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E- BUSINESS AS A DISTRIBUTIONAL STRATEGY,

Case: Veikkaus Oy

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ABSTRACT

E-business, started in North America 1994, has become a new field of application of internet technology. While the benefits E-business brings to firms and companies are massive, it takes knowledge of know-how, good visions and strategies to achieve success in E-business.

This study focuses on marketing strategy regarding E-business, especially distribution strategy, which plays an important role in making E-business successful. Using qualitative research method, the author attempts to find out the reasons behind firms and companies' E-business adopting decision making. The data for conducting the study are collected from books, articles, journals, reports and Veikkaus Oy semi-structure interview.

Veikkaus Oy is the leading national gaming company in Finland with a turnover of 1792.7 million EUR, of which over 30% came from E-business activities. The main operation of Veikkaus Oy is to provide lotto games, pools, betting games, instant games and other draw games, at the same time promote public good in Finland.

Through the case: Veikkaus Oy, the main finding of the study is that there are factors affecting the decision of choosing E-business as a distribution strategy: environmental, market, product, manufacturers and intermediaries. The study also concludes that product factor is the success deciding factor, and provides findings of how should companies incorporate the Internet into their business operation.

Key words: E-business, E-commerce, marketing strategy, distribution strategy, Veikkaus Oy.

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1 INTRODUCTION

This is the introductory part of this thesis. This part consists of background information, objective and research questions, theoretical framework, research method and data collection, scope, limitation and structure of the thesis.

1.1 Background

The Internet, also known as the World Wide Web, is one of the greatest things created in our century. Many different concepts are based on the internet, one of which is Electronic Business, or E-business.

E-business comes from "e-mail" and "e-commerce", it is the conduct of business on the Internet: selling, purchasing, providing customer services and working with other businesses. One of the pioneers in E-business was IBM when they first launch a thematic campaign in October 1997 that revolved around E-business (What Is 2012).

Knowing the convenience, the availability, the world wide characteristic of the Internet, many organizations have discovered how to use the Internet effectively, how to make E-business successful, such as Amazon.com and Ebay.com.

According to Eurostat (2008), there has been a massive growth of E-business and Internet in Europe; two out of three enterprises in the EU27 owned a website in 2008. In particular, 99% of Finnish companies have internet access and broadband connection. In 2011, E-Commerce reached 15% growth in Finland and is believed to grow up to 20% in 2012 (Invest in Finland 2012).

This means that Finnish companies are focusing their businesses more in the field of online business. Finnish companies are using the Internet to acquire supplies and services from other companies, to improve sales promotions and their customer relationship.

1.2 Objective, research questions and limitations

Not every E-business is a success. Companies have been facing with series of obstacles in doing business online, particularly the ability to process significant technical, managerial and cultural issues. Because of that, understanding the core and barriers of E-Business becomes very important.

The purpose of this thesis is to understand why companies decide to choose E-Business, as well as how they manage it. Furthermore, the author attempts to answer these research questions:

- What are the factors affecting the decision of going online of companies?
- What is the most important factor?
- What is the success factor when going online?
- How should companies incorporate E-business?

In this Thesis, the author focuses on the marketing and distribution aspect of the topic, rather than going too deeply into technological and financial aspect.

Additionally, despite the topic studied is E-business in general, with the data collected and companies chosen for interview, the author chooses to study the topic with consumer goods and B2C point of view.

1.3 Structure of the study

This thesis is divided into seven chapters. The introduction chapter provides the research background of this study, which are the E-business definition and its characteristics. The introduction chapter also covers objective, research questions and limitations and research methods.

After introducing the basic knowledge of the study, in the essential theoretical knowledge of marketing strategy and distribution for audience to understand the background theory is presented in Chapter 2

In Chapter 3, the author gives an overview of E-business worldwide in order for the audience to have a better picture of the situation of E-business. Due to the fact that the chosen company for case study is Vekkaus Oy, a Finnish company, an

overview of E-business in Finland has to be included. Veikkaus Oy's data including the company's business in general, its online business and why did Veikkaus choose online business will be disclosed in Chapter 4.

Based on the data collected from both theoretical knowledge and semi-structured interviews, in Chapter 5, the author presents the analysis on factors affecting E-business choice using SWOT analysis and Schoell and Gultinan's framework (1995).

In the 6th chapter, conclusion will be made to answer the given research questions. Following the conclusion, a summary of the study is given in Chapter 7.

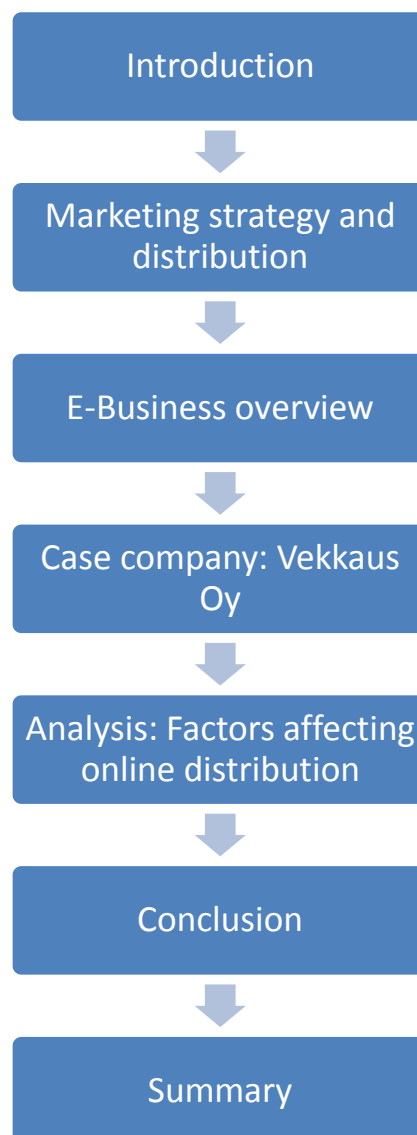


FIGURE 1. Structure of the study

1.4 Research methods and data collection

Research methods

Research methods of this thesis are indicated as:

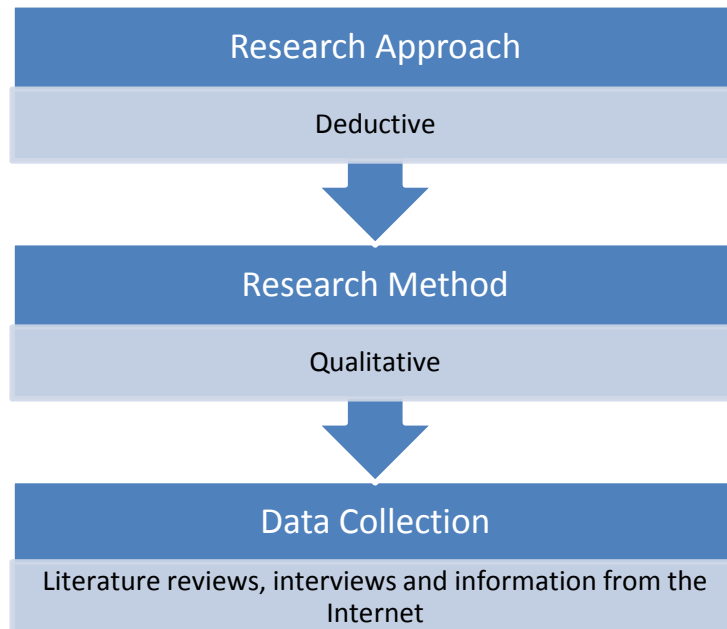


FIGURE 2. Research Method

In research methodology, choosing a suitable research approach is the first important step. There are two commonly known research approaches, inductive and deductive. Inductive approach is used when researchers plan to explore data and develop theories, which will subsequently relate to the literature (Mark et al 2007). Inductive approach begins with specific observations and measures. When patterns and regularities are detected, researchers formulate some tentative hypotheses explored, and finally end up developing some general conclusions or theories. Deductive approach basically is reversed inductive approach. Deductive approach works from the more general to the more specific.

Deductive approach is chosen in this thesis based on the given theoretical framework as well as data collected from the Internet and half structured interviews.

This study presents a qualitative research based on case studies approach: Half structured interviews. The case studies will illustrate various factors affecting

companies' decision of choosing E-business. In addition, it will also highlight the strategies and action in terms of Marketing and Distribution has been taken in order to deal with the challenges posted by E-business. Through the cases, important factors that are on the mentioned theoretical framework affected the decision of choosing Internet, adopting E-business as a strategy will be identified.

The Author chooses qualitative research methods in this because qualitative research method is about understanding phenomena, answering questions and exploring the issues. In this case, qualitative research methods are preferred to really understand the decision of adopting E-business as the focus point of corporation. As well as when and how they can manage effectively.

Data Collection

The data used for this thesis are collected from sources such as books, journals, conceptual papers, websites and official website of the interviewed company. Furthermore, the author makes use of the transcripts from company's semi structured interview in order to compare and deduct information collected. Finally, implementation tool for qualitative approach will be addressed using the data collected.

2 MARKETING STRATEGY AND DISTRIBUTION STRATEGY

2.1 Strategy

Strategy has been defined and taught in many ways. However, most of them agreed that the term strategy was first used in the military to achieve a specific goal; then the term was brought to business and industry, which helped them to connect policy and tactics (Nickols 2002). The word “strategy” originated from “strategia”, which in Greek means “generalship”. It is used to describe the act of deploying troops in regards of how it affects policies. Strategy is perspective, position, plan, and pattern. Strategy connects means and ends. It refers to thoughts, ideas, experiences, goals, perceptions and expectations which give guideline for actions to meet a particular end.

According to Fred (2003), strategy is defined as a long-term plan of action designed to achieve a particular goal. At the same time, it can also be understood as means to reach the set goal. Mintzberg et al. (2003) identified in his book, *Strategy Safari*, five different types of strategy:

1. **Strategy as a Plan:** a guide for a particular course of action. Strategy is created before the specific decision to which they apply and their developed consciously and purposefully
2. **Strategy as a Pattern:** a pattern in a stream of actions. It is a consistent behavior, intended or not
3. **Strategy as Position:** a reflection of a decision to offer particular products or services in particular markets. It is determined mainly by what happens outside the companies among customers, suppliers and competitors; the role of the decision maker is to analyze and adjust to the competitive environment
4. **Strategy as Perspective:** a system of values and beliefs generated and perpetuated by individuals or groups, which shapes the whole direction of the organization
5. **Strategy as a Ploy:** a behavioral rather than perceptual. Strategy is defined as a maneuver to discourage or confuse a competitor with the intention of

changing or preventing some future outcome rather than to achieve it, plan for it or adapt to it

In his other book, *The Rise and Fall of Strategic Planning*, Mintzberg (2000) mentions that when organizations develop plans for their future, more often than not, they also change and adapt the patterns during the process. Thus, they can be identified as intended strategy and realized strategy (Mintzberg 2000).

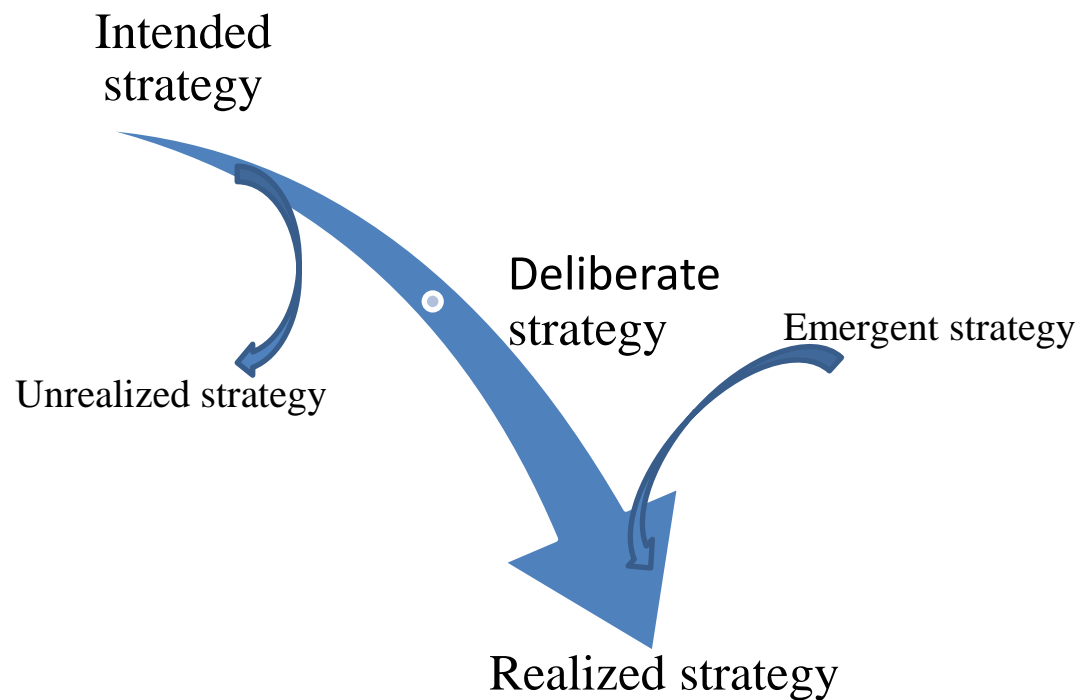


FIGURE 3. Forms of Strategy (Mintzberg 2000, 65)

When intentions are fully realized, they can be called deliberate strategies. Those which are not realized at all can be called unrealized strategies. Emergent strategies are “not expressly intended realized patterns” (Figure 1).

Nowadays, when marketing managers are so focused on getting immediate results, they lose sight of their ultimate goals. That is why a thoroughly preparation of a marketing strategy is a necessity.

2.2 Marketing Strategy

On Kotler's own website, he defines marketing as the science and art of exploring as well as generating, and providing value to satisfy the needs of a target market, in order to make a profit. Unfulfilled needs and desires can be analyzed or specified to measure and gauge the size of the chosen market and its profit potential. Marketing displays sections of which the company is able to serve best, it also designs and promotes the appropriate products and services (Kotler marketing 2012). Which means marketing is more than just selling a product; it identifies what is target market of customer's needs, then aim to please those customers better.

Kotler further comments that nowadays, marketing is usually run by a specialized department within a company. There are good and bad side of this. The good thing is it unifies people who are focusing on marketing. The bad thing is marketing activities should not be done in a single department; marketing should be operated in all part of a company (Kotler marketing 2012).

The most important part of marketing is the necessity to design a marketing strategy that would direct suitable programs for the marketing decision areas. According to Know This (2012), there are two levels to strategy: general marketing strategies and decision area strategies.

General marketing strategies

General marketing strategies give direction for company to achieve its objectives. There are many different general marketing strategies; however most of them can be identified as: market expansion, market share growth, niche market, status quo and market exit.

Market expansion strategy seeks to grow overall sales with the current product by getting existing and potential customer to buy more, or selling the product in a new market. Alternatively, companies may want to introduce their updated or newer version of the existing product in order to expand their market (Know This 2012). Igal Ayal and Jehiel Zif (1979) advise companies to make decisions in these following areas when choosing market expansion policy in multinational marketing:

1. Identification of potentials markets and determination of some other of priorities for entry into these markets.
2. Decision on the overall level of marketing effort that the firm is able and willing to commit.
3. Selection of the rate of market expansion over time, and determination of the allocation of effort among different markets.

While market expansion looks to increase the overall sales, market share growth focuses on growing the overall share of the market. This usually would only be made possible by reducing competitors' sales. As a result, this type of strategy relies on aggressive marketing tactics.

Niche market strategy is used to acquire a leading position in a particular segment of the target market. Most of the time niche markets are much less significant in terms of customers and sales than the overall market. Conveniently this strategy aims to have the product different from other companies who are looking for a larger market (Know this 2012). Establishing a niche market gives companies the opportunity to provide products and services to a group that others have overlooked. For example, sports channels like STAR Sports, ESPN, STAR Cricket, and Fox target a niche of sports lovers.

Status quo strategy aids in maintaining companies' current position in the market, such as keeping the same level of market share. Market exit strategy involves the removal of the product from the company's product category. It can be done by selling the product to another party or stopping the production of the exiting product.

Decision area strategies

Know This (2012) suggests that decision area strategies are for reaching the general marketing strategies. These strategies direct the decisions in important marketing areas, namely product, pricing, distribution and promotion. For instance, a market expansion strategy focuses on entering a new market with a new product can use decision area strategies which include: target market strategy, product strategy, pricing strategy, distribution strategy and promotion strategy.

A good decision area strategy needs a good market research on customers, as well as identification of their needs. Companies also need to make strategic decisions of product design, pricing, promotion and distribution, which is call the 4 P's, or the marketing mix.

2.3 Marketing Mix

In the year 1964, “Marketing mix” came to be very popular after it was published in “The Concept of Marketing Mix” by Neil H. Borden. However, early before that, in 1940, Borden already mentioned his marketing mix components, which were advertising, personal sales, distribution, brands, prices, promotions, display, packaging, planning, servicing, physical handling and fact finding analysis. E. Jerome McCarthy later cut the components down to four specific groups, which are now known as the 4 P's of marketing (Kotler 1999).



FIGURE 4. The Four-P Framework (Kotler 1999, 96)

Product

Companies do their business by offering products or services. Creating a product or service that is different and better than competitors will make the target market choose it, even pay a premium price. There are ways that companies can use to differentiate their product or service from the competitors:

- Physical differences: features, performance, durability, reliability, etc.
- Availability differences: available from stores, orderable by phone, mail or Internet, etc.
- Service differences: delivery, installation, training, maintenance, repair, etc.
- Price differences: very high price, high price, medium price, low price, very low price.
- Image differences: symbols, events, media, atmosphere, etc (Kotler 1999).

Kotler mentions that two most effective means to differentiate are features and design. New features offer fast and clear way to demonstrate extra benefits; they are also patent-protectable. Design can differentiate products visibly; however competitors may be able to imitate the design (Kotler 1999).

Price

Price is the only elements in the Marketing Mix that generate revenue while the other elements produce costs. Thus, companies usually try to increase their price as high as their product differentiation can match (Kotler 1999).

Kotler further distinguishes two types of pricing policies: Cost-based pricing and Value-based pricing. In cost-based pricing, companies add to their estimated costs a “markup”, this will allow them to cover their total costs and leave an acceptable profit margin. On the other hand, companies practicing value-based pricing will estimate the highest price the buyer would be willing to pay for their product or service, and then they will charge less than that price, a value price. If the product or service’s costs are much lower than the value price, the seller will make a profit. Otherwise they would never offer that value price in the first place (Kotler 1999)

Promotion

Promotion covers all communication tools that help companies deliver their message to the target audience. There are five classes of tools:

- Advertising
- Sales promotion
- Public relations
- Sales force
- Direct marketing (Kotler 1999)

Place (Distribution)

Distribution is “*the process of making a product or service available for use or consumption*” by a consumer or business user, using direct means, or using indirect means with intermediaries (Kotler, Keller and Burton 2009).

One of the most important things when a company decides to reach the target market is to identify the level of distribution coverage needed to effectively meet the customer needs (Saraf 2009). Distribution coverage is measured in terms of the intensity by which the product is made available. The suitable intensity of distribution coverage is different each in each scenario. It depends on product’s characteristics and customers' buying behavior. Companies can choose between these distribution intensities coverage: intensive, selective and exclusive distribution.

1. Intensive distribution

In intensive distribution, the product is sold to as many appropriate retailers or wholesalers as possible. This type of distribution makes it easier for products which are small and often bought in high volume products such as chewing gum, candy bars, soft drinks, bread, newspapers, and cigarettes to reach as many customers as it is able to (Pride & Ferrell 2010).

2. Selective distribution

In selective distribution, companies intentionally limit the locations where the products are distributed. Carefully selecting wholesalers or retailers will help

the company to concentrate on potentially profitable targeted market. The logic behind this distribution strategy is related to the characteristics and properties of the product's target market. Selective coverage can help product more attractive to smaller and more focused target markets, therefore the cost to maintain distribution is lowered and more efficient (Know this 2012).

In their research, Pride and Ferrell (2010) note that selective distribution is suitable for products which are more expensive than convenience products and customer are willing to spend their time selecting the goods at retail shops. Durable products such as computers, stereos, televisions and refrigerators are included in this category.

3. Exclusive distribution

Know This (2012) states that some products have small markets which only consists of a relatively small number of customers. These customers usually want to satisfy their needs using high quality and costly products.

Furthermore, most buyers of these types of product require a higher level of customer service than others. Companies producing these types of product may choose to sell through a very select or exclusive group of resellers.

Exclusive distribution is also used when products only available in selected locations such as company' shops. Although these products can be higher priced in compared to other products, they are only available in company outlets, which gives exclusivity to the distribution.

Pride and Ferrell (2010) further clarify exclusive distribution by suggesting that products appropriate for exclusive distribution are high end luxury products which are purchased infrequently in a long period of time, such as cars, jewelries and other luxury products.

Nowadays, distribution has many ways to generate sales for companies: catalogs, mail offers, newspapers, magazines, shopping programs on TV and the Internet. As the modern life forces people to use their time efficiently, online shops are preferred by the customers. Good distribution strategies and cooperation between the producer and logistics companies are necessary for product delivery.

2.4 Distribution Strategy

A major key to success for companies is choosing suitable distribution strategies, which will increase sales and profits. Unfortunately, there has been many companies who are not successful coming up with an effective distribution strategy. It is because of:

- Unwillingness to establish different distribution channels for different products
- Fear of utilizing multiple channels, especially including direct or semi direct sales.
- Failure to periodically update distribution strategies
- No creativity and flexibility (Info Trends 2012)

2.4.1 Conventional distribution channels

Companies can select the most suitable channel and channel development by the help of channel design. For new companies, channel design prepares for the future sales system. For developing companies, redesigned channel aims to evaluate the current distribution channel and to identify better channels.

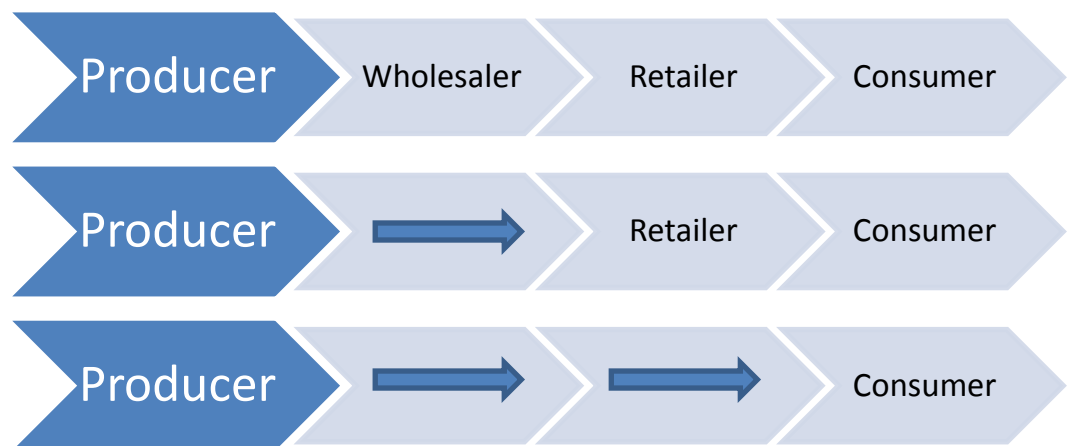


FIGURE 5. Three alternative consumer channels (Riley 2012)

The first channel has two stops between producer and consumer, which are wholesaler and retailer. In this channel, the wholesaler would buy large amounts of goods; they are then broken into bulk to provide retailers with smaller quantities. Second channel has only one intermediary, which is the retailer. In this case, it would cut the cost for the producer if they skip the wholesalers and supply retailers directly. Third channel has no intermediary levels. The producer provides products straight to their customers (Riley 2012).

Rolnicki (1998) suggested the 11 steps of the channel design:

Identify the new market

Newly established companies need to define their target markets and product lines in order to specify an appropriate distribution channel. With an appropriate distribution channel, companies will be able to fulfill different customer satisfaction requirements when their business expands.

Verify the need for a new channel of distribution

Identify the needs to create a new channel of distribution: The current channel cannot satisfy the need or the characteristics of emerged markets, competitors has a better distribution channel, the existing channel is not appropriate, there has been new and popular sales channels, influences from macro-environment, detected change in purchasing behaviors, etc.

To avoid unnecessary damage, companies should test their new distribution channel plan in the current system before incorporating the new plan.

Evaluate macro market conditions

The macro market conditions consist of customers' buying behaviors, as well as, technology, economy, politics, competition, international events, considerations and legalities.

Conduct a competitive channel analysis

After the company has decided to establish a new channel of distribution, it is very important to figure out all competitive factors which can affect the implementation.

Label customer satisfaction requirements

Identify what the customers want from the company, and what makes them purchase the products. Then analyze the needs and the most mentioned criteria will be important aspects for the decision on the channel design.

Specify the tasks for channel partner

Having done step 5, evaluate all the possible channel distributors. Then specify the tasks for channel partner.

Identify channels of distribution structures

Identify what channel is available and possible for the company. After that, rank every possible distribution plans, at the same time evaluate the sales and profit potential, and the feasibilities of the chosen distribution channels.

Decide channel partners

After finish every steps mentioned, companies will have to choose their channel partners. They need to access if a distribution partner meets their requirements, then contact them.

Acquire internal recommitment

A meeting should be organized between all the personnel involve in the new channel to inform them and get them ready to the changes of the company. The new channel can only operate smoothly if everything is prepared, including the people.

Sign contract with the chosen distribution partners

This is the actual physical step; this will officially start the new distribution channel.

Manage and evaluate the channel

It is advised to manage the channel and evaluate whether it still meets the requirements of the environment either inside or outside the company (Rolnicki 1998, 31-38).

2.4.2 Online distribution channels

Online distribution is one of the E-business activities. It describes the delivery of goods, without the use of physical point of sales. Online distribution bypasses conventional physical distribution methods. The term online distribution is typically applied to freestanding products; downloadable add-ons for other products are more commonly known as downloadable content. With the advancement of network bandwidth capabilities, online distribution became prominent in the 2000s (US Legal 2012).

Online distribution can appear in many forms, some are obvious, and some are hidden. There are the several unconventional online distribution channels, such as social media, social networks, blogs, smartphone widgets and gadgets, browser extensions and Internet search engines (Sabai 2012)

2.4.3 Factors affecting distribution channel choice

Schoell and Gultinan (1995) categorize elements affecting selection of distribution channel into five main factors: environmental factors, market factors, product factors, manufacturers and intermediaries.



FIGURE 6. Factors affecting distribution channel selection (Schoell and Gultinan 1995)

Studying Schoell and Gultinan's work, Cant, Strydom and Jooste (2009) further clarify these factors:

Environmental factors

Environmental factors consist of variables and macro environment that may influence the selection of distribution channel.

- **Competitive nature:** the competitive nature of the industry can prevent the best retailers from stocking the product. This might be due to the fact that competitors are trying to prevent new companies from entering the market.
- **Socio-cultural:** the socio-cultural changes can influence the selection of distribution channel. For example, in South Africa there are more females in the workforce with less time to shop around; they will want to buy all the groceries at only one shop. Consequently, large groceries stores are forced to be a part of the distribution channel choice.

- Political and legal: political and legal variables play an important role in distribution channel selection. In some countries, the government is particularly sensitive to allegations of monopolistic behavior, while legislation regarding the function of intermediary can also influence the availability of them.
- Economic: the economic situation in a country may affect selection process. For example, during economic crisis, intermediaries might be hesitant to take the risk of stocking new products. This will restrict the availability of distribution channels.
- Technological factors: the introduction of e-commerce on the Internet has been changing the face and structure of retailing. Companies must consider this in selecting their distribution channels (Cant et al 2009)

Market factors

The most important consideration in choosing a distribution channel is that market segment the company wants to reach. Changes in customer buying behavior may influence a channel decision. If the product can be marketed to more than one segment, multiple distribution channels may be required (Cant et al 2009)

Product factors

The product is one of the most important factors in the distribution channel selection. Generally, products which require technical pre-sales and after-sales services from the companies are distributed directly to consumers (Dibb et al 2001). On the other hand, perishable products having short displayed lives such as cakes, breads or magazines can be distributed using a variety of the short channels.

Manufacturer factors

When selecting a distribution channel, companies need to identify the resources they own or can get, and the set goal they want to reach from the distribution channel, which means that they have to consider their financial resource, human resource, customer resource, etc. This can also help evaluate the market size which the companies want their products to cover on in (Dibb et al 2001).

Intermediaries

Choosing intermediaries always depends on many factors. In general, if the company's resources and skills can successfully satisfy the consumers' need on their own, then there is no need of intermediaries. However, that is not always the case. According to Kotler (2012), intermediaries would generally have much better and more effective in making goods available widely in the markets.

Through their expertise, contacts, experience and their level of operation, these specialists usually offer the companies more than they can achieve on their own. Intermediaries are there to affect the distribution channel decision, due to the fact that companies usually produce or provide a large quantity of a limited variety of goods, whereas consumers usually desire only a limited quantity of a wide variety of goods.

3 E-BUSINESS OVERVIEW

In this section, the author gives the overview of E-business worldwide and in Finland

3.1 E-business worldwide

3.1.1 Business to business – B2B

New media is replacing the old as the promotional channels of choice among businesses. Proprietary websites were the most popular medium for promoting their catalogs, stores, and ecommerce sites, with 87.5% using them. Email was close behind, with 84.2% adoption, followed by social media, with a 66.2% adoption rate. In contrast, just 28.0% of businesses availed themselves of direct mail other than catalogs, and a scant 20.6% bought space ads.

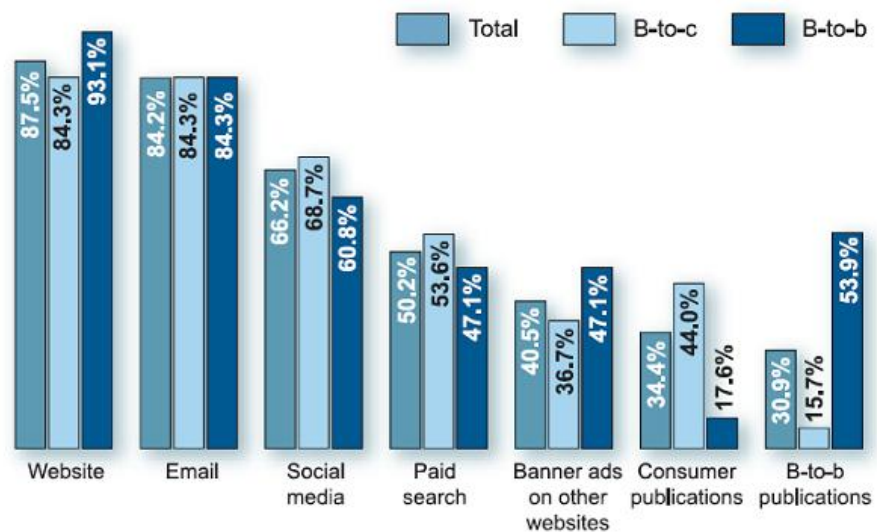


FIGURE 7. Popular marketing media used (B2B Internet Statistics Compendium 2011)

Additionally, more than two third (68.5%) of the businesses planned to spend more on their websites in 2011, while 61.3% anticipated increasing their email marketing expenditures, and 59% planned to spend more on social media. Those were the only channels in which the majority of businesses intended to spend

more. Some of the extra funds for web and email marketing appear to be coming from the print advertising budgets. The channel for which the highest percentage of businesses planned to cut spending was consumer publications, with 10.2% admitting that they'd be spending less on marketing there than they had last year.

3.1.2 Business to consumer – B2C

According to Forrester, online sales will grow 10% averagely over the next 5 years. While the World's economic suffered a downturn in 2008, online business was one of the only growths in the market and in 2010 (Fortune3 2012).

IMRG, a U.K online retail trade organization predicts that global B2C E-commerce sales will pass 1 trillion euro by the end of 2013, at the same time the total number of Internet users will have increased from 2.2 billion to 3.5 billion at the end of 2011(B2C Global e-Commerce Overview 2012). The research shows that B2C E-commerce sales in 2011 had increased to 690 billion euros, which is close to 20% of 2010.

The United States is the world's leader in E-commerce market. IMRG projects that growth rates in the US will be 10-15% a year. However, China's E-commerce sales are growing fast and steadily, namely over 130% in 2011, it is very predictable that China will become the largest market in the world (B2C Global e-Commerce Overview 2012).

Europe is the biggest E-commerce market in the world, according to the European Multi-channel and Online Trade Association. European online B2C sales had a 19% growth in 2011, which was around 233 billion euros, surpassing North America over 8 billion euros (Emota 2012).

IMRG at the same time forecasts France, Russia, Italy and Poland will be the fastest growing electronic business B2C markets in Europe (B2C Global e-Commerce Overview 2012).

It can be seen that markets in North America and Europe are facing challenges from growing economies around the world. This is due to the growth of Internet

usage and online shopping, which provides new business opportunities in many countries.

3.1.3 Online B2C examples

Amazon.com

Amazon is the world's largest online retailer company. Its headquarters are located in Seattle, Washington, United States.

Amazon has different retail websites for different countries with relatively different buying behaviors, such as United States, Canada, United Kingdom, France, Germany, etc (Wikipedia 2012).

Jeff Bezos started the company in 1994, and the website was known as amazon.com in 1995. When first established, Amazon.com sold only books, but soon they diversified and started selling other products (Byers 2006).

eBay.com

eBay.com is an online auction and shopping website in which people and firms do business worldwide. The company was founded in 1995; it has become a multi-billion dollar business with internationalized and localized operations in more than thirty countries (eBay 2012).

From its original "set-time" auction format, eBay includes "Buy It Now" standard shopping, online advertisements, online ticket, online money transfers, and other services and products (Suciu 2008).

3.2 Online business in Finland

The Finland e-commerce in 2012 reports that up to two out of three Finnish internet users are online shoppers and half of the online purchase at least once every 6 months on the Internet.



FIGURE 8. Product categories for online shopping in Finland (Finland e-commerce report 2012)

In comparison with the offline shoppers the online shoppers are younger and have higher education and income. This explains why entertainment products and travel are the two most purchase type of products and services online.

Hannu Lindell, who works for the Finnish management consultancy company Redera states that Finland is growing very fast in e-commerce. Lindell also predicts that Finnish online shopping will grow by 15% in year 2012. The online stores in Finland are getting more popular as mobile devices and mobile e-commerce applications grow.

Usually, an ordinary Finnish online store is a small company that aims to serve a particular type of customer. In the near future, there will be a lot of mergers in which case bigger online stores acquires the smaller ones.

“People no longer accept bad service in the physical shops”, says Tero Junttila, Director of eCommerce and Product Information Management at Descom. In an online store, there are more information on a particular products, as well as their prices are much better because there is no cost of physical store (Invest in Finland 2012).

4 CASE STUDY: VEIKKAUS OY

In Finland, there has only been three organizations received the gaming license: Veikkaus, which operates lotto, pools, betting, instant games and other draw games, The Finnish Slot Machine Association RAY, which operates slot machine and Fintoto, which operates horse racing betting.

Finnish sports organizations founded Veikkaus in 1940. In 1975, the company came into the possession of the Ministry of Education, becoming a 100% state-owned limited company. The Council of State has granted Veikkaus a license to organize money lotteries as well as gaming and betting activities. The license is always granted for a maximum period of five years at a time. The right to organize similar money games cannot be simultaneously granted to another party. The operations of Veikkaus are supervised by the Ministry of the Interior. Annually Veikkaus pays 5% of its turnover in lottery tax to the State.

Recently, Veikkaus started a subsidiary called Veikkaus Solutions. It explores various international e-business opportunities; the main goal is to find new partners for Veikkaus in the field of gaming operations beyond the European Economic Area (Veikkaus 2013).

4.1 Business in general

Veikkaus offer gaming entertainment to the large group of Finnish game players and, at the same time, to promote the public good. Veikkaus produces EUR 1.4 million of lottery revenue every day. Veikkaus contributes its total profits to the Finnish Ministry of Education and culture, which then distributed to other criterias, such as Finnish arts, sports, science, and youth work (Veikkaus 2013).

Legislation

In 2011, the amended Lotteries Act enables Veikkaus to be legally monopoly in the Finnish gaming market in 2012. Despite the monopoly status, the change in legislation is stricter, with more operational restrictions. This might restrict Veikkaus in the long run.

The European countries have several different systems of gaming regulation in place. Many countries are currently seeking for new models to adapt to the market.

The European gaming regulation is experiencing a clear trend of change towards more open systems. As regards the lotto games, exclusive rights constitute the predominant model, organized either as a state monopoly or a licence-based exclusive right system. In other forms of gaming, the general trend is leading towards an open market. An example of such development is Denmark, which granted the first online licences in 2011. In betting, exclusive rights only remain in place in a couple of member states (Veikkaus 2013).

Gaming Market

In 2011, Finnish gaming market had reached EUR 2 728.8 million. 51.3% of that was Veikkaus' turnover.

Veikkaus' sales increased in all the game groups except for the traditional instant scratch cards. The Arcade games on the web and the draw games have the strongest growth, namely 78.2% and 6%. Sports games grow steadily around 3% in both pools and betting game. The sales of the instant games decreased 11.9%. Draw games take 65.6% of Veikkaus' sales, sports games 21.8%, instant games 7.0%, and Arcade Games 5.6% (Veikkaus Annual Report 2011).

The gaming channel shows the fastest growth was the online channel, which was over 25%. The growth of internet gaming kept accelerating; Veikkaus still maintained its leading position in the gaming market, especially in online sales (Vuorenmaa 2013).

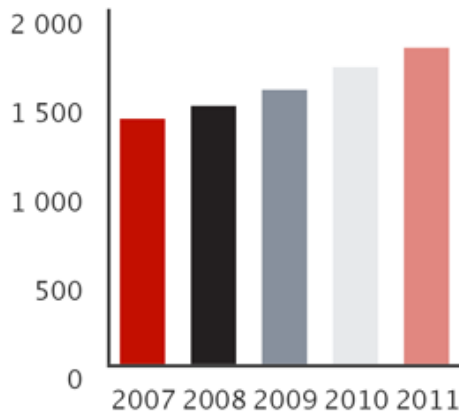
Retail sales' growth focused on the large units, which was 18%. Kiosks sales are still 33% third position is service stations with 11%. In 2011, the total customer purchases increased up to almost 90 million (Veikkaus Annual Report 2011).

Veikkaus' registered online customers rocketed to 1,368,000. The weekly customers purchases in web stores increased by 17.5%, which represented 47.6% of all type of games.

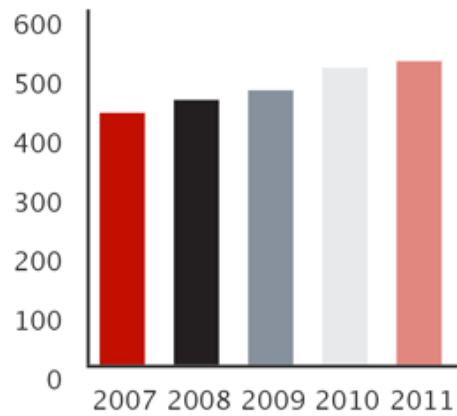
Financial and distribution

According to the latest annual report, Veikkaus attained a turnover of EUR 1,792 million in 2011, the highest in the company's history. The turnover grew by 6.1% over the previous year. 70 percent of Veikkaus's turnover comes from the retail network, which covers the entire country amounted to EUR 1,252 billion in 2011. In 2010, the retail sales turnover was just over EUR 1,240 billion. Veikkaus had paid EUR 85.7 million in retail commissions during 2011. Veikkaus's retailers received on average of 6.8% in retail commissions of its sales (Veikkaus Annual Report 2011).

**Development of turnover
2007–2011, EUR million**



**Development of financial result
2007–2011, EUR million**



**Distribution of Veikkaus funds
2011**



■ Arts* 42.8 % ■ Science 19.4 %
■ Sports 27.8 % ■ Youth work 10.0 %

* Up until 2009, the funds distributed to the arts included the Ministry of Education's allocation to libraries. From 2010, State library funding no longer includes Veikkaus funds.

**Breakdown of one Veikkaus euro
2011**



■ Prize payout 53.6%
■ Lottery tax 4.6%
■ Retail commissions 4.8%
■ Operating costs 8.3%
■ Arts 11.2%
■ Sports 7.3%
■ Science 5.1%
■ Youth work 2.6%
■ Undistributed prizes' fund 2.5%

FIGURE 9. Veikkaus' financial situation (Veikkaus Annual Report 2011)

In 2011, Veikkaus owned almost 3,300 POS, of which 200 new POS started during 2011. Meanwhile, over 200 POS stopped working.

Number of pos %
 /Regional shares of total pos sales %

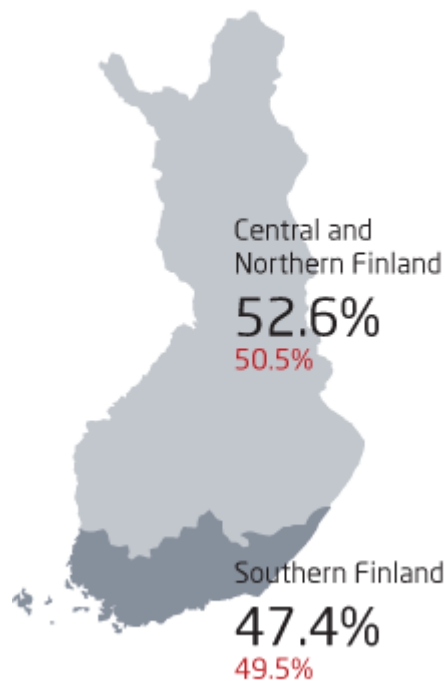


FIGURE 10. Veikkaus' Point-of-sale in Finland (Veikkaus Annual Report 2011)

4.2 E-business of Veikkaus

Veikkaus was the first national money game company in the world to use the Internet as a distribution channel. Gaming through the Internet is clearly the largest direct-selling online business in Finland.

During the 1990s, when the globalization of the Internet started to spread, Veikkaus started its online business, in other words, enabled distance gaming in order to improve its services, to save in distribution costs, to acquire new customer groups and to respond to the threat of new competition.

The planning of the project began in the early 1990's. The ideas were generated by the company's own technical sector personnel, and consulting firms were used to help survey the market. Implementation was carried out by specialized subcontractors. Self-service gaming was first launched through push-button

telephones, but shortly afterwards the decision to also launch an Internet service was made.

Since then, gaming through the Internet has rapidly become very popular in Finland, although OnNet gaming has hardly been advertised at all. The reason for not advertising was that Veikkaus did not want to hurt the sales of its most important resources, namely the retailers. The aggregate turnover of Veikkaus has been on the rise throughout the 1990's, and there had not been any signs that OnNet gaming would cause a decline in other ways of gaming.

In 1998, 1% of the turnover of Veikkaus was acquired via the Internet, whereas in 1997, the share was 0.5%. In terms of money, Internet gaming is, however, already a large business in Finland. All the targets set for the OnNet project had been achieved. According to the company's project evaluations, the best result was that the project had achieved a profitable level in a very short time.

In 2009, Veikkaus first advertised its gaming online services.

4.3 Why did Veikkaus choose E-business?

According to Janne Vuorenmaa, digital channel development manager, online business has been blooming globally. Many companies started to provide their products and service on the Internet. Veikkaus recognized the potential of the Internet while other national gaming companies still viewed it as a threat. Additionally, being the biggest national gaming company in Finland, Veikkaus had a big advantage in brand image, market shares, credibility and finance.

Before starting its online business, Veikkaus's products and services have always been digital, meaning that they have little to none physical distribution to worry. Thus Veikkaus did not have to invest heavily on digital distribution when they went online.

Furthermore, Janne Vuorenmaa, notes that changes in consumer's behavior and retail trade are reflected on how people play Veikkaus games. At the time, free time no longer concentrated on evenings and weekends. As the rhythm of people's everyday live changed, the rhythm of gaming changed as well. People played

Veikkaus' games more often on weekdays and in daytime. The customers also expected the games to be more entertaining and action-focused in content.

Since then, Veikkaus has been working on several development projects aimed at responding to the changes in the customers' shifting consumption patterns. The company works to introduce interesting new products and ways of playing Veikkaus games that are suitable both in the retail outlets and the electronic sales channels (Vuorenmaa 2013)

TABLE 1. Veikkaus' online draw games sales (Veikkaus Annual Report 2011)

	EUR million	Change in %
Draw games (incl. Lotto games, Jokers and Keno)	258	17.0
Arcade games	101	78.3
Sports games: Betting	141	5.7
Sports games: Pools games	41	14.1
Total	541	21.2

Janne Vuorenmaa also revealed that the growth was fastest in internet gaming, which was 21.2%. The profit for the financial year amounted to EUR 514.0 million, which was 2% more than in 2010, surpassing the threshold of half a billion euros and 30% of Veikkaus' total turnover for the first time. It is predicted that the internet plays a huge role in retail sales in the future. Online distribution also improves customer service quality; the interface more user-friendly than in point-of-sale, services are provided much faster and more privacy for the customers (Vuoremaa 2013)

5 ANALYSIS: FACTORS AFFECTING ONLINE DISTRIBUTION

In this section the author presents the analysis based on data collected through theoretical literature reviews and semi-structured interview with Veikkaus. Below is the author's analysis of Veikkaus' online business in general using the SWOT analysis:

TABLE 2. SWOT analysis of Veikkaus' online business

Strengths	Weakness
Well understanding of the market	Bad monopoly image
Goodwill and recognized brand	Slightly less attractive odds
Government own and biggest player	Restriction from the government
Better customer's safeguards	
Market restriction (Monopoly in Finland)	
Opportunities	Threats
Digital distribution strategic partnerships	Latest EU legislation changes
Expand globally	Market restriction changes (free gaming market in Finland)
	Retailers sales loss

Using Schoell and Guiltinan's framework (1995), the author will categorize the analysis into five main factors: environmental factors, market factors, product factors, manufacturers and intermediaries.

5.1 Environmental factors

Competitive nature

Being a national company and the one of the only three companies which has the gaming license, Veikkaus only has to compete with two others companies. It is also worth mentioned that the three companies provide somewhat different games and services, Veikkaus provides lotto games, pools, betting games, instant games and other draw games; while the other companies operates slot machine and horse betting. Consequently, there is no real competition in the Finnish gaming market.

Socio-cultural

It is mentioned during the interview that playing games, slot machines, betting and buying lotteries are almost a life style in Finland. People go shopping for food ended up buying a row or two of lotteries, or spend their small changes in the slot machines. Veikkaus is confident that there has not been any sign of that declining significantly even when there has been a trending increase in online sales.

Political and legal

According to Finnish legislation, Veikkaus has the permission to provide its games and services online in Finland. Gaming market in Finland is monopoly and not free, which means that there should not be any private companies or cross-border business in this field.

Economic

At the time Veikkaus went online, in 1997 the economy of Finland has come back from the recession of 1990-1992, which had been caused by economic overheating. Unemployment rate was on a declining trend, thus market expansion was a viable option for the company.

Technological factors

As mentioned before, the Internet was spreading globally in the 90s. Veikkaus encountered some technical problems, they were mostly linked to the large

volume of gaming and thus to the load of the systems. The problems had dissolved with the improvement of software and purchase of equipment.

5.2 Market factors

The Finland e-commerce report 2012 reports that 72% of online shopping products are entertainment products. At the same time, online shopping in Finland has been growing fast, thus increases the potential customers for Veikkaus.

5.3 Product, manufacture and intermediaries factors

Veikkaus's products and services have always been digital. As a result, Veikkaus did not have to invest heavily on digital distribution when they went online. The company also did not have to advertise for their online business because they did not want to hurt their retailers' sales, which was reasonable for the retailers. Therefore, there has not been any opinion against the online market expansion.

6 CONCLUSION

The author's conclusion will be presented in this section. The conclusion will help understand why companies decide to choose E-Business as a distributional choice, as well as how they manage it. The author attempts to answer these research questions:

- What are the factors affecting the decision of going online of companies?
- What is the most important factor?
- What is the success factor when going online?
- How should companies incorporate E-business?

6.1 The benefits of E-business

E-business has somewhat changed people's buying behavior. The Internet is available across the globe and in all manner of time zones. Thus when companies incorporate the Internet as part of their businesses, they would have the same capabilities and availabilities. Generally, physical stores are limited by their location and hours of operation. On the other hand, E-business is accessible from any area with Internet access and most of the time available 24 hours a day. Additionally, with the age of smartphone, E-business acquires even more advantage, such as having easy access from anyone, to anyone with a mobile device. Consumers are only limited by their network coverage, which means nothing because mobile networks are everywhere nowadays.

By going online, companies can reduce or eliminate a lot of overhead costs such as rent, electricity, telephones and general office upkeep and expenses for physical locations. In addition, E-business is cheaper, due to the fact that as online advertising usually costs less than other marketing channels.

E-business improves the quality of customer service by providing fast and direct help online, as well as better and friendlier graphical user interface if done correctly. Service online can extend its hours of operation, up to 24 hours a day. E-business also provides straight to door products deliveries.

The Internet is a big part of most people's lives. Incorporate the Internet into the operations helps companies keep in touch with the trend. It gives the resources needed to compete in today's increasingly digital marketplace. For instance, a company which has a successful online presence on social media websites will become a better known company. Companies need to consistently post news on these social media websites which will increase the interests of their customers.

Both customers and businesses benefit from E-business. A business is more convenient, more accessible, affordable and even more equipped to serve its customers. When businesses are focused on satisfying and benefiting their customers, they are on the right track to success. However the benefits are achieved not by technology, but by combining strategy, technology, organization, people and business processes as a whole and making changes in all these dimensions. The Internet is just an enabler, a change in management, good implementation practices and clear business objectives are required in order to reap the full benefits.

6.2 How should companies incorporate E-business

First of all, companies ought to evaluate their businesses, personnel and technology competence. It is a must to consider all the related factors: competitive nature, socio-cultural, political and legal, economic, market, product, manufacturer and intermediaries. All factors are as important, however, political and legal factor would be the one which decides if a company can start their E-business or not. It is recommended to check the local, national or even international legislation to avoid illegal decisions.

Secondly, companies will need to have suitable strategies when tackling E-business. Clear visions and goals of what they are going to achieve, as well as risks management plans to deal with the problems they are going to face. For example, in the case of Veikkaus, they did not advertise their online distribution in order to please their retailers because at the time, the 100% of the company's profit was from their retailers.

Finally, of all the factors, product would be the success deciding factor. Even though the products from physical stores and online stores might be the same and have the same prices, they do not have the same value. The additional value of online business is the key to successful online business. There should be benefits for customers purchasing online products such as straight to door delivery, the latest product, and fast and secure purchasing, etc...

7 SUMMARY

E-business is more or less a strategic direction of a business, which is conducted on the Internet, such as selling, purchasing, providing customer services and working with other businesses. With the growing trend of E-business worldwide, companies are trying to incorporate the Internet as a part of their business strategy.

Not all E-business is a success, many attempts have failed due to lack of good coordinated strategies and vision. A thorough look on marketing strategy is needed before adopting E-business. Distribution plays a huge role in a marketing strategy as it delivers products or services to customers. Having a good distribution strategy, especially online, can maximize sales and profits, as well as lower expenses.

However, before choosing E-business, online distribution as a strategy, companies should take into account various factors: environmental factors, market factors, product factors, manufacturers and intermediaries. These factors affect greatly to the success of E-business. For example, with the additional value of convenience and variety, online bought products are more attractive to customers than physical bought product.

Veikkaus Oy, a Finnish national company is an example of E-business. By being a pioneer in adopting E-business with a suitable strategy, Veikkaus Oy has been very successful in the field of online distribution. The company's goal in the near future is to expand their market even further, looking to provide more games to Finnish players, as well as promote public good.

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APPENDIX INTERVIEW QUESTIONS TO VEIKKAUS OY

1. What was the situation of your company before going online? How was the market back then?
2. What was the original purpose of when your company went online? Was there any competition?
3. What were the advantages and disadvantages/challenges your company has been facing?
4. How did your company's activities change after going online? Was there any major change after going online?

Product wise

Pricing wise

Marketing wise

Distribution wise

Customer service wise

5. How do you manage your online marketing, logistics companies and intermediaries?
6. How would you generally define your market at the moment?
7. What do you think of the Finnish business environment and worldwide in general? Are they well developed for online business nowadays?
8. In your opinion, what are Veikkaus's strengths and weaknesses? What are Veikkaus's threats and opportunities?
9. What is your company's vision in the near future (online related)?