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CURRENT MARKET SITUATION OF CATERING BUSINESS IN BALTIC SEA FERRIES

CASE: PNM – PAN NORDIC MEAT LTD

Bachelor's Thesis 2012

ABSTRACT

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Bachelor's Thesis

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itämeri, market entry, barriers to market entry

Supplying catering goods to cruise lines is considered a very challenging business segment. It involves an extensive amount of customs duties and procedures and the suppliers must make sure the customers receive the ordered goods in full quantity and on time.

Case company PNM – Pan Nordic Meat Oy has been supplying meat products to cruise lines and they currently attempt to enlarge their service portfolio. The company was seeking a more complete picture of the market and therefore this thesis was implemented. The main aim was to find out if there is room for new suppliers in the service sector. Action and quantitative research methods were used in this study.

The findings and analysis of industry in this work are done on a rather general level but still offer some insight to the case company.

TIIVISTELMÄ

KYMENLAAKSON AMMATTIKORKEAKOULU

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International Business/ International Trade

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Risteilyalusten muonitusmarkkinoiden nykytilanne
Itämerellä

Case: PNM – Pan Nordic Meat Oy

Opinnäytetyö

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Risteilyalusten muonittaminen mielletään erittäin haastavaksi toimialaksi. Siihen liittyy lukuisia eri tullitoimenpiteitä ja velvoitteita. Lisäksi muonittajien on aina taattava, että asiakkaat saavat tilaamansa tuotteet täysimääräisenä ja ajallaan.

Case yritys PNM – Pan Nordic Meat Oy on toimittanut aluksille lihatuotteita jo pitkään ja etsii tällä hetkellä keinoja laajentaa palvelutarjontaansa. Yritys haki selkeämpää kokonaiskuvaa markkinatilanteesta ja tähän työ pyrkii antamaan vastauksia. Ydinkysymyksenä oli, onko markkinoilla tilaa uudelle toimittajalle. Tutkimuksessa käytettiin sekä toiminnallisia että kvantitatiivisia metodeja.

Työn tulokset ja toimialan analysointi tapahtuu melko yleisellä tasolla, tarjoten kuitenkin hieman uutta markkinatietoa yritykselle.

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1 INTRODUCTION

Catering services are the core of every operating cruise line in the Baltic Sea. Whether the customer wants to use the vessel only as a ferry or to have a nice relaxed weekend onboard, one of the main factors that define the trips overall experience is the food. Especially the weekend-cruises from Finland to Sweden and Estonia are well known for their lavish buffets and restaurants.

Table 1 Passenger traffic between Finland and foreign countries by ports in 2011 (Liikennevirasto 2011)

Satama Hamn Port	JOULUKUU, DECEMBER 2011 December			TAMMI-JOULUKUU, JANUARI-DECEMBER 2011 January-December					
	Saapuneet Anlända Arrivals	Lähteneet Avresande Departures	Yhteensä Summa Total	Saapuneet Anlända Arrivals	Lähteneet Avresande Departures	Yhteensä Summa Total	Muutos-Förändring-Change 2010-2011		
							Saapuneet Anlända Arrivals %	Lähteneet Avresande Departures %	Yhteensä Summa Total %
HaminaKotka	-	-	-	786	699	1 485	289,1	62,9	135,3
Helsinki-Helsingfors	383 886	411 501	795 387	5 520 121	5 451 381	10 971 502	5,4	5,5	5,4
Hanko-Hangö	447	648	1 095	1 013	1 151	2 164	-	-	-
Turku-Åbo	103 711	105 092	208 803	1 425 282	1 398 968	2 824 250	-6,3	-6,0	-6,1
Naantali-Nådendal	5 504	4 118	9 622	89 092	77 090	166 182	-0,6	-5,3	-2,8
Maarianhamina-Mariehamn	100 251	99 888	200 139	1 384 568	1 382 508	2 767 076	-2,7	-3,0	-2,9
Eckerö	26 673	27 182	53 855	459 431	454 651	914 082	2,8	2,7	2,8
Vaasa-Vasa	1 248	996	2 244	22 719	24 162	46 881	-19,5	-14,4	-17,0
Lappeenranta- Villmanstrand	-	-	-	10 585	9 130	19 715	-4,7	-14,4	-9,4
Muut-Övriga-Other ports	155	187	342	4 366	4 798	9 164	-1,2	16,2	7,2
YHTEENSÄ-SUMMA-TOTAL	621 875	649 612	1 271 487	8 917 963	8 804 538	17 722 501	1,8	1,8	1,8

As table 1 above illustrates, in 2011 almost 18 million passengers travelled through Finnish ports. Majority of these departed and arrived to ports in Helsinki. Though many of them perhaps spent only a night at the sea and returned the next day, one must still keep in mind that people in general need to consume food on both days of the trip. Main passenger routes from Helsinki are to Estonia and Sweden.

Next biggest ports are Turku and Mariehamn. Main routes from Turku are also to Estonia and Sweden. Mariehamn is considered more as transfer hub in which passengers mainly change the vessel to another destination. If Mariehamn and Eckerö port figures are combined, they outrank Turku. Eckerö port is operated by Eckerö line in Åland.

Table 2: Passenger traffic between Finland and foreign countries in 2011
(Liikennevirasto 2011)

Maa Land Country	JOULUKUU, DECEMBER 2011 December			TAMMI-JOULUKUU, JANUARI-DECEMBER 2011 January-December					
	Saapuneet Anlända Arrivals	Lähteneet Avresande Departures	Yhteensä Summa Total	Saapuneet Anlända Arrivals	Lähteneet Avresande Departures	Yhteensä Summa Total	Muutos-Förändring-Change 2010-2011		
							Saapuneet Anlända Arrivals %	Lähteneet Avresande Departures %	Yhteensä Summa Total %
Ruotsi-Sverige-Sweden	323 969	329 097	653 066	4 572 779	4 556 625	9 129 404	-2,3	-1,8	-2,0
Venäjä-Ryssland-Russia	13 236	8 066	21 302	154 573	116 357	270 930	59,8	39,9	50,6
Viro-Estland-Estonia	276 590	305 104	581 694	3 692 142	3 654 863	7 347 005	5,1	5,3	5,2
Latvia-Lettland-Latvia	1 904	1 987	3 891	1 926	1 987	3 913	-44,5	6,2	-26,7
Puola-Polen-Poland	261	750	1 011	9 970	10 304	20 274	-6,3	-20,4	-14,0
Saksa-Tyskland-Germany	5 915	4 608	10 523	122 831	100 615	223 446	-9,4	-13,4	-11,3
Ulk. risteilyalukset-Utl. kryssningsfartyg-Foreign cruise vessels	-	-	-	363 742	363 787	727 529	12,7	12,4	12,5
Muut-Övriga-Other countries	-	-	-	-	-	-	-	-	-
YHTEENSÄ-SUMMA-TOTAL	621 875	649 612	1 271 487	8 917 963	8 804 538	17 722 501	1,8	1,8	1,8

Table 2 shows that the main cruise destinations from Finland are Sweden and Estonia. The rapid increase of Russian cruises is explained by the new operator St. Peter Line which organises cruises from St. Petersburg to Helsinki, Stockholm and Tallinn.

Table 3: Finland's supply of goods to vessels & aircrafts in 2011 (Finnish Customs 2011)

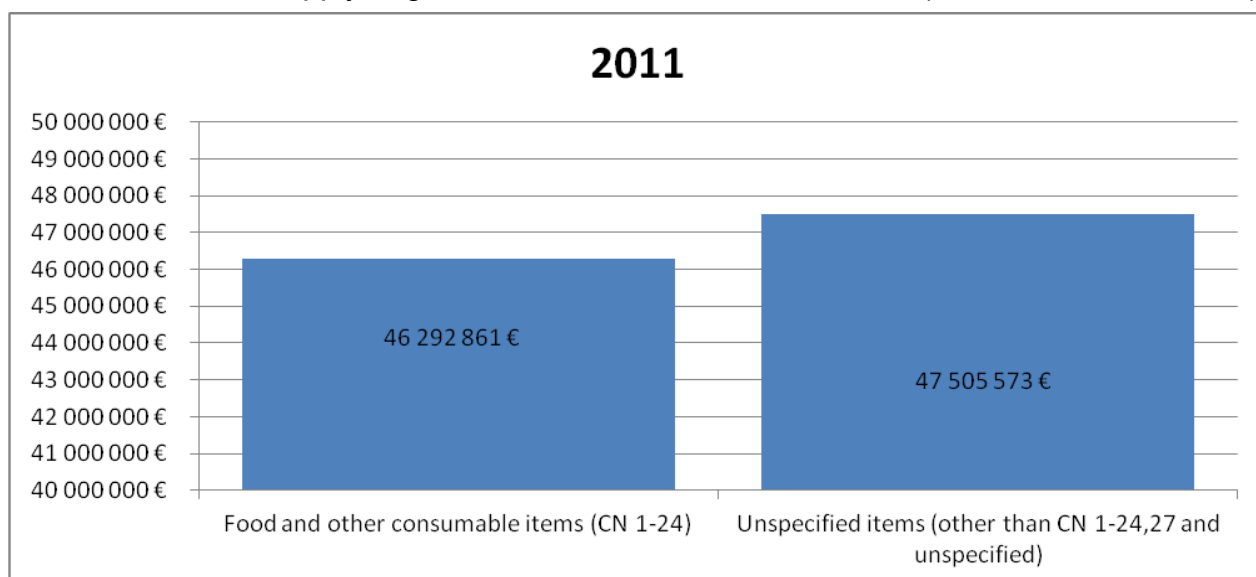


Table 3 shows the recorded value of goods sold from Finland to *foreign registered* vessels and aircrafts. Articles belonging to CN-category 1-24 include all food items and the value of this segment is over €46 million a year. In addition undefined goods total to over €47 million. This kind of statistical data has been gathered starting from year 2011. Due to a fairly new system and data

collection method the true numbers may be even higher. Some of the vessels are registered to Finland and their statistical value is counted to domestic figures which are unavailable at this time. For comparison, resembling statistics from Estonia in 2011 were a bit over €34 million (Statistics Estonia 2011).

This is where the case company PNM – Pan Nordic Meat Ltd sees the potential of their current market expansion. PNM was established in 1990 by Gustaf Salmelin, who is still the CEO and owner of the company. The core business is in importing and trading of meat in the global marketplace. At the moment the Nordic countries are the main area of selling whilst most of the purchases are done from for example Thailand, South-America and Central Europe. PNM employs 15-20 persons depending on the season and the turnover in 2011 was approximately €30, 7 million. The product range includes beef, poultry, pork, game, ovine and exotic products. PNM imports raw and cooked food products for consumer markets and to the food industry. The company is a part of PNM Holding and it has a sister company Foodbrands Nordic Oy which provides brand management services for foreign companies who wish to enter the Finnish retail and HORECA-sector.

Pan Nordic Meat products can be found in for instance K- and S-group shops and markets. The brands and products have more shelf space in Helsinki area, but can be found all over Finland. Customers from the food industry vary from small butcher shops to largest domestic producers. PNM also has a long history in providing meat to vessels sailing in the Baltic Sea.

Supplying catering goods to cruise lines is often considered a very challenging business segment. It involves an extensive amount of customs duties and procedures and the suppliers must make sure the customers receive the ordered goods in full quantity and on time as there are no supermarkets on the Baltic Sea. Though the amount of cruise lines and suppliers are relatively small the large amounts of goods keep the margins low.

As PNM has already been supplying meat to vessels and possess strong experience in importing of meat products from all over the world, the customs procedures were not considered as a challenge. PNM also has good

relationships with many of the domestic food processors and retailers which have been considered as an asset from the beginning.

PNM had planned to start a full scale catering service sometime during the year 2011. The plan was implemented a lot faster than considered as the company was contacted by German ship supply company, SVR - Schiffsversorgung Rostock GmbH, in the eve of Eastern 2010 to help them in supplying of provision goods to Finnlines' Star-class vessels. These travel between Finland, Poland and Germany. The partnership with SVR has been continuing and though PNM has a lot of knowledge of the business the sudden start involved a lot of learning by doing.

Currently the company seeks ways to expand their ship supplying segment. It has a bonded warehouse for uncleared goods in Tallinn, Estonia and there are plans of opening another in Stockholm. As stated above, PNM has been supplying meat products to some of the cruise lines, but after years of experience in this they wish to take a step forward to enlarge their service portfolio to cover a wider assortment of provision goods. Also the possibilities to supply from different ports increase the size of the market substantially. The company wishes to seek a more complete picture of the market and therefore this thesis was implemented.

1.1 Key Terms

This chapter gives a brief clarification to some key terms used in this study.

Bonded warehouse = Secured facility supervised by customs authorities, where dutiable landed imports are stored pending on their re-export, or release on assessment and payment of import duties, taxes and other charges. Known also as *customs warehouse*.

Ship supplier / Ship chandler = Wholesale dealer who specialises in supplies or equipment for ships, known as ship's stores.

Ship catering = In this study referring to supplying of edible goods

CN-Category = The Combined Nomenclature in which each imported and exported item from/to EU is categorised under different classes. 1-24 consist of mainly edible goods.

T1 status goods = Goods that are imported into the Customs territory of the EU and the Duty and VAT has not been paid, in full. These goods are stored in bonded/customs warehouse.

Non-EU approved = Goods not approved for free circulation inside the EU but can be sold to vessels sailing in international waters

1.2 Instances Related to Ship Supplying

ISSA is the acronym for International Ship Suppliers & Services Association which was founded in 1955. ISSA is the roof organisation for 43 national associations and it currently has almost 2000 members from 52 countries. Members are carefully audited before they can gain membership. The recognition of ISSA membership can be seen as a guarantee of trustworthy company and it is highly valued in the field of business. Members must also comply with general conditions of sale and act according to the association's code of ethics. If a national association is present it is often the only channel to get access to ISSA. FSSA, Finnish Suppliers Association, was founded in 1946. It is a member of both ISSA and OCEAN. The Finnish association currently has seven members of which three also supply food to vessels. (ISSA n.d. ; FSSA n.d)

OCEAN is the European Ship Suppliers Association. The name originates from the French name "Organisation de la Communauté Européenne des Avitailleurs de Navires". It is also a part of ISSA and currently has over 750 ship Chandlers in their member roster. (OCEAN n.d.)

PNM is currently not a member of any of these organisations as there has been no clear need for it in the past. Possibility of joining is currently discussed to acquire more international customers visiting the Finnish ports.

2 THE AIM OF THIS WORK AND WAYS OF CONDUCTING IT

The purpose of the thesis was to describe the catering business of vessels operating from Finnish ports to other ports in the Baltic Sea. The main focus was kept on the supplying of provision goods, as it was of most interest for the company PNM – Pan Nordic Meat Ltd. Main objectives of the study was to describe a more comprehensive picture of the market and how it works.

2.1 Research Objectives

This research aims to find an answer to the question “*is there new business opportunities in the catering services of Finnish vessels*”. To find a solution we must also seek answer to “*who are the main customers?*” and “*who are the main competitors?*” By defining the latter two we can draw conclusions of the current market situation.

2.2 Research Methods

The original plan to conduct this study was to interview cruise lines’ purchasing departments. For the interview a questionnaire was formed (see app. 1). Unfortunately majority of the recipients were unwilling to answer the questions, stating that the information is not for outside parties. Therefore the writer was forced to change the original plan rather late. Due to this the main material was changed to freely available data and statistical figures, which was too fairly difficult to acquire.

Methods used in this research consists of quantitative and action research. The analysis of facts and figures of passenger data and shipping companies’ financial statements along with other available material is the quantitative part and the personal experience gathered by working in the field of study on daily basis for nearly two years has also been a good method for carrying out the action research.

The theoretical framework for this study was in analysing the somewhat oligopolistic market and the concept of market entry barriers.

2.3 Structure of the Thesis

The purpose of this thesis and methods for conducting it are presented on the previous chapters. Chapter 3 analyses the theoretical framework of market entry and entry barriers. It is followed by short introduction to catering of cruise vessels. After this the aim is to give a good overview of the market situation between customers and suppliers and end with a SWOT-analysis of PNM. The final conclusions are meant to sum up the whole work. Figure 1 provides a clear picture of the thesis structure.

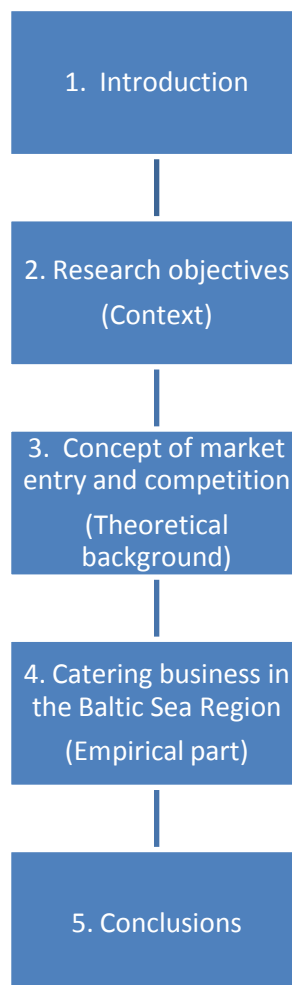


Figure 1: Structure of the thesis

3 STRATEGIES FOR MARKET ENTRY AND FACTORS AFFECTING TO COMPETITION

3.1 Market Entry Strategies

“A market entry strategy consists of an entry mode and a marketing plan. The mode of entry is what is used to penetrate a target country while the foreign market marketing plan is used to penetrate a target market.” (Albaum, Duerr & Strandskov 2005, 245)

According to Welch, Benito & Petersen (2007) entry modes can be divided into three main groups; contractual modes, exporting and Investment modes. Each of these has their own specialties. Table 4 illustrates this division.

Table 4: Major foreign operation method options (Welch, Benito & Petersen 2007, 4)

Contractual Modes	Exporting	Investment Modes
Franchising	Indirect	Minority share (alliance)
Licensing	Direct: Agent / Distributor	50/50
Management contracts	Own sales office / Subsidiary	Majority Share
Subcontracting		100% owned
Project operations		
Alliances		

When looking at the complex structure of today’s international business field it is not easy to draw clear lines between the different entry modes. Often they overlap in some ways or are used in different combinations to achieve best possible results. This chapter aims to give a brief clarification to all subjects and how they differ from each other in principle.

Contractual modes include a contract between two or more parties. Such are for instance franchising and licensing, though the line between these two is nowadays difficult to draw. The best way to differentiate these two is the degree

of control that the Franchisee/Licensee has. Licensee often has more control in how to run the operation compared to restrictions that a franchise agreement puts upon the franchisee. (Welch, Benito & Petersen 2007, 53)

With franchising agreement the franchisor grants the franchisee legal rights to use its brand, trademark and products for a certain fee. It will also provide a ready package of operational methods to the franchisee. With franchising the franchisor can lower the resource constraints related to new market entry. It will also receive valuable information of the new market, as the operational side is taken care of by a local person. Though the required capital investment is small compared to some other entry methods and the agreement defines the rights of the franchisee, there is always managerial risk involved. Controlling of several owner-managers can be a handful and initial investments may rise in relation to the amount of training, promotion and other support that is required in the beginning. (Doole&Lowe 1999, 329; Jobber 2007, 959)

Welch, Benito & Petersen (2007, 139-144) state that management contracts take place when two parties, the contractor and the contractee make an agreement where the latter takes control of an enterprise or a part of its operations that would normally be taken care of by the contractor itself. The contract is made for a set period of time ranging from two to up to twenty years and the acting party receives a compensation fee for its input. When there is a clear difference between the ownership and management of the two parties the agreements are called *pure* management contracts as the companies do not have shared equities. These rarely take place, but the contracts are rather a part of joint ventures where the parties share equities and risk to a greater extent. Especially pure management contracts are mainly associated with hotel sector and the airline industry.

Sharpston defined international subcontracting as *all export sales of articles which are ordered in advance and where the giver of the order arranges the marketing*. In the recent years subcontracting has been linked with off-shoring of manufacturing activities from developed countries to so called low-cost countries which gives a somewhat negative image to the matter. Nevertheless, subcontracting is a mode of entry to new markets. Nowadays also more

advanced tasks such as customer support and R&D actions are also being moved to places where the capital investments are seen smaller. Good examples of subcontracting are for example sports clothes manufacturers such as Adidas, Nike and Reebok which all use subcontractors in production but have managed to create strong brands through their own marketing efforts. (Welch, Benito & Petersen 2007, 161-164)

Welch, Benito & Petersen (2007, 198) state that project operations often consist of wide mix of activities and modes. The mixes vary depending on the current state of the project. Project operations can contain foreign direct investments, licensing as the technology may be transferred, financial arrangements, exporting of products, systems and services and personnel may also be transferred abroad for the duration of the project to train new staff.

Alliances are defined as arrangements where two or more companies take part in joint activity, while remaining as independent organisations, and this result in foreign market operations. Alliances as such are difficult to define as it is an umbrella concept to different cooperative strategies which can include or base to joint ventures, foreign direct investments, written legal agreements or they can even base on trust between the companies while no papers have been signed. (Welch, Benito & Petersen 2007, 273-277)

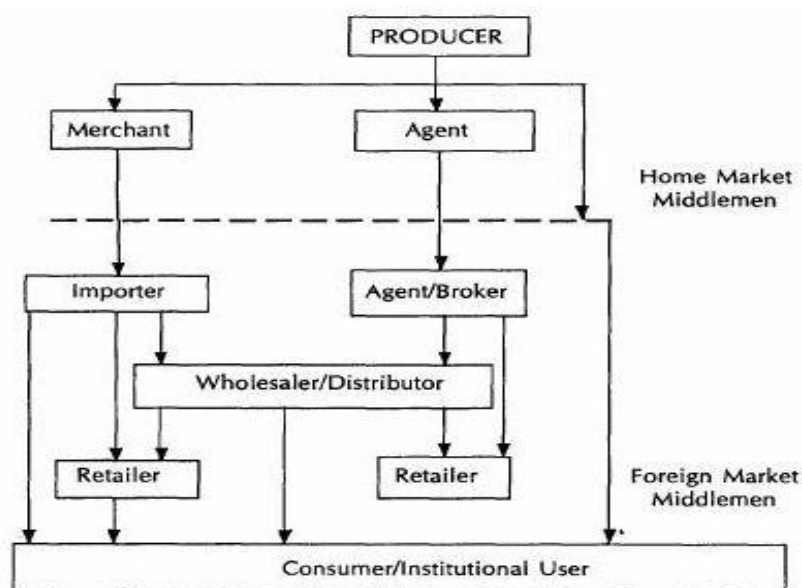


Figure 2: Export Channels (Cherunilam 2010, 336)

Figure 2 clarifies the differences between export channels. With indirect export the producer transfers international marketing efforts to another domestic company. This often means very little international actions to the producer itself. In case the goods are sold to a merchant, agent or a retailer operating in the target market this would be considered as direct exporting. If the producer has considerable amounts of items going to a certain market abroad it is also possible to open own sales office or a subsidiary to avoid using a middle man. (Cherunilam 2010, 335-340)

As joint ventures are an example of (strategic) alliances, we can take a bit closer look to those. Jobber (2007, 960-961) states that they can be divided to two categories, *contractual* and *equity*. Main difference is that equity joint ventures occur when two or more companies/investors of foreign and target country origin create a wholly new entity where the partners share both control and ownership. Contractual joint ventures are based on partnerships where the parties share costs, risks and profits. Depending on the nature of the partnership the venture can last for a single project or be a part of a long-term plan. Joint ventures may also be formed to avoid entry barriers created by local governments that require the companies to have some local owners as well.

Perhaps the most effective way of entering a new market is the foreign direct investment, FDI. It gives the company a chance of the higher profits and foreign market involvement when talking about an acquisition of a completely functioning company. The high level of control and influence of the market also means that the risks are high. (Welch, Benito & Petersen 2007, 318)

Acquisition may be needed also when the target markets are so saturated that the only feasible option is to purchase one competitor out of the market to begin with. Another form of a FDI and the one bearing the highest risks and profit possibilities is the option of building completely new facilities in a foreign country. (Jobber 2007, 961)

3.1.1 Competitive Strategy

An industry consists of a group of competitors that produce products or services which compete directly with each other. An industry also acts as an arena in which the competitive advantage is either lost or won. The main purpose in defining the competitive strategy is to find a way to approach the industry's market so that the results are both profitable and sustainable. (Porter 2006, 69-70)

Two underlying factors determine the competitive strategy. These are structure of the industry and positioning of the company compared to its competitors. These factors are however constantly changing as the industry develops and they should be assessed accordingly from time to time.

Neither of these two factors alone are sufficient base when creating the strategy. It is important to understand the connection between them. Though a structurally favourable industry can be seen as a potential new market for a company, bad positioning can ruin all efforts which were used during the market entry. (Porter 2006, 70)

3.1.1.1 Analysing Industry's Structure

Porter (2006, 71) states that five competitive factors exist in all industries. These are threat of new competitors, threat of substitutes, suppliers' power, customers' power and rivalry between existing competitors. The profitability and attractiveness of an industry is based on the relationship of these factors. They also affect with different strength to industry's economical and technical factors, which are also known as the structure of the industry.

New competitors steal market shares from existing companies and also bring in new capacity which results in lower profit margins for all producers in that field. Incumbent firms try to block new entrants by creating various entry barriers, which are discussed in more detail in the following chapters. (Jobber 2007, 774-776)

Depending on the industry, suppliers can have strong bargaining power. This occurs when there is high demand for raw materials and components, but only a few dominating suppliers. Also very specific product characteristics can tip the scale in favour of the supplier. The material required by the industry may be only a side product for the supplier, in which case they are not depended on the sales and again gain better bargaining status compared to the customer. (Jobber 2007, 776)

Suppliers bargaining power can be lowered for instance by product development and backward integration. If the product specifications can be changed so that the required components and materials are more standardised the potential amount of suppliers increase and consequently it lowers the power of the few previous ones. (Jobber 2007, 776)

Backward integration means that a company acquires ownership and control of producing the needed inputs by themselves. It is a part of a concept known as vertical integration. Vertical integration can also work downstream, in which the company may for instance attain ownership of its previous customers to gain a better position on the market. If the company wishes to lower supplier's bargaining power it can indicate the possibility of obtaining own production facilities of the needed material. (Saddler 1993, 95)

Customers with high influence can negotiate more profit for themselves which again lowers the profitability for the company. This is also known as bargaining power of buyers. In the Finnish daily consumer goods sector there are basically two major buyers, the K-group and the S-group which both have a huge bargaining power over the suppliers as their combined market share in 2008 was over 75%. Depending on the industry's structure, firms can try to lower buyer's bargaining power by increasing the customer base or by downstream integration in the supply chain (Porter 2006, 72; Jobber 2007, 776; Tilastokeskus 2009)

Substitute products or services lower the prices and sales volumes of existing supplies. Producers try to block this thread by increasing the switching costs for the end user. As discussed below, this can be either a mental cost achieved through good branding or a real monetary cost. Ultimately it is the end users

who determine the strength of this factor in the industry's structure. (Jobber 2007, 774-777)

3.1.1.2 Positioning the Company in an Industry

According to Porter competitive advantage can be divided into two groups; cost leadership and differentiation. Cost leaders competitive advantage is based on lower prices where as the differentiator has a unique product or service. There are three basic types of competitive strategies that lead to competitive advantage. Cost leadership, focusing and differentiation (Porter 2006, 74-76).

		Competitive advantage	
		Low costs	Unique product
Competitive field	Wide target market	Cost leadership	Differentiation
	Narrow target market	Cost oriented focusing	Differentiation oriented focusing

Figure 3: Porter's generic strategies (adapted from Porter 1998a, 12)

Figure 3 illustrates the different strategies and to which they are based on. Cost leaders rely on wide product catalogue with good quality products. The quality is good, but not perfect. Companies with differentiated strategy on wide market deliver highest of quality but with a premium price. On narrow markets the ones who are focusing on an differentiated products have higher prices in order to cover the costs that the production of good quality requires where as cost oriented companies serve customers with low prices and adequate quality. (Porter 1998a, 11-16)

According to Porter no matter which strategy is chosen the main target is to follow the plan obediently. Worst option is to get stuck in between and try to offer something for everybody. (Porter 2006, 76-77)

Pursuing the overall cost leadership often requires heavy capital investments in the beginning. This strategy is based on the economies of scale in production and overall cost minimisation. Even with strong competition the low-cost producers can yield above average returns. The cost structure works as a defence barrier to both customers and competitors. Strong customers can only push prices to the next cheapest producer's level and competitors rival their excess margins away. The low-cost structure also takes power away from the suppliers as the cost minimisation strategy helps in balancing the potential increases. The cost economies of scale and cost advantages protect also against substitute products and therefore offer guard against all five factors of competition. (Porter 1998b, 35-36)

With differentiation strategy the key is to offer customers a unique product which cannot be easily replaced by substitutes. Brand image and tailored solutions for customers needs are means of achieving this. By doing this the company can charge a premium price for their products and/or services, which can be used to cover the higher production costs when compared to cost leadership strategy. (Porter 1998b, 37-38)

Focus strategy is based on a narrow market segment in which the company tries to achieve either a cost advantage or implement differentiation strategy. A high level of customer loyalty is often the essence of this strategy. The lower volumes lessen the company's bargaining power but this cost can often be transferred to the end customer. The high service level increases pace of product development as the relationship with the customer is so close. The risk of this strategy is the possible changes in the target segments and the change that a broad-market leader shows interest to the narrower segments. (Porter 1998b, 38-40)

Competitive advantage requires the company to constantly seek new or improved procedures compared to its competitors. According to Porter this is what we understand as innovation. It can be a change in a product or in process, a new approach to marketing, new distribution channels or new definitions in competitive field. Innovation does not necessarily need to be a big change. Small changes in daily procedures or small product developments can

already be called innovative. In order to be innovative, companies must invest in learning and research & development. It is a matter of improving know-how and also often of physical capabilities and marketing (Porter 2006, 83).

A small example of daily innovations is the idea of changing the packing type of a high volume item from a cardboard box with a net weight of 5Kg to a 20Kg plastic bag. This would mean huge savings in both space and waste management expenses. A plastic bag would take a lot less space on the shelf and also in the trash can. For instance the Baltic Sea vessels have very limited space for wastes onboard and they would surely be interested on these kinds of ideas.

3.2 Market Entry Barriers

Barriers to market entry are closely linked with the five competitive factors. Joe Bain defined the barrier as;

“A barrier to entry is an advantage of established sellers in an industry over potential entrant sellers, which is reflected in the extent to which established sellers can persistently raise their prices above competitive levels without attracting new firms to enter the industry.” (McAfee, Mialon & Williams 2003, 4)

Tables 5 and 6 illustrate how entry barriers are traditionally grouped to either structural or strategic barriers. McAfee et al suggest a new definition in which these barriers are divided into *economic* and *antitrust* barriers, which can be either standalone or ancillary. An economic entry barrier is a cost that the already existing companies in the market have not had to pay when they originally entered nor after that but which is required from new entrants. Many economic entry barriers are antitrust, meaning they are costs *that delays entry, and thereby reduces social welfare relative to immediate but equally costly entry*. On the other hand, most antitrust entry barriers are not economic as the tables show. (McAfee, Mialon & Williams 2003, 1-26; McAfee & Mialon 2004, 1-7)

Standalone barriers are such that they count for an entry barrier on their own, whilst ancillary barriers are no barriers alone. Ancillary barriers often enhance primary effects and in some cases the collective effect of many ancillary barriers can create a standalone barrier. (McAfee, Mialon & Williams 2003, 12)

Table 5: Classification of structural barriers to entry (McAfee, Mialon & Williams 2003, 25)

Structural Barriers to Entry	Economic		Antitrust	
	Standalone	Ancillary	Standalone	Ancillary
Economies of Scale				X
Switching Costs			X	
Brand Loyalty	X		X	
Capital Costs				X
Absolute Cost Advantages	X		X	
Informational Advantages				X
Organisational Advantages		X		X
Asset Specificity		X	X	

Table 6: Classification of strategic barriers to entry (McAfee, Mialon & Williams 2003, 25)

Strategic Barriers to Entry	Economic		Antitrust	
	Standalone	Ancillary	Standalone	Ancillary
Intense advertising			X	
Contracts to block distribution			X	
Excess capacity		X	X	
Price discrimination	X		X	
Lease-only marketing		X	X	
Tying	X		X	
Collective product proliferation				X
Lobbying to raise entrant's cost	X		X	
Exclusive patent cross-licensing		X	X	

All companies try to create close relationship with their customers in order to keep them loyal to them. This brand or supplier loyalty can make the market penetration very difficult for new companies, especially on small niche markets. New companies may try to win over customers by selling at a lot lower price

than the already existing competitors, but sometimes the demand is inelastic and the customers are not price sensitive as they prefer to have the trusted and well know suppliers item over cheaper price. (McAfee, Mialon & Williams 2003, 1-26)

In relation to a cheaper product price, in some fields also the switching costs of a supplier can be extensive. Sometimes this may require a complete renovation of for instance IT systems and hardware, which makes it more favourable to stay with the current supplier. This kind of switching costs can create entry barriers. (McAfee, Mialon & Williams 2003, 13)

As the two paragraphs above show, switching costs apply in all aspects of the industry. Be it the company's potential customer base, which would have to switch their supplier or the company itself seeking a new source of material. The switching costs can also be built up by having a strong brand, in which case the costs are more psychological than fiscal. (Jobber 2007, 774-777)

Already well established companies may respond to new competitors pricing strategy by predatory pricing. With predatory pricing the companies sell products reasonably cheaper than what the market level is, in order to gain market share or to put rivals out of business. Predatory pricing can be seen as illegal, if the competitor sells products under its own production costs, but if they have more efficient production methods, which only give them a price advantage over other companies, it is considered normal competition. (McAfee, Mialon & Williams 2003, 22; Hylton 2003, 212-213)

The danger in price competition is the possibility of ruining the market's competitive stability. New competitors of course lower the market share of incumbent firms, but if at the same time a "price-war" starts, the overall profitability of the industry can lower. Companies should bear this in mind, when calculating the potential loss of few percentages of market shares versus the industry's overall profitability. By jumping into the bandwagon of price competition they might ruin their long built brand and "compete away" the original value with which they filled the customer's needs. (Jobber 2007, 777)

Potential customers may also have exclusive distributor agreements with existing companies. These are often made so, that they are valid for a fixed period of time during which the new supplier has no possibility of acquiring the customer to itself. For instance in catering services to Finnish vessels at least one company makes the agreement with the supplier one year at a time. The customer first acquires samples and prices from all potential suppliers and after careful testing and evaluation makes the agreement with only one of them for the whole year's supply of certain goods. (McAfee, Mialon & Williams 2003, 23)

The better established competitors can have agreements with the suppliers, which guarantee them either exclusivity or perhaps more competitive prices due to long history of working together. Again, for a new company these are things that are hard to compete with. With bigger customer base, the older companies can also achieve better economies of scale in purchasing which also gives them the price advantage over new entrants. (McAfee, Mialon & Williams 2003, 23)

Vertical integration which means the level that a company owns its upstream suppliers and downstream buyers can also create an entry barrier. This diversification of the production and supply chain makes it harder for new competitors to match the efficiency of the established firm. (McAfee, Mialon & Williams 2003, 23-24)

If entering a market requires a lot of capital investments that cannot be recovered in case that the company is forced to drop out of the competition, the so called sunk costs create an entry barrier. (McAfee, Mialon & Williams 2003)

3.3 SWOT-Analysis

With SWOT-analysis companies can assess their *Strengths*, *Weaknesses*, *Opportunities* and *Threats*. Figure 4 shows the relationship between these aspects.

Strengths	Weaknesses	Internal (Controllable)
Opportunities	Threats	

Figure 4: SWOT-analysis (Jobber 2007 P. 47)

Strengths and weaknesses are internal matters which the company has control of while threats and opportunities arise from external sources. In the analysis bland generalisations should be avoided, as they tend to create as many weaknesses as strengths. Opportunities and threats are best listed as possible future events, in order to react to them beforehand. (Jobber 2007, 47-48)

Once the SWOT has been completed the next step is to ponder how weaknesses could be converted to strengths and threats to opportunities. This method is called conversion strategies. For instance the lack of documentation in working method can be considered a weakness during staff changes as the new person needs to learn everything from scratch. This can be converted into strength by good documentation of the working steps, as the time for training is shorter, leaving the experienced staff with more time to concentrate on their own work and the new comer can learn from the process description. Expanding market share is one often used opportunity and if the company feels they have a competitive pricing, they can match these two during the expansion. Arising competitors are often seen as threats, but one option is to convert this into an opportunity by for example cooperating with the possible competitor and therefore turning the threat into an opportunity. (Jobber 2007, 48-49)

SWOT-analysis for PNM – Pan Nordic Meat can be found later in this study.

3.4 Conclusions

As many of PNM's competitors have worked in the market for a long time it was important to go through the key concepts of market entry and market entry barriers. The understanding of market structure and the theoretical background related to it helps in understanding of the relations between all parties involved. The next chapter implements these theories to more concrete concepts with actual market information evaluation.

4 CATERING BUSINESS IN THE BALTIC SEA REGION

In this study catering means supplying of food items to cruisers sailing mainly in the northern Baltic Sea. Many of the suppliers operating in this segment can be seen as logistics companies who for a small percentage fee supply the goods to vessels. Often the ships are on ports for a very short time during which they need to load and unload all passengers, cargo and supplies. Therefore, the fewer trucks come into ship to supply the better. Some suppliers have specialised to certain products or product segments while others deliver all items necessary. For instance PNM supplies only food items while ME group supplies all possible items a vessel can require. To some their core business lies in a certain field, which has given them the push to enter this market.

“Oligopoly is the form of market organization in which there are few sellers of a product. If the product is homogenous, there is a pure oligopoly. If the product is differentiated, there is a differentiated oligopoly.” (Salvatore 2003, 127)

As the research below will show, the market is dominated by a few major suppliers, ME Group and Lunden Catering. Therefore, it can be seen as somewhat oligopolistic market. The figures shown in this study does not necessarily take in consideration the foreign subsidiaries of these companies and also totally foreign competitors were left out.

4.1 Evaluation of Market Entry Modes

This chapter contains some notes relating to theoretical part of this work and how they are in relation to the empirical section. Main focus was kept on market entry modes which are in table 7. Also some entry barriers were analysed.

Table 7: Analysis of market entry modes in relation to Baltic Sea vessel catering

MARKET ENTRY MODE	POSSIBILITIES FOR ENTRY
CONTRACTUAL MODES	
Franchising / Licensing	As some of the kitchen operations in the Baltic Sea vessels' have already been outsourced, it would not be a completely foolish idea to try to set up a franchise-company onboard a vessel. Wouldn't it be great to have a cup of Starbucks coffee or enjoy a Happy Meal whilst crossing the sea?
Management Contract	Management contracts are not in the core of PNM is an option for companies from different service segments. For instance this kind of a management contract is currently in use between <i>TN Hotels & More</i> and <i>St. Peter Line</i> which is a ferry line operating from St. Petersburg. (TN Hotels & More n.d.)
Subcontract	Without own production subcontracting is not an option as such for PNM to enter the Baltic Sea market. This can of course be used as a marketing method for both foreign and domestic suppliers to get their goods to an appealing customer base through PNM.
EXPORTING	As PNM is not a manufacturing company this entry mode is not viable. On the other hand, it gives possibilities to act as an agent for other domestic companies who are interested in supplying the ferry lines with their products.
Own sales office / Subsidiary	see 100% owned
INVESTMENT MODES	An interesting option for PNM would be to find a good partner in Sweden with whom to set up a joint venture to be able to serve the clients thoroughly from Stockholm and other Swedish ports. The co-operation with SVR and PNM is also a form of contractual joint venture which is based on trust.
100% Owned	Other options for PNM's market expansion could be to purchase a smaller competitor from either in Sweden or Estonia. Setting up an own subsidiary can also been as an option.

Concerning the ship supplying supplier's bargaining power should not be an issue as in many cases all items can be sourced from abroad if necessary. Main categories where suppliers can have some power will be milk and fresh baked items, but these are also items which can be bought from Sweden and Estonia to have a better bargaining power for PNM.

Downstream integration is not a feasible option for PNM but by obtaining more cruise lines as customers and widening the product assortment the company has better stand in negotiations with clients. With larger customer base economies of scale is easier to reach.

For PNM cost oriented focusing can be seen as one the best options to widen the customer base and product portfolio.

4.2 Catering Business Customers

4.2.1 AS Tallink Grupp

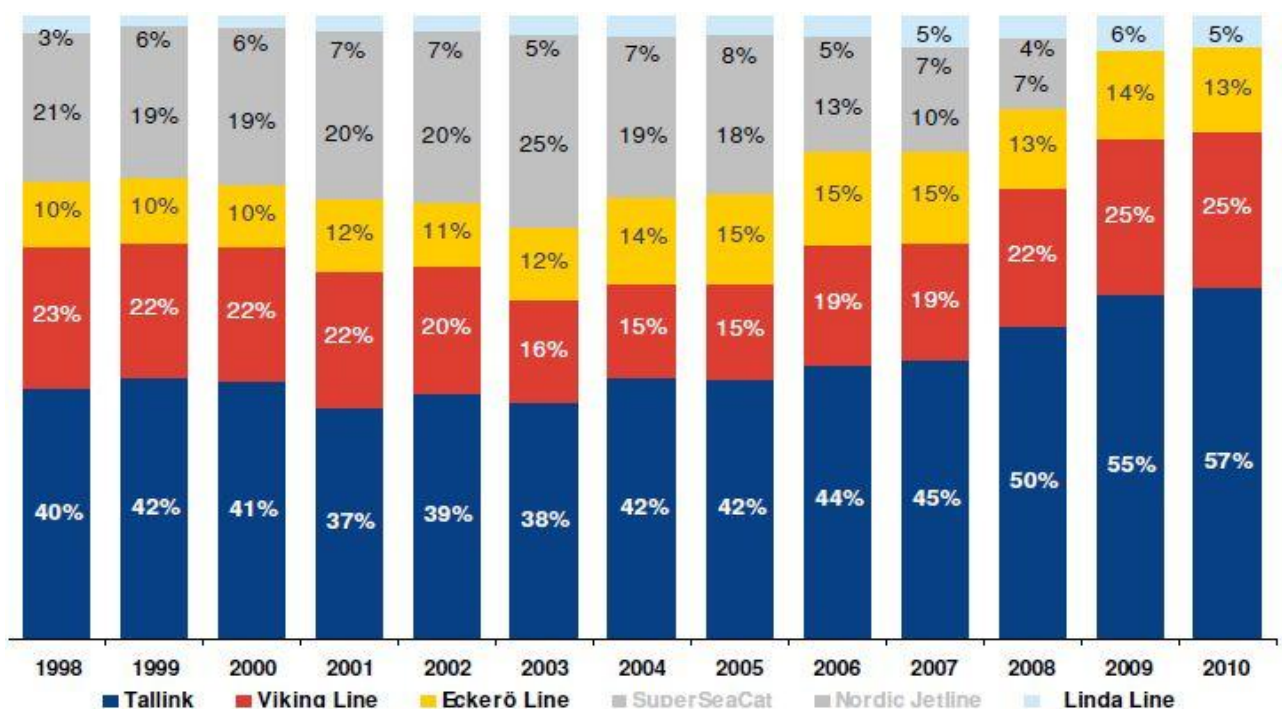
In 2006 shipping companies Tallink Finland Oy and Silja Oy Ab merged into TallinkSilja Oy. Both companies had already acquired a long history in the Baltic Sea cruising business. Silja started to operate in 1957 and Tallink in 1989. Tallink Silja Oy is part of AS Tallink Grupp which is one of the largest shipping companies of the Baltic Sea in both passenger and freight. Tallink Silja Oy operates in Finland under Tallink brand from Helsinki to Tallinn and under Silja Line brand from Helsinki and Turku via Mariehamn to Stockholm. The company employs in land about 500 people and on sea roughly a 1000 people. AS Tallink Grupp is listed in the Tallinn Stock Exchange and it has 6800 employees in Finland, Estonia, Sweden, Latvia, Russia and Germany. (Tallink Silja Oy n.d.)

Recent financial information show that the mother company AS Tallink Grupp made a net profit of €38 million in the calendar year 2011 and turnover was €908 million. Business development was strong in all operational routes and the company remains as one of the leading shipping lines in cruises. Ending the route between Finland and Germany helped to tackle increasing fuel prices

which rose by 39% during the period. The vessels which operated on the route were rented to another company which also had effect on the financial result. (AS Tallink Grupp 2012)

Tallink operates from Finland with three vessels of which two are fast ferries Star & Superstar and the third a luxurious cruiser the Baltic Princess. Cruises from Tallinn are also made under Tallink brand to Stockholm with Baltic Queen and Victoria and from Stockholm to Riga with Festival and Romantika. Silja operates from Helsinki to Stockholm with Serenade and Symphony and from Turku with Europa and Galaxy. Currently AS Tallink Grupp has the previously mentioned 11 vessels sailing on regular basis in the Baltic Sea. (AS Tallink Grupp n.d.)

Figure 5: Helsinki - Tallinn market shares 1998-2010 (As Tallink Grupp n.d.)



As the figure 5 above illustrates, AS Tallink Grupp/Tallink has the majority of market share in passenger traffic between Helsinki and Tallinn. Tallink operates on this route with three vessels, where as Eckerö Line and Viking Line have only one each. Linda Line operates during the iceless period with two catamarans.

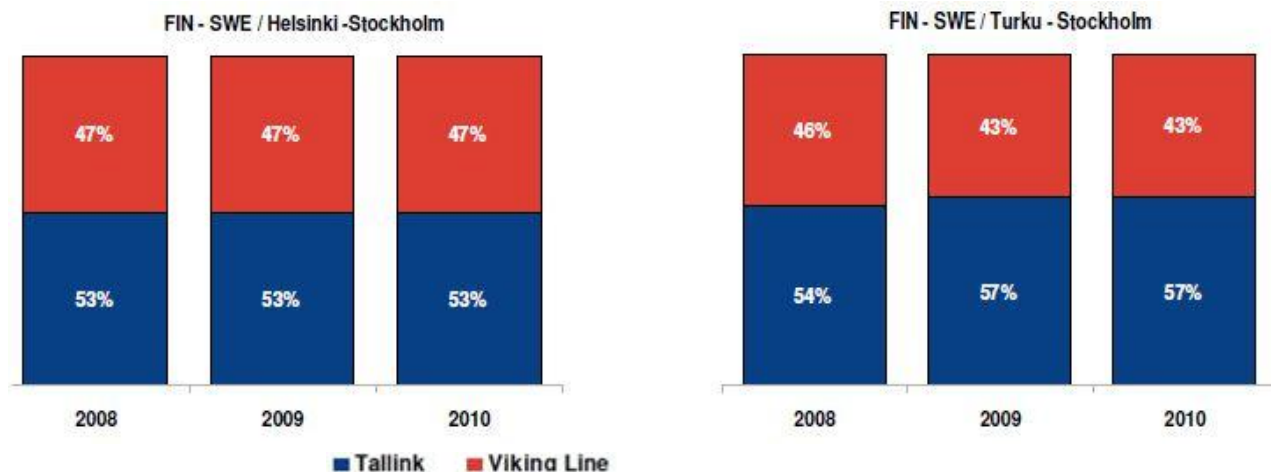


Figure 6: Finland - Sweden market shares 2010 (As Tallink Grupp n.d.)

From figure 6 it is easy to see how the passenger traffic from Helsinki and Turku ports to Stockholm is controlled by two companies, As Tallink Grupp and Viking Line Oyj.

	2010 Jan-Dec		2011 Jan-Dec	
	share %		share %	
Cost of goods	22%	-176 761	22%	-195 294
Staff costs	15%	-120 731	15%	-127 439
Marketing & Admin ⁽¹⁾	11%	-88 052	11%	-93 345
Port & stevedoring costs	12%	-95 562	10%	-90 320
Fuel cost	14%	-118 026	16%	-141 075
Ship operating expenses	8%	-64 611	8%	-66 404
Other costs	4%	-30 596	4%	-30 882
Total costs from operations	86%	-694 339	86%	-744 759
Depreciation and amortisation	9%	-73 274	8%	-71 125
Net finance cost	5%	-43 279	6%	-52 526
Total costs	100%	-810 892	100%	-868 410

(1) amortisation and depreciation excluded

Figure 7: AS Tallink Grupp's cost structure 2010 vs. 2011 (AS Tallink Grupp 2012)

Figure 7 shows how the costs are divided in AS Tallink Grupp. From PNM's point of view, it is important to understand that the highest expenditure for some cruise lines is the cost of goods, though this figure includes also items bought for various shops on board.

Revenue (EUR millions)	Q1 Jan-Mar	Q2 Apr-Jun	Q3 Jul-Sep	Q4 Oct-Dec	Total Jan-Dec
Ticket	39.2	66.4	90.4	50.7	246.7
Shops & Restaurants	105.8	125.2	135.7	121.2	488.1
Cargo	23.9	29.2	25.8	25.4	104.3
Hotel accommodation	2.4	4.2	5.7	3.5	15.8
Charter	4.8	4.1	5.6	6.0	20.5
Other	6.9	8.9	8.9	7.4	32.1

Figure 8: AS Tallink Grupp's revenue structure in 2011 (AS Tallink Grupp 2012)

Figure 8 displays well that most of the revenue is created from the shop & restaurant segment. Both expenditure and revenue include information from AS Tallink Grupp's hotel segment, but as the hotel accommodation revenues cover less than two per cent of the total, it is fair to say that these figures can be applied as such to the cruising business.

Passengers (th.)	Q1 Jan-Mar	Q2 Apr-Jun	Q3 Jul-Sep	Q4 Oct-Dec	Total Jan-Dec
Finland-Estonia	879	1 092	1 257	1 042	4 270
Finland-Sweden	738	786	925	715	3 164
Sweden-Estonia	221	237	278	207	943
Sweden-Latvia	141	197	234	147	719
Finland-Germany	0	23	24	0	47

Cargo Units (th.)	Q1 Jan-Mar	Q2 Apr-Jun	Q3 Jul-Sep	Q4 Oct-Dec	Total Jan-Dec
Finland-Estonia	26	30	31	31	118
Finland-Sweden	25	25	22	24	96
Sweden-Estonia	11	11	10	10	42
Sweden-Latvia	5	5	4	5	19
Finland-Germany	0	6	2	0	8

Figure 9: AS Tallink Grupp's passenger figures in 2011 (AS Tallink Grupp 2012)

Figure 9 illustrates clearly the two main routes of AS Tallink Grupp are from Finland to Estonia and Sweden. The connection between Finland and Germany was terminated in autumn 2011 as stated in the beginning of this chapter.

Route (EUR millions)		Q1 Jan-Mar	Q2 Apr-Jun	Q3 Jul-Sep	Q4 Oct-Dec	Total Jan-Dec
Finland-Estonia	Revenue	56.3	72.6	81.0	73.2	283.1
	Segment result	9.7	24.1	28.8	22.1	84.7
Finland-Sweden	Revenue	81.7	92.1	108.1	84.5	366.4
	Segment result	1.4	6.1	23.8	2.3	33.6
Sweden-Estonia	Revenue	21.8	28.0	34.1	24.9	108.7
	Segment result	-0.6	4.0	8.3	0.6	12.2
Sweden-Latvia	Revenue	11.6	17.0	21.6	13.5	63.6
	Segment result	-3.6	0.2	4.1	-2.4	-1.7
Finland-Germany	Revenue	0.0	9.0	7.4	0.0	16.4
	Segment result	-3.1	-4.5	-0.5	0.0	-8.0
Other	Revenue	13.4	21.6	23.4	20.4	78.9
	Segment result	-0.9	4.8	5.5	2.7	12.0
	Inter segment sales	-1.6	-2.3	-3.4	-2.2	-9.4

Figure 10: AS Tallink Grupp's revenue & result per route in 2011 (AS Tallink Grupp 2012)

Looking at figure 10 and comparing the passenger numbers and results, one may notice some differences between Estonia and Sweden. This can be explained by the somewhat different structures of the routes. Out of three vessels sailing to Tallinn only one is a leisure cruiser and the other two are designed for rather faster water crossing whereas all lines from Finland to Sweden are more or less focusing on relaxation and a nice experience onboard. There is also a lot of commuting traffic from/to Estonia as there are several thousand Estonians working in the capital area of Finland. Commuters tend to spend a lot less money when crossing the Baltic Sea.

As all the figures above show, AS Tallink Grupp is a strong company with a very profitable business in the Baltic Sea cruise business. This makes it also a very desirable customer to have and PNM should continue to deepen the already existing and good business relationship with this group.

4.2.2 Viking Line Abp

Viking Line Abp has been listed in the Helsinki stock Exchange since 1995. Company's history dates back to 1959, but it has been operating as it's seen today since 1963. Currently Viking Line has seven vessels in operation and one, The Viking Grace, is being built in STX's Turku shipyard. Viking offers

passenger and recreational services as well as cargo carrying in the Baltic Sea area. (Viking Line n.d.b)

PASSENGER VOLUME BY ROUTE SEGMENT		2011
		12 months
Turku–Mariehamn/Långnäs–Stockholm/Kapellskär		3,440,185
Helsinki–Mariehamn–Stockholm		1,128,593
– of which Åland services		2,210,632
Finland/Sweden–Baltic countries		1,782,936
TOTAL		6,351,714

Figure 11: Viking Line's passenger figures in 2011 (Viking Line n.d.a)

Figure 11 shows that during the financial year 2011 Viking Line transported over 6, 3 million passengers in all its routes. The company operates from Turku to Stockholm with Amorella and Isabella. Cinderella sails from Stockholm to Mariehamn and Rosella from Kappelskär, Sweden to Mariehamn. In the financial year 2011 Cinderella made also a few trips from Stockholm to Riga and Tallinn. Helsinki – Stockholm route is covered by Gabriella and Mariella. The only vessel sailing from Finland, Helsinki, to Estonia, Tallinn is the XPRS. The parent company also owns Park Alandia Hotell situated in Mariehamn. In addition, Viking Line Abp also has a subsidiary Viking Line Buss Ab, that operates all together nine buses and coaches in Finland and Sweden. (Viking Line n.d.a)

EUR M	Note	Jan 1, 2011– Dec 31, 2011 12 months
SALES	2	504.3
Other operating revenue	3	2.5
Expenses		
Goods and services	4	141.3
Salary and other employment benefit expenses	5	121.7
Depreciation and impairment losses	6	28.3
Other operating expenses	7	205.8
		497.1
OPERATING INCOME		9.8
Financial income	8	1.5
Financial expenses	8	-3.4
INCOME BEFORE TAXES		7.9
Income taxes	9	-0.3
INCOME FOR THE PERIOD		7.6
Translation differences		0.0
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		7.6

Figure 12: Viking Line Abp result 2011 (Viking Line n.d.a)

Comparing figure 12 to AB Tallink Grupp's result Viking Line made a rather modest profit. Compared to Tallink financial information data of Viking's different revenue sources on board is harder to find. Employment and fuel costs seem to be higher with Viking Line. This is most likely due to the routing in which main traffic lines are between Finland and Sweden, via Mariehamn. Financial year 2010 was left out from this study as it was 14 months and values were not comparable. (Viking Line n.d.a)

Currently there is no constant business between PNM and Viking Line directly. It would be important for PNM to create a new business relationship with the second biggest operator in Finland.

4.2.3 Finnlines Plc

Finnlines Plc (n.d.a) states on their website that they are one of the leading operators in the ro-ro sector in the Baltic Sea, the North Sea and the Bay of Biscay. Ro-ro comes from the term roll-on roll-off which derives from the way the vessels are loaded with trucks. Finnlines Plc has different brand names for operational lines, for instance Nordölink handles vessels between Malmo and Travemünde. Finnlines also operates several ports in Finland under Finnsteve brand. This study focuses on Finnlines' star-class vessels which travel from Finland to Poland and Germany. Finnlines Plc is a part of the Italian Grimaldi Group.

Finnlines' Star-class vessels operate from Helsinki's Vuosaari harbour to Travemünde and via Gdynia (Poland) to Rostock. There are altogether five identical vessels; Europolink, Finnmaid, Finnlady, Finnstar and Nordlink. As the main focus on this study is on catering of passenger vessels other Finnlines routes were left out. Star-class vessels can take 550 passengers per trip as other Finnlines vessel the number varies from 100-400. In comparison Tallink's Baltic Princess has cabin room for 2,500 passengers and additional deck tickets are also sold. (Finnlines n.d.a)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, IFRS

EUR 1,000	1 Oct – 31 Dec 2011	1 Oct – 31 Dec 2010	1 Jan – 31 Dec 2011	1 Jan - 31 Dec 2010
Revenue	144,824	139,276	605,208	561,108
Other income from operations	1,025	1,042	2,515	4,287
Materials and services	-62,841	-53,484	-247,262	-202,964
Personnel expenses	-26,464	-29,905	-107,948	-110,635
Depreciation, amortisation and write-offs	-16,019	-15,551	-63,512	-60,322
Other operating expenses	-42,164	-40,910	-167,972	-165,850
Total operating expenses	-147,488	-139,850	-586,695	-539,770
Result before interest and taxes (EBIT)	-1,639	468	21,028	25,625
Financial income	462	554	911	3,793
Financial expenses	-6,979	-5,903	-27,370	-25,734
Result before taxes	-8,155	-4,881	-5,431	3,683
Income taxes *	5,028	1,752	2,925	-1,450
Result for the reporting period	-3,128	-3,129	-2,506	2,234

Figure 13: Finnlines Plc income 2010-2011 (Finnlines 2012)

Figure 13 illustrates the Finnlines group revenue. In 2011 it was €605.2 million and result before taxes was €-5.4 million when in 2010 it was still €+3.7 million.

Material and service expenditure increased from the previous year by over €47 million. In 2011 Finnlines transported about 635000 private and commercial customers. This includes all routes and unfortunately more precise statistics of the above mentioned routes cannot be found. (Finnlines 2012)

Five-year key figures

EUR million	2010	2009	2008	2007	2006
Revenue	561.1	494.4	735.7	685.5	632.7
Other income from operations	4.3	13.4	2.4	15.3	2.1
Result before tax, depreciation and amortisation (EBITDA)	85.9	37.4	98.1	121.9	98.1
% of revenue	15.3	7.6	13.3	17.8	15.5
Result before interest and taxes (EBIT)	25.6	-23.6	35.4	68.8	58.2
% of revenue	4.6	-4.8	4.8	10.0	9.2
Associated companies					0.3
Result before taxes (EBT)	3.7	-51.4	-3.2	40.1	47.7

Figure 14: Finnlines Plc main figures from 2006-2010 (Finnlines n.d.b)

Figure 14 shows that the company has been on quite turmoil. In 2009 the company invested heavily to new operational routes in the Baltic Sea. In 2007 the company announced purchase of six new build vessels from China which are to be delivered in 2011-2012. Two of them started to operate in the spring of 2011. (Finnlines n.d.a)

Due to good and ongoing business relationship between PNM and Finnlines the analysis of the company was kept quite short. Currently PNM operates to the vessels in collaboration with a German partner SVR - Schiffsversorgung Rostock GmbH and see no reason to make any drastic changes into an operational system.

4.2.4 Eckerö Line

Eckerö Line is a part of the group Rederiaktiebolaget Eckerö. For this study only Eckerö Line was taken under closer examination, as it operates between Helsinki and Tallinn while other members of the group are focusing on either freight services or routes between Åland and Sweden. Eckerö Line provides two daily departures for passenger traffic between Helsinki and Tallinn with its M/S

Nordlandia. It also has a cargo liner M/S Translandia operating on the same route but in Helsinki the vessel leaves at Vuosaari harbour. (Eckerö Line n.d.)

Financial ratio summary

Eckerö Line myyntipalvelu	2007/01	2007/12	2008/12	2009/12	2010/12
Company's turnover (1000 EUR)	61353	60028	61153	55985	60086
Turnover change %	11.20		-6.60	-8.50	7.30
Result of the financial period (1000 EUR)	64	8	-25	-217	-31
Operating profit %	12.40	12.70	2.00	-6.20	-6.50
Company personnel headcount	273	242	234	N/A	N/A

Source: Suomen Asiakastieto

Figure 15: Eckerö Line financial summary 2007-2010 (Finder.fi n.d.a)

Figure 15 illustrates the key financial figures of Eckerö Line from 2007 to 2010. Unfortunately more precise information of the Eckerö Line financial and statistical numbers is hard to find and there is no clear explanation available for the negative results. According to Eckerö's bulletin dated 2.1.2012 the number of passengers in 2011 was 938 351 which meant a 6536 increase compared to 2010. Also the freight traffic rose by 50% giving the company a 30% market share of the segment. (Eckerö bulletin 2012a)

The parent company Rederiaktiebolaget Eckerö announced on 2nd of February 2012 that they will purchase a new vessel to replace M/S Nordlandia. The replacing vessel is bought from Italy and according to the bulletin dated in March transfer to Rederiaktiebolaget Eckerö has happened and the ship is now heading for basic repairs and remodelling work to suit the new owner's needs. Total investment is estimated to be €90 million and it is financed by Handelsbanken. Compared to M/S Nordlandia the new vessel can carry 2080 passenger and 665 cars or 84 trucks whereas Nordlandia's capacity has been 2000, 450 and 42 respectively. (Eckerö Line n.d.; Eckerö Line 2012a, Eckerö Line 2012b, Eckerö Line 2012c)

PNM has recently started to approach the Eckerö Line in terms of meat supplies and the two are currently in negotiation.

4.2.5 St. Peter Line Co, Ltd

St. Peter Line Co., Ltd is a very new company in the Baltic Sea cruise business. It started to operate in April 2010 on the route from St. Petersburg to Helsinki. St. Peter Line offers short visa free trips to its customers heading to Russia. The company is registered to Cyprus Nicosia and its two vessels sail under Malta's flag. Most of the other vessels mentioned in this study are registered to the Nordic Countries. Compared to other cruise lines, St. Peter Line has also taken a different approach on running its business. For instance managing of all service operations onboard was outsourced to TN Hotels & More in September 2011. (St. Peter Line n.d.)

At the moment St. Peter Line offers two routes, an overnight route between Helsinki and St. Petersburg and a discovery route of the Baltic Sea cities. M/S Princess Maria, which can take a little under 1800 passengers onboard, is used on the overnight trips and M/S Princess Anastasia on the longer journey. M/S Anastasia is capable of taking in 2500 passenger and it sails on the route St. Petersburg – Helsinki –Stockholm – Tallinn. The passengers have the possibility to spend the day in each of the cities. (St. Peter Line n.d.)

Due to the complex business structure financial data or passenger figures of the company are very hard to find. Most companies who have tried organising cruises from Russia to the Nordics have been failing in a very short time. For instance Stella Lines operated the same route in 2008 for only two months. Therefore, being able to continue for almost two years in a row seems quite a fair result. St. Peter Line is also collaborating with the Finnish S-Group in marketing, which gives it a bit more credibility also. The company is definitely interesting from the point of view of PNM. Main concern would most likely be the financial risk as no data of the true fiscal situation can be found at this time. (Kauppalehti 2008)

4.3 Catering Business Competitors

4.3.1 Ab ME Group Oy

ME Group is by far the biggest competitor of PNM. It is estimated to control 60% of all tax-free sales in the Baltic Sea. ME is part of a Wiklöf Holding Ab which is the largest holding company owned by a private person in the Nordics. For this study the main focus is kept on ME Group as other companies belonging to the holding are working on different fields of interest. (Talouselämä 2008)

ME Group was formed during the 1990's when four different ship suppliers were combined into one entity. The company has four offices in Finnish mainland and one in Mariehamn, Stockholm and Tallinn. ME Group is capable of providing all supplies a vessel needs from toilet paper and machine parts to items in the tax-free shops and kitchen provisions. It has also the capability of delivering tobacco and alcohol. One of the company's operational fields is in providing handling and warehousing services to wine importers in both Finland and Sweden. Client base of ME Group consists of cargo and cruise passenger ships, embassies, airlines and the Finnish peace keeping forces. In their list of references all major ferry lines are mentioned. (ME Group n.d.)

The latest financial data available is from 2010 and according to Kauppalehti the turnover for ME Group was €195.8 million with a net profit of €3.1 million. (Kauppalehti 2011b)

Financial ratio summary

ME Group Oy Ab Ltd	2006/12	2007/12	2008/12	2009/12	2010/12
Company's turnover (1000 EUR)	114021	129545	188136	197907	195765
Turnover change %	18.50	13.60	45.20	5.20	-1.10
Result of the financial period (1000 EUR)	3	326	7	219	246
Operating profit %	1.10	2.10	1.60	1.80	2.20
Company personnel headcount	N/A	95	N/A	147	127

Figure 16: ME Group's financial summary 2006-2010(Finder.fi n.d.c)

In comparison figure 16 shows information from another source Finder.fi which uses Suomen Asiakastieto database. According to this the result for the same period was only €246'000 but without access to the full financial statement the reason for this difference is very hard to explain.

ME Group is a member of all major ship supplier associations, including ISSA, FSSA, OCEAN and also MHA – Marine Hotel Association. ME Group's director Mr. Matti Kokkala is also the chairman of Finnish Ship Suppliers Association. (ME Group n.d.; FSSA n.d.)

With such a high market share and wide network of offices and warehouses along with the capability of providing all items a vessel can require, ME Group will be a very hard company to compete with.

4.3.2 Oy Lunden Catering Ab

Oy Lunden catering Ab is a part of Oy Lunden Ab which is specialised in production of various food items. It also has a daughter company in Estonia, Lunden Food Oü. Unfortunately no financial figures of the Estonian company can be found at this time and it is unknown if they are included in the figure 17 or not. Oy Lunden Catering Ab consists of two units, wholesaling of daily consumer goods and tax-free products. Under Lunden Catering brand name at least readymade sandwiches are sold also in the Finnish supermarkets. Lunden Catering's customers are airlines and Baltic Sea cruise lines. The company is also a member of the FSSA. (Lunden n.d.; FSSA n.d.)

According to Kauppalehti (2011a) Lunden Catering made a net profit of €672'000 while the turnover was €49.7 million in 2011. Again the figure below is in contradiction with this and since more precise facts are unavailable the difference cannot be clearly explained.

Lunden Catering Oy Ab	2007/01	2008/01	2009/01	2010/01	2011/01
Company's turnover (1000 EUR)	31704	36023	49252	41581	49651
Turnover change %	-37.30	13.60	36.70	-15.60	19.40
Result of the financial period (1000 EUR)	28	30	31	65	56
Operating profit %	0.90	1.30	1.80	0.30	1.90
Company personnel headcount	21	21	24	25	19

Figure 17: Lunden Catering financial figures 2007-2011 (Finder.fi n.d.b)

Figure 17 shows the main financial numbers of Lunden. As more precise financial statistics are unavailable an in-depth analysis of Lunden Catering is very difficult. Based on personal experience Lunden is a very tough competitor in the vessel catering and most likely the second biggest after ME Group. Though Lunden is also a competitor, PNM has managed to create a good ongoing business relation with the company.

4.3.3 Shipstores Nyman & Co Oy Ltd

Very little information of this company can be found. Based on market information Nyman's core business is in supplying of provision goods to cargo vessels all around Finnish coast line. Their head office is in Kotka and another one is located in Vantaa. The company used to be a member of the FSSA but was fired from the organisation in September 2010. There is a Market Court ruling dated on 26th of May 2011 which states that Shipstores Nyman & Co is banned from using the names FSSA / ISSA in its operations. Penalty for disobeying is set to €30'000. (Finder.fi n.d.d; Markkinaoikeus 2011)

Shipstores Nyman & Co Oy Ltd	2006/12	2007/12	2008/12	2009/12	2010/12
Company's turnover (1000 EUR)	5208	5850	6434	6742	11570
Turnover change %	-4.50	12.30	10.00	4.80	71.60
Result of the financial period (1000 EUR)	243	542	364	435	1239
Operating profit %	7.60	10.50	5.70	9.10	13.40
Company personnel headcount	18	18	17	19	23

Figure 18: Shipstores Nyman financial figures 2006-2010(Finder.fi n.d.d)

Based on the numbers in figure 18 Shipstores Nyman has made extraordinary results during recent years when taking into consideration how tough the competition on the field is.

4.4 Competitive Advantage for PNM

In order to get a good picture of the company's current situation and to outline where it could be heading in terms of ship supplying a SWOT-analysis was conducted from the point of view of the Tax-Free department of PNM.

<p style="text-align: center;">Strengths</p> <ul style="list-style-type: none"> - Core business in meat items - Bonded warehouses - Ability to respond to inquiries very fast - Good relationship with existing suppliers and customers - customs permits 	<p style="text-align: center;">Weaknesses</p> <ul style="list-style-type: none"> - Lack of knowledge concerning items outside the core business - Small organisation - Internal documentation - Uncertified (ISSA) - Not present in Åland or Sweden
<p style="text-align: center;">Opportunities</p> <ul style="list-style-type: none"> - New suppliers - Act as an agent for domestic companies - Emerging markets - New ERP system - Joint ventures / foreign subsidiaries 	<p style="text-align: center;">Threats</p> <ul style="list-style-type: none"> - Changes in legal system - Increasing fuel prices - Tax-free dept. is dependent on success in other sectors

Figure 19: PNM SWOT-Analysis

A clear strength of PNM is that their core business is in meat products, which is the most valuable component used in restaurants and buffets. The company also has bonded warehouses in both Helsinki and Tallinn from which they can deliver uncleared goods directly to the vessels. PNM is capable of responding to customer's inquiries very quickly, in best case scenarios deliveries can be made just a few hours from order though the standard ordering rhythm varies from 24 to 48 hours. One part of this is the customs permits which PNM has acquired, given them the possibility to operate in such a fast timeframe. A rather small organisation is also a key element to this, though it can in some cases be also a weakness. Good relations with both existing customers and suppliers

give the company a change to arrange, and respond to customers' needs, by tailored products.

PNM has strong expertise in various meat proteins, but there is still room to develop in other nutritional sources. In many cases customers give very precise specifications for the products but when new suppliers would need to be looked for the company may lack some knowledge necessary to the segment. As the company is not so used to dealing with other than meat, understanding of prices in both purchase and selling is also something quite new. While the small organisation makes PNM a very flexible and quick responding unit, it at the same time means very high dependency on few key employees. From the employer's point of view this is not an ideal situation. Many of the working phases are also undocumented which means more training for newcomers as well a potential risk if something happens to the key employees. Besides the cruise lines that operate on daily basis in the Baltic Sea Helsinki has especially during the summer time many international cruises visiting its harbours. Supplying these may require the membership of International Ship Suppliers Association which PNM currently does not have. For the northern Baltic Sea ferry lines Åland and Sweden are favoured places to stock goods and not being present there may also create issues in the future.

New competitors were left out from this SWOT as they are already explained in the theoretical part and are a threat to every company. Other threats are for example changes in legal system here is seen as a threat on both customer and supplier side. In case customs formalities would decrease drastically the markets would open up giving a change for new operators in both supplier and operator side. So it has its advantages and disadvantages. On the other hand, increased customs procedures etc. can create operational problems for both PNM and its customers. In near future the emission regulations for cruisers are tightening and in combination with increasing fuel prices this will force shipping lines to seek cost savings in other areas. Understandably all purchases of PNM are also affected by the increases. With what magnitude will this effect on value of food items bought remain to be seen. As PNM Tax-Free is only one department inside an organisation it is naturally dependant on success of the

company in its core business in relation to purchase prices and therefore also its competitiveness.

Concerning opportunities, it was stated above that PNM currently does not have much expertise in other food item sectors, besides meat. With this in mind PNM should seek for a few new employees outside its core business as well as new suppliers. This would also help in understanding the price structure of other segments. The company could also acquire more domestic suppliers, as most products presently come outside Finland. One concern is the price, which in Finland usually is a lot higher compared to foreign sources. Success of St. Peter Line gives a small promise that the markets which were thought of reached its peak can still evolve. Therefore it is important to monitor constantly developments in the industry. PNM has been developing its new ERP system for a long time and it is scheduled to launch in spring 2012. Firstly, it will release more internal resources to Tax-Free department's development and give a potential to create something totally new in terms of order processing in this segment. In theory part of this study the concept of joint ventures was introduced and already there it was mentioned that opening a completely new subsidiary in either Sweden or Tallinn or as a joint venture with an existing firm can be seen as a huge opportunity to serve the market even better in the future.

5 CONCLUSIONS

The somewhat protective approach of shipping lines came as a surprise. This combined with the action research method, meaning full time work during the day and working on the thesis in the evenings were a hard combination and it has had an effect on the quality of this work. Analysing the financial statuses of both suppliers and shipping lines gave the writer new information from market which will be beneficial for the case company PNM in the future. A more in depth analysis of selected suppliers and customers could provide more specific results in comparison to an overall market report.

The research and findings presented in this study act as a good basis from which the development can be continued. Informational barriers were hindering the process, but based on the market information and results of this study it is fair to say that there is still room for a new supplier as the market is currently dominant by only a few suppliers. Competition created by the new entrant would most likely result into a situation which in the end benefits all parties present in the market.

If the case company starts to enter the market more aggressively it is important to take into consideration the protective measures that competitors may launch. Another subject which should be studied in detail is how to change the customers' image of the company as it is now seen only as a meat supplier.

Some information received during the study work was left out from this paper due to confidentiality.

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Kymenlaakson Ammattikorkeakoulu / International Business

APPENDIX 1: QUESTIONNAIRE FOR CRUISE LINES

Seuraavat kysymykset on rajattu koskemaan ainoastaan laivojen käyttämiä elintarvikkeita ja Itämeren alueella tapahtuvaa risteilytoimintaa**Ostoprosessi**

- Ostoketju yrityksessänne / organisaatiokaavio?

- Luonnehtikaa lyhyesti ostojen kilpailutusprosessin kulkua:

Tarpeiden suunnittelu

- Osallistuuko tai järjestääkö muonittaja/toimittaja mielestänne tällä hetkellä riittävästi;

<input type="radio"/> Markkinointi	<input type="checkbox"/> Kyllä	<input type="checkbox"/> Hieman	<input type="checkbox"/> Ei
<input type="radio"/> Menyiden suunnittelu	<input type="checkbox"/> Kyllä	<input type="checkbox"/> Hieman	<input type="checkbox"/> Ei
<input type="radio"/> Sponsorointi	<input type="checkbox"/> Kyllä	<input type="checkbox"/> Hieman	<input type="checkbox"/> Ei
<input type="radio"/> Tuote-esittelyt	<input type="checkbox"/> Kyllä	<input type="checkbox"/> Hieman	<input type="checkbox"/> Ei
<input type="radio"/> Yhteisideointia tulevien kampanjoiden osalt	<input type="checkbox"/> Kyllä	<input type="checkbox"/> Hieman	<input type="checkbox"/> Ei
<input type="radio"/> Tapaamiset osto-osaston tai kokkien kanssa	<input type="checkbox"/>	<input type="checkbox"/> ä	<input type="checkbox"/> Hieman
<input type="radio"/> Jokin muu alue jolla kaipaisitte aktiivisuutta;	_____		

- Miten muonittajien/toimittajien tulisi mielestänne parantaa suoritustaan yllä olevilla osa-alueilla?

Toimittajien valintamenettely

- Onko muonittajien/toimittajien kilpailutus Jatkuvaa Jaksottaista
 - o Mikäli jaksottaista, kuinka pitkiä sopimusjaksot ovat; _____
 - o Muonittajien/toimittajien valinta;
 - Kaikki yhdeltä
 - Tuoteryhmäkohtaisesti
 - Jokin muu järjestelmä (kuvaillkaa lyhyesti)
 - Esim. tuotekohtaisesti edullisimman mukaan, volyyymista riippumatta?

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- Voiko muonittajan/toimittajan valinta rajata tiettyjä tuotteita pois?
(Esim. pitäydytään luotettavaksi todetun toimittajan tuotteissa edullisemmista vaihtoehdoista huolimatta)

- Seuraavien tekijöiden painotus muonittajia/toimittajia valittaessa (1 ei suurta merkitystä – 5 erittäin tärkeä)

- Hinta..... _____
- Laatu..... _____
- Toimitusvarmuus..... _____
- Kotimaisuus..... _____
- Tuotteilla saadut edut (esim. pakkaustyyppi jne.) _____
- Asiointi henkilötasolla..... _____
- Valikoiman laajuus..... _____
- Tuotteiden räätälöinti tarpeisiin..... _____

- Onko muonittajien/toimittajien osalta tarpeeksi kilpailua ja valinnanvaraa?

Kyllä Ei

- Onko muonittajissa/toimittajissa huomattavia maakohtaisia eroja Viro/Suomi/Ruotsi/Saksa?

(Voitte valita teille sopivat reitit alla olevista)

Kyllä Ei

Suomi -><- Viro

Suomi -><- Ruotsi

Suomi -><- Saksa

Ruotsi -><- Viro

- Mikäli Kyllä, luonnehtikaa lyhyesti

- Vaaditaanko tai onko muuten oleellista, että muonittaja on kansallisen Laivamuonittajien liiton jäsen, ja täten hyväksytty myös kansainväliseen kattojärjestöön?

Vaaditaan Huomioidaan Ei merkitystä

- Sopimusten sitovuus varustamon puolelta, voidaanko;

- Sopimus irtisanoa kesken kauden?

Kyllä Ei

- Jos Kyllä, missä tapauksessa: _____

- käyttää muitakin toimittajia jos tuote todetaan paremmaksi/edullisemmaksi?

Kyllä Ei

- Kilpailuttaa ostoja sovittujen listojen ulkopuolelta (esim. sesonkituotteet, vihannekset)?

Kyllä Ei

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Tilaukset ja logistiikka

- Mieluisin asiointitapa tilausten osalta
 - o Tilaus muonittajan/toimittajan järjestelmään internetin välityksellä
 - o Puhelimitse
 - o Sähköpostilla
 - o Muu, mikä _____

- Mieluisin asiointikieli tilattaessa?
 - Suomi Ruotsi Viro Saksa Muu, Mikä _____

- Suositteko suurkeittiöpakkauksia vai pienempiä myyntierä?
 - Suurkeittiö Pienempiä
 - o Esim. pakkaamalla lihapulla 5kg pahlilaatikon sijaan 20kg muovipusseihin säästää vuodessa n. 5000kg edestä pahvin käsittelykuluja

- Ovatko seuraavat tuotetiedot oleellisia toimintanne kannalta
(1 ei suurta merkitystä – 5 erittäin tärkeä)
 - o Pakkauksen ulkomitat..... _____
 - o Tuotteen ravintoarvot..... _____
 - o Mahdolliset allergeenit..... _____

- Koetteko tarvetta erillisille tuotetietojärjestelmälle (Esim. Sinfos-tuotetietopankki)
 - Kyllä Ei

- Oletteko tyytyväinen nykyiseen roska – ja jätehuoltoon?
 - Kyllä Ei

- Tulisiko muonittajan/toimittajan mielestänne osallistua jätehuoltoon?
 - Kyllä Ei

- Arvioikaa prosentuaalisesti miten alusten ruoka-ainevarastot jakautuvat seuraavien kesken
 - o Tuorevarasto..... _____%
 - o Pakkasvarasto..... _____%
 - o Kuiva-ainevarasto..... _____%
 - Ovatko nykyiset varastointitilat riittävät
 - Kyllä Ei

- Onko aluksilla mahdollisuus täydentää varastojaan jokaisessa reittinsä satamassa?
 - Kyllä Ei

- Oletteko tyytyväinen nykyisten muonittajienne/toimittajienne logistiikkaan?
 - Kyllä Ei

- Mitkä asiat koette muonituspuolen suurimmiksi haasteiksi ja onko havaittavissa selkeitä ongelmakohtia?

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Kymenlaakson Ammattikorkeakoulu / International Business

- Hyödynnättekö toiminnassanne seuraavia kansainvälisen meriliikenteen etuja;
 - o T1-toimitukset..... _____% (kaikista elintarvikkeista)
 - o EU:n ulkopuolelta tulevien kevennetty lainsäädäntö..... _____% (kaikista elintarvikkeista)
 - o Ei vapaaseen liikenteeseen tarkoitettu (*Non-EU approved*) _____% (kaikista elintarvikkeista)

- Onko muonitustoiminta mielestänne muuttunut viime vuosien aikana?

Kilpailutilanne ja alan kehittyminen

- Oletteko tyytyväinen nykyiseen kilpailutilanteeseen päämarkkina-alueillanne?
 - Kyllä Ei
 - o Mikäli ette, kuvaillkaa lyhyesti syitä:
-
-
-
- Millaisena näette risteilymatkustuksen kehityksen tulevina vuosina ja oman sijaintinne kyseisellä kentällä?
-
-
-
- Onko Dieselin ja öljyn hinnannousulla ollut vaikutusta toimintaan?
-
-
-
- Selvitättekö asiakastyytyväisyyttänne?
 - Kyllä Ei
 - Mikäli kyllä, kuinka usein; _____ vuodessa
 - Kuinka tutkitaan; _____
 - Kuinka tuloksia hyödynnetään;
-
-
-

Kiitos käyttämästänne ajasta!

Tutkimus on myöhemmin saatavilla Kymenlaakson Ammattikorkeakoulun kirjastosta.