TV news and commercials. The sauna club can work with Lu'an TV station, making a series of TV shows about Finnish sauna, talking about the history of sauna, the culture, the background, and the way to use sauna. People get a lot of information about sauna, so there is no doubt they are willing to try it and experience it for themselves. Also another way to make good use of media is to do a commercial on TV, advertising for the company and spread the name HOT FINN everywhere in Lu'an and introduce the latest offers to all the customers. This way can help the sauna club to introduce itself better and to build a strong market image.

### **Celebrity charm**

It is a strong advantage if both Varkaus and Lu'an government can give support to the sauna club. The use of celebrity charm can directly influence the public. For example, if leaders from Lu'an city and Varkaus city can visit the sauna club together, having a meeting together with media, then the reputation of this sauna club is going straight up. When making an interview with the spa hotel director from Varkaus, Tommi Impivaara said he would like to give his support to building the sauna, and

would love to visit Lu'an, and show people the right way and the typical Finnish way to use sauna. People will be very impressed to see real Finns come to the sauna club and enjoy the sauna. By using this way of promotion, people can have more trust on the quality and thus the reputation of the club is going to be much higher.

The above four promotion methods are just the first ideas for the sauna club so far. To actually make it happen and make the project come true, a lot more promotion plans are needed. The sauna club should have a strong marketing team to achieve the marketing goals and to attract more customers.

#### **4.3 The Cooperation Plans between Lu'an and Varkaus**

Varkaus and Lu'an have been sister cities since 2004, for the past 6 years. (Lu'an Government, 2007) The two cities have managed to have several friendship cooperation projects. But there is still need for more cultural and economic connections between the two cities. Some background information and sauna building process have already been introduced in previous parts. Now in the last part, some more ideas will be introduced. Basically, there could be two cooperation plans for the sauna club. Both of the plans are related to Varkaus city. Both of the plans have their advantages and disadvantages. To make the sauna club plan become a real project, both plans need to be further investigated and carefully considered so that there is the best way to cooperate with Varkaus city. The table below shows a brief comparison between the two plans.

*Table 5. Comparison of the two plans*

	Plan A Governmental Cooperation between Varkaus and Lu'an	Plan B Finding Finnish investor
Possibility	Small	Big
Financial support	Varkaus is not able to give any financial support, according to Varkaus city officials	The investor deals with all the costs, but the project has to be very profitable
Advantage	To enrich the friendship between two cities, to exchange two different culture, to open the gate for more cooperation	There is a great business market in China, it enlarges potential investments in China
Disadvantage	A lot of work to be done for both of the cities, the financial background is not strong enough nowadays.	The cultural differences can cause many difficulties for the Finnish investor, and the profit margin is unknown.

Plan A is to ask government support from Varkaus. Due to the fact that Varkaus and Lu'an are sister cities, Varkaus government can give some technology support on building this sauna club. But the precondition is that this sauna club is also a government project for Lu'an city. In return, Savonia University of Applied Sciences can send students every year to Lu'an, as interns to work for this sauna club. The advantage of this plan is that, with the help Varkaus city, the costs of the building process are going to be minimized to the limits. Varkaus city can send a group of sauna experts to help with the technology and construction, as well as providing the materials such as wood needed for sauna. Also, it can provide a lot of work placement opportunities for Savonia University of Applied Sciences. However, this is rather difficult since the government official I interviewed told me that nowadays it is

not a good time for the city's economy. So there are a lot of doubts and concerns about any business cooperation.

Plan B is to convince some companies or entrepreneurs in Varkaus to invest and set up a new sauna company in Lu'an. For this I have interviewed Mr. Tommi Impivaara, the director of Kuntoranta Hotel. He showed his interest in business cooperation with China by working with a Chinese therapy treatment in Beijing. Of course it is just a small possibility for him to make it happen for the reason that he is very busy with his own business in Varkaus already. But the bright side about this is that it is possible that some entrepreneur or businessman finds this project interesting and worthwhile. If there is any potential investor, then this business plan can help him or her to understand the market in Lu'an much better before the project starts.

## 5 CONCLUSIONS

There were two key objectives in this thesis. One was to understand how to make a plan for a foreign company established in China and the other objective was to make a potential cooperation plan for Varkaus and Lu'an city, in order to bring the two sister cities closer.

Planning is the beginning stage of all kinds of business, so in the theoretical part, the main key was to find elements and basic factors in a successful business planning. The implementation parts of the thesis include research on Lu'an market, SWOT analysis for the market, interviews with people from Varkaus, an essential sauna building process and at the end two possible cooperation plans between Varkaus and Lu'an are introduced briefly.

Establishing a sauna club in Lu'an is a big international project, so to actually make it happen, approval and support are needed from Varkaus city, Lu'an city and Savonia University of Applied Sciences. Varkaus city could help with investing or finding potential investors in the city; Lu'an city could support the project by processing the building documents and promoting the sauna club to the public; Savonia University of Applied Sciences could arrange students to work for this international project. Business students can make internationalization and marketing plans for the project, and engineering students can work for technical side for the sauna club.

The meaning of the thesis was to provide a business idea and plan for a possible international project between Varkaus and Lu'an. Who benefit from this project?

- Varkaus City

Varkaus is an industrial city, best known for enterprises like Stora Enso, Foster Wheeler and Honeywell, which already have operations in China. However, to make

the city more international and to stimulate the economic growth, more international projects are needed and this project can open a business gate for Varkaus and Lu'an city, so that there will be more business operations in the future.

- Lu'an City

Lu'an city has been growing dramatically recently. New projects and new companies step into the city one by one. The city is on its way to internationalization. There are already overseas companies operating their businesses in Lu'an, including Finnish companies. More and more international companies are interested in the huge and low cost markets in Lu'an city. A sauna club brings Finnish culture and more business opportunities for Lu'an city in the future.

- Savonia University of Applied Sciences

Savonia Varkaus campus recruits students from China every year. Foreign students study either international business or engineering in English. If there is an international project operating between Varkaus and Lu'an, many students will have chances to work on this project and there will be a lot of work placement opportunities for international students.

Of course, there are limitations and weak points in the thesis research. A plan is just the first stage of a project, and the further processes are much more complicated. The researches I have done are only based on a very small scale of people's opinions. In reality, the project needs a lot more investigation and researches.

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## APPENDIX 1

### Interview with Mr Timo Tuunainen and Ms Anne Puurunen

Establish a Sauna Club in Lu'an - In the year 2004, Lu'an became twin city of Varkaus, Finland. Since then, the two cities have done significant business and culture cooperation. One of the projects is educational cooperation, so the university in Lu'an have sent a group of students to study at Savonia, Varkaus. As one of the students who have the chance to come to study in Varkaus, I would love to make a final study about the two cities. In order to strengthen the friendship of the twin cities and to spread more culture into the two countries, I came up with the idea to establish a sauna club in Lu'an city, with the help of Varkaus city. Through this research, I will make a decent plan for such a club, and contact the officials of the two cities, so that it could be a friendship bridge, that builds a wider road for the two cities to make more business and cultural cooperation in the future.

1. Have you been to Lu'an, and what do you think of this city?
2. What cooperation does the two cities have as sister cities?
3. What are the benefits for both cities?
4. Do you think there could be more business or cultural connection?
5. What do you think of the idea that Varkaus city helps to establish a Sauna club in Lu'an?
6. What support do you think Varkaus can offer?
7. Do you have any suggestion for such an idea?

## Appendix 2

### Interview with Mr Tommi Impivaara

1. Do you know Varkaus and Lu'an are sister cities?
2. Have you been to or heard anything about Lu'an? and what do you think of this city?
3. Does your hotel have any cooperation with China?
4. Are you interested in business cooperation with Lu'an city?
5. Imagine you are in charge of this project, establishing a sauna club in Lu'an, what are the basic steps you will take?
6. What problems you might meet in process?
7. What benefits this could bring for you and for Lu'an city?
8. Do you have any suggestion for this idea?

## Appendix 3

Dear Respondent,

Thank you so much for spending your precious time on this questionnaire. I am researching in my thesis project establishing a sauna club in Lu'an, so I would love to know real opinions about it from citizens in Lu'an. The questionnaire is going to take only 5 minutes to answer, but it means a lot to me, so please help 😊

1) Your age

\_\_\_\_\_

2) Your gender

Male

Female

3) Do you know that sauna comes from Finland?

Yes

No

4) Do you want to try a real Finnish sauna in Lu'an?

Yes

No

5) If some Finnish people build this sauna club, are you willing to pay for visiting it?

Yes

No

Not sure

6) How often will you visit the sauna club per month?

0 - 4 times

5 - 8 times

9 - 12 times

7) For you, what is the acceptable price for one visit?

10 - 20 RMB

30 - 40 RMB

50 - 100 RMB

8) Do you think a membership card is useful?

Yes

No

9) If the season membership card exists, how much you can accept for pass?

Under 200 RMB

Under 300 RMB

Under 500 RMB

10) Overall, what is your attitude towards this club?

Positive

Negative

Not sure

## Appendix 4

您好，六安的老乡亲们。在此我恳求大家牺牲 3 分钟宝贵时间，帮忙填一下这份问卷调查。

1.

您的年龄：

2.

您的性别： \*

- 男
- 女

3.

您知道桑拿浴来自于芬兰么？ \*

- 是
- 否

4.

您希望在六安尝试正宗芬兰桑拿浴么？ \*

- 是
- 否

5.

如果当地有一所芬兰投资的正宗桑拿浴，您愿意付费定期洗桑拿么？ \*

- 是
- 否
- 不确定

6.

如果此桑拿俱乐部所得门票收入将全部用于慈善事业，您在一个月内愿意消费多少次？ \*

0-4 次

5-8 次

9-12 次

7.

您所能接受的单次芬兰浴价格范围是： \*

- 只能接受价位 10-20 元
- 可以接受价位在 30-40 元
- 价位在 100 元以内都可以接受

8.

您希望此俱乐部有会员制或月卡季卡么？ \*

- 是
- 否

9.

如果可以办理季卡，您可以接受的价位范围是： \*

- 200 元以内
- 300 元以内
- 500 元以内

10.

总的来说，您对于此桑拿俱乐部的态度是： \*

- 全力支持
- 支持
- 不支持
- 不确定