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How to enter the Finnish market

Case: Beijing Guanghai Textile Co, Ltd

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ABSTRACT

This thesis involves a professional yarn company from China who desires to enter Finland with its product. It is mainly about developing an entry plan for the company in selling water soluble yarn in Finland. Since the water soluble yarn is environmental friendly and it has many potential customers in Finland, it is necessary to make a research on this topic.

The main object is to find a suitable entry mode for the case company. Therefore, the author introduced internationalization and entry modes in the beginning. To find the factors influencing the choice of entry mode, PEST analysis and Porters' Five Forces analysis methods were applied to analyze Finland and the Finnish yarn market. A SWOT analysis was done after the case company's review.

Qualitative research method was applied in order to carry out the objective. Regarding the sources, the data was collected from the websites of authoritative organizations and electronic articles. Literature resources were collected from published and electronic books.

Concerning the findings, the author implied that the Finnish market is a stable market with a certain amount of customers and low risk, and then the author suggested four entry modes to the case company. Furthermore, an entry timeline was recommended at the end of the thesis.

Key words: internationalization, entry plan, entry modes, water soluble yarn, Finland

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1 INTRODUCTION

1.1 Background of the Thesis

Water soluble yarn is a new kind of functional vinylon yarn developed in Japan in recent ten years, and it has a widely application range. It is commonly used in clothes fabric, towels, cartons, rubber glove, fishing gear, printing equipment and other kinds of products. The manufacturers of these products listed above are the main buyers of water soluble yarn, and they are broadly distributed in Finland. That is, the product has a potential future in the Finnish market.

It is an opportunity for the author to improve his skills on what he has learned from Lahti University of Applied Sciences. The case company planned to enter the Finnish market with its water soluble yarn and the author would like to support them. Therefore, the research topic how to enter the Finnish market and an entry plan are needed at this moment.

Beijing Guanghui Textile CO. LTD contacted with the author and the company wanted to enter into the Finnish market. Guanghui Company is a professional textile enterprise specializing in producing vinylon yarn series products. It was founded in 1993 and began to focus on R&D of vinylon water soluble series products in 2007. In year 2010, it registered as Beijing Guanghui Textile CO, Ltd, since then it began to do international business. (Beijing Textile Co 2014)

The Finnish market is suitable, potential and sustainable for the products, therefore, the author decided to help the case company bringing water soluble yarn into the Finnish market after he graduates from Lahti University of Applied Sciences. In order to start the business in Finland, the author intended to write the thesis to find the best way to enter into the Finnish market.

1.2 Thesis objectives and research questions

This thesis aims to find the most suitable entry mode for the company to enter the Finnish market. It is not only useful for the case company, but also quite efficient for some other foreign companies as a reference to enter the Finnish market.

As the result, the main question was designed as follows:

a) What is the most suitable entry plan and form for the case company?

In order to answer the main question as well as follow closely to the objective, sub-questions were created:

b) How many entry modes are available and what are they?

c) What is the business opportunity in the Finnish market?

d) What are the barriers of entry the Finnish market?

e) Who are the potential customers and what is the demand of them?

f) What is the company's current situation and resources for international operations?

1.3 The scope and limitation of the thesis

This thesis aims to support the case company to enter the Finnish market with its yarn products. Although there are many different kinds of yarn, the author only focused on the water soluble yarn in this thesis. Furthermore, an important factor influencing the choice of entry modes is the company's size, the author is not able to recommend entry plans for all kinds of companies, so the thesis will only help the firms who have the same size with the case company.

The Finnish micro and macro environments in the thesis were only the factors related to the water soluble yarn business. In another word, this thesis is only doing research to help this company and this product entering the Finnish

market.

It is also exclusive of how to run business in the future, compete with competitors, growing strategy, company management and any other future operating issues. In addition of these issues, legal environment, financing and pricing decision making issues were also avoided. There were many analyzing tools and methods used during the analyses of market, customer and company, the author did not explain the definitions of them (E.g. PEST, SWOT, Porter's five forces analyses).

1.4 Theoretical Framework

First of all, the definition of internationalization and the motives of it were described in this thesis. After that, there were many entry modes for the firms to choose to enter a new market. That is, analyzing different entry modes are necessary and this has been done in the second chapter.

After studying the entry modes, the next step is choosing one or more of them. Therefore, the rules of selecting entry modes and the factors influencing the choice of entry modes were also listed in chapter 2.

According to the factors influencing the choice of entry modes, in the third chapter, the macro environment of Finland was analyzed by PEST analysis method and the micro environment out of the case company in the Finnish yarn market was analyzed based on Porter's Five Forces theory.

Doing research only for the target market is not enough, another necessary issue which has to be taken into consideration is the case company's current situation. Making any strategy without a correct understanding of the firm itself or the environmental situation is very dangerous. In order to do safe and efficient business, the SWOT analysis was used to analyze the company.

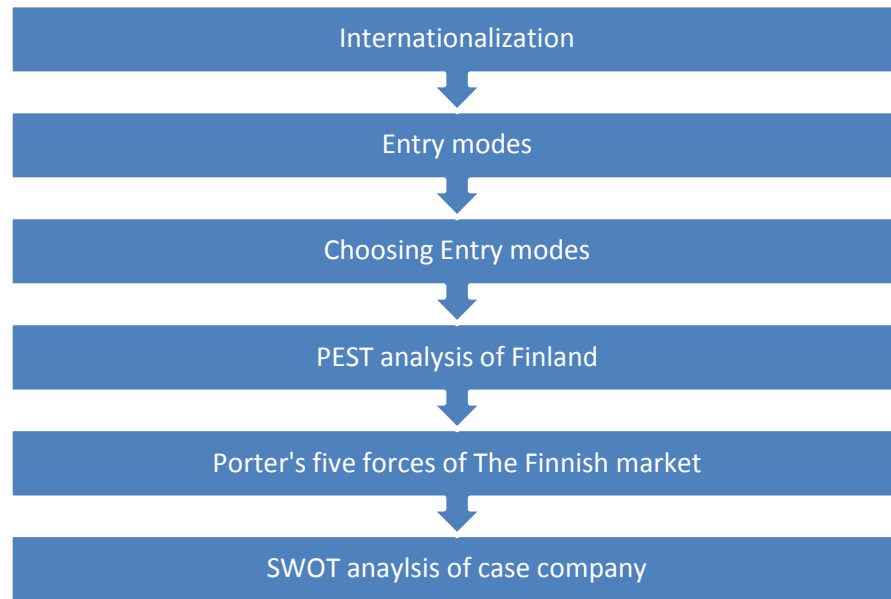


FIGURE 1 Theoretical Framework

1.5 Research Method and Data Collection

Qualitative research method was employed in this thesis. Qualitative business research is the research that addresses business objectives through techniques that allow the researcher to provide elaborate interpretations of market phenomena without depending on numerical measurement. (William, Barry, Jon & Mitch 2010, 133)

There are some social and cultural constructions that cannot be researched by quantitative research, but qualitative methods can be used as providers of better understanding of issues that have remained unclear in quantitative studies because qualitative methods can explain the objectives (which are not able to be translated into numbers) in words. (Päivi & Anne 2008, 5)

To collect the primary data, the author stayed in touch with the case company to get information and ask for decision making, some interviews with the owner and the sales manager of the case company are needed. Most secondary data in this thesis were collected by literature reviews. The information of Finland and its market was collected from data portfolios from some authoritative organizations.

1.6 Structure for thesis

This thesis consists of seven chapters: introduction, internationalization and entry modes, Finland as a target market, case company review, case: Beijing Guanghai Textile Co, Ltd, conclusions and summary (See Figure 2).

The introduction chapter gives a brief overview of the background, aim, limitation and research methods. And the structure could help readers easily to understand the main points of the whole thesis.

The second chapter is about internationalization and entry modes. It describes about internationalization, variety of entry modes and how to choose them. It helps the readers to study entry modes and the important issues that should be considered when entering a new market.

And then, it goes to the certain market, the Finnish market was analyzed in the third chapter based on PEST and Porter's five forces analyses. It describes the political, economic, social, and technological factors of Finland in PEST analysis. With Porter's five forces analysis, the external environment in the Finnish market was analyzed for the case company. Through this chapter, readers are able to get multi information of Finland and the Finnish market.

In the fourth chapter, the case company's profile will be showed. By using SWOT analysis, the author listed the strengths and weakness of the company, and opportunities and threats it may meet in the future.

The key of the research can be found in the fifth chapter. Finally, the author listed some alternatives for the case company and found the best entry mode for the case company from some workable ones.

Last but not least, briefly conclusions and a concise summary were given in the last two chapters.



FIGURE 2 Structure of the thesis

2 INTERNATIONALIZATION PROCESS AND ENTRY MODES

This chapter gives a description of the theoretical framework of this thesis. This chapter explains internationalization in the first sub-chapter, including an overview of internationalization and reasons of internationalization. The second sub-chapter presents different entry modes and the factors influencing the selection of entry modes.

2.1 Internationalization

As Marian V. J. (2009, 1) mentioned ‘The subjects of the internationalization of small and medium-sized enterprises (SMEs) and international entrepreneurship are very exciting and topical ones.’ It is very important to understand what internationalization is and the reasons to internationalize.

Definition of internationalization

In the business world, more and more enterprises started doing international business in order to increase involvement and follow the updates of new business world. Even though there is not an absolute definition of internationalization, it has been known as a process of increasing involvement of enterprises in international markets. (Susman 2007, 281)

Internationalization is a process which makes the products and services could be easily adapted to specific local market, this process is so called localization as well. The internationalization process is named also as a translation of localization enablement. (Whatis 2011)

Reasons of internationalization

The basic reason for the firms is making money or increasing their economy scales. Internationalization occurs along with the expansion on its R&D, production, selling and other business activities into foreign markets of the firms. (Hollensen 2004, 30)

Nowadays, many firms are not content to do business only in the local market, they are eager for newer technology, lower cost, higher profit and bigger scale. As well as the decrease of the barriers to trade in international markets, and there are some countries encourage firms to be international. These reasons cause the international business is growing, so it is quite important to understand internationalization deeply. (Albaum&Duerr 2008, 3)

Hollensen (2004, 31) summarized internationalization motives into two different categories: they are proactive motives and reactive motives. (Hollensen 2004, 31) The proactive motives are from the inside of the firms' activities and the reactive motives can be viewed as the domestic push and the international pull. (Albaum&Duerr 2008, 10)

As said before, Hollensen listed the major motives of internationalization (Table 1). Companies have to understand what motives pull or push them to internationalize.

TABLE 1 Proactive and Reactive motives (modified from *Hollensen 2004, 31*)

Proactive motives	Reactive motives
Profit and growth goals	Competitive pressures
Managerial urge	Domestic market: small and saturated
Technology competence/unique product	Overproduction/excess capacity
Foreign market opportunities/market information	Unsolicited foreign orders
Economies of scale	Extend sales of seasonal products
Tax benefits	Proximity of international customers/psychological distance

2.2 Entering new market

Albaum and Duerr (2008, 270) described that, a market entry strategy consists of an entry mode and a marketing plan. Limited by the scope of this thesis, in this chapter, the author only introduced several entry modes and the factors influencing the choice of entry mode.

2.2.1 Entry modes

The market entry mode is an institutional arrangement necessary for the entry of a company's products, technology, and human and financial capital into a foreign country/market. (Albaum&Duerr 2008, 276)

Export entry mode is the most common and basic mode comes to enterprises' minds when they are thinking about striding forward into the international market. However, there are many other entry modes except export available in order to help different firms enter different target markets. For instance, licensing, franchising, joint venture and subsidiary etc...

Exporting is such common, therefore, Albaum and Duerr (2008, 305-391) divided the entry modes into export entry modes and nonexport entry modes. However, the nonexport entry modes could also be divided into two classes: Intermediate Modes (Contractual Modes) and Hierarchical Modes (Investment Modes). (Hollensen, 2004, 291-350)

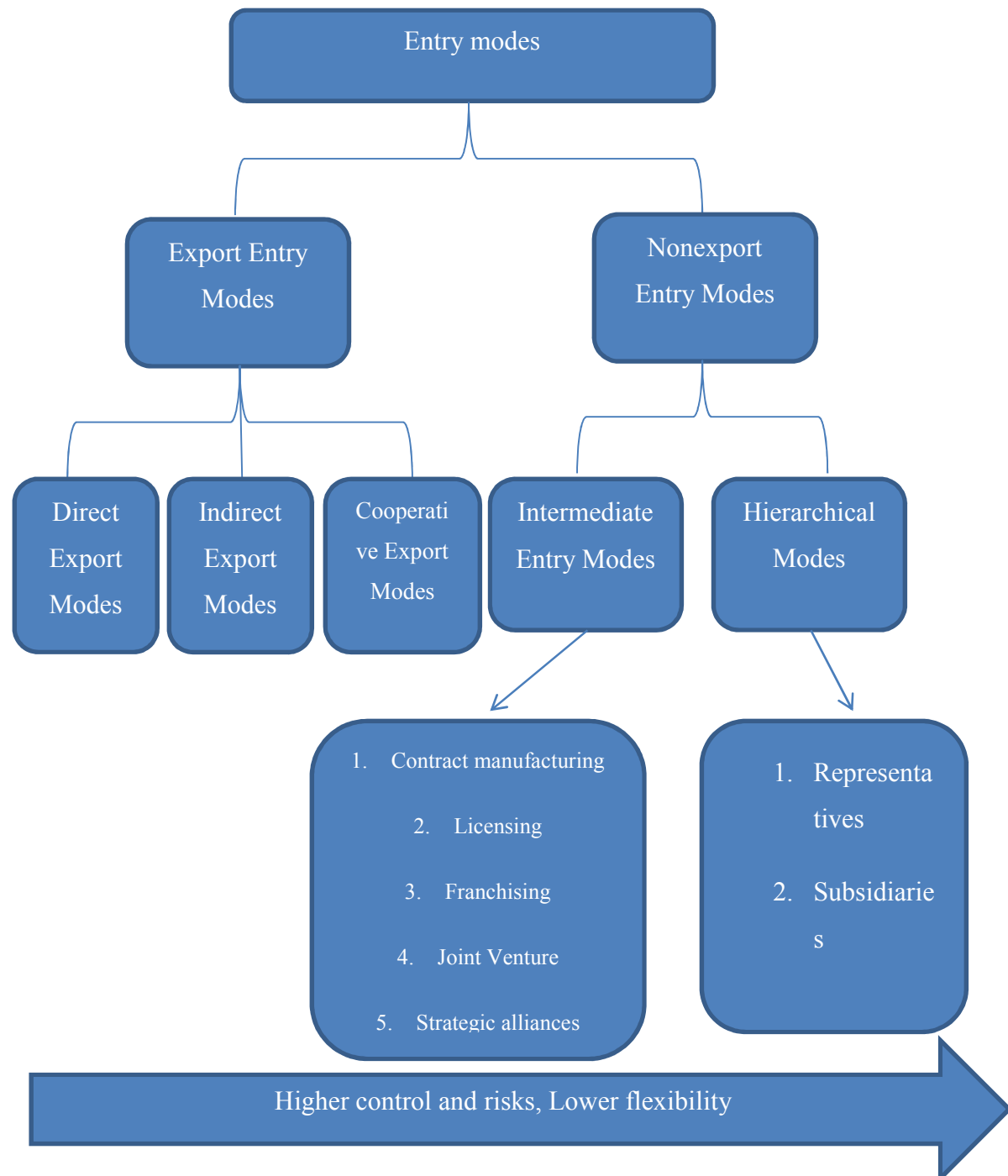


FIGURE 3 Entry Modes (modified from *Albaum & Duerr 2008, 305-391*, *Hollensen 2004, 291-350*)

The figure above presents the range of entry modes for the firms who are planning to enter a foreign market as a reference. The export entry modes can be divided into three types. They are direct export, indirect export and cooperative export modes. The firms get lowest control, lowest risk and highest flexibility through using export entry modes. The intermediate entry modes and hierarchical modes constitute nonexport entry modes. Intermediate entry modes include contract manufacturing, licensing, franchising, joint venture and strategic alliances. By

using intermediate entry modes, the firm will share the control and risk with the cooperate firms, and the ownership might be splited at the same time. Hierarchical modes bring the highest degree of control and risk, but the flexibility is the lowest among all of the entry modes. Sales representatives (domestic of foreign based) and subsidiaries are under hierarchical modes.

Each entry mode has its advantages and disadvantages, in general, from export to hierarchical entry modes, the degrees of control and risks rise up but the flexibility falls down on the other hand.

2.2.2 Export entry modes

According to Hollensen's (2004, 291) theory, export entry modes occur when the firms manufacture the products in domestic market or a third country and then transfer to the foreign market with direct or indirect ways. Exporting has the least risk and spends the least cost, firms without any experience of international business can choose exporting as its first time international business entry mode, this is because many firms do international business through exporting is more likely to do domestic business. However, firms cannot control over the products' sales process which is processing by others in foreign market.

There are three types of export methods under export entry modes: indirect export, direct export and cooperative export.

Indirect export mode is a good option for some small and medium sized firms (SMEs) who have limited resources to do exporting and want to test out the markets. In this mode, the firm does not take responsibility of exporting activities in the foreign market. Instead, the firm uses a domestic company who has rich experience and resource to do exporting process. The firms which use indirect export can choose the intermediate companies from the five below: export buying agent, broker, export management company, trading company, and piggyback. No matter which modes the firm chooses, it will lose control of exporting activities because it has no idea of its products in the foreign sales, but instead, the agents or export management companies will control the export activities without the manufacture firm's involvement. In addition, the firm builds no or little communication with the

foreign customers. Therefore, the firm cannot study and develop the foreign market and then lose opportunities to grow its business scale. However, by using indirect export, the firm spends the least money and gains the lowest risk compare with using any other entry modes. This is why many SMEs would like to use indirect export to start international business. (Hollensen 2004, 293-297)

Direct export mode is the firm takes care of foreign sales and sells to the foreign buyer or importer directly. Which means the firm will directly contact with the foreign buyers or importers. Certainly, if the firm does not have enough confidence, it can do transporting by another carrier company. In direct export, the firm has more control of how, where and to whom the products are sold than in indirect export, so the firm needs to do marketing research by itself and there will be higher risk involved. A manufacturer can export directly to a buyer domiciled in a foreign market in many different ways. (Albaum& Duerr 2008, 321) Normally, the firm will find distributors or agents in the local foreign markets. Distributors are independent merchants. They buy products from the firm and decide their own sales process in the local market. Distributors are more like the retailers but located in the foreign market. Agents take title to the goods, the profit of agents comes from the price differences, and they do not ask for any commission. (Hollensen 2004, 298-301)

Cooperative export mode is two or more SMEs cooperate together to manufacturing and marketing cause of the limitation of the firms' economy scale and the resources. This entry mode occurs when some small, recently established high-technology firms meet a large buyer. Cooperative firms can share the risks, and reduce the cost of manufacturing and selling. Furthermore, they can do R&D of the foreign market together. On the other hand, the founders and entrepreneurs of those firms have strong desire to be independent, so there are risks of relationships between the cooperators. (Hollensen 2004, 302)

2.2.3 Intermediate entry modes

In export entry modes, firms are doing international business in domestic country. The products enter foreign market through some domestic or foreign agents and distributors. Instead of supplying only products from domestic plant to foreign

market, firms are able to transfer the skills and their concepts through using intermediate entry modes enter a foreign market. Intermediate entry modes include contract manufacturing, licensing, franchising, joint venture and strategic alliances. In intermediate entry modes, firms share risks with another firm such as a licensee, franchisee, venture or alliance in the foreign market. (Hollensen 2004, 308) This means, the risks will be shared by the firms and the cooperators, and they have better control over of the production than in exporting. But still, the firm is not able to control over all of the operation of its cooperator, even the cooperator may become a potential competitor who is taught by the firm. The flexibility is reduced because of the contract they have made is normally a long-term contract.

Contract manufacturing is the manufacturing process outsourced to abroad using the foreign resources without building any own subsidiaries. Through contract manufacturing, the products are close to foreign customers and the transportation costs are saved. The firm can control over the R&D, marketing, distribution, sales and services of its products in international market, the risks and responsibilities of production are shared with the local firm. The contract is not a long-term contract normally, so exiting the foreign market is easy for the firm. However, finding a reliable local manufacturing firm is difficult, there is a risk that the contract manufacture may produce some bad quality products, so it is hard to control over the manufacture's production process. There is a potential risk that the contract manufacture could learn or steal the technology and become a competitor in the target market in the future. (Hollensen 2004, 310, 327)

Licensing is the firm (licensor) gives the right of using something owned by the licensor such as technology, know-how, trademark, facility design and other types of knowledge or trade secrets, to a company or person in the foreign country (licensee) by signing a contractual agreement. The licensor's income comes from the licensee; the licensee pays some fees such as initial payment, annual minimum, annual percentage fee and additional fees. (Albaum&Duerr 2008, 377) As Hollensen mentioned, the licensee just licenses a part of the business, for example some products or even a single product. There are more value chain functions on the licensee so the licensee carries more responsibilities than that in the short-term contract manufacturing, so it is a low-risk entry mode. But still, licensor can hardly control the products which are licensed to licensees abroad and the licensee is also a

potential competitor to the licensor. Therefore, the licensor needs to find a way to keep the licensee under control. It is also a difficult issue for the licensor. As it said before, the licensor's profit is low, and this is another disadvantage of licensing. (Hollensen 2004, 311, 315, 327)

Franchising is the franchisor lets the franchisee run its own business in the franchisee's local country. The biggest difference with licensing is, in franchising, the franchisor allows the franchisee to use its copyright, designs, patents, business know-how and even share some trade secrets, and then the franchisee runs its own business by using the franchisor's methods. It is not limited to only products. The franchisee is definitely chosen by the franchisor. Therefore, the franchisor has more control over than the licensor. Normally, the agreements in franchises is for 5-11 years, compare with 16-20 years in licensing, franchising is a more renewable entry mode. Giving rights to some other firms as franchisees is always risky. There is still a disadvantage of losing control of the franchisee's operation. And the franchisor is hard to control the quality. (Hollensen 2004, 314-315, 328) In addition, many firms combine franchising with joint venture. (Albaum&Duerr 2008, 378)

Joint ventures are quite popular as a way to enter some developing countries such as China and South Korea. Joint venture was defined by Albaum&Duerr as firms from different countries, at least one local, established a new company to manufacture products or provide services on a joint basis. (Albaum&Duerr 2008, 384) Normally, the partners will share ownership and equity (sometimes not); it depends on how the contract was made. The partners in the host country know better about the local market environment so they can increase the speed of entering the market. With joint venture, market and political risk are reduced, and the partners can share knowledge and resources. But keeping a good relationship is a problem especially in this case partners are from different countries. And there are other disadvantages such as lack of control, setting up competitors and loss of flexibility. (Hollensen 2004, 318)

Strategic alliance is also a partnership between one or more partners. The difference with joint venture is, in strategic alliance, the partners do not commit equity into or invest in the alliance. Partners cooperate to achieve a common goal and profit. The most famous and most researched case is the alliance among

McDonald's, Coca-Cola and Disney. (Hollensen 2004, 318) Strategic alliance is also very common in airline companies. Airline companies might be the most typical strategic alliances, cause of airlines are cross all over the world. There are many airline alliances, for example, oneworld, there are 14 airline companies including Finnair and Japan Airlines. (Oneworld, 2014)

2.2.4 Hierarchical entry modes

If the firm wants to control over and influence more than export and intermediate entry modes, a hierarchical entry mode would be a good option. The firm completely owns and controls the foreign entry mode in hierarchical entry modes. (Hollensen 2004, 335) Obviously, the risks and costs are the highest. There are domestic-based sales representatives, foreign sales and production subsidiary, acquisition and Greenfield investment under hierarchical entry mode.

A **domestic-based sales representative** is an employee of the firm who takes care of the sales function by travelling abroad. While he/she is the firm's employee, the firm has whole control over of the sales. In the other hand, the products need to be transported to foreign market, and this causes a high travel expense. Therefore, this mode is widely used in many industrial markets and when selling to government buyers, where the orders are large to justify the traveling expenses. (Hollensen 2004, 337)

Foreign sales and production subsidiary is transferring the sales and production to foreign country. For the reason of no contribution to the mother country, this method is only used when there are big local demands for a production based. The firm has full control of operation (sales and production), and it can gain new business while doing existing business. A sales subsidiary can acquire market knowledge directly and a production subsidiary can avoid the transport costs. However, building subsidiary needs a high investment and there is high risk. (Hollensen 2004, 338)

Either **acquisition** or greenfield is establishing wholly owned subsidiaries. Acquisition can be described as the firm buying an existing firm or part of its ownership in the foreign market as its own subsidiary. There are four different

forms according to Root (1987) (see table 2). In acquisition, no matter which specific form the firm selects, the firm is able to enter the target market rapidly. There are existing distribution channels, customers, management experience, brand name and reputation. (Hollensen 2004, 343) While it is a fast entry mode, however, it is also a very risky mode because of high expenses, cultural differences and the relationship with the local management team.

TABLE 2 Different acquisition forms (modified from *Hollensen 2004, 343*)

<i>Acquisition forms</i>	<i>Description</i>
Horizontal	Similar product lines and markets between acquired and acquiring firms
Vertical	The acquired firm supplies for or becomes a customer of the acquiring firm
Concentric	The acquired and acquiring firms could have same or different markets and technology
Conglomerate	The acquired and acquiring firms are totally different firms

Greenfield investment is another way to establish wholly owned subsidiary in foreign market. The firm builds its own operations in the foreign market, where there is no acquisition target or the acquisition process will cost a lot. It is a slower entry than acquisition, because the firm has to build up a new plant, which means the firm will pay higher investment cost and spend longer time to enter the new market. However, many firms would like to build their own operations rather than acquisition, because it is easier to start a new operation than change a traditional one. (Hollensen 2004, 343)

2.3 Choosing entry mode

There is none entry mode best, a firm needs to choose an entry mode or combine some of them on the basis of the specific situation of itself and the environment of the target foreign market. In this chapter, the author will introduce how to select entry mode and some factors influencing the choice of entry mode.

2.3.1 Choosing entry mode

After study the multiple entry modes, the question ‘How to choose an entry mode?’ comes to firms’ minds. Root (1994) has identified three rules of selecting entry modes. They are naïve rule, pragmatic rule and strategy rule.

Naïve rule is the firm uses the same entry mode for all foreign markets. This rule ignores the heterogeneity of individual foreign markets and entry conditions. It means, the problem is, one entry mode is impossible to be suitable for all foreign markets. Naïve rule causes the manager makes a big mistake: entering a foreign market with an inappropriate mode. (Albaum&Duerr 2008, 292)

Pragmatic rule means the firm uses a workable entry mode for each foreign market. The firm who is just starting doing international business prefers to follow the pragmatic rule, choose a low-risk entry mode which is workable. (Hollensen 2004, 278) Once the firm finds a workable entry mode, there is no need to spend information collection costs and management time to investigate the other alternatives.(Albaum&Duerr 2008, 292) Just because of not all potential alternatives are investigated, the entry mode that the firm chooses is only workable but may not be the best one.

In **strategy rule**, the firm investigates, evaluates and compares all viable alternative modes, and then chooses the right one to enter each certain foreign market. An application of this decision rule would be to choose the entry mode that maximizes the profit contribution over the strategic planning period subject to the availability of company resources, risk and non-profit objectives. (Hollensen 2004,277, Albaum&Duerr 2008, 292)

2.3.2 Factors influencing the choice of entry mode

Obviously, strategy rule supplies the firm highest profit contribution. However, following strategy rule is a complicated process, there are multiple factors have to be considered which are internal and external factors, desired mode characteristics and transaction-specific behavior. (Hollensen 2004, 279)

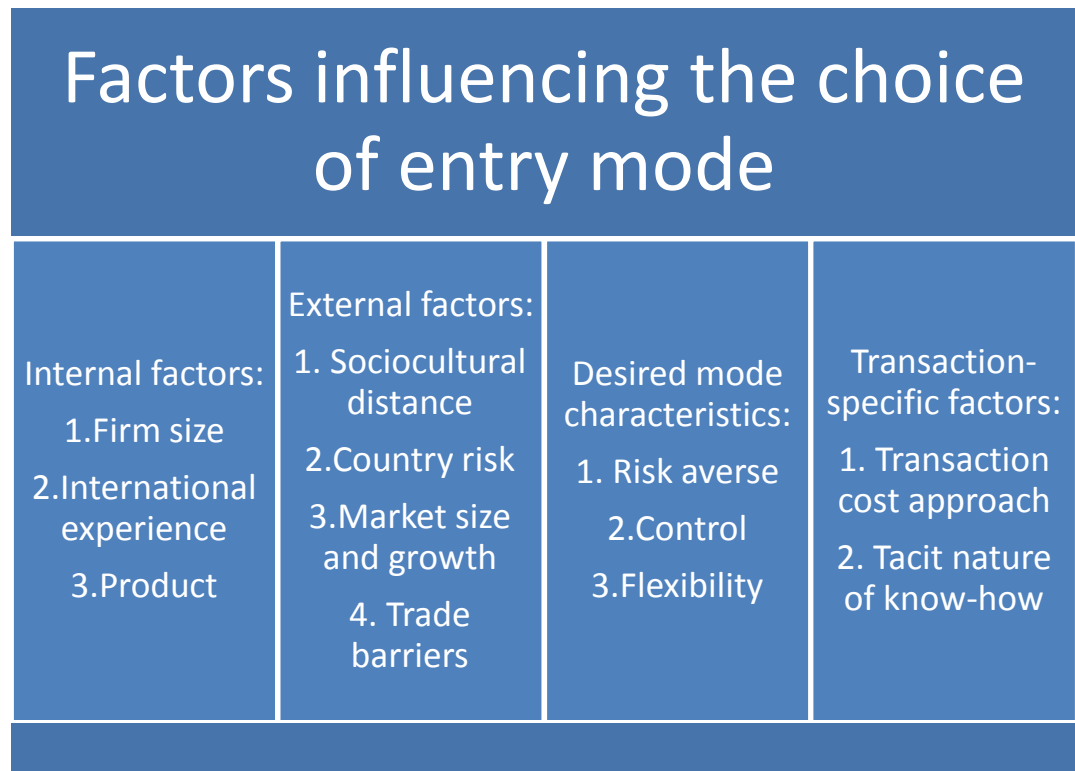


FIGURE 4 Factors influencing the choice of entry mode (modified *Hollensen 2004, 279-284 Albaum&Duerr 2008, 282-291*)

The figure above lists the specific factors under internal and external factors, desired mode characteristics and transaction-specific factors. The author will describe those factors more detail in the following paragraphs.

2.3.2.1 Internal factors

Internal factors include firm size, international experience and the specific product.

Firm size could influence the firm's resource commitment. SMEs get low resource commitment even if they want to get a high level of control over international

operations. The firm size also influences the ability to take risks, and most SMEs have low ability to take risks, so they are risk-averse, and then choose the entry modes with low risks involved. Therefore, SMEs prefer export entry modes in the beginning, and consider using hierarchical mode along with the firm size grows. (Hollensen 2004, 280)

International experience is an important factor which influencing the choice of entry modes. A firm with rich experience can reduce the cost and uncertainty in foreign markets. (Hollensen 2004, 280) An experienced firm knows better where the risk is and how to achieve higher profit in international business. Experience is also the reason why SMEs would like to choose export agents who have rich experience in international business.

The physical characteristics of the product determine where production located, and then influence selecting entry modes. Normally, the products with high value/weight ratios such as luxuries are used direct exporting, in order to keep wholly control over the production. On the contrary, the products such as soft drinks and beer need high shipment expenses, so the firms establish licensing agreements (intermediate) or invest in local bottling or production facilities (Hierarchical). (Hollensen 2004, 281) There are some exceptive luxuries firms using hierarchical modes, the reason is, some luxuries natures' influencing such as watches and electronics, those products with high complexities require before and after sale services, and the licensees or franchisees are not be able to handle these. (Albaum&Duerr 2008, 283)

2.3.2.2 External factors

External factors are from the target market (country) and the customers. The factors come from the target country include sociocultural distance between home country and host country, country risk, market size and growth, and trade barriers.

Firstly, when the sociocultural differences between the firm's home country and its host country such as language, manufacture technology and educational levels are great, the firm would avoid choosing hierarchical modes. Instead, it will choose the

entry modes involve low resource commitments and high flexibility, for example direct and indirect export, joint ventures. (Hollensen 2004, 282)

Secondly, according to Hollensen (2004, 282), foreign markets are usually perceived as riskier than the domestic market. Therefore, a risk analysis is necessary when entering a new market. Country risks come from economic development and political stability. The higher risk in the host country, the less resource required entry modes the firms will favor. Conversely, firms will enter a new market with heavy resource commitments required entry mode. (Hollensen 2004, 282)

Thirdly, one key determinant of entry decision is market size and growth. (Hollensen 2004, 282) It is understandable, the smaller the country and the size of its market, provides the less potential business opportunities and less resources are required. So firms would like to enter a small country with low risky entry modes, such as exporting and licensing. On the other hand, firms will favor entering big country and fast growth rate market with highly resources commitments required entry modes, and in order to control over the production, they may consider entry modes from hierarchical modes such as establishing wholly-owned sales subsidiaries. (Hollensen 2004, 282)

The last external factor comes from the target country is trade barriers. Trade barriers occur in tariffs and quotas on some certain products. If there are high tariffs or quotas of the products the firm produced, the firm should better transfer the production in the host country. Normally firms will choose licensing and franchising, some firms want higher control of their production, then they will favor establishing a production subsidiary or acquire local manufacture companies. (Hollensen 2004, 282)

Furthermore the target customers will influence the choice of entry modes as well. A firm needs to do research on customers' size, geographical distribution, needs, requirements and preferences. (Albaum & Duerr 2008, 282) When the customers are widely dispersed geographically, and they buy frequently and with small needs, the distributors and agents (direct export) are needed in this case. If the customers

prefer the products of certain brands, the firm can use acquisition or sales subsidiaries for instance. (Albaum & Duerr 2008, 283)

2.3.2.3 Desired mode characteristics

Desired mode characteristics have to be considered as factors influencing the choice of entry modes which include risk-averse, control and flexibility.

According to the different level of risks existing in the different entry modes, export entry modes and intermediate modes are suitable for the firms who are risk averse. On the other hand, the firms who want more profit, seek more potential business opportunities and have enough ability to take risks will prefer hierarchical modes.

Control is often closely linked to the level of resource commitment. Lower level of resource commitment means less control, for example, export entry modes.

Hierarchical modes provide the most control, but also, there are the most resources commitment involved. In intermediate modes, such as licensing and joint ventures, the firm needs to control the quality standards and operations, and the resource commitment level is a median. (Hollensen 2004, 283)

Flexibility is influencing selection of entry modes as well. Flexibility level falls down in this order: export entry modes, intermediate modes, and hierarchical modes. In exporting, there is no investment abroad, so it has the most flexibility. Obviously, hierarchical modes are the least flexible, and intermediate modes also hardly to be changed compare with export entry modes. (Hollensen 2004, 283)

2.3.2.4 Transaction-specific factors

The last group of influential entry mode choice factors is transaction-specific factors. It includes the transaction cost approach and tacit nature of know-how.

A transaction cost analysis is a necessary framework for selecting entry modes. Hollensen(2008, 59) described it succinctly: 'If the transaction costs through an importer or agent are higher than the control cost through an internal hierarchical system, then the firm should seek internalization of activities' For example, wholly owned subsidiaries.

The other transaction-specific factor is tacit nature of know-how. It is understandable. If the firm's know-how is extremely tacit, the difficulties and costs involved in transferring its know-how will cause many problems while the firm drafting a contract and licensing out the production. Therefore, in this situation, firms will favor hierarchical modes. (Hollensen 2008, 59)

3 FINLAND AS A TARGET MARKET

In this chapter, the author will introduce the country Finland. First of all, this chapter gives a general review of Finland, and then makes a PEST analysis of Finland. Finally, there is the Porter's five forces analysis of the Finnish yarn market in the last sub-chapter.

3.1 Finland in general

The full name of Finland is Republic of Finland (Suomi in Finnish). It is located in the Fennoscandian region of Northern Europe as a Nordic country (see figure 5). It is surrounded by Russia to the east, Norway to the north, Sweden to the west and the Baltic Sea to the south (Estonia across the Gulf of Finland) (see figure 6).



FIGURE 5 Finland map at a European view (*Operationworld 2014*)

The total national territory area of Finland is 338,424 square kilometers and it is the 64th of the world. Until the year 2013, the population of Finland was about 5.45 million (114th). The population is growing slowly. The proportion of males and females is about 49%-51%. The population of females is a little more than males. (Statistics Finland 2014)

The official languages are Finnish and Swedish in Finland. There are 90% Finnish people speaking Finnish. The language Finnish, just from the author's point of view, is a complicated language, and it is hard to learn or speak fluently. Due to the EU

entry in 1995, most Finnish people can speak fluently English. The currency in Finland became to be Euro (€) since Finland joined Eurozone in the year 1999. Before that, the currency was Finn mark. Finland is also a Schengen country since the year 1996.

Helsinki is the largest city located in south of Finland, and it is the capital city where the governmental and economic center based. The other big cities in Finland include: Turku, Oulu, Tampere, Lahti, Kuopio and Jyväskylä. It can be easily found through the figure 6 below.



FIGURE 6 The map of Finland (*Wikipedia 2014*)

The table below describes the general information of Finland, as a conclusion of Finland in general and it contributes to the next chapter on PEST analysis.

TABLE 3 General data of Finland (modified form *World Bank 2014, Transparency International 2014, and Trading Economics 2014*)

Full Name	Republic of Finland
Population	5.414 million (2012)
Capital City	Helsinki
Total Area	338,424 Square kilometers
Main Spoken Languages	Finnish, Swedish
Major Religion	Christianity
Unemployment Rate	9.5% (2014)
Inflation Rate	1.1% (2014)
GDP	\$ 247.5 billion (2012)
GNI Per Capital	\$ 46,490 (2012)
GDP Grow Rate	-0.3% (2012)
School Enrollment	99% (2011)
Improved water source	100% (2014)
Corruption Control	98% (2010)

3.2 Macro environment of Finland

Normally, when analyzing the macro environment, a PEST analysis is needed. A PEST analysis is an analysis of political, economic, social and technological, factors in the external environment of a country. It influences the firm's entry strategy making. (Thompson&Martin 2010, 86) The analysis is necessary to be done before entering a new market.

The PEST analysis helps a firm consider the factors influencing the choices of entry modes such as sociocultural distance, country risk, market size and growth, and trade barriers which were mentioned in the former paragraphs.

The author analyzed Finland based on PEST analysis method, and the factors are listed in the table below.

TABLE 4 PEST analysis of Finland

Political Factors

- Overall tax policy
- Low corruption level
- High environment protecting

Economic Factors

- High GDP and stable GDP growth
- Nearly 10% unemployment
- Low inflation risk currency - Euro
- Open to foreign investment
- Multiple banks
- High labor cost

Social Factors

- Comprehensive social security
- High education level
- Slow pace of life
- Fishing is popular
- Many clothing and textile factories
- Main language is Finnish
- Business cultural differences between China and Finland

Technological Factors

- High technology
- Manufacturing and refining proports 31% in Finnish economy
- Attaches importance to R&D

3.2.1 Political environment

Tax policy affects the decision making of the firm on choosing whether transfer production or only products to the market. The table below shows some tax data in Finland

TABLE 5 Tax rates of Finland (modified from *Anders 2009,183,184 European Commission 2014, 3*)

<i>Taxes</i>	<i>%</i>
Income tax rate	30.5
Standart VAT rate	24
Withholding tax rate	Interest companies pay 10 (China)
Corporate income tax	26

The tax policy in Finland is a high level of overall taxation. The income tax rate is 30.5 percent. The standart VAT rate is 24 percent, however, the VAT rates are different depend on different products and services. In withholding business, for Chinese companies, the interest companies need to pay the tax at 10 percentages. The corporate tax rate is 26 percent in general. The good news is corporation tax was reduced to 20% at the beginning of 2014. (Invest in Finland 2014)

The corruption level in Finland is low. According to the Transparency International (2014), the corruption perceptions index in 2013 was the 3rd in 177 countries all over the world. And the control of corruption in 2010 reached a rank at 98%. This is why the government stability in Finland is reliable. The country risk is low due to the high government stability in Finland.

Finland attaches importance to environmental protecting. The product water soluble yarn suits the environmental requirement with a low pollution level.

3.2.2 Economic environment

According to the data from Trading Economics (Trading Economics 2014), Finland has a stable GDP on \$247.5 billion in 2012. The unemployment until 24.04.2014 was 9.5% and it was growing from July of the year 2013, which means Finland needs more employment opportunities right now. The new firms entering will bring

a lot of employment opportunities. Therefore, all intermediate and hierarchical entry modes are good options for the firms.

The currency in Finland is Euro. Due to the stability of Euro, the inflation risk is not a high risk, unless there are some big events influencing the inflation happening in the European Union. Low inflation risk reduces the country risk.

As an EU country, Finland is quite open to direct investment from foreigners. Even though, there are some special industries be required licenses such as restaurants and alcohol shops. However, in general, establishing subsidiaries and acquisitions are much easier in Finland than in the other countries which lack of trade freedom. But, for SMEs, especially the SMEs from Asian countries, they may meet the problem of high labor cost in Finland just like in the other developed countries.

There are 3 bank groups existing in Finland, they are Nordea, Sampo and OP bank. In addition, there are more than 300 domestic banks. Either locals or foreigners have rights to borrow loans from the banks.

Finnish high labor cost is well-known, especially when comparing with Asian countries such as China. It reduced the desire of the Asian firms on transferring production to Finland. On the other hand, the high labor cost means the labor has a substantial income. The larger income the consumer gets the stronger buying power he/she has. Therefore, Finland is a potential market with strong buying power consumers.

3.2.3 Social environment

The social security of an entrepreneur in Finland is quite comprehensive. There are pension insurance for self-employed person, unemployment security, occupational healthcare, and sickness allowance of an entrepreneur. However, the statutory accident insurance is not involved in the social security of an entrepreneur. Anyhow, those securities attract many foreigners starting business in Finland. (Tuulikki 2007, 140-146)

The high education level in Finland is also well-known. The school enrollment was 99% in the year 2011, which means, the employees are highly educated in Finland, so the firm will not be so worried about the production knowledge training.

Fishing is a popular entertainment in Finland and there are many clothing factories located in Finland. The clothing factories and fishing gear manufacturers are big consumers of the case company. Therefore, Finland has a quiet potential market with a large group of consumers.

A barrier exists in the social environment is Finnish language. Even though there are 90% Finnish people speaking Finnish as their first language. However, the population in Finland is only 5.414 million. This means, there are only 4.876 million people in the world speaking Finnish so that Finnish language is not a popular language. For Chinese firms, dealing with local consumers in Finland is quite difficult especially non-English speakers.

The author studied and lived in Finland for four years. In his point of view, the Finnish people have a quite slow pace of life. Work and life are distinguished by Finnish, they always try to finish their work in the work place, and so they do, while they work efficiently. Efficient working is even a compulsory course at school. But in China, the pace of life is much faster than that in Finland. Chinese people want to do much more than enough. They believe that the more the better, but the Finnish people do not think the same way. There might be some problems on this point of view.

3.2.4 Technological environment

Finland has been at the center of Europe tech industry for years, for example, the cell phone leader in former 10 years before 2014, Nokia, is now still having 14 percent market share in the global cell phone market. (Statistics Portal 2014)

Finland is a country with high technology. Obviously, it enhances a competitive environment for the technological industries in Finland, whether local or foreign industries. However, the high technological environment will attract many foreign R&D investments.

Even though, the largest sector of the Finnish economy is services, however, manufacturing and refining contribute 31% proportion in Finnish economy. The leading industries of manufacturing are engineering and high technology industries. (Invest in Finland 2014)

‘As a nation, around 3.5 percent of our gross domestic product goes into R&D. There are only two or three nations that spend that much,’ the Finnish Prime Minister Matti Vanhanen said in the interview (CNET 2008). For now, the R&D has increased to 4 percent.

3.3 Micro environment of The The Finnish market

The main consumers of the water soluble yarn are textile and clothing industries. In the Finnish textile and clothing industries, the main products are clothing, socks, knitted, woven, leather, made-up textiles, yarns, fabrics and finishing. In textile and clothing industries, there are not only large companies such as Marimekko and Luhta, but also lots of SMEs companies. The industry production in Finland of the year 2012 was 110 million Euros, and the textile, clothing and leather industries contributed 1 percent. (Finatex 2012)

The author analyzed the micro environment of the Finnish market by using Porter’s five forces method, as the figure below. The Porter’s five forces analysis helps the firm understand the bargaining power of suppliers and buyers, the threat of new entrants and substitutes, and the rivalry of competitors.

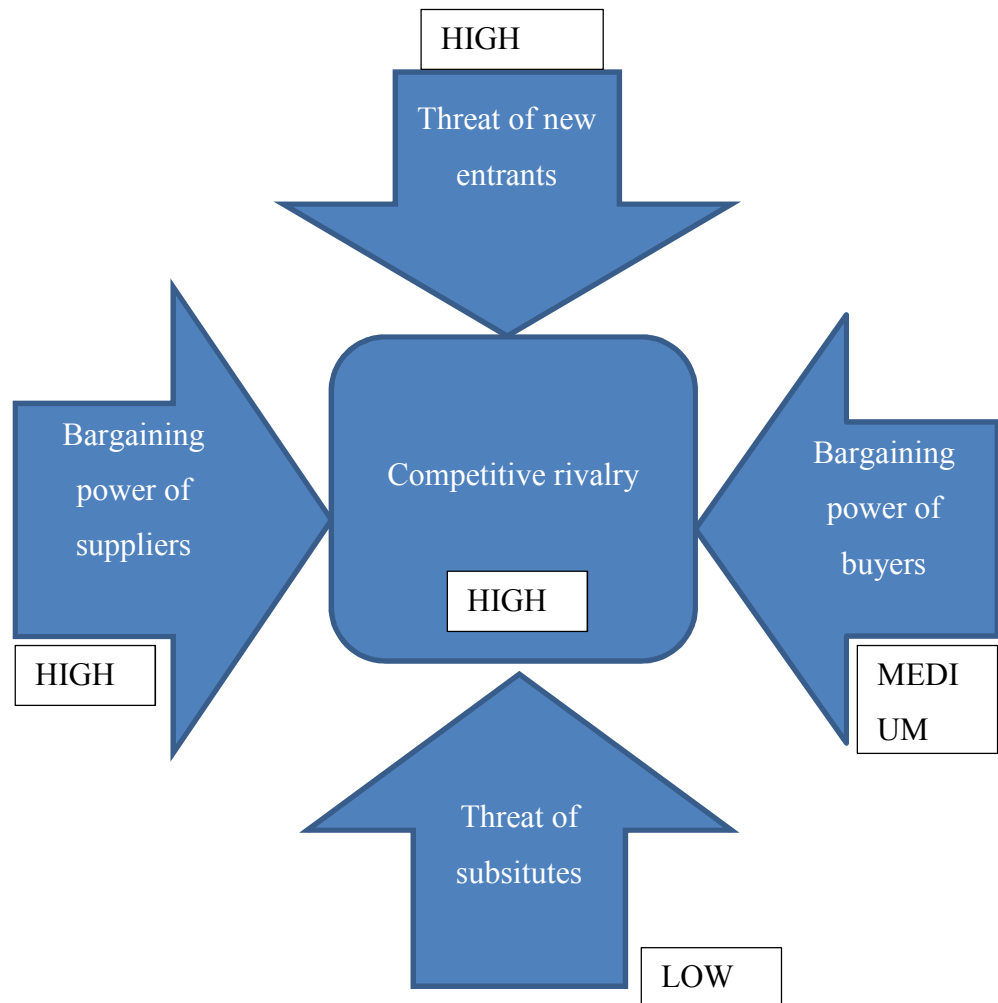


FIGURE 7 Porter's five forces analysis in the Finnish market

The bargaining power of suppliers in Finland is high, since there are many potential consumers in Finland. The supplier has multiple choices of buyers, and each single buyer cannot be indispensable. Besides, water soluble yarn has its specific characteristics, the buyers can hardly find a substitute, and the quality of the product cannot be guaranteed without the water soluble yarn.

The bargaining power of buyers in Finland is at a medium level. Although the amount of buyer is huge, it reduces the power of buyers. But, the suppliers are many small sized firms, the buyers can buy from multiple suppliers, it increases the power of buyers. Therefore, the bargaining power of buyers is at a medium level.

There is a big threat of new entrants. Although there are few barriers of entering the Finnish market indeed exist, many government policies encourage foreign

investment. The profit is attractive, the risks and costs are low when a new entrant uses export mode to enter the market. Thus many new entrants may well appear in the Finnish textile market.

The threat of substitutes is low. In practice, there is only one substitute named tencel fiber. Tencel fiber has the performance of high strength and it is very soft. But it hardens in muggy environment. It is not a good choice for producing clothes. Water soluble yarn does not have this disadvantage, since it would be dissolved in the water during the producing process.

The intensity of competitive rivalry is high. Guanghui is not the only firm produces and sales water soluble yarn. The owner (Zheng 2014) mentioned many competitors who have already entered Finland during the interview with the author. Most of the competitors are at the same scales with Guanghui, some of them are even stronger.

4 CASE COMPANY REVIEW

The author will introduce the case company and its product briefly in this chapter. There is a SWOT analysis in the last sub-chapter to figure out the internal and external environment of the case company and product.

4.1 Introduction to Beijing Guanghui Textile Co, Ltd

Beijing Guanghui Textile Co, Ltd (Guanghui) is a professional textile enterprise in China. It is located in Beijing, the Capital city of China. It was established in 1993. In the beginning, it sold towel yarn as the former name Gaoyang Guanghui Yarn industry. It has been focused on water soluble yarn since 2007. Nowadays, it became more and more professional on water soluble yarn.

It has started doing international business since the year 2010, when it registered as Beijing Guanghui Textile Co, Ltd. Until now, it has several branches: Gaoyang Guanghui Textile Station, Baoding Sales Company, Beijing Senda Textile mills and two outsourcing textile enterprises.

Guanghui focuses on the R&D and production of vinylon yarn. It built long-term strategic cooperative relationships with Kuraray in Japan and Sinopec Research Institute PVA in China.

Guanghui has rich experience on international business. At present, its products are well sold in India, Turkey, the USA, Germany, Russia and many Asian countries such as Vietnam and South Korea. Depending on the reliable product quality, the high quality service system, it has won the local and foreign customers' trust and praise. Furthermore, it has a certain market share in the international market. (Beijing Guanghui Co 2014)

4.2 Introduction to the product- Water soluble yarn (PVA)

Depending on whether the yarn can be dissolved in water or not, the vinylon yarn can be divided into two kinds: soluble yarn and insoluble yarn. The main product of Guanghui is water soluble yarn (PVA). It is a new kind of functional vinylon yarn that developed in Japan in recent ten years.

According to the differences of solution temperature, water soluble yarn is divided into 20°, 40°, 70°, 80 and 90° versions. There are specific functions in different versions. (See table 6)

TABLE 6 Products varieties and usages (modified from *Beijing Guanghui 2014*)

Versions	Usages
20° Water Soluble Yarn	Autolyzed sealing bag, Fishing gears(nets and wires), Baste stitch fabrics
40° Water Soluble Yarn	Same as in 20° Version
70° Water Soluble Yarn	Merino Wool Yarns, Crinkle clothes, Extra strong yarns.
80° Water Soluble Yarn	Autolyzed sealing bag, Fishing gears(nets and wires), Baste stitch fabrics Laces, Socks, Untwisted yarn
90° Water Soluble Yarn	Untwisted yarn towel, High-grade fabrics, Socks, Cartons.

The main ingredient in water soluble yarn is poly vinyl alcohol. It is one of the few high polymer materials with biodegradability. It is tasteless and non-poisonous after dissolved into water. Hence, the product is environmental friendly and it conforms to the requirement of the Finnish government.

4.3 SWOT of Guanghui

In order to ensure playing safety in the market, no matter in domestic or foreign markets, the company has to know itself deeply and completely. A SWOT analysis could help the company knows its strengths and weakness, and what opportunities and threats there are in the market.



FIGURE 8 SWOT analysis of case company

According to the interviews with the owner of Guanghui (Zheng 2014), the strengths and weakness he has mentioned are in the paragraphs below.

Strengths:

Guanghui has completed infrastructural facilities. The base office is in Gaoyang, the city is well-known by its textile industry in China. There are fixed and abundant resources of labors and materials in Gaoyang. In addition, the company can get the latest information of the textile market.

Guanghui also has a certain market share in the international market, the brand 'Glorious' has minor celebrity.

Water soluble yarn is environmental friendly, and Guanghui is keeping on R&D of its product. The company always gets the latest technology in the first time. The qualities of the products and services have already won the trust and praise of the customers.

Guanghui has 20 years' history on textile business, so it is more professional than the other new textile companies. The competitors are not only from China, there are lots of suppliers from other countries, such as Asian countries and European

countries. Guanghui has price advantages compare with the price of the suppliers from the European countries.

Guanghui has done many international trades during the former years. It means the company has a professional sales team with rich experience on international business. It has done trades with the EU country Germany. There must be many similarities between entering Germany and Finland. Guanghui has the advantage at the point compare with the other companies who are without trading experience with EU country.

Weaknesses:

Guanghui is still a small sized company, and it involves many other businesses except the vinylon yarn, so there are some problems on cash flow. It is impossible to do more investment at the present time.

Due to the environment in the manufacture place, the amount of manufactures is growing, but the labors quantity is reducing because only low educated people in China would like to work in factories. However, the education level in China is growing and the high educated people want to seek for the more relaxed jobs. The situation now is labors' power is stronger than the employers'. Hence, the labor cost is increasing.

R&D cost is also a huge cost. Guanghui aims to keep the products on latest technology. However, many other companies do not do that, it causes that there is no price advantage of Guanghui's product compare with the other Chinese competitors.

Although Guanghui has been traded with many international customers, this is the first time it enters the Finnish market, the existing competitors in Finland have more strengths and they are more familiar with the customers and the government.

Based on the strengths and weaknesses and combined them with the external environment in Finland, the opportunities and threats are listed below:

Opportunities:

Finnish government encourages foreign investment, especially for the environmental friendly products and R&D firms.

Finland has a good social security system for the foreign entrepreneurs, and the labor's income level in Finland is much higher than it in China. These are attractive for the students studied in Finland to be employed by Guanghai in Finland.

There are lots of potential consumers in Finland, for example clothing manufactures, fishing gear manufacturers and paper industries. The small and medium sized customers are widely distributed in many cities all over the country.

Threats:

The supplier firms are mostly small and medium sized companies, and there are many of them. So the buyers have multiple choices on the suppliers. It increases the bargaining power of the buyers, and it also causes the suppliers to be passive.

The production of textile and clothing industry was reducing since the year 2006. (See figure 9) The reducing of potential customers' production means there will be less demand.

Gross production of textile and clothing industry mill.euro

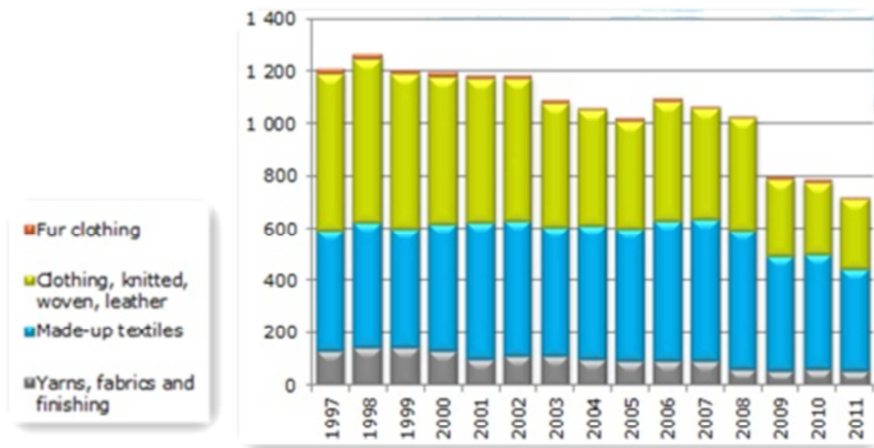


FIGURE 9 Gross production of textile and clothing industry (modified from *Finatex 2014*)

Competitors are strong in the target market. The competitors include Chinese firms and also the ones from other countries. This was mentioned in the former paragraph

(Chapter 3.3). Furthermore, the new entrant is possible to appear in the Finnish market, so there will be more competitors in the future.

The dissimilar languages between Finland and China may create barriers on communication, while Finnish language is not as popular as English, French and German in China.

5 CASE: BEIJING GUANGHUI TEXTILE CO.LTD ENTRY PLAN

The author analyzed the macro and micro environment of Finland and its market in chapter 3, and then he made a SWOT analysis with the owner (Zheng 2014) of Guanghui in chapter 4. In this chapter, the author will find the best entry mode among 4 workable alternatives for the case company through combining the theories with Zheng's idea.

In order to gain information from the case company, the author interviewed with the owner of Beijing Guanghui Textile Co, Ltd and its sales manager. The author communicated with Zheng (owner) many times during the author's working period in the company (3 months). The last interview has been done by phone call to the sales manager Zhang, D. The interview questions were designed based on the objective of the thesis, and they were listed in the appendices part.

Zheng (2014) pointed out that most of the Chinese yarn firms use export to do international business. The most common distribution channel of yarn sales is through indirect sales with some middlemen in China and direct sales to the foreign agents and distributors. There are many online platforms available in China. Take an example from Guanghui itself, most of the international buyers found it as a supplier through the biggest online purchasing platform in China Alibaba. It causes the suppliers are not desired to do more research on seeking buyers. The beginners in international business normally sit in a passive situation, and they prefer the safest indirect export modes while they are risk-averse. Instead, the other yarn firms who have rich experience on international business, including Guanghui, they would like to use direct export in order to know how, where and to whom the products are sold. They contact with the foreign buyers directly, and try to find more business opportunities.

Why do they choose only export entry modes? Zheng (2014) mentioned two reasons of capital limitation and the characteristics of the yarn industry. They are quite understandable. Firstly, most of the yarn firms are SMEs. They do not have enough resources and lack of capital to invest abroad. As Zheng (2014) said: 'We wanted to hire an employee with rich experience on international business as a domestic-based representative, and we tried to build a sales subsidiary in foreign

country, when we entered the German market. However, the financial issues did not allow us to do that.'

The second reason is depending on the yarn industry. Normally, the amount of buyers is huge and buyers are widely distributed in China and the other countries. There is no need to pay too much attention on any single buyer. Anyhow, if they lose few of the buyers, it will not cause any big problem. Even though the buyers also have multiple choices of suppliers, the Chinese suppliers, especially the suppliers from Gaoyang have a more negotiable price on good quality products.

The author found another reason through the research on the Finnish industries and production of textile. Textile industries only accounted 1 percent to the whole Finnish industries. Furthermore, the production of textile was even reducing during these years. There are lots of bigger and growing markets in some other countries, such as Russia and America. The firms pay more attention to bigger and more potential markets.

It seems like export is a very good entry mode with low risk and resources commitment, and many other firms are using this entry mode to enter foreign countries including Finland. However, Zheng wants to be closer with the buyers, in order to find more business opportunities on other products and services beyond water soluble yarn. But the export entry mode does not have the capacity to give him the chance. Furthermore, he is looking for better R&D on his product, and he loses control on this process if Guanghai uses just export entry mode. Although, the other entry modes bring higher risk to the company, Guanghai has the courage and ability to take a certain risk.

According to Hollensen's theory (2004, 277-284) on choosing entry modes, the author summarized this case below:

The internal factors of Guanghai: medium size, rich international experience, it only has done trade with one European country, and the product is very potential in the Finnish market.

The external factors of the Finnish market: many sociocultural differences with China, low country risk, potential market for the case company although it is small and decreasing, and few trade barriers.

The desired mode characteristics of Guanghui: not so risk-averse, needs to control over the quality of products, and needs certain flexibility.

And water soluble vinylon yarn's know-how is not so tacit.

In the following sub-chapters, the author is going to describe 4 workable entry modes for Guanghui as alternative selections.

5.1 Indirect export as an alternative

Export entry modes provide low control, low risk and high flexibility. In export entry modes, indirect export seems to be the easiest one with the lowest risk and the least resource commitments involved.

Indirect export for Guanghui to enter Finland:

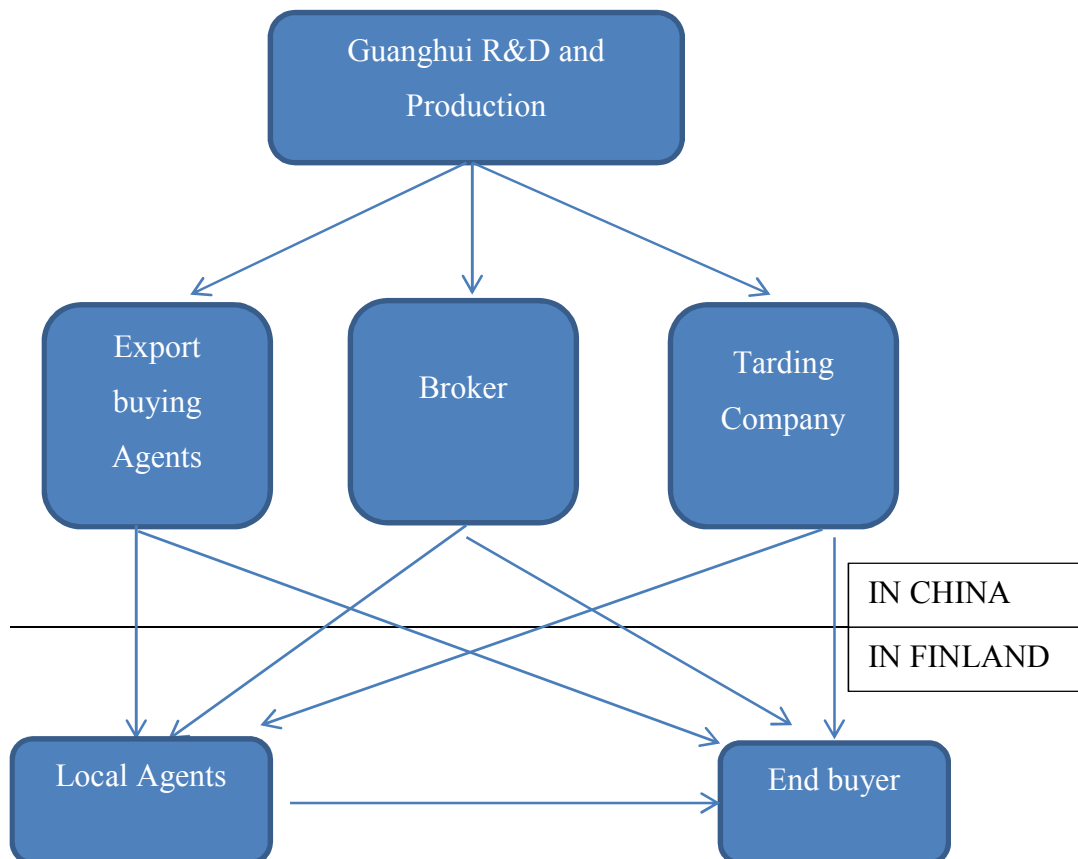


FIGURE 10 Entry mode alternative 1, Indirect Export

Indirect export was used when Guanghui entered the German market, said by Mrs. Zhang (Sales Manager of Guanghui 2014). Guanghui only did few times trade with German buyers, but they were all successful. There are not many risks when using indirect export, the domestic agents or trading companies will control all of the sales and services processes, but it is impossible to get any information of the buyers from the middlemen, because they need to protect their resources. Therefore, it is hardly to be failed but the company has no opportunity of gaining information of foreign customers. However, Mrs. Zhang (2014) mentioned that Guanghui is not only willing to do safety trades, it is also seeking for higher profit and the company wants to control over its sales. So she would like to try some other entry modes with higher control level and profit while entering the Finnish market.

Anyway, indirect export is workable if there are not any other good options, it still can be used for this time.

5.2 Direct export as an alternative

Comparing with indirect export, direct export provides higher control and more potential business opportunities, while it requires more resource commitments which mean higher risk comes along with.

In order to know who the customers are, what the needs of them are and to find business opportunities, contacting directly with the foreign customers is a better way to export. The resource committed and the risk average required by direct export is under Guanghui's control. This alternative also has high flexibility, if Guanghui feels it is not very profitable or some barriers occur in the future, it can change the strategy or even shut the business down immediately in a short time, because there is no long-term contract involved.

Direct export for Guanghui to enter Finland:

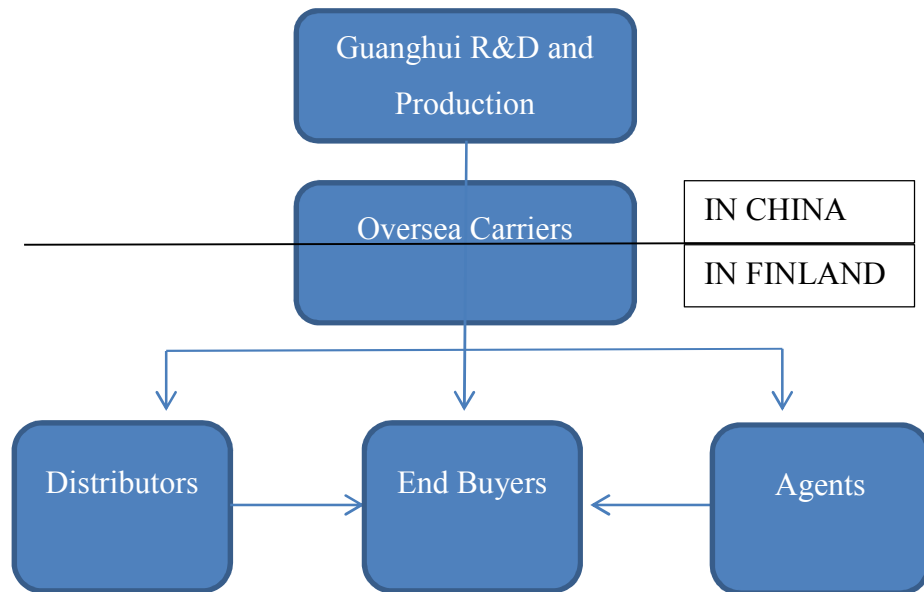


FIGURE 11 Entry mode alternative 2, Direct Export

However, Zheng's main idea about entering Finland is not only entering and developing the single Finnish market, but also it could be a door to open the whole European market. However, direct export does not help on the way to the other European countries, so there are two more alternatives in next 2 sub-chapters (chapter 5.3&5.4)

5.3 Joint venture as an alternative

Joint venture is one of the intermediate entry modes. Comparing with export modes, intermediate entry modes transfer production to the target market, instead of only transferring the products. Joint venture requires more resource commitments, and the cost and risk are much higher than that in the export modes. But there will be a partner in the target market, who can share the resource, cost and risk with Guanghui.

In the entry mode joint venture, Guanghui cooperates with a local Finnish company who has rich labors and customer resources, and good relationship with Finnish government. Guanghui provides its R&D, technology and expertise, at the same time, the Finnish partner provides its resources, these two companies build a joint

venture as a child company to do all of the R&D, production, and sales and services process in Finland. Since Finnish government attaches great importance to R&D, it is a good opportunity to improve its technology.

The figure below depicts this entry process, Joint venture for Guanghui to enter Finland:

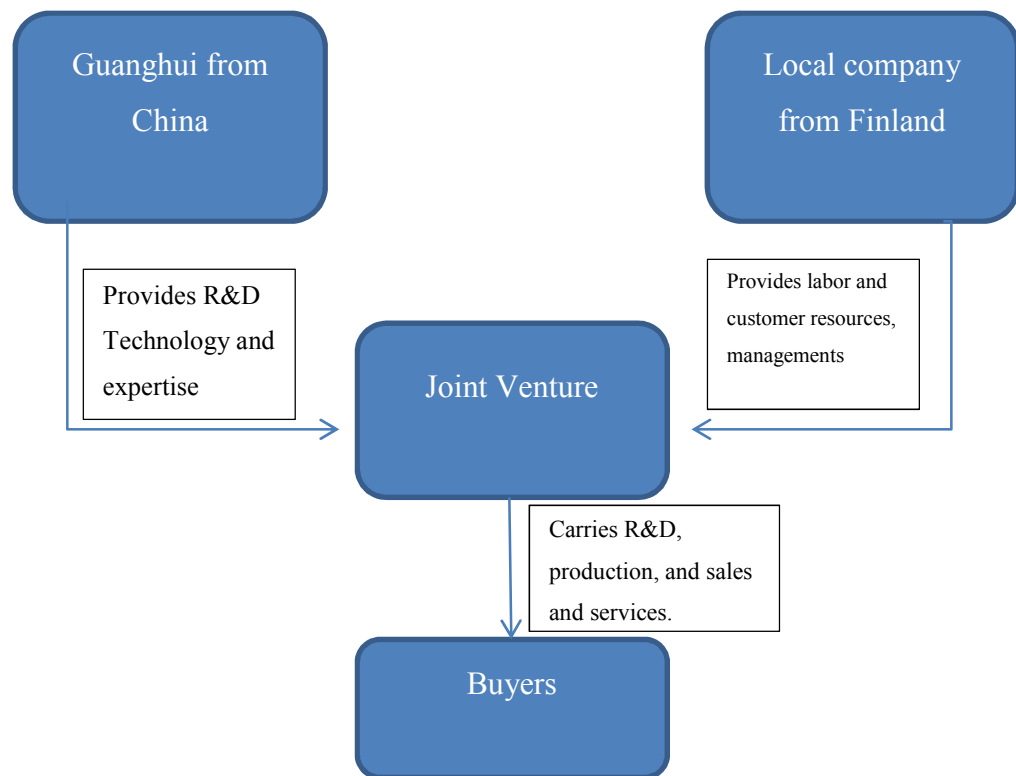


FIGURE 12 Entry mode alternative 3, Joint Venture

There are some risks when building a joint venture in Finland, however the risks are shared by the Finnish local company and the partner could provide the human resources that Guanghui does not have. It is a win-win strategy.

Furthermore, the joint venture will be established in Finland, it is closer to the other European countries. It matches Zheng's mind of opening the door to Europe.

5.4 Sales and production subsidiaries as an alternative

The other alternative of transferring production is establishing wholly controlled subsidiaries in Finland. Guanghui will have a wholly control on its production and sales process, the profit will not be shared to any partner because there is not one. It is the most profitable entry mode with the highest control.

Establishing a production subsidiary means the production will be transferred into Finland. The firm can still keep its R&D in China but the resources required by production process have to be found in Finland. The products can be sold to the local distributors and agents or its own sales subsidiary if it establishes one, and then sell to the end buyers.

Just establishing a sales subsidiary does not require production resources from Finland, the R&D and production process are still finished in China. The sales subsidiary will sell the products to the end buyer directly.

Establishing sales and production subsidiaries for Guanghui to enter Finland:

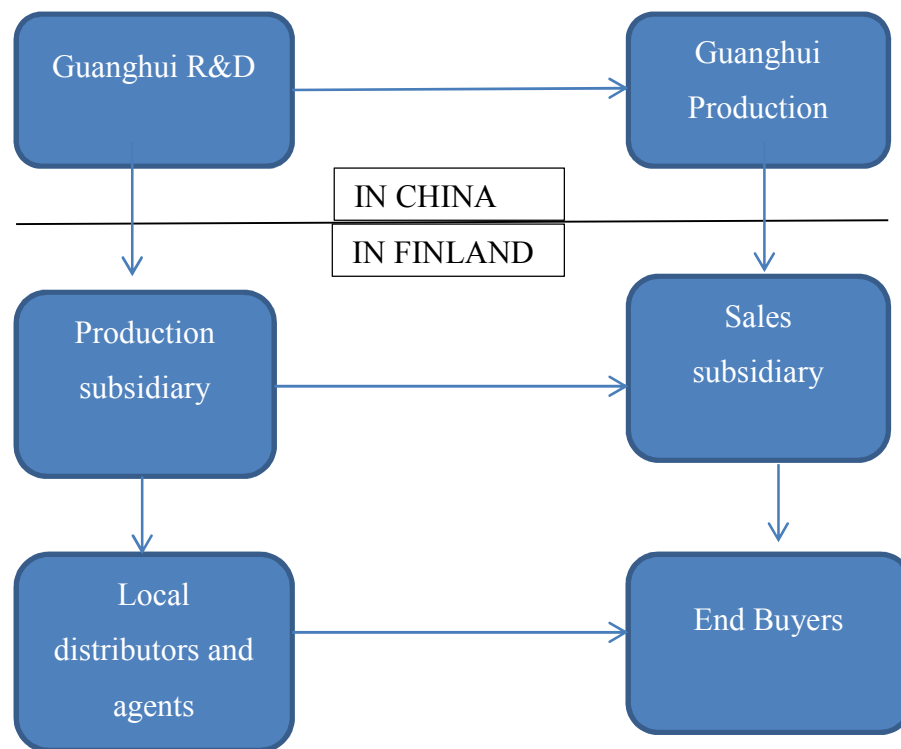


FIGURE 13 Entry mode alternative 4, Sales and Production subsidiaries

Either establishing a sales or production subsidiary, it is a too big investment (building production subsidiary need more) on warehouse, labors and other resources for Guanghui. It brings high risk to the firm while such many resources committed, and changing strategy is quite hard which means there is a low flexibility.

Finland is not such a big market that attracts the firm to put so big investment on establishing wholly owned subsidiaries, however if the firm wants to enter the other

European countries' markets through Finland, it is worth investing a big amount. So this is still a workable entry mode.

5.5 Recommendations for the case company

All of the four alternatives are workable, since each of them has advantages and disadvantages. They are connected to each other as well.

By using indirect export, the firm takes low risk but there is no direct connection with foreign customers. Direct export provides more business opportunities in the Finnish market, but it requires information of foreign buyers, besides, Guanghai can hardly expand its business to the other European countries. Building up sales and production subsidiaries is the plan with the highest profit, and the company will be the closest to Europe. But it requires the most resource commitment required, provides the highest risk as well.

With a middle risk level, substantial profit and only technical resource commitment, establishing a joint venture in Finland with a local Finnish company seems to be the best choice. However, it is hard to find a reliable partner in Finland without any experience of doing business in Finland.

There is not any single entry mode suitable forever. Since the four alternatives are connected to each other and the former ones are accumulations for the latter ones. Therefore, they can be put into practice step by step. The basic indirect export can be used as the first step to enter the Finnish market to consolidate the customers. After one or half years' indirect exporting, Guanghai will be able to do direct export with the Finnish customers, this mode can be last at least 1 year. After Guanghai has fixed customers in Finland and finds more opportunities in Finland and even in other European countries, it is time to consider establishing a joint venture with a local company, this process lasts 3-5 years. Building its wholly owned subsidiaries can be considered as a future plan because the company is not able to invest such big capital at this moment.

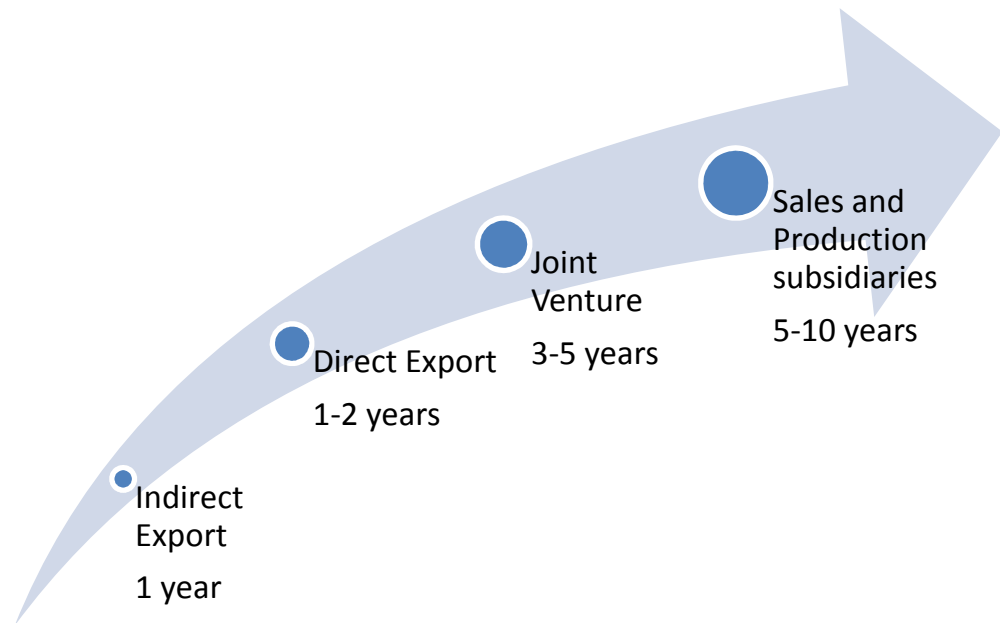


FIGURE 14 Timeline of entering the Finnish market

Entering the Finnish market is a long-term process, so the company should improve it as time progresses. During accumulating customers and testing the market in practice, according to the specific internal and external environments, the strategy has to be changed in time in the future.

There are two options when Guanghui choosing the local Finnish partners, one is cooperating with a yarn company, the other one is dealing with a consumer who is planning to develop its production to yarn business.

Take an example of the yarn companies, there is a hand knitting yarn producer in Finland named Novita Oy. Novita Oy is a family-owned company. It was founded in 1928. The company has over 100 employees. It is handling about 20 different brands, and there are some well-known brands such as the Seven Brothers and the Teddy Bear. (Novita 2014) Novita has plenty of knitting yarn products but the author did not find any information of water soluble yarn through its website, it may lack of technology of producing it. If Novita is willing to develop its business to a wider range, such as producing water soluble yarn, it can cooperate with Guanghui to establish a joint venture. The joint venture requires technology from Guanghui and human resource from Novita. A triple win is possible in this situation: the strengths of both parent firms are injected into the joint venture, Novita gains technology, and Guanghui obtains the Finnish human resource.

The consumers would also become partners for the case company to establish a joint venture in Finland. For example, Myllymuksut is a Finnish textile company producing clothes for children and women, and it also manufactures many kinds of fabrics. (Myllymuksut 2014) It is one of the classic water soluble yarn consumers, if it wants to produce the raw material by itself to reduce cost or by any other reasons; Guanghui is an optional partner to do it.

In order to convenient the case company to find a partner and contact with them. More recommended Finnish partners were listed in the appendices 4, with their products and contact information.

6 CONCLUSION

This chapter leads to the end of the thesis. The author will summarize the main findings of the research questions that in the first chapter. Moreover, the author will also give some recommendations for the future researches.

6.1 Main Findings

The main findings of this thesis were formed in the table below. It answers the research questions which have been mentioned in the beginning of this thesis.

TABLE 7 Thesis Findings

Main Research Questions	Findings
What is the most suitable entry plan and form for the company?	<ul style="list-style-type: none"> ● Intermediate entry mode: Joint venture
Sub-questions	Findings
1. How many entry modes are available and what are they?	<ul style="list-style-type: none"> ● Export entry modes ● Intermediate entry modes ● Hierarchical entry modes
2. What is the business opportunity in The Finnish market?	<ul style="list-style-type: none"> ● Low country risk ● Small but potential market size and it is decreasing ● Few trade barriers.
3. What are the barriers exist in The Finnish market?	<ul style="list-style-type: none"> ● Language barrier ● Business cultural differences ● High withholding tax rate
4. Who are the potential customers and what is the demand of them?	<ul style="list-style-type: none"> ● The customers are textile, clothing, fishing gear, and carton industries ● The demand of textile and clothing company is reducing
5. What is the company's current situation and resources for international operations?	<ul style="list-style-type: none"> ● Medium sized company with rich international experience, but only has done trade with one European country ● Environmental friendly and widely used product

Through collecting data from literatures, the first sub-question was answered in Chapter 2. There are export entry modes, intermediate entry modes and hierarchical entry modes can be chosen in this case.

The sub-questions 2 and 3 have been answered in chapter 3. Finland has a stable GDP growth rate on -0.3% and the GDP was 247.5 billion. The currency Euro in Finland is a low inflation risk currency, and Finland has a low corruption level, therefore it is a low risk country.

Few trade barriers were found in the third chapter, which can answer the third sub-question. The language and business cultural differences and the 10% of withholding which needs to be paid by Chinese invest company constitute the trade barriers.

Textile, clothing and leather industries exist in Finland but they are only 1 percent in the whole industry production in Finland. And the gross production of textile and clothing industry was reducing since the year 2006. Therefore, the market size of the products is reducing, and it can also answer the question 4 that the demand is also decreasing as well.

The author answered question 4 through listing the usage of the products, the potential consumers are textile, clothing, fishing gear, and carton industries. The usages have been listed in chapter 4.2.

The case company's review and the porter's five forces answered the question of the company's current situation. Guanghai is a medium sized company with 5 branches in China. It has environmental friendly products and rich international experience. There is a high bargaining power of suppliers and medium level power of buyers and the substitute is not a big threat in the Finnish textile market. But the intensity of competitive rivalry level is quite high and the new entrants would cause big threats, since Finland has a potential market for water soluble yarn. Therefore, it will stand in a competitive market.

After studied the export, intermediate and hierarchical entry modes, the author listed 4 alternatives. Each of them has advantages and disadvantages for sure. Weighed the pros and cons, and in order to meet the case company's willing.

Finally, Joint venture has been regarded as the best choice. Furthermore, a timeline of entering the Finnish market was recommended to the case company.

6.2 Suggestions for future research

Because the case was a B to B business, obviously, the customers are companies. So there are some difficulties in the marketing research of the customers. The author asked for interviews with the customer companies but he did not get any reply. Then he tried to do the interview via emailing questions, but still no answers. Therefore, the author did the marketing research through the data of the related industry from multiple organizations' websites through the internet. It would be better if the author had the chance to interview with the customers directly.

This thesis focused on selecting an entry mode for the case company Beijing Guanghui textile Co, Ltd to enter the Finnish market and it is a quite basic topic. There are still many future researches have to be done. For example, how to negotiate with the partners in Finland to establish a joint venture? In case the company wants to enter some other European countries in the future, more researches of the other countries and the European Union can be further study topics

To run the business well in Finland, the author would work on the marketing plan, promotion strategy and pricing strategy which were not mentioned in this thesis.

6.3 Reliability and validity of the study

To ensure the reliability of this research, the information of the case company was collected from the interviews with the case company's owner and sales manager. The products' profiles were collected through the company's official website and the interviews. Besides, all the data of Finland was sourced from authoritative organizations. Therefore, the results are reliable and it will hardly be changed if anyone else does the same research in the future.

The primary information was collected from earlier studies and published books. The interview questions were designed to achieve the purpose of the research,

according to the theory of how to choose a sustainable entry mode. Furthermore, the interviews were recorded for the research. The case company has also given suggestions to the author on the choice of entry mode. All of these works have been done above raise the validity of the thesis.

7 SUMMARY

This thesis research was designed to analyze the Finnish yarn market and to develop an entry plan for the case company Beijing Guanghai Textile Co, Ltd. The company has widely used green product, water soluble yarn. The product has potential consumers in Finland, and the Finnish market is such potential and stable. Therefore, the author started doing write this thesis. The research questions were introduced in the beginning of the thesis to achieve the objectives. In order to solve these questions, the author used qualitative research method in the entire research work.

The data was collected through books, electronic resources from some authoritative organizations, and some other published documents. There were some analytical tools employed by the author. Because they are quite often used in business, the author skipped the definition of these tools for the concise content. The author used PEST to overview the country and Porter's Five Forces to study the Finnish yarn market. To let the readers understand internationalization and entry modes, the author introduced them in the second chapter, including definition of internationalization and motives of firms internationalizing, different entry modes, rules of selecting them and the factors influencing the choice.

To know the basic information of the company and who the customers are, and for further entry mode selection, the author reviewed the company and its products. And then, he made a SWOT analysis for the company.

After all, the author followed the pragmatic rule and found 4 alternatives for the case. According to the company's willing, establishing a joint venture with a local Finnish company defined as the best one. The author suggested the case company to enter the Finnish market step by step, begin with indirect export. After the case company gains enough experience and resource, it can try to achieve the purpose of establishing a joint venture in 3 to 5 years.

In the end, the author concluded the main findings which are answering the research questions of the thesis. Furthermore, the future study topics were suggested in the final chapter of conclusion.

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Interviews:

1. Zheng, Z. 2014. Owner of Beijing Guanghai Textile Co, Ltd. Interview 12 February 2014 and 20 March 2014.
2. Zhang, D. 2014. Sales Manager of Beijing Guanghai Textile Co, Ltd. Interview 15 February 2014.

APPENDICES

Appendix 1

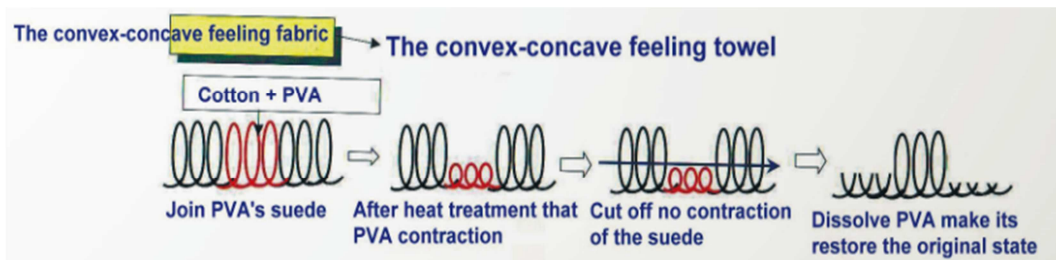
Different centigrades water soluble yarn's usage

(Pic 1) Zero Twist Towel (Pic 2) High-grade fabrics (Pic 3) Water to contraction of water-soluble cover

(Pic 4) Socks (Pic 5) Bamboo Yarn (Pic 6) Carton

90° C	20 s
	40 s
	60 s
	80 s
	100 s

(Pic 7) Industrial blanket





(Pic 1) Zero Twist Yam



(Pic 2) Socks



(Pic 3) Lace

80° C

20 s

40 s

60 s

80 s



(Pic 1) Wool Yam



(Pic 2) Strengthening yam



(Pic 3) Contracted shirts

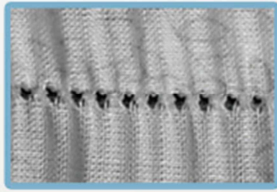
70° C

20 s

40 s

60 s

80 s



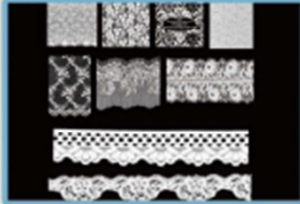
(Pic 1) Fabric fake sewing



(Pic 2) Laundry bag



(Pic 3) Sewing fabric



(Pic 4) Lace separation



(Pic 5) Shutter knitted fabrics



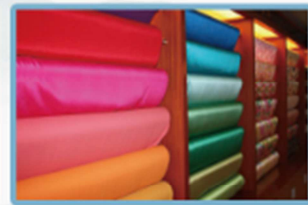
(Pic 6) Socks



(Pic 7) Separation fishing nets



(Pic 8) Net bag



(Pic 9) High-grade fabrics



(Pic 10) Isophagy sealing bag



(Pic 11) Wool Yam

40° C

40 s 40 s/2 Sewing Thread

60 s

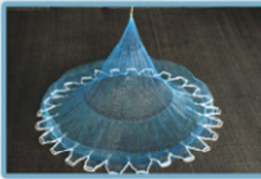
80 s



(Pic 1) Laundry bag



(Pic 2) Net bag



(Pic 3) Separation fishing net



(Pic 4) Hollow out cloth

20° C

20 s

40 s

52 s

Appendix 2

Interview structure for the case company's owner Zheng, Z

1. What are the usages and strengthes of water soluble vinylon yarn?
2. What are the strengthes of your company?
3. Have you done any international business? With which countries?
4. How is the reputation of your company and product?
5. Is there any problem inside your company?
6. Do you know any competitors in Finland?
7. What are your opinions and expectations on this time entering The Finnish market?

Appendix 3

Interview structure for the case company's Sales Manager, Zhang, D

1. How many times did you trade with German buyers?
2. What entry modes did you use when the first time enter German market?
3. Were they successful?
4. What are your opinions and expectations on this time entering The Finnish market?

Appendix 4

Four possible Finnish partners' (yarn and textile companies) contact information

1. Novita Oy

Products: hand knitting yarns, knitting needles and crochet hooks

Address: Kiviadankatu 2 A 00210 Helsinki, Finland

Telephone: (09) 613 176

Website: <http://www.novita.fi>

2. Finlayson Oy

Products: Textiles, bed products, pillows and manufacturing

Address: Heikkiläntie 7 A 00210 Helsinki, Finland

Telephone: 040-7213584

Fax: 020 7213501

Website: <http://www2.finlayson.fi/>

3. Myllymuksut Oy

Products: Fabrics, Knitting, Children's clothing and women's clothing

Address: Kopsamontie 190 35540 Juupajoki

Telephone: +358 45 658 8808

Website: <http://www.myllymuksut.com/>

4. Ari Ilmakunnas Oy

Products: Textiles, Denim, Natural Fibers and Man-made Fibers

Address: Päivänkakkarakantie 10 02270 Espoo, Finland

Telephone: +358 207401 410

Email: info@ilmakunnas.com

Website: <http://ilmakunnas.fi/>