Sinikka Takalo

EXPLORING POLAR DEVICE LTD'S MARKET POTENTIAL FOR AUTOMATIC NOODLE MACHINES IN CHINA

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Sinikka Takalo
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ABSTRACT

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Author: Sinikka Takalo
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Conducting a market research is important for any company wishing to enter new markets or to expand its operations in some other way. The knowledge acquired through serious market investigation can be crucial and determine a company's success or failure. Continuous follow-up on the market is the key factor in securing competitiveness over one's competitors.

The main purpose of this thesis is to explore Polar Device Ltd's market potential for automatic noodle machines in China. The work aims to help the management team to make decision on whether or not to target this export market in the near future. In order to help on the decision-making, the research will attempt to provide useful information about market situation in China. In addition to the main target, Hong Kong is considered as a possible gateway to the Mainland China and thus a short introduction of Hong Kong is included in the thesis.

Chinese small kitchen appliance market will be studied, as it will give a wider perspective on the subject and might also reflect to the trends on automatic noodle machine market. Study on this market is performed focusing on, inter alia, major players, current trends, as well as the main distribution channels of these products. Automatic noodle machine market is more closely evaluated through a competitive product analysis. The competitive product analysis will mainly concentrate on price and material choices.

As a conclusion it is evident that China is a potential market for Polar Device to enter. However, there are many things to consider before starting the operations in China. The recommendations made after the evaluation of the market situation in China and Hong Kong should aid Polar Device's decision-making and strategic planning. The research findings should also give guidance on product design, pricing decisions and on the choice of distribution channels and partners.

Due to the nature of the topic, in which the main focus is on learning about the target market, the research method has proven to be qualitative and was carried out via desktop research. The thesis is based on external online and offline sources and on author's observations. The theory of conducting a market research works as a base for the entire thesis. The theory part should be useful for the commissioner on its future market researches, as well. A further development task for the company could be to develop a strategic plan for entering China.

Keywords: market research, Chinese market, automatic noodle machine market

CONTENTS

1 INTRODUCTION

Making right decisions is the key to success for any company. However, making right decisions is not easy, as it is difficult to solve what the market wants now and in the future. Decision-making gets even more complicated when there is more than one country involved. According to Birn (2000, 2) “knowledge distinguishes successful companies from failing ones”, and therefore, gathering information on the market, where one operates in, is truly vital.

A growing number of small businesses are eager to achieve business growth by entering global markets. Nevertheless, not many succeed to do so, or do not even dare to try, as they may lack the knowledge, motivation, right network and sufficient amount of resources needed. Businesses often times operate in a dynamic environment, which is highly affected by changes in technology, consumer’s preferences, competition, and economic conditions. Conducting a market research is important not only when planning to start operations in a new country but also continually implemented alongside any business operations. Continuous follow-up on the changes in the market environment is crucial for companies to remain and gain competitiveness.

In this thesis the focus is on a company called Polar Device Ltd. (further in this document referred to as Polar Device), a new start-up, which is on the stage of making decisions that will affect their future success. Polar Device originates from Finland and was established in June 2014. For companies like Polar Device, targeting international markets straight after their establishment is the most logical option due to the unsuitability of the home market. Polar Device wishes to enter Asian markets, where their product, a fully automatic noodle machine, could presumably perform most successfully. Out of all Asian countries in this thesis the focus is on China and partially on Hong Kong.

Term “market potential” is used in the thesis and therefore needs a more specific definition. Determining the market potential of a product requires thorough market research which will reveal whether the market potential of a product is worth the investment. End customers, competitors, and market environment, as well as the industry that affect market potential, are some important factors that have to be examined. (Hollensen 2014, 176.) Market potential can be defined as “the entire size of the market for a product at a specific time”. Supporting this definition, to measure market potential one has to consider sales value or sales volumes which build up the upper limits of the market for a product (Grimsley 2014, cited 20.12.2014.) However, the commissioner has not sold a single product yet and there are no internal sources related to sales value or volume. Thus a lot more general approach will be taken in this thesis to find out the commissioner's market potential in China.

1.1 Research purpose, scope and design

The main purpose of this thesis is to explore commissioner's market potential for automatic noodle machine in China. The thesis aims to help the management team to make decision on whether or not to target this export market in the near future. In order to help in decision-making, the research will attempt to provide useful information about China as a whole. The economic situation of the market, demographics, distribution channels, marketing and selling, as well as, potential market risks are some of the points that is good to acknowledge before entering a new market. In addition to the main target, Hong Kong – the Special Administrative region of the People's Republic of China – is considered as a possible gateway to the Mainland China and thus a short introduction of Hong Kong and its market is included in the thesis.

The overall Chinese small kitchen appliance market will also be studied, as it will give wider perspective on the subject and might reflect to the trends on automatic noodle machine market, as well. Studies on small kitchen appliance and automatic noodle machine markets are performed focusing on, inter alia, major players, current trends, and to the main distribution channels of these products. Automatic noodle machine market is more closely evaluated through a competitive product analysis, which will show brands that are currently on the market. The competitive product analysis will mainly concentrate on price and material choices. The recommendations made after the evaluation of the market situation in China and Hong Kong should help the commissioner's decision making for example on product design, pricing decisions and choice of distribution channels and partners. Simultaneously, this study should give Polar Device an understanding of how to conduct a market research and the whole market research study process so that it could apply these guidelines in its future market researches.

The thesis will not intend on giving direct suggestions on how to enter the target market in respect of possible entry modes. Therefore, the purpose is not to tell what should be done, rather give guidance and direction on how to act if the company decides to start exporting or doing business in China. The research will also concentrate on current consumer markets and thus business-to-business related operations are not included in this study.

Due to the nature of the topic, in which the main focus is on learning about the target market, the research method has proven to be qualitative. The thesis is carried out as a desktop research and is based greatly on external online and offline sources and on author's observations. Multiple sources were used to gather as much and as diverse information as possible. However, the sources were careful chosen in order to maintain the trustworthiness of the research. The theory of conducting a market research works as a base for the entire thesis.

1.2 The Commissioner and its product

Polar Device, a new start-up company from Oulu, Finland, wishes to enter China with its home use fully automatic noodle machine. Currently there are approximately 600 different manual, semi-automatic and fully automatic pasta and noodle machine manufacturers in the world, which can tell a lot about the market size of these products. (Polar Device business plan, 2014.)

The mechanism of Polar Device's noodle machine will differ from the noodle machines that are currently on the market. Machines that are currently on market produce noodles that have the same tight texture as pasta, whereas, Polar Device's machine will allow the customer to make noodles that are more noodle-like. Polar Device has been able to transform the same mechanism from a big industrial machine to fit in a noodle machine that is the size of a microwave oven and can thus be used at home. Compared to the other noodle machines in the market, this new noodle machine is easier to use, quiet and the dough does not have to be wet which makes the cleaning of the device a lot easier. (Polar Device business plan, 2014.)

The company's strategy and brand will rely greatly to the Finnish background as the product is designed and developed in Finland although the productions will be located elsewhere. In China and in many other Asian countries Finland and Finnish products have a good reputation and the overall image of Finland is positive. The company name "Polar Device" will also add more value to the company in the eyes of the customers. With good brand reputation Polar Device wishes to target customers who appreciate high quality products and are willing to pay that little extra for their products. Polar Device is also planning to sell other Finnish products such as wheat flour alongside the fully automatic noodle machine. (Polar Device business plan, 2014.)

Polar Device's strength is definitely the new technology used in their products. The new technology should overcome the flaws of other similar kind of products on the market. Another strength is the team behind the company, which consists of both Finnish and Chinese people. The cultural knowledge is a huge advantage when wishing to enter the Chinese market. However, the brand is not known in China and the company doesn't currently have any previous references. There are also no existing distribution channels. In addition to these weaknesses, Polar Device is a rather small company with limited resources and wishing to enter a big market. Chinese market will also possess its own risks. Although the Chinese market is big with a huge amount of potential customers, the market is also known to be complex and is definitely highly competed. As an example the risk of replica is a serious threat for a small company. Some of the major players in the market might start offering similar products, which will again increase competition. However, to fight replica, Polar Device has applied for patent for their product. (Polar Device business plan, 2014.)

2 CONDUCTING A MARKET RESEARCH

The main purpose of this part of the thesis is to give better understanding on how to perform a market research; why it is important to do, and what is the process of it, and also to describe the dimensions that it consists of. As already mentioned, this chapter should give Polar Device guidelines that it could follow in its future market researches.

Conducting a market research is important when, for example, the management team of a company plans to enter into a new market or have a new product for the existing market. Market research is the starting point for determining who the best customers are, what do those customers want, what the competitors are doing, and what the entire market environment is like. It is extremely important to develop as much information of the target market as possible before making any financial decisions. Although, business decisions are rarely made with absolute certainty, developing as much information as possible can reduce the uncertainty to a manageable level. (Zimmerman & Blythe 2013, 90.)

2.1 Market research process

Hague and Jackson (1996, 18) define market research as “the systematic collection, analysis and interpretation of information relevant to marketing decisions”. The market research process usually follows six main steps that are outlined in *Figure 2*. This figure is based on both Zimmerman and Blythe’s (2013) marketing research process and Hague and Jackson’s (1996, 19) description of the market research process.

Here a distinction between terms *marketing research* and a *market research* has to be made. Sometimes these terms are used as synonyms, although, technically they are not the same. Market research deals specifically with obtaining knowledge about market size and trends whereas marketing research goes further. Marketing research can be for instance solving the effectiveness of a whole marketing campaign process, from initial planning and data gathering to the final launch and post launch process. Market research can be one part of marketing research but not the other way around. (QuickMBA.com 2010, cited 23.10.2014.) Nevertheless, the process of both market and marketing researches is more or less the same.

FIGURE 1. Market Research process (Modified from Zimmerman & Blythe 2013, 94; Hague & Jackson 1996, 19)

The first step is to define what information is required from the research, primarily meaning to define the research problem (Zimmerman & Blythe 2013, 93). The research purpose is established to meet the management team's requirements, as they are the ones who will be using the end results. In addition to defining a clear research problem, it is good also to realize the available resources to carry out the research.

After the research problem is defined it is time to think about the research design. To understand what kind of research should be done it is advisable to establish clear and measurable research objectives that again are easier defined by determining good and precise research questions. Design issues also include the choice of research approach and how the information will be developed. (Zimmerman & Blythe 2013, 94.) A systematic and planned approach on a research process ensures that all parts of the research project are in line and connected to each other. It is particularly important that research design and implementation support the research purpose and objectives. (Aaker, Kumar, Day &Leone 2010, 50.)

The third step on the research process is to develop a thorough review of secondary data. Secondary data are available from multiple sources, including government statistics, trade associations, public libraries, articles, and other publications. Most of the data can be found from the Internet. Using search engines, such as Google, is a good starting point for any kind of research. (Zimmerman & Blythe 2013, 95.) Proceeding first with secondary data may already lead to satisfactory findings and results, and thus, collecting primary data might not be necessary. However, when dealing with a specific product or gathering information from foreign market, secondary data may be obsolete or non-satisfactory in some other way. (Zimmerman & Blythe 2013, 95.) In practice, secondary data can be used to estimate the demand of a product, to monitor the environment and competitors, and for customer segmentation and targeting (Aaker et al. 2010, 127).

Secondary data should be used to its full extent but if secondary data have been discovered to be insufficient, the researcher has to develop primary data. Whereas secondary data is defined as data that is collected initially for some other purpose than current research, primary data is developed exactly for current research purposes. It is advisable not to develop primary data before first gathering all relevant secondary information. Again in practice, primary data can be used to find out more about firm's competitors, end customers and intermediaries. Strengths-weaknesses profile of the firm is one of the most difficult data to obtain but is its important indicator of the company's international competitiveness. (Hollensen 2014, 177.)

Primary research can be divided into qualitative (methods based on classifications and interpretation of material) and quantitative (methods aim at testing or verifying hypothesis, many times numeric) research. Primary data can be developed through various methods, including survey, observation, and experimentation. Surveys, including personal interviews, focus groups, mail surveys, telephone surveys, as well as, Internet surveys, are the most common forms of primary research. (Zimmerman & Blythe 2013, 96– 97, 103).

After all the data, both secondary and primary, are gathered, they need to be analyzed properly. Quantitative data is many times gathered from a large sample. It can be examined through cross-tabulates and in aid from software programs to build statistics and to prove hypotheses. Qualitative data is analyzed in a more subjective manner, as the sample size is also smaller than in quantitative research. All In all, the researcher has to screen out only the data relevant to the study objectives. After analyzing the data researcher should be able to present the findings and make recommendations for action. Presenting findings is the last part of the market research. (Zimmerman & Blythe 2013, 103.)

2.2 Subjects covered in a market research

Sources such as government data, company accounts, and trade and industry associations can be used to obtain data on the large majority of subjects that are covered in a market research project. These include those that are mentioned below. In addition to these, there can be more subjects covered on a market research, however, these are the once that best respond the requirements and endeavors of the commissioner.

Market environment

Monitoring the market environment in which the company wishes to function is one of the most important uses of secondary data. Factors such as the state general economy, demographic trends, various social factors and the legislative framework shape the market environment. Any full analysis of a market is likely to include these external factors. For this the desk research is the only practical source available. The economy, demographics and key social variables should all be well covered by government's statistical services or by some other publications - government or private. (Hague & Jackson 1996, 55.)

Market trends

Market trends of the industry where the company operates have to be evaluated carefully. A great deal of information can be obtained from trade and professional associations to determine the demand for the product. Trade journals can also be handful when finding out current trends of the target market. In addition, one effective way to seek for trends within the industry of the company is attending tradeshows. Tradeshow at its best will give crucial first hand information about pricing, competitors and possible customers. Tradeshows are good places to keep abreast of the industry where one operates. (The Edward Lowe Foundation 2006, cited 20.10.2014.) However, market trends are also easily explored by going through main retailers of the market. There one can find out what kind of products are on the market currently and how the products are priced. Some online stores also include customer feedback and satisfaction statistics.

Market structure and size

The structure and size of most business and industrial markets can be analyzed through desk research. The general and trade press, directories, company financial data, published reports, trade associations and government statistics are the sources from where market structure and size data can be obtained. For a specific product it might be difficult to find data about market size but making estimates from a wider classification could lead to reasonable approximations. (Hague & Jackson 1996, 57.)

Distribution channels

In specialized industrial markets supply may be direct between manufacturer and consumer. However, in most business markets, like in China, there are special distribution structures for importers, main distributors, and local dealers. Sources to provide an analysis on these distribution structures are very much the same as for market structure and major suppliers. (Hague & Jackson 1996, 57-58.) As an example, in China trading companies, distributors and local agents are the three sales channels available to foreign companies, which do not want to, or do not have the resources or knowledge to directly manage China business activities on their own. These will be discussed later in this thesis.

Competitive product analysis

After conducting a comprehensive evaluation of the market in which the product will be sold, it is advisable to take a closer look at the competing products. Competitive product analysis, also sometimes referred to competitor analysis, is a way to discover how the competing products and companies perform in the market place. For every identified competing product it is good to ask the following questions: “How are the product prices on the market?”, “In what way is the product positioned within the market?”, “By what channels is the product promoted?”, and “What is the level of overall customer satisfaction with the product?”. (MBA&COMPANY 2011-2014, cited 25.10.2014). It is good to gather data on the major suppliers and brands, i.e. their profiles, marketing methods, pricing and advertising tactics and factors that affect how successful they are.

Analysis on one's competitors can be undertaken by using both secondary and primary data. Secondary data can be obtained, for example, from local chamber of commerce, industry surveys and company accounts. To some extent, it may be possible to solely rely on already existing data but in some cases it may be good to do some primary research as well. (MBA&COMPANY 2011-2014, cited 25.10.2014.) Focus groups, customer visits and surveys are some of the ways to get a better understanding of one's competitors. The simplest way to collect primary data is for example by going through stores, both online and brick and mortar that sell competitors' products. This will give the researcher the opportunity to view competitors not only from rival perspective but also from customer perspective. One can learn a lot by going straight to the competitor and try to get as much information or help from them as possible. In addition, a primary research can be conducted if a company wants to find out the consumers' attitudes to and satisfaction with competing suppliers. (Hague & Jackson 1996, 57; Grimsley 2014, cited 20.12.2014.)

2.3 Desk research

According to Birn (2000, 5) desk research is frequently underestimated and underused as a source of information. Desk research relates to secondary research, which is explained in the previous chapter *2.2 Market research process.* Desk research data can be obtained from both internal and external sources. Internal sources include for example company's own sales statistics and reports. Published data such as government and trade association publications are some of the important external sources. Desk research covers activities such as internet and library searches, in-house sources (company reports, etc.), and is used to discover background economic data, market size and structure and also to provide information on companies. (Birn 2000, 18-21)

There are clearly some topics where desk research cannot be applied such as consumers' opinions to a new product. A journalist's opinion of what consumers think isn't as reliable as interviewing the consumers themselves. Information on specific markets may also not be found from secondary sources if the specific market is not of sufficient general interest to the national press or even to a particular industry or trade journals. Nevertheless, no matter how obscure, every recognized activity should have some information published about it. General business and marketing publications can also be useful resources if the specific market is not studied in any other way. (Birn 2000, 19, 28.)

Trade associations can also be extremely beneficial for making a desk research. For almost any type of business there is a trade association. These associations, however, can vary enormously in their organizational complexity and size, and how useful they actually can be to a researcher. The largest trade associations often publish a lot of free industry specific information, but some of the publications may be limited to memberships only. Some associations may not publish anything and have only a little staff. Whatever the subject of the market research is about, the relevant trade associations are worth contacting. Even if no publications are available, an interview with a person working for the association can be useful. (Birn 2000, 28.)

The downside of the desk research is that it can be slightly complex and messy if executed by inexperienced researchers. The outcome of a desk research can be uncertain and a lot of time can be used to make the research with just little or nothing found. A field market research is seen to be more reliable than a desk research. Nevertheless, desk research needs only a few resources and for this reason anyone can attempt it. It is an inexpensive way for any sort of company to get an outlook of the country or market it wishes to enter. (Birn 2000, Chapter 2: Desk Research.)

3 CHINA AS A TARGET MARKET

With more than 1.3 billion people and circa 430 million households China is most definitely a great source of potential for companies all over the world. However, entering China can be challenging due to its market complexity and as geographically detailed data can many times be limited or not even be available at all (U.S. CS 2013, 6). According to U.S. Department of Commerce, managers are sometimes forced to make decisions about marketing and entry with information that is less than sufficient (2013, 27). Luckily, access to the nationwide market data is constantly improving, thus giving researchers an increasingly better understanding of China's complexity and its continuously changing market environment (ibid).

China's economy has grown in a high speed in the past decades and it has, without a doubt, simultaneously been subject to western influence. Some tend to think and even hope for China become more like western societies. However, Ilmonen and Puisto argue that the development will be almost the opposite; the Chinese way of thinking will become more important all around the world, and therefore, it is important for western companies and operators to learn more about the Chinese way and understand the deep roots behind their operating logic. (2009, 1.)

In this chapter relevant market data is gathered to serve the needs of the commissioner. At first some basic knowledge about China's economy is studied. Secondly, demographics and information about city classifications, i.e. "tier classification" of cities is introduced. Thirdly, relevant market risks are noted so the company will understand the possible threats of the market. Distribution channels are important for a company with a consumer good product and thus the three main distribution options are further studied. Marketing and advertising, as well as the growing e-commerce are also important aspects and are thus given a closer look. The last part of this chapter deals with the Chinese consumer, its buying behavior, brand awareness and price anticipation.

3.1 Economy

For past five years the economy news have reported of slowing gross domestic product (GDP) growth in China compared to the tremendous growth it has experienced for many years before. The situation can be seen to reflect the current phenomenon of the world economy. The growth rate is currently at an approximate pace of seven percent and similar or even further drop is predicted in the near future (Business Insider 2014, cited 10.11.2014; The Economist 2014, cited 10.11.2014; The Wall Street Journal 2014, cited 4.2.2014). Factors like oversupply of housing, soaring debt and overcapacity in many other industries will more or less have an effect on growth also in 2015 (The Wall Street Journal 2014, cited 4.2.2014). The economy, however, should not slow down too much, as the government should be able to maintain employment and keep reducing poverty. Some experts argue that if the economic growth slows down below six percent, it will cause greater consequences for world economy and increase the risk of social unrest in China. (Taussi 2015, cited 4.2.2014.)

The slowing economic growth is an outcome of government's goal to switch the Chinese economy from investment-driven to more market-driven economy (Nordea 2014, cited 12.11.2014). For strategic economic development China adopts Five-Year-Plan (5YP) system. Between 1953 and 2014 China has implemented altogether twelve 5YPs, from which the latest came out in 2011. Before the 12th 5YP China's leadership concentrated on fixed asset investment, meaning investment for buildings, machines and construction, but it was perceived as non-suitable and so new direction to rebalance the economy had to be taken on 2011. Now with the 12th 5YP, the government wishes to restructure the economy by increasing domestic consumption and powering service industries. It wishes to increase consumer spending from approximately 35 percent of GDP to 50 percent by 2015. The 12th 5YP also tries to take actions toward improving environmental protection, energy efficiency and puts focus on high-end manufacturing. (U.S. CS 2013, 8.)

In spite of years of economic developments, China will still remain as a developing country with many challenges. Although the economy is one of the biggest in the world, the per capita income is below world average. (CIA 2014a, cited 10.11.2014) High inequality, especially between the rural and urban areas is one of the biggest challenges the government deals with. China holds the second place with the number of poor in the world. According to the World Bank (2014, cited

10.11.2014) in 2012 a little less than 100 million people still lived with under RMB 2,300 per year, which is below the national poverty line.

In addition, corruption and other economic crimes are big concerns for the government not to mention environmental problems that need to be contained. Moreover, according to CIA (2014a, cited 10.11.2014) the new government of President Xi Jinping is not taking serious actions towards improving these issues and China's long-term economic health. CIA (ibid) claims that the government is rather taking actions towards 12th 5YP reforms to increase domestic consumption and thus trying to make the economy less dependent in the future on fixed investments, heavy industry and exports.

3.2 Demographics

Changes in economy have been and will continue to be the biggest force shaping the consumer landscape. Rising income, greater mobility and urban living are some of the changes taking place in China. Results of one-child policy and market economic imbalances also affect the changes in demographics. (Atmos & Magni 2012, cited 9.12.2014.)

The Chinese government is struggling to facilitate higher-paid job opportunities as the middle class is growing fast, including the growing number of rural migrants and college graduates. There will be a growing number of unemployment and social unrest when the government tries to improve the competitiveness of SOEs by shutting down factories and cutting down costs on employees' expense (Finpro 2010, 11). By 2020 the middle class will account for approximately 45 percent of the total population, meaning around 700 million people (U.S. CS 2013, 9). China's population is also aging due to the one-child policy and this will also put pressure on raising the wage level. Although the wages increase, they will still not be anywhere near to Western level, as the uneducated work on such a modest wages. (CIA 2014a, cited 10.11.2014.)

It is evident that Chinese consumers are getting richer. The per-household disposable income will double among urban consumers between 2010 and 2020 from about USD 4,000 to about USD 8,000. As a comparison, in the U.S. the level is approximately USD 35,000 which will remain far higher level than in China. However, it will be close to the per-household disposable income in

South Korea. Until now, the multinational companies have had two choices: to target the wealthy consumers, meaning that they limit themselves to 18 million households, or the second option, to serve the not-so-wealthy consumers benefitting from a much bigger market – 184 million households – but with cheaper products and lower profitability. However, the situation is changing now, as the income levels are getting higher. Companies will be able to offer better products to a bigger market and earn higher profits. (Atmos & Magni 2012, cited 9.12.2014.)

Another ongoing demographic change is that China is undoubtedly aging. Due to one-child policy, China's total share of the population will have five percent points more people above the age 65 in 2020 than it has today. This older group of people will definitely be an important consumer segment for companies. The challenging thing for firms targeting these older citizens is to identify what do they want and need. Currently, most people in China over the age of 55 are more willing to save and less willing to spend, whereas the consumption habits of the future seniors might be something different. (ibid.)

China is a big country with cities and regions that are so diverse that it is a challenge for any company to target the most potential markets. By using official census data which is collected in every ten years (the most recent census data from 2010) it is possible to rank 31 provinces, municipalities and autonomous regions in terms of economic growth, retail sales, migrant population and urban growth. On *FIGURE 3.* All 31 provinces are listed by selected demographic and economic measures. The table is originally gathered by the U.S Department of Commerce (2013, 32) from The National Bureau of Statistics of China's census data.

Selected Demographic and Economic Measures by Province

Province	Permanent Pop. 2010	Pop. Change from 2000	% Change from 2000	% Migrant Pop.	Total Retail Sales of Consumer Goods 2011 (100 million yuan)	Per Capita Consumer Goods 2011 (yuan)	Consumer Goods Sales Growth 2007 to 2011	Gross Regional Product Growth 2007 to 2011
Beijing	19,612,368	6,043,174	45%	35.9%	6,900	35,184	82%	65%
Tianjin	12,938,693	3,089,962	31%	23.1%	3,395	26,240	112%	115%
Hebei	71,854,210	5,169,791	8%	2.0%	8,036	11,183	102%	80%
Shanxi	35,712,101	3,240,859	10%	2.6%	3,903	10,930	104%	87%
Neimenggu	24,706,291	1,382,944	6%	5.8%	3,992	16,157	110%	124%
Liaoning	43,746,323	1,921,911	5%	4.1%	8,095	18,505	101%	99%
Jilin	27,452,815	650,624	2%	1.7%	4,120	15,007	106%	100%
Heilongjiang	38,313,991	2,076,415	6%	1.3%	4,750	12,398	104%	77%
Shanghai	23,019,196	6,611,462	40%	39.0%	6,815	29,605	77%	54%
Jiangsu	78,660,941	5,617,364	8%	9.4%	15,988	20,326	104%	89%
Zhejiang	54,426,891	8,496,240	18%	21.7%	12,028	22,099	94%	72%
Anhui	59,500,468	500,520	1%	1.2%	4,955	8,328	106%	108%
Fujian	36,894,217	2,796,270	8%	11.7%	6,276	17,011	97%	90%
Jiangxi	44,567,797	4,170,199	10%	1.3%	3,485	7,820	107%	102%
Shandong	95,792,719	5,820,930	6%	2.2%	17,155	17,909	103%	76%
Henan	94,029,939	2,793,085	3%	0.6%	9,454	10,054	106%	79%
Hubei	57,237,727	(2,271,143)	-4%	1.8%	8,275	14,458	105%	110%
Hunan	65,700,762	2,426,589	4%	1.1%	6,885	10,479	105%	108%
Guangdong	104,320,459	19,095,452	22%	20.6%	20,298	19,457	92%	67%
Guangxi	46,023,761	2,169,223	5%	1.8%	3,908	8,492	106%	101%
Hainan	8,671,485	1,112,450	15%	6.8%	760	8,759	110%	101%
Chongqing	28,846,170	(1,666,593)	-5%	3.3%	3,488	12,091	110%	114%
Sichuan	80,417,528	(1,930,768)	-2%	1.4%	8,045	10,004	100%	99%
Guizhou	34,748,556	(499,139)	-1%	2.2%	1,752	5,041	113%	98%
Yunnan	45,966,766	3,606,677	9%	2.7%	3,000	6,527	115%	86%
Xizang	3,002,165	385,836	15%	5.5%	219	7,295	96%	77%
Shaanxi	37,327,379	1,962,307	6%	2.6%	3,790	10,153	110%	117%
Gansu	25,575,263	450,981	2%	1.7%	1,648	6,444	98%	86%
Qinghai	5,626,723	803,760	17%	5.7%	410	7,295	97%	109%
Ningxia	6,301,350	814,957	15%	5.8%	478	7,579	105%	129%
Xinjiang	21,815,815	3,356,304	18%	8.2%	1,616	7,409	91%	88%

FIGURE 3. Selected demographic and economic measures by province (U.S. CS 2013, 32)

As an example, amount of migrant workers can tell a lot about a region or a city. Migrant workers usually send their earnings back home, do not have the right to use social services, do not buy their own houses and are, all in all, using less money for any extra consumption. If the migration rate is low on a region, like in *FIGURE 3.* in Shandong province, the high retail sales can be due to the greater amount of permanent residents who will spend on needs such as housing, school services and healthcare. According to the figure Guangdog, Shangdong, Jiangsu, Zhejiang and Henan have the highest total retail sales. All in all, these demographic and economic measures can be useful for a company to better evaluate and target most potential regions for them and investigate these regions further. (U.S CS 2013, 27-29)

3.3 City classification

In addition to the previous chapter's provincial classification, different areas and cities in China can be classified in multiple other ways, as well. The Chinese government has classified its cities in various types of administrative categories. As there still can be huge differences between cities within the same administrative region, a widely used categorizing of China's market area is done by dividing China's cities into "tiers". The first-tier includes megacities like Beijing, Shanghai, Guangzhou and Shenzhen –the so called Great Four. They are considered as first-tier cities in terms of their size and per capita GDP. (Wall Street Journal, 2011, cited 11.11.2014.) Second to fourth-tier areas comprise of Harbin in the north to Kunming in the south, from Qingdao in the east to Urumqi in the west. (U.S. CS 2013, 5.) Although the first-tier cities remain as most common places for foreign firms to enter, according to the experts, second to four tier cities are now growing faster and thus offering many competitive advantages for businesses. (Wall Street Journal 2011; CNBC 2011, cited 11.11.2014)

As an example, the Wall Street Journal wrote in their article (2011) that in year 2010 GOME Electrical Appliances Holding Ltd., one of China's leading retailer of household appliances and consumer electronic products, had 298 outlets in 178 second-tier cities, which generated about 28 percent of its total sales. The article argues that a number of international companies are quickly expanding into these second to four tier cities as well, especially as the country's population becomes wealthier and desires purchases that point out their social status.

3.4 Market risks worth noting

The business environment is known to often lack predictability. An opaque regulatory and legal environment, especially from business point of view, increase challenges on doing business in China. Rules of foreign trade still vary between different areas and getting guarantees is not certain. Decision process is very complicated and takes a lot of foreign firms' patience, resources and time. In addition, China still continues to rely heavily on a growth model that is led by exports。 Therefore, local Chinese firms are favored by the government in comparison to foreign firms. Especially the state-owned enterprises are protected from import, while encouraged towards exports. (U.S. CS 2013, 10.)

Finding skilled and qualified personnel for mid- and senior-management positions can be complicated in China. Only a fraction of the total workforce is well educated and qualified with sufficient language skills. At the same time, 30 percent of college and university students are facing unemployment after graduation, because they are not qualified to work for international corporations. (Finpro 2010, 12.)

The copyright situation has majorly improved since the WTO agreement but intellectual property rights (IPR) violations continue to challenge doing business in China. Although it is difficult to find accurate statistics to show how big the problem is, China alone is estimated to be the home to almost two-thirds of all the fake and pirated goods in the entire world (Roll 2006, 9). Products, which are performing well on the Chinese market, are most likely going to be copied at some point. Therefore, it is important to take protection measures well before entering the market. If a pirated product gets on the market, it is extremely difficult, expensive and time consuming to fight against it. The main problems are on law enforcement and inadequate sanctions related to IPR. (Finpro 2010, 9, 19.)

The complexity of doing business in China is many times a big strain for international companies taking a lot of those firms' resources. It is important for a firm to target themselves well and build a good contact network to gain market success. Despite these market risks and threats, China will remain an important market for foreign companies around the world. For instance, infrastructure development, booming urban population, growing consumer spending especially for branded products, are factors that increase market opportunities for foreign companies in China. (U.S. CS 2013, 10.) On the chapter below three main distribution options are introduced which foreign firms can use to ease their entry and operations in China.

3.5 Distribution channels in China

After the WTO agreement in 2001, China has made its trading and distribution system in most industry sectors more liberalized by providing full rights for foreign firms that are registered in China to do import/export. This has made it possible also for the smaller foreign invested companies to apply for the license. Despite of the improvements on the trading and distribution rights, getting an import license remains highly difficult and time consuming. Small and medium sized enterprises (SMEs) many times prefer using alternative distribution and sales channels rather than take on these functions directly. (U.S. CS 2013,12.)

The starting point for companies that wish to begin trading operations in China is to make the best use of local partners (Finpro 2010, 8). Trading companies, distributors and local agents are the three sales channels available to foreign companies, which do not want to, or do not have the resources or knowledge to directly manage China business activities on their own. *Trading companies* which have the right to import/export take care of the customs formalities; *distributors* work as building the sales channels and take care of stock and inventory; and *agents* retail products to consumers. (U.S. CS 2013, 12.) These three sales channels are further discussed later in this chapter.

Companies should not forget the importance of tradeshows when searching for local partners. There are thousands of tradeshows held across China annually. These are good for identifying possible representatives and to make first-hand market research. All in all, tradeshows are great places to estimate market interest, make sales and develop networks. According to the U.S Department of Commerce it is advisable to check shows well beforehand as participation costs can be really high and there might be only limited booth spaces for foreign companies. It should be noted that some shows might be directed only to local audience and cater Chinese exporters although they are described as Import/Export Fairs. (ibid.)

Distributors and agents

As mentioned previously, companies with limited resources often take the advantage of local distributors or agents. This approach enables foreign exporters compete in a new market more effectively. Distributors and agents can help on keeping track with new policies and regulations, conduct continuous market research to stay up to date of what is happening in the market, and also to promptly respond to changes in the market. As China differs so much from so many other cultures, using an agent or distributor is beneficial in order to break down cultural differences and language barriers and eventually to develop long-term relationships. Agents and distributors can provide more in-depth information than one can be learnt from books or online resources. (U.S. CS 2013, 12.)

Some local agent companies may not have import/export rights but they can also be helpful for foreign firms. These local agents might work as a connection to the distribution chain, buying foreign products and importing those goods through companies which possess an import/export license by paying a commission. They may be Hong Kong-based representative offices or other foreign trading companies. Given how big China is in size and diversity one agent may not be able to reach the whole market, thus making it advisable to engage several agents. (U.S. CS 2013, 13.)

Trading companies

As a third option there are the trading companies. Prior to 2001, companies were able to import and export only through government-owned trading companies. Now after the entry into WTO, companies can trade directly or use any trading company with import/export license. Trading companies can also work as a good market representatives helping with customs clearance formalities and they also typically obtain strong distribution networks. (U.S. CS 2013, 12.)

3.6 Marketing and advertising

Local partners can play an important role on marketing operations. The most common forms of marketing, depending on a product, are TV and press advertising, different kinds of exhibitions (especially in business-to-business marketing), and invitation-only summits. Chinese way of marketing is a lot different from Western style so it is highly advised to have a local partner there when making plans on marketing. (Finpro 2010, 8.)

China is the third-largest advertising market after the United States and Japan, and has the fastest growing traditional advertising market by advertisement spending (ad spending) in the world. As mentioned, traditional advertising includes television, radio, newspaper, and magazine advertising. TV accounts for approximately 40 percent of all advertising spending in China. An interesting difference is that meanwhile its counterparts in the United States and Japan use more on print advertising, China uses less on print and relatively more on the Internet. Print advertising in China is about to be even more uncommon than out-of-home channels, meaning billboards and posters which have relatively light regulations by the government. Out-of-home ads mostly occupy public spaces such as commercial buildings and metro stations, especially next to elevators and escalators. Mobile advertising will also grow a lot in the future in China but for now it will remain to have only a small part of overall ad spending, since it is still challenging to make money from them. (Yeh & Zhang 2013, cited 8.12.2014)

When regarding specific industries, such as household products and home electrical appliances, the ad spend has seen to experience dramatic drops due to declining boom of housing markets in 2012. Another factor that can be seen to affect the advertising expenditure for home electrical appliances was the end of government policy to allow consumers recycle their outdated electrical appliances in exchange for reduced price on new models. (U.S. CS 2013, 20, 24.)

3.7 E-commerce

E-commerce has grown a lot in recent years in China due to increasing number of internet users which now reaches nearly 620 million users, according to Chinese and U.S. government data (Chu 2014, cited 5.2.2015). In 2010 ecommerce market was worth of US$78 billion and over three quarters of it came from consumer-to-consumer (C2C) market. However, there is a clear growth inspected to happen in business-to-consumer (B2C) sector, and by 2015 it should reach 40 percent of the total market value. About half of B2C transactions take place on Taobao Mall (Tmall), owned by Alibaba. According to the revenue growth, home appliances led the market in 2011 of all online sales. As an example, retail giant Suning, China's leading electronics retailer, has a successful B2C ecommerce market. (U.S. CS 2013,18-19.)

E-commerce brings vast advantages to retail in China for both consumers and sellers. For consumers it is easier to browse through multiple sites, compare prices and find products that they would not otherwise be able to buy. For sellers an online shop can also offer a lot of advantages as it is a lot cheaper option than an offline shop and through an online channel a company with limited resources is able to reach a wider range of customers than it otherwise probably could. (U.S. CS 2013, 17.)

There are also some disadvantages in e-commerce. Chinese consumers are still cautious of the safety and security risks related to shopping online. They are also concerned of not receiving the product, or receiving a wrong product, after making an online purchase. Some products are also non-suitable for ecommerce as customers need to physically see the product and try it out before payment. (U.S. CS 2013, 17-18.)

Kathy Chu (2014, cited 5.2.2014) also states that there are clear obstacles that companies face when entering Chinese e-commerce market. She writes: "There's no shortcut into China", meaning that selling online might not be much easier than selling, for example, on physical stores. Foreign brands must rethink their online selling and might have to invest a lot on advertising if they do not have a physical presence in the market. Chu adds that even if everything is done correctly, it could take a year or more to get a good hold on online market in China.

3.8 Chinese consumers

It is important for a company to understand its clients and the final users of its products in order to survive on the market. The Chinese consumer, their purchasing behavior, brand awareness and price anticipation is further introduced and studied below.

Purchasing behavior and brand awareness

There is an enormous amount of brands for Chinese consumers to choose from. Studies show that more than 60 percent of shoppers think brand as one of the top considerations when doing a purchase decision but will not have just a single brand in mind when making the decision (U.S. CS 2013, 15). This means that a shopper of one brand may also shop for other brands as well. Brand loyalty is definitely stronger in some specific product categories such as baby food formula and diapers, beer and milk – products that are bought in daily basis or with only a limited number of brands available on the market (U.S. CS 2013, 16).

Although Chinese consumers prefer Western brands to their domestic competitors, it is a fallacy to think that the consumers would become "Western" (Doctoroff 2012, cited 9.12.2014). Doctoroff argues that even though Chinese are increasingly modern and international and taken by Western brands, the people will still remain distinctly Chinese. Where China's economy and society are evolving and changing in a fast speed, the underlying culture within people has remained roughly the same for thousands of years.

In China, the nation shapes peoples identity. Western kind of individualism, where one's self definition is independent of society, doesn't exist in China. Chinese citizen are battling between the conflict of standing out and fitting in. When making a purchase decision, Chinese consumers are very much influenced by their families, friends and the whole social class they belong to. Self-expression is generally frowned upon. (Doctoroff 2012, cited 9.12.2014; Roll 2006, 51.) The country is still hierarchical, where constant tension between self-protection and displaying status exist. On the one hand, people are extremely price sensitive and savings rates are high, whereas on the other hand, people are fixated with luxury goods and spend enormous amounts of money in cars that have the price 120 percent of one's yearly salary. (Doctoroff 2012, cited 9.12.2014.)

Due to the complex nature of Chinese consumers and due to the enormous amount of already existing operators, creating a brand in China is not easy. In addition, the market itself poses difficulties. The market segments are highly competitive and companies need to compete with same rivals as in other markets no matter if they are selling commodity or capital goods (Finpro 2010, 8). Doctoroff (2012, cited 9.12.2014) listed three rules that brands have to follow in order to attach Chinese buyers. First, products used in public such as mobile phones, cars and clothes, command huge price premium compared to goods that are used in private. As an example, international brands lead the mobile market, whereas, the leading household appliance brads are cheaply priced domestic makers such as TCL, Changhong and Little Swan. The second rule is that the brand should focus to give the buyer something more external instead of internal. Where Western people appreciate the internal benefits even for luxury goods, for Chinese it is different. As an example, a car needs to make a statement about a man's bullish career, and infant formulas must promote intelligence instead of happiness. Even beer has to have a greater meaning than just pure enjoyment – it needs to bring people together and reinforce trust. The third rule for positioning a brand in China is that products must help their users to stand out while fitting in - instead of buying a flashy Maserati wealthier men buy Audis and BMWs.

Price anticipation

As mentioned, the overall purchasing power of consumers can vary greatly among different regions in China. Consumers from second- and third-tier cities are more concerned about the price of products and care more for multi-functionality. Brands can also be of secondary value. In first-tier cities, such as in Beijing, the consumption concepts of customers and level of knowledge is much higher and product quality, design and features overcome the price factor. First-tier cities have advanced economic development enhanced by strong spending power. Marketing of high-end and new products for example in Shanghai is much easier than in second- and third-tier cities.

However, price sensitivity level is coming down, as people get wealthier across the country. (HKTDC, 2014e; HKTDC, 2014f.) According to China Daily (2012a), it is common for international companies to price products higher in China with a price premium. People buy luxury brands to show status and differentiate themselves from other consumers thus allowing opportunities for companies to take advantage of this hierarchical society. However, as mentioned in the article, price premium alone does not directly lead to robust sales and long-term success. A company needs a strong brand image and offer additional value to gain the right to use price premium. (ibid.)

4 SMALL KITCHEN APPLIANCE MARKET IN CHINA

Finding market information exclusively about automatic noodle machines has proven to be difficult and therefore, a wider product category is studied in this market research to support the study of the more specific market. The automatic noodle machines can be classified into several product categories, for instance: machineries; electric food processors; blenders and mixer; kitchen appliances; small domestic appliances; and small home appliances. All of these product categories can give useful information related to fully automatic noodle machine market situation. However, it should be noted that data and estimates on entire small kitchen appliance market might not give an absolute truth about the automatic noodle machine market.

This part of the thesis is largely built on information provided by the Hong Kong Trade Development Council (HKTDC). The HKTDC is an international marketing arm for Hong Kong-based traders, manufacturers and service providers. The HKTDC connects international buyers and sellers through a variety of integrated services, namely its trade fairs, online marketplace and product magazines. Although it primarily aims to assist companies from Hong Kong, and develop exports to places outside Hong Kong, the market information and knowledge is also beneficial for this work, as it offers a lot of information about the trends and developments on the small kitchen appliance market in China.

Another useful source of information is a German market research institute, the GfK Group and its TEMAX (Technical Market Index) study, which offers statistical data on developments on small domestic appliance sector. The GfK Group has developed an index to track technical consumer goods markets in more than 30 countries worldwide. In addition, other online sources were used to map the current trends and to have as wide understanding on the market as possible.

4.1 Market size and growth

One part of the Chinese 12th five-year plan has been to build 36 million low-income housing units to China. Growing number of these housing units, in addition to growth in overall urbanization, has most definitely had its influence in the kitchen appliance market as well. In fact, in 2013, China's kitchen appliance market expanded by 17.4 percent over 2012 being worth of RMB 100 billion and is expected to expand steadily in the future as well. (HKTDC, 2014f.) Moreover, an index study performed by the GfK Group (2014a, cited 3.11.2014) shows that out of all technical consumer goods (TCGs) the small domestic appliances sector, meaning microwaves ovens, toasters, humidifiers, and coffee makers, was ranked at the top of all TCGs in China. The small domestic appliance sector increased by 37.1 percent from the same period in year 2013 thus reaching RMB 9.0 billion. According to the study, the vacuum cleaners segment grew rapidly, whereas, smart robotic cleaners were the most popular and juicing machines remained an active market. Study shows that other categories in this sector performed well, too.

Demand for small kitchen appliances increases as people's living standards are improving. Food safety being a major issue on the mainland, the trend of cooking at home has also increased and it is seen as a healthy and stylish choice especially in the eyes of post-80s consumers. (HKTDC, 2014b.) People also want more convenience in their day-to-day lives and especially in urban areas where life can be very hectic, time- and labor-saving advantages of small appliances are highly valued (HKTDC, 2013c).

The Hong Kong Trade Development Council (2013a) has published an interview with Li Joan, a general manager of Guangzhou Homeease Trading Co Ltd, where Li noted that there have been some changes in consumer demand for small kitchen appliances in recent years. First, people are changing and replacing their appliances more frequently as more new and innovative products are emerging the market. Modern city life increases demand for specialized and upgraded products that can make life easier, such as egg cookers, yogurt makers and bread makers. Second, with gift-giving culture being as big as it is in China, compact small appliances with unique and innovative design, has become a great choice for gifts. Furthermore, as consumers' awareness is getting better, product factors other than price, such as energy efficiency, special features and easy storage, are taken into consideration when buying small appliances. In the past, features such as timer and "keep warm" functions, were only found in mid- and high-end products but now those have become as "standard features". (ibid.)

Rural areas also offer great potential for home appliances but in different terms. People are not as wealthy and not as aware of different brands as people living in the cities. Companies need to adjust their products to suit the demands of peasants and other people living in smaller villages. In order to capitalize on rural home appliance market and gaining rural residents' confidence, suppliers should put an effort on enhancing product promotion and after-sales services. In addition, the products should be developed according to “rural characteristics”. (HKTDC, 2014f.)

Apart from traditional small kitchen appliances such as microwave ovens and coffee makers, a survey released by people.com.cn (2012) argues that the market growth of soymilk makers and other food processors has slowed down. The ownership rate of these lifestyle-type kitchen appliances is currently 55 percent. These so-called lifestyle kitchen appliances have passed the stage of market penetration and therefore in order to succeed in this market a company has to find some additional value it can offer with the product. (HKTDC, 2014f.)

4.2 Domestic versus foreign brands

It is evident that the foreign brands are generally dominating the high-end market while Chinese domestic brands are competing with price advantage in medium to low-end market (China Daily 2012a, cited 9.11.2014). The TEMAX study also showed that more and more domestic brands have entered the low end of the market, while foreign brands have been active on the high end (GfK 2014a, cited 3.11.2014). Differences between the prices of these high to low-end market can be huge.

Domestic appliance manufacturers Haier Group and GD Midea Holding Co., are the two main dominating companies on the Chinese market, especially in the lower-price segments. The only foreign brands with more than 2 percent of the market in 2012 were Japan's Panasonic Corp., at 4 percent, and BSH Bosch & Siemens Hausgeräte GmbH of Germany, 2.8 percent. Both of these companies have relatively bigger market share in Europe but still seem to struggle in China. All in all, the foreign manufacturers have been able to capture only a small market share in China. Nevertheless, foreign brands are currently experiencing some growth in the premium segment. (Hagerty 2013, cited 12.12.2014.)

Philips Electronics is a good example of a western company trying to succeed on the Chinese market. After years of struggling to compete with lower-cost Asian consumer electronics manufacturers, Philips had to change its strategy in China. In 2013, Philips sold its audio and video business to Japan’s Funai Electric Co, and is now focused on home appliances such as shavers, toasters, juicers and coffee makers as this market sector has proven to be more profitable. (The Telegraph 2014, cited 3.11.2014.)

Another western company is Swedish Electrolux AB which had only 0.5 percent market share of China's major home appliance market in 2012. Failing its first attempt to become a major mass-market supplier of washing machines, refrigerators and other home appliances in China, Electrolux is preparing to have a second-trial, but this time as a premium brand. Electrolux currently has only one factory in China, in Hangzhou, which concentrates on cooking appliances. For other appliances it relies on imports from an Electrolux factory in Thailand and on outside contractors in China. (Hagerty 2013, cited 12.12.2014.) According to Electrolux's own websites (2014, Cited 12.12.2014), the company is focusing on the rapidly growing middle class in major cities and products are sold through the largest retailers.

U.S.-based Whirlpool Corp. also obtains only a small market share in China. Its early joint ventures did not take off as well as planned, leaving it behind the local brands like Haier. Whirlpool's latest attempt to gain market share in China was to buy 51 percent of small Chinese home appliance maker, Hefei Rongshida Sanyo Electric Co., for $552 million. Whirlpool also concentrates on premium appliances but the new acquisition should help it to reach a wider customer range also in China's inland cities. The company is said to invest more on research and development (R&D), as in the long run it should pay off. (ibid.) One of Whirlpool's premium brands is KitchenAid, which is widely sold in China.

The factors combining these three companies is that they have not succeeded on the lower-cost segment, which is dominated by the Chinese manufacturers, and have chosen to target more to the medium- to high-end market. These companies are also aware of the rapidly growing middle class and acknowledge the better opportunities on premium segment of small home appliances market. However, the competition in the mainland's kitchen appliance market has shifted from price competition to appreciation of technology, thus increasing the medium to high-end products offered also by the local companies. (HKTDC, 2014f.)

4.3 Preferred product features

China's small appliances market is unique, not the same as overseas market. This means that although a company might have experienced success in other countries, the success factors might not be applicable to China. The design of an appliance might not meet the needs of Chinese consumers and that is why a company has to make an effort to find out current preferences and trends. As an example, where the western customers might prefer ordinary colors such as white, black and grey, the Chinese might want more colorful products**.** (HKTDC, 2013a.)

In an article published by Hong Kong Trade Development Council in 2013 "*"Evolved" and Western kitchenware now mainland best sellers",* Xiao Ran stated that the fastest selling kitchenware items in leading home appliance chains in mainland are the upgraded versions of traditional favorites - preferably with multifunctional attachments- such as range hoods, cooking utensils, steam cookers, and rice cookers. On the other hand, also compact appliances with just one function like yoghurt makers, ice cream makers, juicers and egg cookers are popular. New items such as waste disposal units, smart planters, ovens and bread makers, especially ones with a Western feel, have also made an impression on many mainland customers. In addition, "smart" and "intelligent" cookware appeals on Chinese consumers. For instance, feature like automatic switch on and off is at the same time smart and energy efficient. (HKTDC, 2013c; HKTDC, 2014f.)

It is apparent that market demand for niche high-end products is on the rise and in order to break into the Chinese market, special product features are essential. The business might not have to offer large volumes but the price can be higher and profit margin substantial. (HKTDC, 2014e.)

4.4 Distribution and retail

According to an article by HKTDC (2013a), in the late 1990s in China, small appliances were mainly sold in traditional department stores or specialized electrical shops. The emergence of supermarkets and hypermarkets eventually captured a big share of the consumer product market and in 21st century e-commerce has also got more popular. Traditional department stores are quite common places for people to buy home appliances. Most of department store shoppers tend to shop quite extravagantly, meaning it is possible to raise the prices compared to for example supermarkets and hypermarkets, which are places for mid- and low-end products with basic features. (HKTDC, 2013a).

According to the latest market overview of China's kitchen electrical appliance market by HKTDC (2014f), kitchen appliance chain stores (e.g. Gome, Suning) accompanied with building material chain stores (e.g. Orient Home, HomeMart), and general merchandise stores (e.g. Carrefour, Wal-Mart), are the newest sales channels of home appliances. In large and medium sized cities, kitchen appliance chain stores, account for an estimate of over 70 percent of home appliance retail market. However, even these channels are under pressure caused by growing trend of e-commerce. (ibid.)

Regional concentration and working with agents play a major role on small appliance market on the mainland (HKTDC, 2013a). According to Joan Li (ibid), nearly all supermarkets are controlled by distribution agents. In general, offline distribution agents are working regionally whereas online agents may be able to serve the whole country, although they might still be classified into different tiers according to the size of their orders. With many years of experience on working in the small appliance industry, Li Joan argues that there are two major ways of cooperation with distribution agents. The first is the buyer-seller relationship, in which supplier has control over actual market operations and agent doesn’t have much say on operational issues. Mostly strong-brand suppliers are able to control all market operations without an agent’s contribution. Second one is more cooperative between the supplier and agent where usually agent is responsible for the actual market operation, while supplier handles necessary market expenses such as storage costs, slotting fees and barcode fees, and many times maintenance fees. In the second form, costs of hiring sales promoters are shared between the agent and supplier. This latter is mostly applied by suppliers of smaller brand. (ibid.)

In China retailers act mostly as property owners who rent out space to manufacturers who then again manage their own inventories, promotion and products that are sold in the store. However, long payback times and fees charged for having the shelf space on a store might not be too attractive for small brands. In general, a 20 to 30 percent share of the sales revenue is required for small appliances and it might take up to 90 days, or even longer to get the payback. Moreover, getting a product to the retail store’s shelf has become a bit more complicated when there are clearly more suppliers than actual shelf space available. As a result, retail chain operators have much bigger say in the selection of partners, thus forcing supplier to offer higher shares to retailers. (HKTDC, 2013b; HKTDC, 2013a.)

Offline sales channels still take bigger share in distribution but due to the growing disadvantages and a growing number of people who like to do their shopping online, many companies have started selling their products through online sales channels. Even all the leading kitchen appliance brands have taken steps towards e-commerce (HKTDC, 2013b; HKTDC, 2014f). Online sales channels offer a wider selection of products and make it easier for customers to browse through prices and make comparisons. Through online sales, retailers are able to get faster payback - 30 days payback time can be expected - and save money on slotting fees, barcode fees and other fees that they should pay when selling on offline stores. It is also easier and cheaper to test new products through an online store than through a physical shop, as no matter if the product doesn't perform well, no additional costs, occur for having the product on a website "shelf". (HKTDC, 2013a)

An interesting reverse trend of offline and online selling is currently seen as well. According to an interview with Frank Zhang, CEO of Beijing Sun Gift Co Ltd (HKTDC, 2014d), at present many e-commerce companies, especially in kitchenware market, are adjusting towards online-to-offline business model by setting up physical stores to offer offline experiences. These supplier-led experiential retail outlets allow consumer to test their products before making a buying decision. These outlets can also work as a great advertising channel and thus suppliers can save on other advertising expenses. Moreover, as many supermarkets are transforming into huge shopping malls in future, suppliers have seen opportunities to locate their experiential stores in these places to attract more customers. (ibid) Some high-end customers buying important products prefer to shop in a physical store to see and touch the product before making a purchase decision (HKTDC, 2014e). However, this requires investments from the company and thus might not be profitable for smaller operators.

5 AUTOMATIC NOODLE MACHINE MARKET – COMPETITIVE PRODUCT ANALYSIS

There are several noodle/pasta machine manufacturers in China, which all can be thought to be Polar Device's competitors. In this analysis the concentration is on fully automatic noodle machines and partly also on multifunction machines rather than on manual or semi-manual machines. A competitive product analysis, also called competitor analysis, is conducted by comparing products that are already on market. Polar Device does not have its product on sale yet nor are the product specifications such as weight, functions and the final outlook of the product decided. Thus this analysis will also work as guidance for Polar Device for example on its material and pricing decisions.

The chapter is divided into two sections; online retailers and physical stores in Shanghai. By having these two categories, a lot wider picture of the market situation can be obtained. The analysis will concentrate on price, material, color and the country of origin. Selected retailers' and their online stores were explored to find information on current brands and products on the market. A market research that was exclusively done by SAI (Strategy Analysis International – a market research and consulting company) for Polar Device, provided the information on the products that are sold in the physical stores in Shanghai. The final analysis is based on author's observations and findings from these two separate sources of information.

5.1 Online retailers

In *TABLE 1.,* the biggest Chinese online retailers of home appliances – Tmall, GOME, Suning, and Jingdong Mall (JD.com) are studied by the selection of automatic noodle/pasta making machines they have on sale. The table includes product specifications such as color and material so it is easy to compare the quality and color trends of these products. Price is also an important factor when comparing these products. In addition to machines that are solely for making noodles/pasta, multifunction machines are included in the table as it is also possible to prepare noodles/pasta with them. These multifunction machines have been included here because in the market research conducted by SAI, such machines are also included in the comparison. However, to make noodles or pasta with the multifunction machines, the customer often has to buy additional attachments such as pasta rollers and cutters alongside the actual machine. The additional costs for these attachments are added on the table. Two western brands, Kenwood and KitchenAid, and Chinese Chulux were chosen to represent the multifunction machines in this comparison as these three brands give the best comparison equivalent to Polar Device's product by their price and company background. They also offer variety on the comparison when there are both Chinese and Western brands included.

TABLE 1. The four biggest online home appliance retailers selling noodle machines in China

NAME OF RETAILER	NOODLE/PASTA MACHINE ON SALE	COLOR / BODY MATERIAL	PRICE (RMB)
Tmall Online retail only	Philips HR2356	grey and purple/plastic	**799-1199**
	ZPY HN180A	grey	**4680**
	Fasato (various models)	red, grey/plastic, stainless steel and copper	**<1000**
	Kenwood KMC510 (multifunction machine) KMM770 (multifunction machine)	white with silver trim/ Die cast aluminum Silver/die cat aluminum	**3399** +790 pasta cutter +1290 pasta maker +1299 pasta roller **5800** +790 pasta cutter +1290 pasta maker +1299 pasta roller
	KitchenAid (Whirlpool) KSM150 Artisan Stand mixer. (multifunction machine)	white, grey, blue, red, chrome/ stainless steel	**6980** +1990 pasta roller +4950 pasta press
	German Pool PAM-181	white, red, silver	**1880**
	Donlim, SAVTM, Royalstar, SUPOR, Joyoung and several other brands	many different colors/ mainly	**<900**

		plastic	
GOME / China In addition to e-store there are 1088 stores in 264 large and medium-sized cities nationwide.	Philips HR2355/ HR2330/ HR2331/ HR2356	white and blue/plastic	**<1100**
	Joyoung, SUPOR, and other Chinese brands	many colors (red, green etc.)/ plastic	**< 800**
	Chulux CL-888 (multifunction machine)	grey, red /plastic	**2680** (pasta roller etc. included)
Suning / China In addition to e-store there are 1600 chain stores across the country in more than 600 cities	Philips HR 2356/21	Grey/plastic	**838**
	Fasato FST-08 Fasato FY-MT05 Fasato FY-MT06	Red/plastic brown/stainless steel & plastic brown/stainless steel & plastic	798 1488 **1999**
	Joyoung, SUPOR, Donlim, etc.	Many colors /mainly plastic	**<1110**
	Chulux CL-888 (multifunction machine)	grey, red /plastic	**2680** (pasta roller etc. included)
	Kenwood KMM770 (Multifunction machine)	grey/stainless steel	**5800** +790 pasta cutter
JD.com Online retail only	Philips HR2356/21	white and blue/plastic	**799**
	Joyoung, Fasato, Royalstar, etc. different models	Many colors /mainly plastic	**<998**
	Chulux CL-888 (multifunction machine)	grey, red /plastic	**2680** (pasta roller etc. included)

On Tmall the most popular automatic noodle/pasta makers, when multifunction machines are not included, are products from lower price range - machines made out of plastic and manual noodle/pasta makers made out of steel. The Chinese brands, such as Fasato and Joyoung, are dominating the lower price category while Philips is the only western brand that competes in the same category. Slightly more expensive brands, yet quite popular among Tmall customers, are the Chinese ZPY and German Pool from Hong Kong. Especially ZPY's product HN180A is popular although the price is over RMB 4000. German Pool rates as a second on the expensive-yet-popular scale after ZPY with price RMB 1880. As for multifunction machines, Kenwood's models are cheaper and more popular than KitchenAid's. (Tmall 2015, cited 15.1.2015.)

On GOME's web store, Joyoung is performing well. The only western noodle machine brand on GOME's web store is Philips. The Chinese Chulux CL-888 is a multifunction machine such as e.g. Kenwood KMM770 but is a lot cheaper compared to Kenwood's machine. Kenwood's multifunction machines can be found from GOME but the extra attachments for making noodles/pasta aren't sold at GOME. All in all, GOME has definitely bigger selection of low to medium priced products than high-end products. (GOME 201, cited 15.1.2015.）

Suning has the second widest selection of noodle machines after Tmall. The best selling automatic noodle machine is Philips HR2356/21 after which comes Joyoung JYN-W22 and Fasato FST-08. Other Chinese brands such as Supor and Donlim are also selling rather well. There is also a big selection of multifunction machines, from which Kenwood is the most expensive one. (Suning 2015, cited 15.1.2015.)

JD.com is the fourth online retailer on this analysis. As same as on other retailers' web stores, the Chinese brands and Philips dominate the low-price category of automatic noodle machines. Chulux among other Chinese multifunction machines with additional attachments for making noodles/pasta are also very competitive in addition to machines are solely for making noodles/pasta. (JD.com, cited 15.1.2015.)

5.2 Physical stores - Shanghai

The information on *TABLE 2.* is gathered by SAI, Strategy Analysis International – a market research and consulting company. The information on this table gives a good insight on the selection available on physical stores in Shanghai. Shanghai is one of China's first-tier cities and thus offers a great place for western companies with quality products to enter.

NAME OF RETAILER	LOCATION	NOODLE/PASTA MACHINE ON SALE	COLOR /MATERIAL	PRICE(RMB)
Super Brand Mall	PUDONG Lujiazui	Philips	white	**1,290**
IFC Mall	Lujiazui-City Super Import Food Store	Kenwood Kitchen Chef (multi-function machine)	white	**3,000** On promotion
JiuGuang BaiHuo (SOGU)	Jing'An Temple	KitchenAid Artisan * series 5	steel grey, blue, red, white	Original 6980 Now **5,980**
		Philips (incl. Water boiler)	white	**1,290**
GOME	Tibet South Road	Jiu Yang N3	white	**599**
		Jiu Yang N6	white	Original 699 Now **499**
EMART	Tibet South Road	Jiu Yang N6	white	**699**
City Super	Times Square Mall basement	LeKue (manual, 100% silicone)	white	**398**
Golden Digital Mall	Xujiahui	Kenwood Chefette (multi-function machine)	white	**1,290**
Oriental Shopping Center	Xujiahui	Kenwood KM020	silver/grey	**8,700** +880 to make pasta plate +880 to make noodle from pasta plate
		Kenwood KM7700	silver/grey	**7,000**
		Philips	white	**1,299**

TABLE 2. Physical stores selling noodle making machines in Shanghai. (SAI, 2014)

As we can see from the *TABLE 2.*, the selection is not as wide as on online stores. Nevertheless, the Chinese brands again offer the cheapest automatic noodle machine models, with Philips being the only western brand competing on this category. However, the prices of Philips' products are higher than on online stores. Also Kenwood and KitchenAid have priced themselves higher on physical stores and are again competing in the top end. The following figure, provided by SAI, will demonstrate how these different brands are segmented by their rating and price.

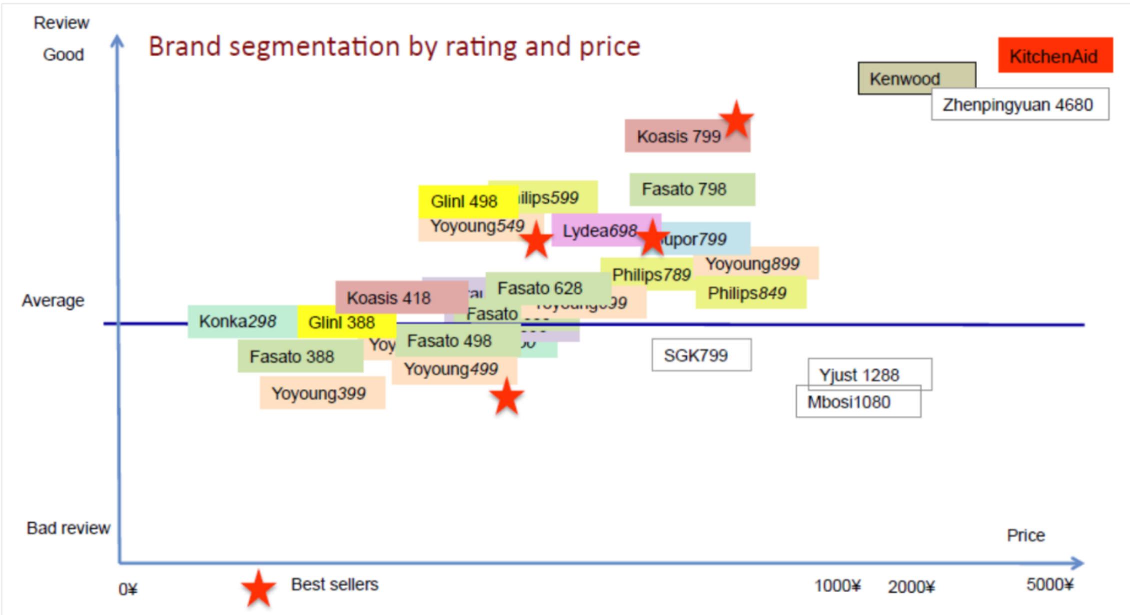

FIGURE 4. Brand segmentation by rating and price in Chinese noodle machine market. (SAI, 2014)

The figure correlates the findings on *TABLE 1.* and *TABLE 2.* Chinese brands are the best sellers on the market with low to medium pricing and Western brands are the most expensive ones.

5.3 Summary

Through this competitive product analysis we can evaluate more or less the overall situation of automatic noodle machine market. There are several manufacturers and thus the competition can be intense. Local Chinese brands are predominantly from mid- to low-end and sell well in all four Chinese online stores. Same situation can be seen on physical stores in Shanghai where the local brands are the best sellers of the market. Furthermore, Philips is the only western brand on this product category and performs rather well, too. The prices of these mid- to low-end machines range from RMB380 to RMB1300.

The multifunction machines both in online and offline stores are priced higher than machines with only noodle or pasta making function. Especially the western brands are more expensive than local brands. Prices of these machines are undoubtedly higher when they are made out of steel instead of plastic. The prices range from RMB2600 to RMB9000, in addition, the extra pasta making attachments might even increase the price higher.

When comparing the products by their outlook, the Chinese brands have more color diversity, all from yellow to purple but also red and grey are common. However, the western brands trust more on neutral colors such as white and grey. The most common colors for these appliances as a whole are white, grey/steel and red.

6 HONG KONG AS A GATEWAY TO CHINA

Hong Kong is one of the Special Administrative Regions (The Hong Kong SAR or HKSAR) of People's Republic of China and said to be a great gateway to the mainland and not without a reason. It has a great location by the wealthy region of Pearl River Delta right at the doorstep to Mainland China. Western companies are attracted to do business in China through Hong Kong due to its legal and tax systems. Hong Kong is also known for its good infrastructure, and free flow of information, capital and labor. The city is more western style than the Mainland China, and not as complex in its business nature, making it easier for foreign companies to adapt to. (U.S. CS 2013, 72.)

Heikkinen (2014), a board member of Finland - Hong Kong Trade Association, states Hong Kong is a good base when entering the Chinese – or even other parts of Asian – markets. Heikkinen also highlights the great location and good transport connections of Hong Kong, as well as low and simple tax system. Hong Kong drives for free trade and is a free port where no value added taxes (VAT) are charged for imported goods, with exception of alcohol (with strength over 30 percent), tobacco and gasoline products (Ulkoasiainministeriö 2014, cited 3.11.2014). Heikkinen adds that for international companies it is relatively easy to operate in Hong Kong, as the regulatory system is very transparent and efficient, people are well educated, and costs for setting up a company are much lower than in China. In addition, there is a Closer Economic Partnership Arrangement (CEPA) agreement between Mainland China and Hong Kong, (with certain place of origin requirements) which has progressively reduced and eliminated trade tariffs between these two sides. (Nuutinen 2009,11).

Due to limited natural resources and most of manufacturing industry been relocated to the mainland China, Hong Kong is highly dependent on international trade and is also one of the most service orientated economies in the world. The value of goods and services trade including the big share of re-exports is about four times of Hong Kong's GDP. The mainland has been Hong Kong's largest trading partner for a long time and accounts for about half of Hong Kong's total trade by value. (Government Yearbook 2013, 87-88; CIA 2014b, cited 12.11.2014)

Hong Kong has also both good quantity and quality of shoppers. Average disposable income per person is more than ten times as high as the rest of China. As a famous shopping destination, Hong Kong attracts 54 million visitors annually, 75 percent of them from Chinese mainland (HKTDC 2014a). On top of the visitors there are over seven million residents with shopping as their number one leisure activity. In addition, people in Hong Kong are closer to the Western people in their product preferences than people in the Mainland China. Consumers in Hong Kong are more image-conscious and concerned about environment. For companies, Hong Kong works as a great place to test new products - especially for the Mainland China market – with no import tariffs, no sales tax and a low tax base of only 16.5 percent profits tax. (InvestHK 2014, cited 3.11.2014.)

Hong Kong is a pleasant place for foreign firms also due to good reputation on handling intellectual property protection. Hong Kong's industry players are known to act with goods ethics. In Hong Kong, the Intellectual Property Department provides the registration services to the public and works in close cooperation with its mainland counterparts. The registers of trademarks, patents and designs are maintained in electronic format in the Internet, from where it is easy to search relevant data at any time, free of charge (http://ipsearch.ipd.gov.hk). (GOvHK 2013, 98, 100.) Registrations of patents and trademarks work on a "first-in-time, first-in-right" basis, so it is advisable to apply for trademark and patent protection before even selling the product in Hong Kong (U.S. CS 2014, chapter 3).

As a downside, Hong Kong's property prices are increasingly high due to credit expansion and tight housing supply conditions. Consumer prices have also increased by more than four percent in 2013, whereas in China they increased by 2.6 percent since 2012. It is more and more difficult for lower and middle-income population to afford proper housing in Hong Kong. (CIA 2014b, cited 12.11.2014.)

6.1 Small electric home appliance market in Hong Kong

To maintain their cost competitiveness, many manufacturers of Hong Kong small electric home appliances industry have relocated their production to the Chinese mainland. The main offices, however, have remained in Hong Kong. Hong Kong companies emphasize quick response and effective services to their customers. Furthermore, Hong Kong companies have given importance to quality assurance ad environmental management systems, and are accredited with various ISO standards. (HKTDC, 2014c.)

The following diagram shows how the sales volume of Technical Consumer Goods (TCG) in Hong Kong has developed in recent years.

FIGURE 5. Development of sales volume of Technical Consumer Goods in Hong Kong (GFK 2014b, cited 3.11.2014)

According to GfK TEMAX report, the sales turned double digit growth in all small domestic appliances (SDA), dental care, hair stylers, rice cookers, shavers and vacuum cleaners. Total revenue generated in SDA in the latest quarter was HKD538 million. The Hong Kong TCG market will largely be dependent on local domestic consumption. (GfK 2014b, cited 3.11.2014)

6.2 Automatic noodle machines in Hong Kong

In chapter *5.* the Chinese automatic noodle machine market was studied and the same method of comparing the current products on the market is applied here. In this chapter, Hong Kong's five biggest home appliance retailers; Fortress, Suning, Broadway, Pricerite and Wingon, are studied by the noodle/pasta machines they have on sale. Multifunction machines are left out from this comparison, as needed extra attachments to make noodles or pasta are not found from these stores.

TABLE 3. Home appliance retailers in Hong Kong and the noodle/pasta machine on sale.

NAME OF RETAILER	NO. OF OUTLETS	NOODLE/PASTA MACHINE ON SALE	COLOR /MATERIAL	PRICE (HKD/RMB)
Fortress	Hong Kong: 97 Macau: 6	German Pool PAM-181	white, red, silver	HKD 2880/ ca. RMB 2 317.5
Suning	Hong Kong: 31 China: 1600	No noodle machines in Hong Kong e-store	-	-
Broadway	Hong Kong: 39	PHILIPS HR2355	White&purple plastic	HKD 1298/ ca. RMB1 046
Pricerite	Hong Kong: 30	German Pool PAM-181	white, red, silver	HKD 1980/ ca. RMB 1596
Wing On Department Store Group	Hong Kong: 5	PHILIPS HR2355	White&purple plastic	HKD 1233/ ca.RMB 992

In Hong Kong the automatic noodle machine market is a lot different from China's. The selection of machines is a lot narrower and only two brands can be found from these stores – Hong Kong based German Pool and Philips. The prices of these products are somewhat similar to the ones on Chinese online and offline stores. Although the Chinese Suning online store has a wide selection of different kinds of automatic noodle machines, Suning in Hong Kong has not even a single automatic noodle machine on sale. *(Fortress 2013;Suning 2014;Broadway 2015;Pricerite 2014; Wing On 2015 , cited 15.2.2015.)* The demand for automatic noodle machines is clearly not as big as in China.

Eating out in Hong Kong is more of a rule than an exception. There is a wide variety of cheap and expensive restaurants with styles from all around the world. Jin Wong (2014), a blogger in Hong Kong, writes that eating at home is not necessary any cheaper than buying a meal outside. In addition, instant noodles and ready-made pasta is relatively cheap and a lot easier to make compared to homemade pasta and noodles. Hong Kong apartments around the city are small and logically, the kitchens are not big either. Thus households have limited space to accommodate appliances. However, according to Wong (ibid), the quality on takeaway foods is not as guaranteed as on home cooked meals and people has got more conscious on safety issues and nutrition values of food products.

7 CONCLUSIONS

As one of the world's biggest consumer markets with a fast growing middle class, China can offer vast opportunities for Polar Device and its product. The economy continues to develop and Chinese consumers are getting wealthier and some key trends, such preferences for quality and concerns about product safety are shaping the purchasing behavior and thus increasing demand for quality consumer goods. People are searching ways to make their everyday living more pleasant with products that are not only practical but also appealing by their design. Internet has also influenced shopping and opened doors for growing e-commerce.

The Chinese market, however, in addition to its complexity, is highly competed which possesses its own obstacles for companies. The risk of replica, targeting to right areas in a country, pricing and marketing strategies, and finding most efficient distribution channels and partners to work with, are some of the issues a company will face. In addition the Chinese government allows extra benefits for local brands, which again isn't benefitting the foreign companies. Thus risks are not insignificant.

In general, the consumers from second- and third-tier cities are more concerned about the price of products and care more for multi-functionality. Brands can also be of secondary value. In first-tier cities, such as in Beijing and Shanghai, the consumption concepts of customers and level of knowledge is much higher and product quality, design and features overcome the price factor. A good selling point for fully automatic noodle machines would be to highlight and market the food freshness and safety benefits.

The starting point for operating in China is to understand that without a partner it is difficult to succeed and that one cannot cover whole China at once. It is crucial for a firm to target themselves well and build a good contact network to gain market success. A local partner is many times needed to help with marketing, distribution and resale and thus the selection of a good and reliable partner is important. New brands, in particular, will invariably involve a start-up period in which a company has to be prepared to personally visit the markets and meet the local distributors and possible partners.

For companies with little resources the focus could be on e-commerce, as it is constantly growing and it is cheaper compared to the traditional brick and mortar. All the biggest retailers have an online store and all the leading kitchen appliance brands have taken steps towards e-commerce. However, the product has to be promoted and advertised. The company needs to strengthen its brand in order to appeal to the buyers.

A new product can be tested to see whether it shows promise for success among Chinese consumers. This could be done by selling the product online as it is a cheap way to test the market. However, it should not be forgotten that the Chinese customers appreciate companies having a local presence and thus one cannot solely rely on online channels. Another option would be to take the product first to Hong Kong, as it is a good gateway for new exporters looking to access Chinese markets and to test market new products. However, cooking at home is not as common in Hong Kong as it is in China. In addition, the apartments in Hong Kong are generally small and the product, which - according to the commissioner, is the same size as a microwave oven, might not fit into this market as well as it might in China. Lack of demand might also be the reason, why there are only two different brands of automatic noodle machines on the Hong Kong market.

The Chinese market for noodle making machine is rather big and Polar Device will face a lot of competition if it will decides to enter China. In addition to competition from other noodle making machine manufacturers, ready-made noodles are also extremely cheap and largely consumed. The domestic brands dominate the mid- to low-end market whereas western brands might have better opportunities on the premium segment. As mentioned, in the first tier cities, price is not an issue. It is the quality, brand, product features and design that matter the most.

The entire small kitchen appliance market is growing steadily. However, as mentioned the so-called lifestyle kitchen appliances, like food processors and thus also noodle making machines, have passed the stage of market penetration and the market growth has slowed down. Therefore in order to succeed in this market a company has to find some additional value it can offer with the product. People want new innovations with great design and upgraded product features.

As we could see on the competitive product analysis, multifunction machines made out of steel are priced a lot higher (from RMB2600 to RMB9000) but have still received good reviews, at least according to SAI's market research. Best sellers, are the Chinese brands which are made out of plastic and are priced from RMB380 to RMB1300. Polar Device could adjust its pricing to fit the scale from RMB2000 to RMB6000, depending on where the manufacturing is located and also depending on which cities it will target. The material should also be steel in order to compete on high-end market. Again, the more the company is able to build its brand image and popularity, the less the pricing is an issue.

To capitalize on the opportunities in this growing market, Polar Device has to develop the right strategy for entering the Chinese market and especially built its brand image among the Chinese citizen. Even the biggest Western brands such as Philips, Whirlpool, and Electrolux are struggling to gain good share of the Chinese market and thus the struggle will be even greater for a small business start-up. In addition, although Polar Device has applied for a patent for its product, there is a huge risk that the product and its technology will be copied at some point.

In closing, it is essential for the commissioner to understand that market situation and potential will not remain constant and unchangeable – they are continuously shaped by the surrounding environment. Customers' spending on certain products is influenced by current trends, changes in wages and overall economic situation on the market, and thus affect the product's overall market potential.

8 DISCUSSION

Outi Sutinen, a senior lecturer of Oulu University of Applied Sciences, suggested the thesis project. Due to a tight schedule and author's whereabouts, the author was able to have only two meetings with the commissioner before starting the thesis. The beginning of the process felt rather confusing and it was difficult to know how to start because the subject wasn't clear enough. The subject, however, got clearer after finding out what kind of information the author was able to utilize in the thesis. A few emails were also sent between the author and the commissioner to discuss the thesis topic.

Completing the thesis according to the original plan and schedule was slightly delayed due to various reasons and commitments. The largest obstacle faced by the author when writing the thesis was to get a coherent and comprehensive research that would give useful and reliable guidance to the commissioner. The commissioner's original wish was to find out the overall market potential of automatic noodle machines in China and to gain concrete or quantitatively measurable estimations to help the company to apply for funding. However, due to lacking internal sources or even knowing the possible capacity of the company, it is out of the author's competence to decide whether entering China is financially profitable or to try to estimate future sales or market share for the commissioner. Information provided in this report is intended to provide the foundation for company's strategic planning while further sector-specific research should be completed before entering the market.

By the time of the first seminar, when the thesis was nearly finished, the commissioner informed the author about the market research that was conducted by SAI (Strategy Analysis International – a market research and consulting company). For the author, SAI's market research was useful as it provided information on the products that are sold in Shanghai and also how these products are segmented and thus gave a wider spectrum on the overall market situation. It was also useful to see that the findings from a real market research company supported the author's own findings and observations.

The process related to the thesis has given the author a better understanding of the market research process as a whole. The thesis has also been very interesting and useful for the author due to author’s personal interest towards China and the Chinese culture. A further development task for the company could be to develop a thorough strategic plan for entering China.

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