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THE MARKET POTENTIAL OF SINO-  
FINLAND TRADING: EXPORTING  
FINNISH PORK TO HUBEI CHINA

Business Economics and Tourism

2015

## TIIVISTELMÄ

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Opinnäytetyön nimi	Markkinapotentiaalin arviointi: Suomalaisen sianlihan vienti Hubein alueelle Kiinaan.
Vuosi	2015
Kieli	Englanti
Sivumäärä	57+ 3 liitettä
Ohjaaja	Satu Lautamäki

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Suomen nykytila hillitsee maataloustuotteiden vientiä. Siihen vaikuttavat tietyt poliittiset tekijät ja ylituotanto. Suomi, samoin kuin muut Euroopan maat kamppailevat nyt etsiäkseen uusia markkinoita vapauttaakseen ja kuluttaakseen tuotteita, joista on ylituotantoa. Kiina on näin ollen erittäin hyvä valinta sianlihan ja maitotuotteiden vientimaaksi Aasiassa. Sianliha on johtava tuoteryhmä, koska Kiinassa sianlihan kulutus on suurta. On tärkeää arvioida markkinoita ennen sianlihan vientiä, jotta voidaan välttää riskejä ja päättää liiketoimintastrategiasta.

Tutkimuksen tulos tarjoaa vertailukohdan Suomen pienille ja keskisuurille maatalousyrityksille, jotka haluavat aloittaa vientiliiketoiminnan. Tutkimusongelmana on selvittää mahdollisuuksia viedä sianlihaa Kiinaan ja keskustella siitä, miten päästä ja sopeutua Kiinan markkinoille, jossa on monimutkainen ja erilainen kulttuuri, liiketoimintaympäristö ja kuluttajien mieltymykset.

Teoreettinen osa ensin selventää markkinoinnin ympäristöä, vaikuttavat tekijät ja mahdolliset menetelmät päästä markkinoille. Lisäksi kuvataan numeerisesti sianlihan viennin tilannetta ja kehitystä asiakkaiden sianlihan kulutuksen valossa. Empiirinen osa hyödyntää sekä laadullista (haastattelu) että määrällistä tutkimusmenetelmää (kysely), joiden avulla kerätään tarkempia tietoja kuluttajista ja markkinoista.

Tutkimustulokset kuvasivat asiakkaiden ostomieltymyksiä ja ruokailutottumuksia sekä heidän näkemyksiään tuontisianlihasta ja hinnoittelusta: sianlihan kulutus on suurta ja sitä ostetaan toistuvasti; odotukset sianlihan laadusta ovat korkeat; Kiinassa on erittäin keskitetyt paikat ostaa lihavalmisteita; asiakkailta on selkeä tieto lihan hinnasta, jota he ostavat ja näkemys hyväksyttävästä hintatasosta tuontisianlihalle; tuontisianlihaa voidaan myydä ravitsemusalan teollisuudelle. Tutkimuksen lopuksi esitellään johtopäätökset ja jatkoehdotukset.

## ABSTRACT

Author	Xi Song
Title	The Market Potential of Sino-Finland Trading: Exporting Finnish Pork to Hubei China
Year	2015
Language	English
Pages	57 + 3 Appendices
Name of Supervisor	Satu Lautamäki

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The current status of exporting Finnish farming products is restrained by current political factors and over-production. Finland, as well as other European countries are now struggling to seek for new markets to release and consume the products that have been overproduced. China, as a result, becomes a very good choice as a representative importing country for pork products in Asia. Pork is the leading product category on the whole Chinese meat consumption with large demand. It is of great significance to evaluate the market of pork business before we enter the market thus helping avoid certain risks and deciding the best business strategy.

The results of the research could in a sense be a reference for the Finnish small and medium-sized farming companies that hope to develop their exporting business. The research problem is to identify the possibility to export pork to China and discuss how to enter and adapt to the Chinese market since the market is complex and special in cultural, business environment and consumer preferences. The theoretical study will first examine the marketing environment, influential factors and possible methods for entering the market. In addition, official and supportive figures are collected about the import of pork and trends on customers' consumption of pork while the empirical study exhibits both qualitative (an interview) and quantitative method (a survey/questionnaire) to collect more accurate feedback and better insight.

The research results show the preferences of the customers in purchasing meat and reveal their eating habits. Also questions regarding the imported pork, price setting and expectations show a lot of potential for the pork business: pork mainly consumed with relatively frequent purchasing; high expectations for the features of imported pork; highly centralized places to buy meat products; a clear price range for meat customers buy and what is acceptable price of imported pork; there is a possibility to sell imported pork to food service industry and by-products utilization. At the end of the study, conclusions and suggestions are presented.

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Keywords     Market Potential, Marketing, Exporting, Pork, China

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# **1 INTRODUCTION**

The thesis deals with possible and effective exporting activities from Finland to China and focuses on pork. The research concerns an association of Finnish farmers and their own companies with the aim of finding out the market potential in China. The first chapter aims to present the overall framework of the thesis. Scope, the structure of the thesis, research problems and objectives are all indicated. In addition, the limitations of the research will be stated and analyzed.

## **1.1 Scope of the thesis**

The current status of exporting Finnish agricultural products is serious and restrained by political factors. The biggest neighbor country Russia cannot guarantee smoothly running trading activities like before. Finland, as well as other European countries are facing this situation and hoping to consume the overproduction by exporting to new markets.

China was chosen as a representative importing country for pork in the Asian region. Importing foods especially from these developed industrial countries is relatively safe from many Chinese perspectives as Chinese realize those countries have very high standards in food quality control and testing. However Chinese government has toughened the controls on importing milk in recent years and many individual buyers depend on agencies to buy imported milk powder. The market indeed exists with quite a lot demand. The situation for pork business is quite satisfactory and promising since the Chinese government has opened the door with supportive policy. The aim is to analyze the market potential by figures from relevant policies, regulations and efficient empirical works.

## **1.2 Research Problems and Objectives**

The research problem of the thesis is to identify the possibilities of exporting pork to China as well as to examine how to achieve the business with an integrated and comprehensive analysis of the macro and micro market situation and how to enter the markets. Furthermore, the thesis will present the preferences of Chinese con-

sumers' appetite, purchasing behavior and cultural issues regarding the importing of pork and milk powder.

The objectives of thesis could be listed as following:

- Assessment of the market potential with reliable figures and convincing description.
- To theoretically describe the main influential factors of the business in a marketing view.
- Provide detailed information on the trade barriers; regulations or positive policy support in newest and official data.
- Effectively implement the practical section and analyze the data acquired.
- Come up with conclusions and constructive suggestions for the business.

### **1.3 Structure of the Thesis**

The thesis consists of five main chapters with both theoretical background and empirical framework. The opening chapter introduces the contents of the thesis generally and indicates limitations of the thesis.

Chapter 2 is divided into 3 sectors contributing to the theoretical foundation. It starts with an overview on market. The eastern market requires high attention to its difference on the operation model of business, lifestyle of people and cultural issues. Afterwards different market entry modes and strategies will be presented respectively in accordance with export motives, barriers and other concerning matters. The second sector of this chapter furthermore describes the distribution network and the last part focuses on the pork business in Chinese market environment while offering segmentation and comparison of competitors.

Chapter 3 is the transition from the theoretical study to the empirical study. This chapter describes the research approach, design and method and combines the theoretical knowledge when preparing for the empirical work. Also validity and reliability will be discussed as well as the collection methods.

Chapter 4 exhibits the result of empirical works with integrated data and feedback. In this part, questions are specified in detail with corresponding figures and tables.

Chapter 5 is the final section of the thesis, which precisely summarizes the results of the research and comes up with suggestions and recommendations for the exporters when entering Chinese the market.

#### **1.4 Limitations of the Thesis**

Generally speaking, if a research aims to evaluate the whole Chinese market, the research should cover samples as much as possible since China has the quite large population and regional distinctions. However, due to the limitation of time and other resources, the empirical survey is conducted in one provincial range. There are over one thousand responses but mainly from residents in Hubei province. So the results and conclusions could not cover all the provinces or big cities in China. However some provinces have many features in common such as Hunan, Sichuan in which the income level, eating habits and spending habits are similar to Hubei. Secondly, it would be better to have several representatives in this industry to present their views but due to time limitations, we had to focus on respondents and interviews from a small Chinese pork enterprise.

## **2 THEORETICAL BACKGROUND**

Companies that want to expand their business abroad really need comprehensive knowledge of the market. International firms need three types of knowledge: (1) foreign business knowledge, (2) foreign institutional knowledge, and (3) internationalization knowledge (Kuada 2008, 26). Basically they need to cover the knowledge about the suppliers, clients, competitors and the market. Government policies, bureaucratic rules and culture should also be taken into consideration. Moreover, they need to know how to do business outside the home country. In this case, theoretical background of the thesis is exhibited in Chapter 2 in which the essential knowledge of marketing as well as the information of Chinese market is presented.

### **2.1 Market Analysis**

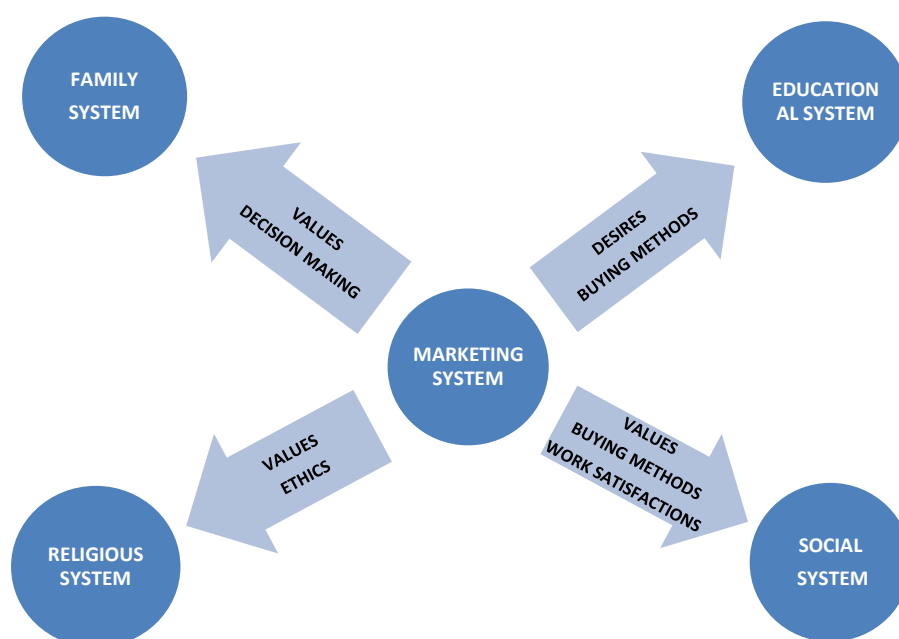
Managers need to identify what would hinder the business and possible risks to accordingly come up with the best strategy and solution. They should have deep insights in the marketing activities to meet customers' needs and achieve business objectives. Therefore, analysis of the target market is required when deciding to enter the market and adapt to it.

#### **2.1.1 International Marketing**

International marketing is defined as "*The application of marketing principles to more than one country*". (Geetanjali 2010, 1) This business term is simply regarded as an extension of exporting activities cross-nationally from many American and European points of view according to Geetanjali. But it is a distinct type of marketing that calls for added skills. Those skills could be classified into two categories that focus on organizing marketing activities and adapting to foreign markets respectively. To specify, the first type calls for the ability to master the complexity of external environment from different dimensions such as economy, policy or regional/national cooperation thus correspondently making the most fitting plan. Moreover, this kind of skill even involves strong mental work that concerns global business situation or trend in specific industry and quick reaction to unex-

pected changes. Additionally it requires analytical ability to work out efficiently regarding those influential factors to the plan such as competition level, costs, regulations etc. The second category of skills, on the other hand, is more targeted and contributes to smooth adaption, exploration and expansion of the purposed foreign market. International marketing is a behavior that puts us in others' shoes in order to think like they think and furthermore meet their preferences, tastes, images of products, habits via adaptive promotion, distribution etc.( Fayerweather 2001, 3)

Marketing, traditionally regarded as a role of physical action through which the commodity moves to the consumer step by step. But it should be noticed of its interaction to the society which could be seen in the Figure 1.



**Figure 1.**Relation of marketing to the basic systems of society (Fayerweather 2001, 21).

As is shown in Figure 1, marketing activities interact with family system, educational system, religious system and social system. Different connections result in different impacts on people's values, desires, ethics and other social behavior. Marketing activities should comply with the feature of the market. When market-

ing the products to low-income countries where the society as well as the economy develops slowly, marketing programs and distribution channels should be simple and direct as the types of commodities in need are limited. Not much people are involved in industrial field and most of them only expect essential goods like food, clothes. In very poor and undeveloped areas, things are made in own labor and seldom be sold at a formal place in standardized environment. Hence, marketing system becomes a place letting people have access to basic exchange activities even the transaction amount or commodity volume is quite small.

### **2.1.2 Export Motives & Barriers**

Global marketing refers to marketing activities by companies that emphasize reduction of cost inefficiencies, opportunities for the transfers of products brands and other ideas across subsidiaries, emergence of global customers and improved linkages among national marketing infrastructures leading to the development of a global marketing infrastructure (Moutinho and Chien 2007, 274). Based on that, companies come up with various strategies to step into international market such as export, licensing, joint ventures, direct investment abroad and so forth. Export hence becomes firm's remarkable choice with multiple proactive motives and reasons. Developing new products to export or exporting existed products could help achieve the revenue or growth objectives and be engaged in larger scales of economies thus gaining more opportunities. Additionally, it enables firms obtaining large market information and optimizing the management to apply to the international marketing activities. By connecting to foreign markets, firms furthermore enhance their technology competence and learn from competitors.

Apart from those benefits, there are other crucial reasons forcing the companies to export their products. Most common causes are market saturation, declining profits or foreign demand. Enterprises would even feel being pushed to the international stage and join the global business competition no matter what their original intention is. They would even pay for their attempts and afford failure. In 1990s, Apple sold their PCs to Asia in order to extend their domestic success but failed

since the customers could not find significant value of the PC which equals to its price.

Currency value also has a great impact on motivating the export activities especially when the exchange value is not stable and frequently fluctuates. Domestic companies find it very difficult if the currency value decreases while they need to import the raw materials from other countries to fulfill the production. In contrast to this kind of companies, there are others who are capable of flowing the cash and increase their business exposure exporting specialized goods or superior service overseas. In some cases, they regard exporting as a water-testing or a pre-production approach as exporting would tell them the real demand, customers' reflections or expectations conducing to firms' penetrating the market later on.

But what hinders export? In the initial stage, the internal factors mostly restrain exporting activities according to Hollensen (2001). Key barriers involve lack of sufficient finance, knowledge, foreign market connection, capital for expansion, capability for operation overseas etc. Hollensen (2001) further classifies the risks/barriers in the exporting process into three groups: general market risks, commercial risks and political risks. General risks are met by most exporters when they are not familiar with foreign market environment and their buyers. They would encounter problems such as comparative market distance, competition in foreign market, differences in product usage or recognition or poor interaction with foreign buyers. Beyond that, commercial risks are most from financial aspects of the company concerning issues such as exchange rate fluctuation, defaults of buyer, delays or damages of commodities and relevant disputes. Moreover, political risks even call for your caution since your exporting activities are approved or constrained under both importing countries and host country. A company should master the export knowledge comprehensively and deal with the complexity.

### **2.1.3 Market Entry Strategy & Export Modes**

A market entry strategy is to plan a method of delivering goods or services to a target market and distributing them there when importing or exporting services, it

refers to establishing and managing contracts in a foreign country (Geetanjali 2010, 166). Companies are free to choose whether they manufacture the products by themselves domestically or exactly at the market there, or find an alternative between them. Their strategy for the market is up to their financial capability, product life cycle or characteristics of the product. Following are the different modes of enter the international market. Among those methods, exporting is focused on in this thesis. As Table 1 indicates, there are three types of exporting: direct exporting, indirect exporting and cooperative export modes.

**Table 1.** Different Modes of Entry to International Business (Rao 2010, 50).

<b>I. EXPORTING</b>
1. Indirect Exports
2. Direct Exports
3. Intracorporate Transfers
<b>II. LICENSING</b>
4. International Licensing
<b>III. FRANCHISING</b>
5. International Franchising
<b>IV. SPECIAL MODES</b>
6. Contract Manufacturing
7. Management Contracts
8. Turnkey Projects
<b>V. FOREIGN DIRECT INVESTMENT WITHOUT ALLIANCES</b>
9. Green Field Strategy
<b>VI. FOREIGN DIRECT INVESTMENT WITH ALLIANCES</b>
10. Mergers and Acquisitions
11. Joint Ventures

Direct exporting happens when the exporter/seller sells directly to the importer/buyer in a foreign market place. In this case, companies are relatively confident in handling their own exportation while foreign-based agents or distributors are included in this direct exporting mode. Direct exporting practices generally require great initial outlays of funds, personnel, and other resources, and they are generally regarded as riskier in nature than indirect exporting options (Geetanjali 2010, 179). If it is done successfully, the profit could be considerable, according to Geetanjali. They should firstly ensure a buyer and then undertake all arrangements to deliver the goods to the buyer. There are several ways for companies to make direct exporting, says selling the goods directly to the end-user or a retailer instead. Therefore, the process chain is shortened and the consumers even could enjoy a lower price. Furthermore, exporters are able to have deep personal con-



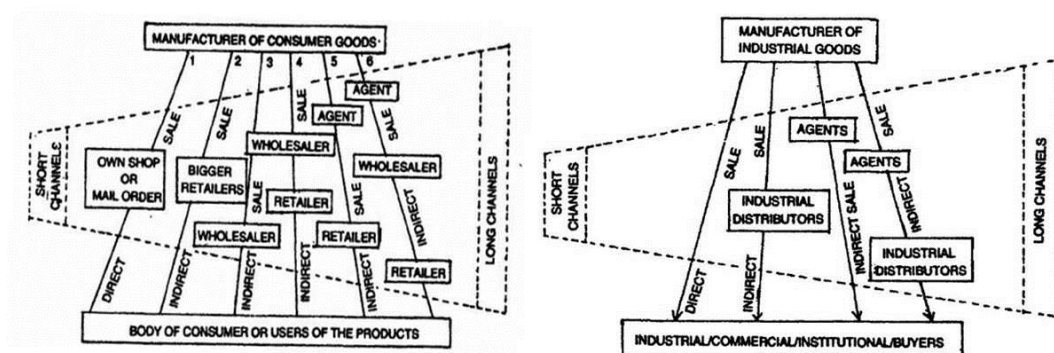
tacts with customers and obtain market information on their own. What's more notable is that they have virtually cultivated the market and gained potential via this method. Additionally, intermediaries like distributors or agencies could be taken use of by the exporters when they have a need. Generally these intermediaries are very familiar with the local market, customs and conventions, have existing business contacts and employ foreign nationals according to Hollensen (2001). But they have differences regarding the profitable methods or other special requirements since distributors usually seek for an exclusivity while agents concerns their commissions a lot. Companies might benefit from their efforts on improving sales but received little if they hope to have some feedback or nurture a new market.

Indirect exporting is exporting the products either in their original form or in the modified form to a foreign country through another domestic company (Rao 2010, 51). This method is applicable for companies who are relatively conservative in devoting major resources to the international business and are willing to infiltrate the market gradually and test it at the very beginning. For companies who have little capability to expand the market or dare not take the risks, indirect exporting also takes effect via certain entry modes such as export buying agent, broker, export management company, piggyback etc. Under this premise, exporters are almost released from virtual risk. However they should consider those negative issues as they can manage little on the way their products are marketed in foreign countries. Hence their business reputation could even be influenced since they fail to control their distribution channels and associated service, prices, intermediary networking etc. Firms might lose opportunities or potential market in this situation.

Cooperative export mode refers to a company selling its products to its affiliated company located in the host country. Both parties should basically know the export/import policy and regulations and collect information from customers' reflections. Also, they share logistics network, different types of costs and furthermore bring a system sales to the customer. But firms should notice there is possible unequal risk sharing or reluctance to sacrifice their complete independence (Rao 2010).

### 2.1.4 Distribution Channel and Chinese Distribution System

The term distribution channel, which can also be called marketing channel or channel of trade, is the frame system of the distribution. The distribution channel is defined as the chosen way to take the goods from the manufacturer to the consumer (Fernandez 2008, 7). The most common routes used for bringing the products from producer to the consumer for both consumer products and industrial goods are as follows (Hundekar, Appannaiah and Reddy 2010, 168).



**Figure 2.**Major Channel Options (Hundekar et al. 2010, 168).

A manufacturer may use different channels, at different times, for different products, in different markets (Hundekar et al. 2010, 169). The shortest channel is that the goods are directly sold to customers such as advertising, mail order selling, retail shops of manufacturer etc.

The second approach ‘Manufacturer – Retailer – Ultimate consumer’ is more preferable when buyers are large retailers such as chain stores and supermarkets. In this case, the manufacturer needs to perform all functions of a wholesaler such as storage, transportation, insurance etc.

The third channel is ‘Manufacturer – Wholesaler – Retailer – Consumer’ that is popularly used in which the producer usually has limited financial resources and relies on the wholesalers for their specialized and strong promotional support. In addition, their products are required to be durable.

The fourth channel is long and consists of five roles which are manufacturer, agent, wholesaler, retailer and consumer. Producers should consider the length or the density of the channel on the basis of their strategic plan and resources. The number of middleman or intermediaries and the amount of the outlets of the goods should be in accordance with other components of the supply chain. As a general rule, companies whose products required tight quality control have short distribution channels while those with products that are less sensitive can afford longer distribution chains (Curry 2008, 115).

The last approach is 'Manufacturer – Wholesalers– Consumer/User' in which the wholesalers by-pass the retailers and sell the products to large and institutional buyers such as hospitals, educational institutions, governments etc. (Hundekar et al. 2010, 169).

China, as an example of emerging market country, had three levels of distribution network before the economic reform in 1979. The first level contained companies that were only located in Tianjin, Shanghai and Guangzhou. Companies in these areas procured domestic products and imported goods and allocated them to companies belonging to the second level of the distribution system. Usually companies from the provincial capitals, which passed the goods to wholesalers from different towns or counties, were at the second level of the distribution system in China. Wholesalers then passed the goods to regional retailers. The Chinese distribution system represented a regional protection, which included the retailers could only receive the products from wholesalers in the region they are assigned to. The members in Chinese distribution system depended on each other leading to a close relationship between them (Fernandez 2008, 77). However, the situation changed and the Ministry of Commerce did not regulate or tightly control the channel members anymore since the economic reform. The Chinese administration has done a lot to transfer the retail area from the historic supply-driven structure to a demand-oriented one and promoted retail establishments such as individual enterprises, state enterprises, joint ventures and overseas Chinese enterprises (Fernandez 2008, 79)

For the marketer, channel choice is a long-term decision and involved with various factors. Dhotre (2010, 8) presents the influential factors as follows:

1. Nature of product
2. Nature of consumer
3. Middlemen considerations
  - (a) Cost of channel
  - (b) Suitability of middlemen
  - (c) Availability of middlemen
  - (d) Legal regulations and restrictions
  - (e) Cost of maintaining middlemen
4. Company considerations (Company refers to manufacturing organization)
  - (a) Company's capabilities, i.e., availability of all types of resources
  - (b) Company's distribution policy and organizational structure
  - (c) Company's sales targets and profit margins in the sales of goods
  - (d) Market coverage/desired intensity of the distribution
    - (i) Exclusive distribution
    - (ii) Selective distribution
    - (iii) Intensive distribution
5. Market considerations
  - (a) Nature of the market
  - (b) Market size
  - (c) Spread of the market
  - (d) Size and frequency of customers' orders
6. Competitors' channel

At this stage, international marketers should know what type of distributor that is needed and the required criteria of the potential candidates. The examples of distributor (dealer) selection criteria, according to Hollensen (2001), are as following: financial soundness and depth of channel member; marketing management expertise and sophistication; satisfactory trade, customer relations and contacts; capability to provide adequate sales coverage; adequate infrastructure in staff and facilities; proven performance record with client companies ; positive attitude to-

wards the company's products; mature outlook regarding the company's inevitable progression in market management; excellent government relations etc. In addition to the selection of distributor, the rest jobs are signing distributor agreements, motivating, controlling and termination. Contracting requires the company to be cautious of the intermediaries as well as the contents of the contracts. Companies are suggested to have a visit to intermediary's place and get closer to their channel members. Moreover, they should be careful when drafting the contracts and specify the contents. Items such as contract duration, geographic boundaries, payment section, and conditions of sale and means of communication should be carefully stipulated in the agreement. Companies also need to motivate their channel members though the geographical distance and cultural difference make it difficult. Intermediaries, as independent companies, might seek for maximizing their own profits which may not completely match the company's objective. Hence financial rewards and other types of bonus could be offered since intermediaries strongly care their earnings. Furthermore, controlling aims to evaluate the performance of channel members and the relationship between the company and the intermediary could be terminated due to the poor performance of the intermediary (Hollensen2001, 493).

## **2.2 Chinese Market Feature**

Chinese market is full of potential and opportunities which does not mean the success of business. Investors might fail if they do not understand the feature of the market thus receiving little rewards after investments. There is, however, also a more optimistic point of view. If by 'success' we mean 'profitable growth', that is, 'showing long-term, steady growth while maintaining a profit level acceptable to the owners', most companies actually seem to be doing reasonably well in China (Björkstén and Hägglund 2010, 8). The business climate, culture and consumer behavior would be presented in this subchapter which is helpful for companies who want to steadily run long-term business in China to have better understanding of the market

### 2.2.1 Trade Relationship between Finland and China

Finland, alongside Norway, Denmark and Sweden, was among the very first Western countries to recognize the People's Republic of China. Finland recognized the People's Republic of China on 13th January 1950, and the two countries established diplomatic relations on 28th October of the same year. Embassy of Finland opened a commercial section in 1952 to promote the opening of trade relations between Finland and China. The economic and trade relations between the two countries started to develop rapidly under the lead of Ambassador Carl-Johan Sundström and China and Finland signed the Inter-Governmental Trade and Payment Agreement. It was the first one of its kind between China and Western Countries (Embassy of Finland 2015). In addition, China enjoys the generalized system of preferences since 1980 (European Commission 2015) and now becomes one of the top trading partners of EU as Table 2 presents. The total trade value exceeds the United States and ranks the 2<sup>nd</sup> place just behind the European region member states.

**Table 2.**Total goods: top trading partners 2013 (Finpro 2015).

<b>Total trade</b>			
Partner	Value	Share in World	
	(Mio €)	( % )	
World	2,053,859	100.0	
1 EU 28	360,600	17.6	
2 China	340,591	16.6	
3 USA	237,989	11.6	
4 Japan	108,800	5.3	
5 South Korea	90,229	4.4	
6 United Arab Emi...	78,376	3.8	
7 Singapore	77,328	3.8	
8 Saudi Arabia	63,736	3.1	
9 Russia	56,243	2.7	
10 Thailand	52,366	2.6	
1 EU 28	360,600	17.6	

In terms of Finnish exporting activities, the main trading partners of Finland include Russia, Germany, UK, Sweden, China and the Netherlands (Embassy of

Finland 2014). In addition, the Table 3 exhibits the foreign trade of Finland in 2014 including imports, exports, total balances and main trading partners.

**Table 3.** Foreign trade of Finland in 2014 (Statistics Finland 2014).

	Imports		Exports		Trade balance
	€ million	%	€ million	%	€ million
<b>Main trading partners</b>					
Germany	7 746	13,4	6 699	12,0	-1 047
Russia	8 663	15,0	4 632	8,3	-4 032
Sweden	6 551	11,4	6 209	11,1	-342
Netherlands	3 653	6,3	3 395	6,1	-258
China	3 728	6,5	2 558	4,6	-1 171
United States	2 191	3,8	3 814	6,8	1 622
United Kingdom	1 843	3,2	3 040	5,4	1 198
France	1 837	3,2	1 513	2,7	-323
Estonia	1 517	2,6	1 767	3,2	251
Norway	1 631	2,8	1 547	2,8	-84
Other countries	18 249	31,7	20 655	37,0	2 406
<b>Total</b>	<b>57 608</b>	<b>100</b>	<b>55 829</b>	<b>100</b>	<b>-1 780</b>

**Table 4.** Top ten Finnish export products in Jan-Sept 2013 (Finpro 2015).

Product	Value of exports (million EUR)
Hides, Skins, Furskins and Raw	330.9
Machinery for specialized industries	302.3
Pulp and waste paper	286.3
Electric machinery, n.e.s. and parts	195.3
General industrial machinery n.e.s.	162.8
Power generating machinery and equipment	96.9
Iron and steel	85.7
Paper, paperboard and articles thereof	76.6
Metalliferous ores and metal scrap	74.9
Non-ferrous metals	71.3
Total of top ten, exports to country	1,683

It can be seen from Table 4 that the major exporting products from Finland to China are industrial machineries and leather products. The total of top ten exporting products contributed to 1,683 million euro in the whole amount of export sales from January to September in 2013 (Finpro 2015).

### **2.2.2 Chinese Business Climate**

Chinese business environment, especially for the engagement of foreign enterprises and importing products really experienced birth, growth and blossom. Before the open-door policy, Chinese consumers could hardly get in touch with foreign goods and those importing channels were controlled by the government. Around the 1980s, there were state-owned stores, private-owned companies and more and more foreign companies entering the Chinese retailing business as the joint ventures were approved. As the government loosened the restraints, foreign retailers and overseas brands finally found a place in the Chinese market. The trend continued along with the exposure of massive importing products and brands of both luxury and common goods. There was even a ‘slow period’ for a long period of time and new foreign investors failed to enter the market because of political impact between the 1980s and the 1990s, the giants like P&G suffered from losses but in the end survived and gained a strong position in the Chinese market. During this stage, they spent ten years thoroughly testing and understanding the market, building their brand loyalty and grasping Chinese consumers’ image. Also other multinational companies also won a place in China including Coca-cola, IKEA, ABB, NESTLE. Today, business environment blooms contributing to both national trade and global economy. China, as a super consumer, contributes 1949.99 billion dollars on the total value of imported goods in 2013 according to the National Bureau of Statistics of China.

So, what are the features of the market? Firstly, China is a very big country not a full sector so regional differences always exist. Cultural issue could be learned while internal trade problems like logistics flaw or local policies require extra efforts. In China, national culture is generally affected by the Confucian and deeply influence humanity as well as business practices. Table 5 is an example of the cul-



tural impact on business environment from which it is possible could obtain certain hints for the real business practice. For those cultural differences which are quite distinct from those in western countries, marketers should commit themselves to such distinctions thus making negotiations more effective.

**Table 5.** Confucian Principles and Business Practice (Steers and Nardon 2005, 125).

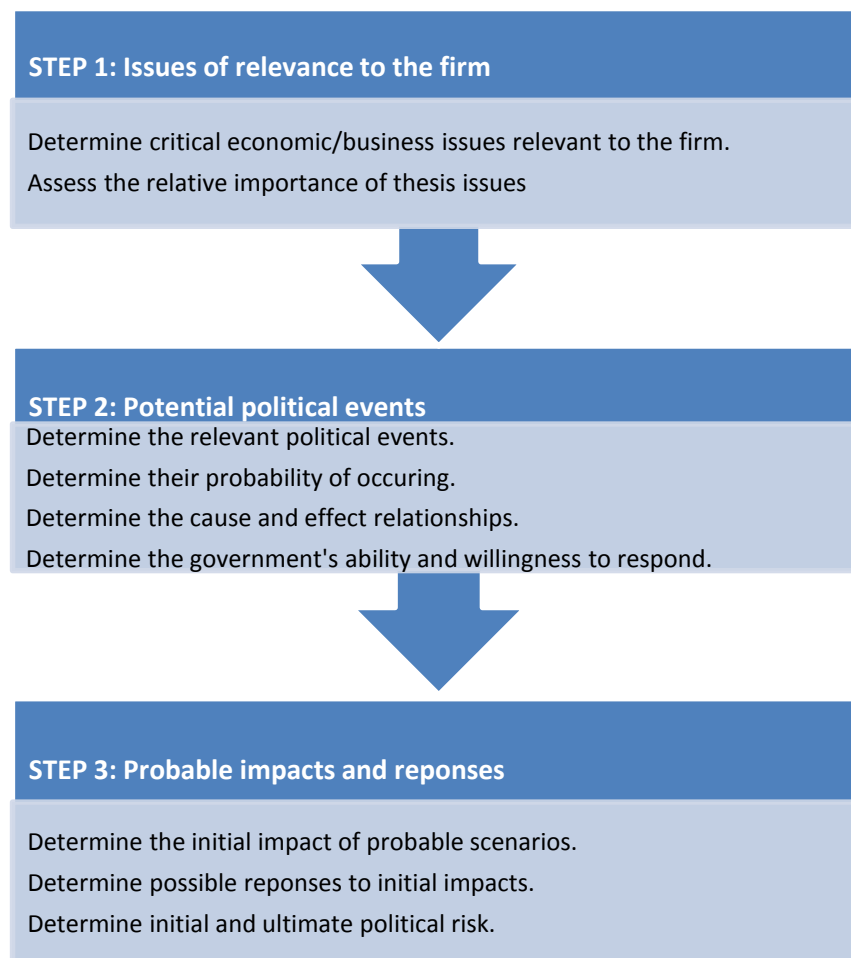
Cardinal Virtue	Role in Business Practice
Filial piety	Employees are expected to show unquestioned respect for superiors, while superiors are obliged to look after their subordinates.
Absolute loyalty	Employees are expected to show absolute loyalty to their employer and follow his or her directives without question.
Seniority	Employees expect to work their way up the organization by following those ahead of them and not by jumping ahead.
Subservience	Sex-role differentiations favor men over women in allocating power and authority in many situations.
Mutual trust and obligation	Trust is an inviolate principle among coworkers and partners, and harmonious relations must be maintained at all costs to avoid losing face.

Secondly, the market development is not balanced and relevant authorities are not powerful all the time. At the same time, China is facing with rapid changes of market like the global does and experiencing roaring revolution in certain industries. But the question is whether they could adapt to the globalization well with correspondently good infrastructure of the market. As Björkstén and Hägglund (2010, 18) indicated, most businesses are relatively new. Business in China is usually rapidly building and growing to keep up with the market, rather than streamlining and consolidating an existing organization. Under this circumstance, it is even important to build up the trust among customers and maintain the market share. Chinese consumers hate being cheated and really care your integrity, quality, and reputation thus requiring marketers to build up their credit and trust no matter you are local firm or multinational company.

Thirdly, the competition in the market is extremely high and intensive even since the beginning of the open-door policy. Global companies rely on their strong resources and background to join the competition for the aim of winning over the local enterprises and achieving long-term benefits, so they would likely use a sharp cutting price strategy. Even many industries are under the control of Chinese authorities; the potential of the market is still there and occupies a very large

share within whole business environment. In addition, as Cherunilam (2010) explained, we should pay extra attention to issues such as business ethics, social responsibilities, and environmental consideration in international business according to the relating requirements in the importing country.

Chinese business development heavily depends on the approval of government and closely relates to the policy. As for foreign new comers, they should measure the political risks and stakes and build up certain relationships with China. Take several big representative countries in the EU as an example, China were shown varying degrees in the attitudes towards different European countries. Germany or France once touched sensitive issues about Tibet thus making China carefully balance the relationship and conflicts. While the northern Europe feels less anxious about China's impact and rise, their connections with China are not as many as France and remain stable. China, on the other hand, keeps the UK at arm's length concerning UK-US relationship and powers. So, grasping the trend of policy changes or national big affairs becomes even more important than before. Figure 3 shows the process on how to analyze the political effect and risk.



**Figure 3.** Three-step process of political risk analysis (Hollensen 2001, 139).

Clearly, the first step relies on how the company evaluates the relevant issues or the magnitude of the importance. The changes of the policy regarding the raw materials or labor could be of the highest concern of the company if they seriously care the product quality and cost. This might not go the same for the company in the same country who focus on developing green energy. Moreover, companies are suggested to understand the potential political event. They should understand what the single event would bring up and the sequential related events. If the current president would end up with his term, the next president and what he announced or proposed should be considered whether they would affect your business in the future. In addition, companies should do forecasting on the basis of the current status and the assessment in step one and step two. The change in a policy does not represent the risk or direct loss of the firm. In many nations, companies

appreciate changes of the policy to be fixed and clear so that they could adjust correspondently and innovate themselves.

### 2.2.3 Consumer behavior in China

Why consumer behavior is studied to figure out how consumers make decisions and what could influence their decisions. As Nair (2009, 5) indicated, consumer behavior can be said to be the study of how individuals make decisions on how to spend their available resources (time, money, effort) on various consumption-related items. Traditional theories on that issue view adults make the most buying decisions since they have years of experience dealing with different types of goods thus possibly making decisions that follow a regular pattern. In addition to that existing theory, according to Hansen and Christensen (2007, 25), brands are managers' prime tool to differentiate their offering from that of competition, thus brands serve the consumer as a quick reference to choices, circumventing reflection and deliberation.

Purchasing behavior comprises the physical action of purchasing as well as relevant factors in priority or after this. Figure 4 presents the consumer decision model.

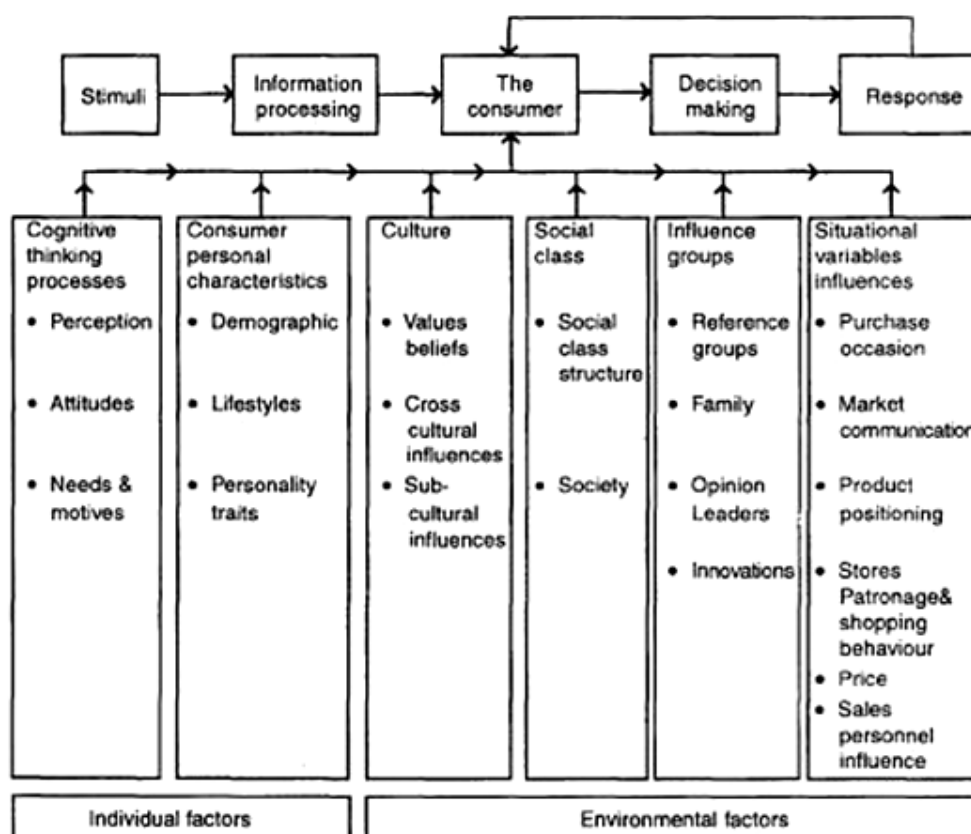
	High involvement purchase decision	Low involvement purchase decision
Decision making (information search, consider brand alternatives)	Complex decision making (Automobiles, autos)	Variety seeking (cereals)
Habit (little or no information search, considers only one brand)	Brand loyalty (cigarettes, perfumes)	Inertia (canned vegetables paper towels)
	Involvement in purchase decision	

**Figure 4.** Consumer Decision Making (Nair 2009, 6).

As shown in Figure 4, different types of products show varying degrees of the involvement of the purchasing decisions. For 'complex' products, such as high-tech product, or products with certain considerable features, people tend to involve more to the decisions and rely on the information they search and compare the

product with alternatives. That decision is more careful and reasoning while some people are highly involved in the decision making but lack related information. Consumers act the purchasing as a habit and showing certain brand loyalty and high brand recognition since they do not have to distinguish the brand from others or evaluate but spontaneously to buy the products. As for the decision making with low involvement, the products generally are daily goods and in many cases are closely connecting to personal habits. For example, some people think it unnecessary to spend time choosing which towel to buy, which color to choose or the durability thus they give little thought of to making decisions and perhaps choose the brand they have chosen before or they appreciate.

In addition to the decision making problem, we need to furthermore learn the factors affecting the behavior. Figure 5 exhibits the influential issues prior to the decision process in the case of both individual buyer and organizational buyer.



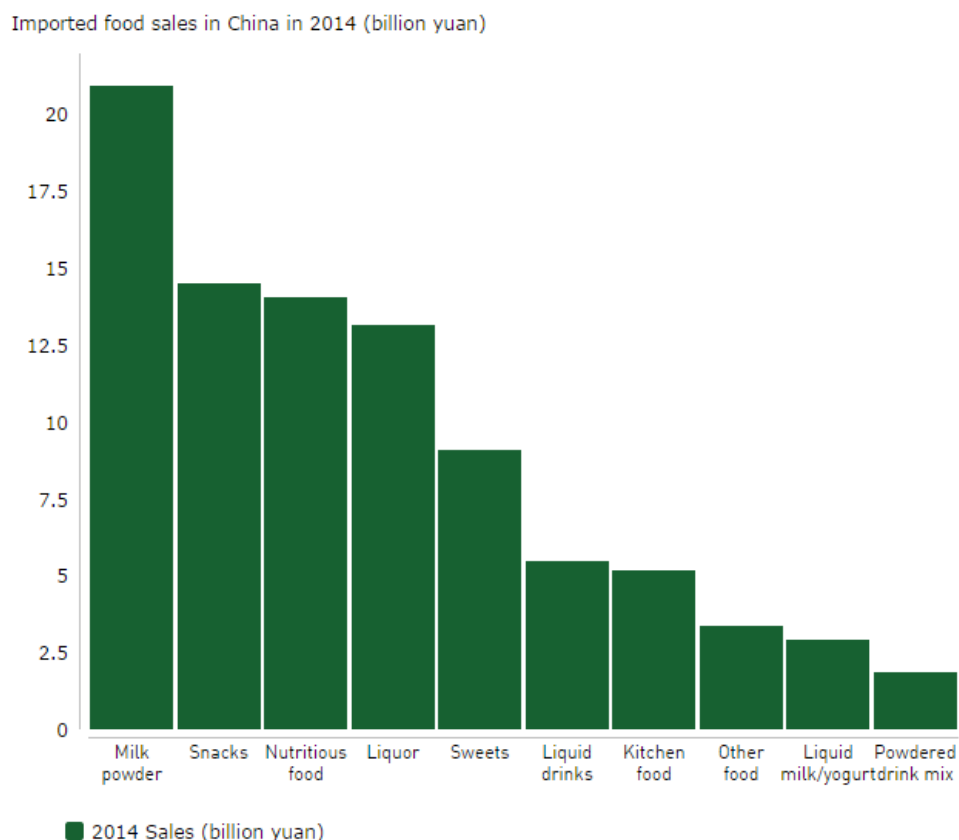
**Figure 5.** The various individual and environmental factors influencing purchase decisions (Nair 2009, 6).

Chinese consumers also share the similarities of those factors above. First of all, the thinking process, as a stimulus, is relevant to the organ senses of a human being that are conducted via sight, sound, smell, touch and taste. In this case, buyers obtain information and form attitudes or cognition of that brand. Chinese consumers do not except from that and rely on advertisements to gain information or have impression. Demographic feature refers to the population group that the customer belongs to base on certain variables such as age, gender or even migration. Life-styles can be demonstrated and classified on the basis of region, income, age group etc. For instance, the majority of people in rural areas live in a very ordinary level and even lower than average but people in big cities offer live a busy and wealthy life which is full of fashionable things and consumption-attractive activities.

When it comes to cultural issues, as mentioned before, Chinese society has hierarchical features and deep-rooted Confucian culture. Chinese people have a common language that can be understood but not completely integrated. People from different regions could have prejudices in a sense referring distinctions in the dialects, food culture, local customs etc. People in Shanghai are more scrimping and dainty on daily consumption and often have a meticulous and exquisite taste of lifestyle. While people in Northeast China region, are forthright in character and not tangled when buying products. They strongly care 'MianZi' which stands for their reputation, social status and the person himself. Under this culture, they are quite generous and want to show their status and high respect towards others. Moreover, foods in Shanghai, Beijing or Suzhou are light tasting and sweet while the food in Sichuan, Hunan or other central provinces is heavy tasting and spicy or salty. Thus, sellers should always be flexible in adapting to features of different regional markets and develop the design, package, advertising to meet people's wants.

Another issue which the Chinese are particularly concerned with in the recent years is food quality. Actually, they also care about the quality of other products like furniture and hate fake products. Fakes in China are not only the problem of credit, but also relating to tort behavior, quality, health, unfairness to the relevant

industries etc. However people are concerned with food most since it most closely relates to their health and the growth of next generation. They trust more on the quality of imported products and show an increasing trend to buying importing food.



**Figure 6.** Imported food sales in 2014 (Kantar 2015).

Figure 6 shows the sales of imported foods in China 2014. The price unit used is billion Yuan. The food categories from left to right are as follows: milk powder, snacks, nutritious food, liquor, sweets, liquid drinks, kitchen food, other food, liquid milk/yogurt, and powdered drink mix. As we can see, the sales of milk powder rank the 1<sup>st</sup> place, which is over 20 billion Yuan. Generally there is large demand for imported products in Chinese market.

### 2.3 Chinese Pork Business Situation

The SWOT analysis in this subchapter would provide a general view of the pork business and the basic information of the meat industry in China is presented ac-

cordingly. In addition, the pork importing process is exhibited in details which could be adopted by the exporters.

### **2.3.1 SWOT Analysis**

The analysis of strength, weakness, opportunities and threats brings together the results of the analysis of the firm (internal), the environmental analysis (external) and the portfolio analysis. A SWOT analysis allows you to look at the strengths and weakness in the context of the opportunities and threats (Friend and Zehle 2004, 85).

- **The Strengths of Finnish pork**

Finnish pork industry has very high standard of quality and pork is the biggest meat seller in Finland. The national quality strategy and national animal health care regulations furthermore ensure the quality and safety. In addition, Finnish farms are obligated to obey the regulations of animal protection law. In 2010, the regulations became even stricter with added inspections and controls throughout the production chain. Pigs are only fed with Finnish grains which use very small amount of pesticides and come from recognized breeds such as Yorkshire, Hampshire and Duroc (Ministry of Agriculture and Forestry 2010).

In addition, the Food Quality Association and the Finnish Meat Industry Association have put a good practice of pig chain production that the farmers have to follow. It describes e.g. animal material, production methods, facilities, feeding, caring of the animals and meat production. Moreover, the Finnish Meat trade Association (LKL) acts as a consultative body and economic policy adviser for the private meat supply branch (Lihakeskusliitto). Member could enjoy consulting service from the association and other service such as informing the latest structural changes of the legislation, trends, and projects. Furthermore, Finnish meat trade association has close contacts and cooperation with organization that share the same objectives which aim to enhance the meat industry's equal and balanced business opportunities and general appreciation. Examples are ETL, Finnish Food Marketing Association, the



Central Union of Agricultural Producers and Forest Owners, Ministry of Agriculture and Forestry. (The Finnish Meat Trade Association 2015)

- **The Weakness of the Pork Business**

Exporting Finnish pork to China started from January of last year since Chinese government issued the export license of pork to Finland. Therefore Finnish pork exporters have not accumulated enough experience and understanding of Chinese pork market over a long period. Moreover, the exporting products are frozen pork while the majority of the meat consumption in China is fresh meat. So exporters could only focus on the small amount of people rather than spreading their business to every region. Additionally, the cost of long transportation chain and technology required to design, store and pack the goods should be considered.

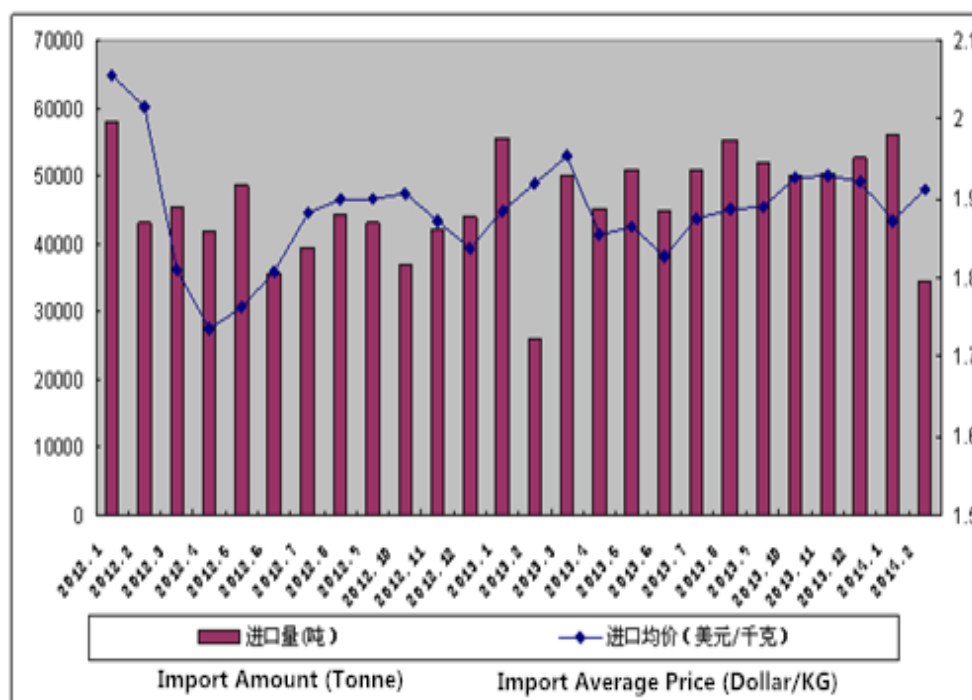
The process of exporting pork to China could be complicated and time-consuming. Finnish exporters, especially for those small and medium sized companies, might have difficulties and need intermediaries to overcome difficulties of entry and handle the distribution and selling which in turn increases the costs.

- **Opportunities for the Finnish pork exporter**

Two representative meat companies HKScan Group and Atria have successfully got the permits to exported Finnish pork to China since 2014 (News Agency Xinhua). It was really promising for future exporters of pork products. Moreover, the market share of consumption of frozen meat would possibly improve to 30% and decrease the share of consumption of warm meat to 50% above the county level (Ministry of Industry and Information Technology 2013).

In addition, imported pork gains great superiority in its price and the majority of imported pork is frozen pork according the Chinese national industrial research report. For example, as Figure 7 presents, the importing pork amount in January 2014 was 56,000 tons and the amount decreased 38.7% to 34,000 tons in February year due to the enough supply in Chinese domestic pork market during the Spring Festivals. The import amount of these two months increased 11.1% comparing to the same period last year. Besides, the import

price in February 2014 was 1.91dollar/kg thus less than 12 Yuan/kg according to the exchange rate on 27<sup>th</sup> of Feb. However the domestic pork is much more expensive compared to the import pork price and more strikingly, the feeding costs of Chinese pork is already 13 Yuan/kg, let along the slaughtering and other costs. In this case, it is apparent to see the price advantages of imported pork.



**Figure 7.** Monthly pork import amount and average price from January 2012 to February 2014 (Chinairr 2014).

In addition to that, imported pork in China during these two months is mainly frozen pork which almost reaches the total amount of whole pork importation. It is about 90,000 tons making up 99.8% of the whole import. On the other hand, the import cold meat amount is quite few which is 204.9 tons accounting 0.2% as Table 6 shows.

**Table 6.** Main categories of the import pork from January to February in 2014 (Chinairr 2014).

Type	Import amount (tonne)	On the year-to-year base	Import average price (dollar)	Occupation (%)
Frozen pork	90,434.5	10.8	1.9	99.8
Cold fresh pork	204.9	.	2.3	0.2

Furthermore, from the official report, it could be concluded that the import concentration ratio is very high. Table 7 is the correspondent example. In the same period we referred above, the import amount from EU was about 58,000 tons accounting for 64% of the total import amount. Additionally, the importation from the US is 19,000 tons and 9000 tons from Canada, which make up 20.7% and 10.3% respectively. Importation of pork from Chile increases largely as shown in the table 2 to 3885.7 tons, which rises 73.7% higher than the year before.

**Table 7.** Source countries of the imported pork from January to February in 2014 (Chinairr 2014).

Country	Import amount (tonne)	Amount year-to-year base (%)	Import price (dollar)	Price year-to-year base	Amount occupation (%)
EU	58,412.0	7.5	111,572,241	5.1	64.4
US	18,768.7	24.0	35,678,198	42.7	20.7
Canada	9,312.2	-4.1	16,476,856	-14.0	10.3
Chile	3,855.7	73.7	6,613,417	61.9	4.3
Brazil	260.8	32.1	684,896	58.6	0.3

- **Threats to the Pork Business**

At present, Chinese pork processing enterprises have formed three big camps in a new competition pattern in which Shuanghui, Yurun and Jinluo are the premium brands that occupy approximately 80% of the meat product markets. Meihao, Tangrenshen and Delisi are the second-tier brands but they are developing fast to become national brands. While some regional weak brands are reputable in the regional market, they present little threat or influence on the first-tier and second-tier brands. They are the objects for mergers and acquisitions by the enterprises in the first camp (Baiké Baidu 2015).

Main competitive brands in different region are as follows (Baidu 2012 SWOT analysis of Chinese pork industry):

**Eastern China:** Shuanghui, Hormel, Xiwang, Delisi, Longda, Boniya

**Northern China:** Xijie, Shuanghui, Hormel, Delisi

**The Northeast:** Shuanghui, Xijie, Delisi

**The Northwest:** Shuanghui, Yurun, Xijie, Delisi

**Southern China:** Shuanghui, Yurun, Maverick, Hormel

**The Southwest:** Shuanghui, Yurun, Meihao, Zhongpin

Furthermore, the Chinese pork companies are promoted and supported by governments with a series of policies such as epidemic prevention subsidy, subsidy for improved breeds of pigs, reproductive sow insurance and subsidy, subsidy for safety disposal of diseased livestock etc. Government encourages regrouping the strong and competitive enterprises while eliminating backward production facilities in order to optimize the industrial structure (Ministry of Industry and Information Technology 2013).

### 2.3.2 Segmentation

As can be seen from the consumption structure of meat products in China, pork occupies 64% in the total domestic meat production and poultry meat makes up 20%. Beef production and mutton production accounts for 10% and 6% respectively. In brief, pork is the primary meat in the whole market. The variables segmented for the pork business in China could vary such as meat consumption

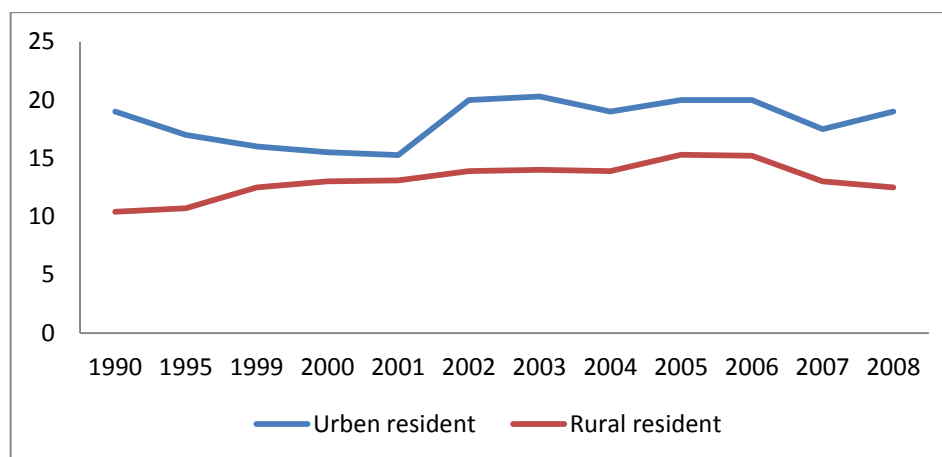
amount/structure, lifestyle, and religion or income level. Here are the selected two from them as examples.

The first one is religion. The biggest Muslim nations in China are the Hui nationality and Uyghur nationality exceeding ten millions and another Muslim nation in China ranking the 3<sup>rd</sup> place is Kazak with millions of population. The very representative feature of Muslimism, as we all know, is eating no pork. Pork selling should aim at regions without huge amounts of Muslims. In certain regions, Hui people even avoid using the kitchen wares that have been touched by pork. Moreover, Hui people in Ningxia or Gansu even do not refer to ‘pig’ and seldom use products made by pig leather or products containing materials from pig. Ningxia, Gansu, Henan, Sinkiang, Qinghai, Yunnan, Hebei, Shandong have the most Hui nationalities as Table 8 shows. Ningxia alone has 1,862,474 Hui people and the number of Hui people of each province referred above is over 540,000 people. These areas might not be the best choices of pork selling. However Hubei, Guangdong, Zhejiang where there are much less Hui people and strong capability of pork consumption should be noteworthy.

**Table 8.**Hui nationality distribution and population (Aihuimin 2006).

Province	Hui nationality population	Province	Hui nationality population
Ning Xia Hui Autonomous Region	1,862,474	Ji Lin	125,620
Gan Su	1,184,930	HeiLongjiang	124,003
He Nan	953,531	Si Chuan	109,960
Sinkiang	839,837	Fu Jian	109,880
Qing Hai	753,378	Hu Nan	97,368
Yun Nan	643,238	<b>Hu Bei</b>	77,759
Hebei	542,639	Shan Xi	61,600
Shan Dong	497,597	Shanghai City	57,514
An Hui	337,521	Guang Xi	35,512
Liao Ning	264,407	Guang Dong	25,307
Beijing City	235,837	Zhe Jiang	19,609
Inner Mongolia	177,574	Chongqing City	10,064
Tianjin City	172,357	Jiang Xi	9,972
Shan Xi	139,232	Tibet	9,031
Gui Zhou	168,734	Hai Nan	8,372
Jiang Su	132,582		

The second segment is city size: rural areas and urban areas. Figure 8 exhibits the comparison between the rural and the urban areas regarding the consumption of pork. (Unit:KG)



**Figure 8.** Pork Consumption per head of urban and rural resident (Chinaap 2015).

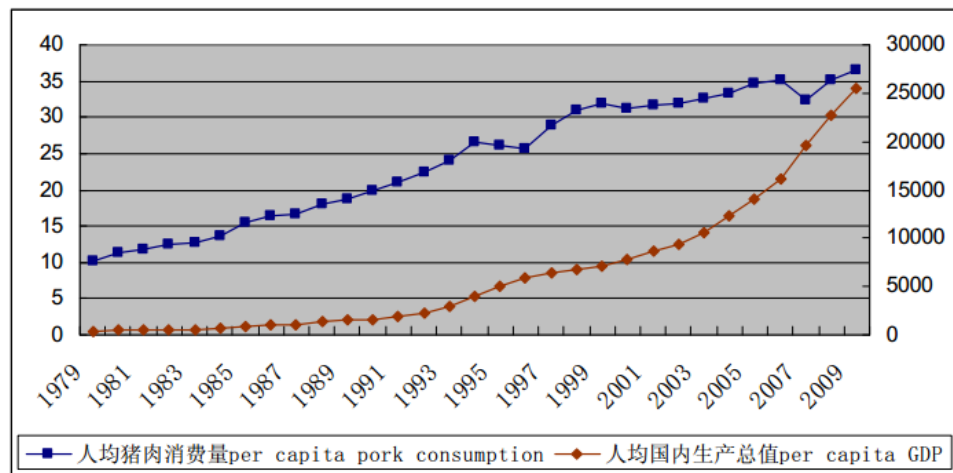
The blue line represents the urban citizens and the red is for the rural areas. The consumption gap between the rural and the urban areas is still apparent but this gap is decreasing. In 1990 per urban resident family's pork consumption was twice that of per rural resident family's pork consumption. In 1995, it decreased by 1.8 times and by 1.7 in 2012 (Chinaap 2015). In this case, sellers are suggested to focus little more on distribution to urban areas and adequate distribution to the rural areas since the consumption gap between two is narrowing down. There are increasing disposable income and purchasing power in both areas while the urban residents more probably consume pork in restaurants, and as frozen meat, and pork by-products.

### 2.3.3 Supply, Demand and Trend

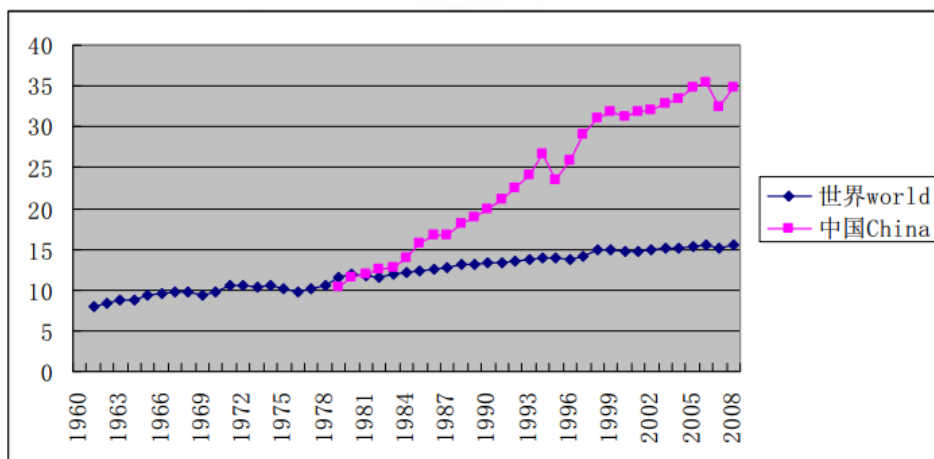
The Commerce Department of China summarized that the live pig industry was developed fast though experienced several fluctuations since 1949. In general, it has grown fast regarding the slaughter amounts from 65.45 million in 1952 to 609.6 million in 2008. The total pork production in 2008 is 46.15 million tons which occupies over 60% of all meat production in China. And the pork production accounts approximately 50% of the world total production. They furthermore

said, per capita pork consumption has quickly grown from 5.22 kg in 1960s to 36kg and more in 21th century. The increasing income level contributes to the development of the pork business in China. Figure 9 shows the per capita consumption in KG and per capita GDP in RMB in recent years. Figure 10 shows the per capita pork consumption of China is more than the per capita consumption of the world in recent thirty years indicating that the market demand indeed exists.

### Per capita pork consumption



**Figure 9.**Per capita pork consumption & Per capita GDP (CAAA 2015).



**Figure 10.**The per capita consumption of pork of the world and China in KG (CAAA 2015).

Table 9 exhibits estimated climbing potential of per capital consumption according to official figures in 2006. All the sources presented in this chapter are selected from FAOSTATA, Chinaap, China Animal Agriculture Association and other relevant databases or platforms.

**Table 9.**Estimated climbing potential of per capital consumption (CAAA 2015).

	Per Capital (whole)	Per Capital (rural)	Per Capital (urban)	Per Capital (high income in Urban)	Distance to urban residents	Distance to high income residents in Urban
Meat& poultry	26.61	22.31	32.12	35.79	21%	34%
<b>pork</b>	<b>17.45</b>	<b>15.46</b>	<b>20.00</b>	<b>21.63</b>	<b>15%</b>	<b>24%</b>
beef	1.43	0.67	2.41	2.70	68%	89%
mutton	1.10	0.90	1.37	1.53	24%	39%
Poultry	5.63	3.51	8.34	9.93	48%	76%
Egg	7.38	5.00	10.41	11.08	41%	50%
Milk	11.66	3.15	22.54	29.52	93%	153%
Aquatic products	7.58	5.01	10.85	13.75	43%	81%
Grain	148.68	205.62	75.92	72.75	-49%	-51%
Fruits	37.12	19.09	60.17	73.90	62%	99%

Moreover, the Commerce Department of China pointed out the features of current pork consumption as following: pork consumption proportion decreases but still ranks the first in all meat consumptions. Pork occupies 94.08% of total national meat consumption in 1980 and steadily increases in the production volume. Since the consumption of beef, mutton and poultry goes up, the proportion of pork consumption goes down relatively to 64.5% in 2006 and 62.5% in 2007 but remains the leading place.



There are apparent differences between rural residents and urban residents concerning pork consumption. Firstly, the consumption gap exists in which the urban consumptions exceed the rural consumption since they have a higher income level. And the gap is reduced gradually and per rural resident's at-home pork consumption in 2007 accounts for over 2/3 of per urban resident's at-home pork consumption. Additionally, restaurant pork consumption and pork manufactured products consumption became the main drives for the distinctions between the urban pork consumption and rural pork consumption. Having meals outside of the home eventually become the primary dietary pattern of the urban residents on which they spent 21% of their total expenditure on foods according to the figure in 2007. Since the urban lifestyle is busy and people generally have a huger purchasing power, the pork manufacture products expand its proportion in whole in-door pork consumption.

In addition, fresh meat is the leading type in all pork consumption which accounts for over 90%. Consumption of cold meat, frozen meat and pork processed products only makes up less than 10%. Most western countries give priority in consumption of meat processed products which usually occupies over 60% and cold meat on the second place. Fresh meat consumption is even lower. Thus, our Chinese consumption mode is special and calls for challenges and development on production, supply and food safety. The department added that the proportion of consumption on processed meat products, cold meat and frozen meat would increases as a future trend.

There is another fresh trend regarding the development of leisure meat product whose annual sales climbs at 30% to 50% growth rate according to the news from China Meat Association. They said that snack food has superiority in its special flavor and aims at delighting the mood of customers with a healthcare function. They should be divided according to its selling points and functions rather than product modality. They additionally emphasize the potential of this market and possibility to seize the future consumption group as the new generation has enough purchasing power, a new consumption mode and habits as they have bet-

ter education, higher level of horizons and seek for fashionable and creative things (Source: Commercial Department Branch 2010).

### **2.3.4 Pork Importing Process and Regulations**

First of all, exporting companies should prepare documents of approval and essential certificate for pork importing business. Two types of documents are required and presented as following according to China Chamber of Commerce of Foodstuffs and Native Produce (2013).

- Domestic documents of approval and certificate
  - Put records on China chamber of commerce of foodstuffs and native produce (CFNA)
  - Certificate of inspection and quarantine
  - Enterprises put records to the Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China
  - Automatic import licensing
- Documents of exporting country
  - Certificate of country of origin
  - Sanitary certificate issued by the official authorizations in exporting country
  - Documents filling to the AQSIQ of China

In addition, China Chamber of Commerce has started managing reports of entry of pork and pork by-products, beef and beef by-products and mutton and mutton by-products. Chinese companies of foreign trade should accordingly put on records to CFNA (CFNA 2013).

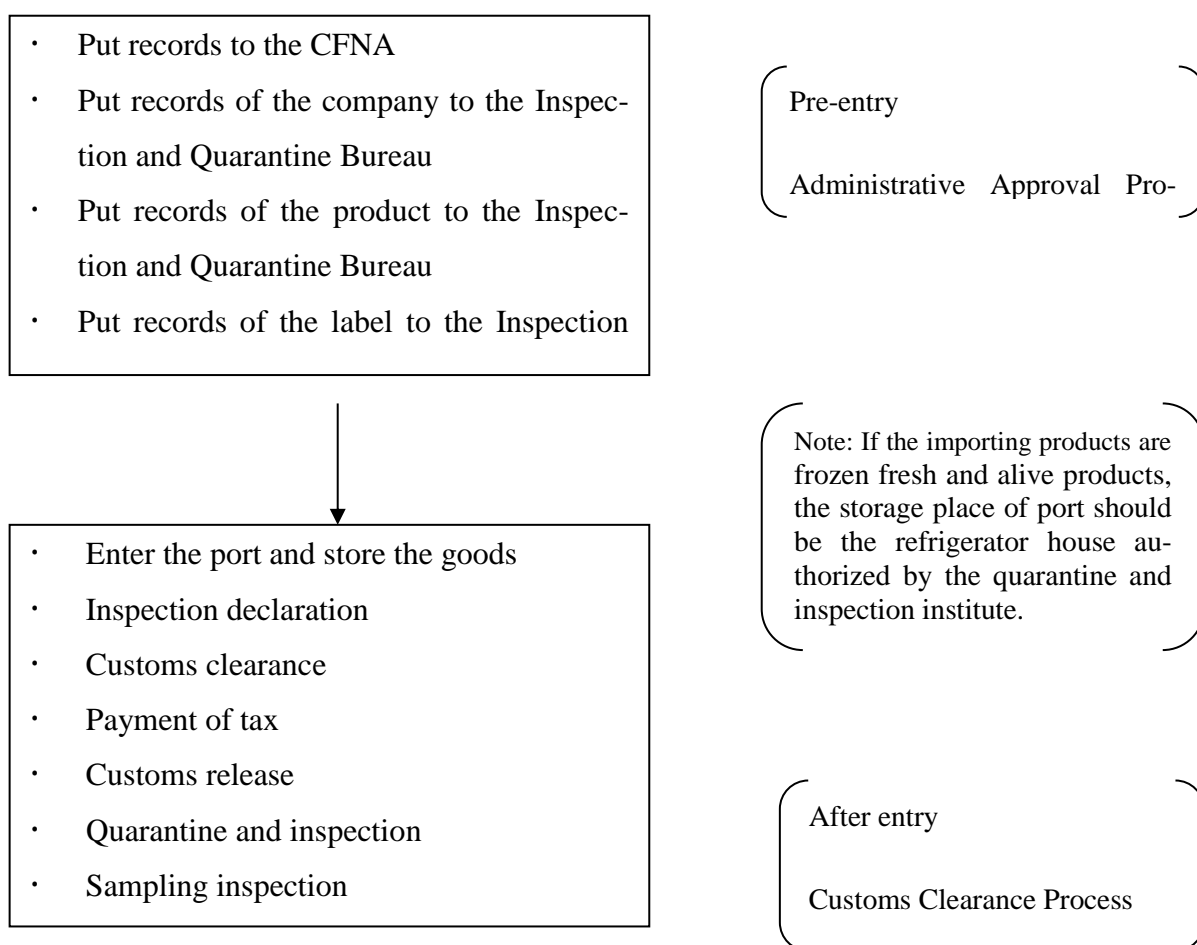
Regulations of the package and labeling of the imported pork are as following (AQSIQ Regulations No.136):

- The package should be clean, dry, anti-mould, unbreakable and free of peculiar smell. No iron nails are allowed in cartons.
- Identification of the quarantine and inspection that is authorized by the exporting country officially is needed. The package should include clear Chi-

nese indicating the product name, dimension, producing place (State/Province/City), batch number, producing date, expiration date, storage temperature, registration number of the producing company and destination etc.

- The materials of inner packing should be new and un-toxic. Additionally, inner packing should indicate state of origin, product name, registration number of the company, batch number. The information of the inner packing should comply with the external packing.
- Formulations such as ‘Unfit for human consumption’, ‘Industrial use only’ or ‘Feed us only’ that indicates the products are non-edible for human beings should not be printed on the package.

Following are the procedures of importing pork:



**Figure 11.** Process of importing pork (CN-Trade 2013).

### 3 EMPIRICAL FRAMEWORK

Marketing research is the systematic gathering, recording and analyzing of data about marketing problems to facilitate decision making (Mishra 2008, 3). It designs the method for collection of information. It manages and implements the data so collected, analyses the results and communicates the findings with implications to those who need most for decision making purpose (Sontakki 2010, 7). Figure 12 exhibits how the market research could be used in different business modes and framework according to Igor Ansoff's products and markets matrix.

New Products	Market research can show the likelihood of adoption of new products	Market research can show unmet needs and provide an understanding of unfamiliar markets
Existing Products	Market research can measure customer satisfaction to find out how to maintain a competitive edge	Market research can find new territories for products or services
	Existing Markets	New Markets

**Figure 12.**Ansoff and market research (Hague and Hague 2004, 5).

As is shown in Figure 12, market research has a role in all four situations. The likelihood of adoption of new products could be tested by conducting marketing research when it comes to existing markets. Additionally, market research deals with unfamiliar and new markets and helps sellers who want to sell new products understand those areas. Moreover, market research enables sellers of existing products to obtain feedback from customers and develop their products or services in order to maintain the competitiveness. When applying existing products to new markets, market research contributes to new territories for the products or services.

In this case, the research of the thesis exactly aims to find the most potential areas to export the pork products.

### **3.1 Research Methods**

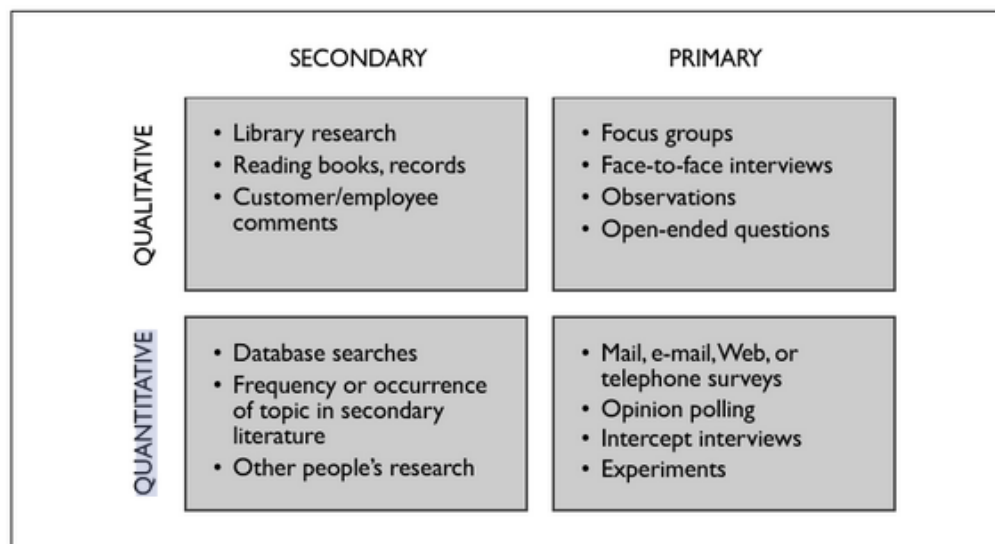
The methods used in marketing research can be divided into two categories as qualitative and quantitative. The two approaches have their advances and defects when used for the collection of certain information. So, in practice, they are often complementary since the marketing decision making requires both qualitative and quantitative information to make the result as accurate as possible.

Qualitative research is a field of inquiry that crosscuts disciplines and subject matters. Qualitative researchers aim to gather an in-depth understanding of human behavior and the reasons that govern such behavior (Glenn 2010, 95). Moreover, qualitative research calls for empathizing with the consumer and understanding the meanings he or she attaches to products (in general) or brands (in particular) or other marketing elements (Nair 2009, 55). This research method concerns 'why and how' rather than presents the 'who, what, where, when'. In addition to that, the sample used in qualitative research is purposeful and pointed while the sample used in quantitative method is randomly chosen aiming to test the hypothesis and obtain the most truthful data. According to Craig and Douglas (1999,170), generally three major types of qualitative data collection techniques may be identified: (1) observational and quasi-observational techniques; (2) projective techniques and depth interviews; and (3) creative group sessions.

Quantitative research is frequently referred to as hypothesis-testing research according to Glenn (2010). And it is concerned with the measurement of a market in terms of market size, the size of the market segments, market size in terms of brand, purchase frequency, distribution network size, etc. So as to ensure that a certain level of accuracy is achieved (Nair 2009, 54). A quantitative model often serves three purposes, that is, description, forecasting and decision-making (Franses and Paap 2001, 12). Besides, these three approaches are all in a progressive relationship. Description helps analyze what and how variables affect the prescribed objects and come up with conclusions which could be the references to

forecast the object's future development and accordingly make decisions based on that. Furthermore, the following Figure 13 exhibits how the qualitative and quantitative research are classified and used for the primary and secondary data:

*Research classifications*



**Figure 13.** Research Classifications (Corder2006, 21).

The qualitative method of primary information is directly obtaining from conversations in interviews and observations on certain groups while the secondary information under this method is collected from resources searched from books, past records or comments from relevant people. The quantitative method of primary information is conducted by different types of surveys and involves opinion polling, interviews and testing experiments while the secondary data in this case is acquired from databases or the results of past research.

### 3.2 Data Collection

The actual data collection may involve the combination of an in-house research team or an external research agency, depending on the situational requirement. Moreover, the data collection is limited by the following constraints (Nair 2009, 37):

- the budget availability

- nature of the project and the complexity of the required information
- degree of accuracy desired
- time availability

### **3.2.1 In-depth Interview**

In-depth interviews are a commonly used research method of data collection in qualitative research and could be used together with other information techniques. According to Craig, an in-depth interview can either be conducted individually, one-on-one basis or in small groups (Craig and Douglas 1999, 189). Based on that, interview types could be considered along these five continua according to Dunne: formal – informal; structured – unstructured; individual – group; one-off – sequential; public – private (confidential). In an interview, the interviewer plays a crucial role in digging out the in-depth attitudes or conceptions from the interviewee towards a specific topic.

The main features of an interview, according to Gillham (2005), could be summarized as follows: questions or topic raised are open with the interviewee determining their answers; the relationship between the interviewer and the interviewee is responsive or interactive; there is structure and purpose on the part of the interviewer even when the context, like informal questioning in real-life settings (Gillham 2005, 4). In this case, the distinction of an interview from the questionnaire survey since the answers are organized totally by the interviewee and there is no fixed format. During an interview, the interviewer is able to dig into the issues he or she is concerned with and raises questions or asks for more explanation from the interviewee. Additionally, successful interview would in a sense rely on the skills and preparation of the interviewer. It is about wisdom and emotional intelligence of the interviewer since they should purposely conduct the interview and make it look natural and comfortable to the interviewee.

### **3.2.2 Questionnaire Design**

The first step in questionnaire design is to determine what information should be obtained, what questions should be asked and how they should be formulated

(Craig and Douglas 1999, 200). Craig furthermore points out the three variables that are relevant to the information: demographic, background or respondent characteristics; specific questions such as product and brand usage and evaluations, purchase intentions and shopping patterns; and category/domain specific attitudes and behavior and general attitudinal and lifestyle characteristics.

A questionnaire may contain any or all of these types of questions, according to Phillips: Open-ended questions; checklists; two-way questions; multiple-choice questions; ranking scales (Phillips and Stawarski 2008, 2). The questions should be chosen carefully and improved when there is a need to avoid misunderstanding or confusion. Moreover, questionnaire must be checked and tested thoroughly before it is sent out, especially when doing cross-national marketing research. Additionally, keeping the confidentiality for the repliers should always be maintained.

### **3.3 Reliability and Validity**

A questionnaire is reliable if it provides a consistent distribution of responses from the same survey universe. The validity of the questionnaire means whether or not it is measuring what we want it to measure (Brace 2008, 175). According to Nair, an instrument is valid when it measures what it is supposed to measure, but since attitudes are elusive, attitude scale validation is difficult. Besides, data has to be reliable, so that generalizations can be drawn on them for guiding decisions (Nair 2009, 134).

To meet the reliability standards, it should always be considered if the questions sound right and are not offensive and are understood. The questions should be natural without any leading responses or potential indications while retain concentration or interest to read them through. As for the validity requirements, basically it should be ensured that the respondents answer the questions that they are capable of answering and avoid missing answers.



## 4 EMPIRICAL FINDINGS

This chapter will present the empirical findings for both the interview and questionnaires resulting in demographic findings, meat consumption overview, reflection on importing pork and, other possible way to promote the importing of pork. Before that, there will be an interview in Hannan District of Wuhan, Hubei Province to examine the pork market situation as Hannan in Wuhan is the biggest pork production area. Besides, Wuhan is the capital city of Hubei province and a representative city for the whole research that mostly focuses on the central part of China. The interviewees are chosen randomly and are from the producers' perspectives while the questionnaires are more from the buyers' point of view.

### 4.1 Interview Outcome

The aim of the interview is to examine the operation model of the pork industry in Hubei area and the influential variables on the price of pork. A staff member from Pork Producers Council in Hannan Area, Dengnan Street accepted an interview.

The interviewees introduced that feeders here are in a family-breeding model rather than the factory-culturing model. In this case, all family members join the feeding and this is their main business. They added that the houses of the local residents are in a 'residential building + plain cottage' format where the buildings along the main streets are formal residential houses for living while the land behind the buildings are divided and used for feeding the live pigs. In brief, this stage is feeding and the price of a fattening pig is 6.8 RMB/KG at the moment.

The second stage is selling. The selling is not a direct deal between the feeder and pork dealer and a slaughter house but relies on agencies as intermediaries. Agencies know the market changes and information on both the feeder and the purchaser and generally are the local people who have fed the pigs before and are good at bargaining. Agencies in this process earns 0.2 – 0.3RMB per kilo, so the selling price from the agencies to the purchasers becomes 7.1 – 7.4 RMB/KG.

The third stage is slaughtering. The agencies described above sell the pigs to the slaughter house at the price of 7.1 RMB. After an official detection, a quarantine inspection and the necessary slaughtering works, the carcass meat could be sold and the wholesale price is at 9 – 9.5 RMB/KG based on the market quotations on these two days.

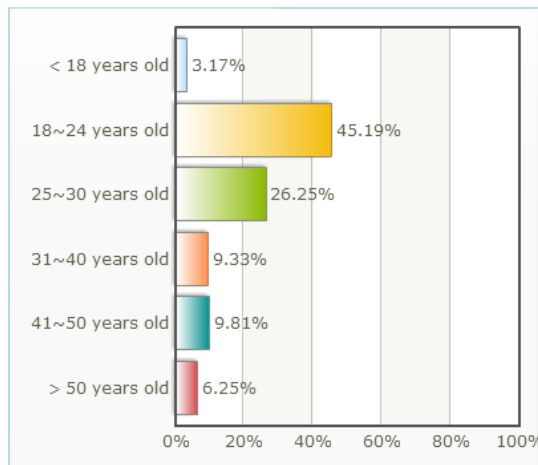
The fourth stage is retailing in the local market. The price could differ depending on the fitness of the pig. The liner pork could be sold at 9.5 RMB/KG while the fatter one is at 9 RMB/KG. Retailers therefore buy the pork at this price and sell it at their stands or shops in more specific markets. Moreover, they are free to decide the price of the pork based on the parts of the pork. The price ranges from 11 to 22 RMB/KG.

The interviewee summarized that the formation of the pork price: from the pig farm to the dining-table, the price experienced five stages that are pig farms, raw pig agencies, dealers, slaughtering house wholesales, retailing. He, furthermore, concluded that the price added during the circulation is stable around 5 RMB allocated to the agencies, slaughter house, wholesalers and the retailers. The market price of pork is mainly decided by the procurement price.

## **4.2 Demographic Findings**

Here the demographic information of the respondents based on the questionnaires is presented involving the age, gender, and income level and marriage status. The total valid amount of respondents is 1022 in which the male respondents are 480 occupying 47% of total and female respondents are 542 occupying 53%. There are 21 people did not answer this question. So, the gender of respondents is almost equally divided.

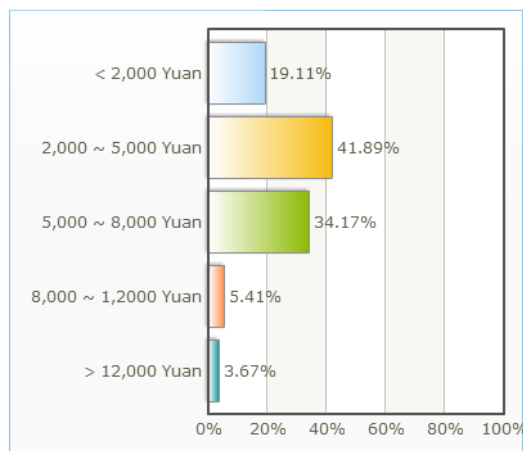
Figure 14 represents the age structure in which the respondents are divided into six age groups; less than 18 years, 18 – 24 years, 25 – 30 years, 31 – 40 years, 41 - 50 years and more than 50 years old.



**Figure 14.**Age of the respondents.

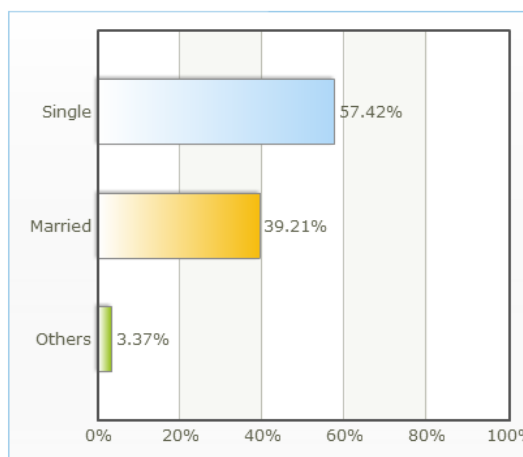
Apparently, the age group from 18 to 24 years and the group from 25 to 30 years account for the largest proportion of the respondents, 470 and 273 respectively. Only 33 people are under 18 years old. Moreover, the middle age group starting from 40 years old and occupies 16% in the respondents. The valid number of answers for this question is 1040.

The third demographic question is about income level. Only seven people leave this question blank. The income level mainly concentrates on the range from 2000 to 8000 RMB based on Figure 15 which exactly meets the correspondent age groups and is reasonable according to the general income in Hubei province.



**Figure 15.**Income level of the respondents.

The fourth demographic question examines the marriage status aiming to see the relationship between the consumption of meat and lifestyle. Five people left blank in this question and the majority of people are single 57.4% while married people make up 39.2%. The others refer to a divorce, widow, cohabit etc.



**Figure 16.**Marriage status of respondents.

Clearly most respondents live single life and they are probably young generation. They more likely consume less meat than those who are married. Moreover, they enjoy a modern life and have flexible ways of meat consumption.

#### **4.3 Meat Consumption Overview**

The results are described and analyzed in Appendix 3.

#### **4.4 Reflections on Importing Pork**

The results are described and analyzed in Appendix 3.

#### **4.5 Other Ways to Promote**

The results are described and analyzed in Appendix 3.

## 5 CONCLUSIONS

This thesis is a study of examining the market potential of exporting pork to China from Finnish perspective. A few suggestions for future studies emerged up after the research and analysis of the result.

First of all, the research is conducted in Hubei Province so the result could not completely cover other regions of China. It could only reflect certain features of the market for pork business in Hubei province. Future study of the market potential of imported pork could extent the scope of the research to larger areas and compares the results. Moreover, the majority of the respondents are young generation that many people have no jobs or just have worked for a few years. So the results might not comprehensively reflect the market demand. Future study, therefore, needs to obtain more respondents in balanced age group.

The successful entry of the market of the current Finnish exporters and other competitors could be learned from. Their experience and practice could be the treasure for Finnish exporters of different sized firms. Moreover, how to survive and find a place in Chinese pork industry should be further studied.

In addition, marketing plays a crucial role in the pork exporting business. Marketers should carefully considers the best place to sell, the most efficient way to improve sales, the most effective way to promote the brand on the basis of the preferences of the customers. There are huge distinctions in Chinese consumer behavior in different regions thus requiring future study to be more targeted.

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## APPENDIX 1. Interview Question List

- Please briefly introduce the area that you are responsible for?
- Where is the pig fed here?
- What is the process of the local pork business from feeding to selling to the end-user?
- How was the price changed?
- What's your own opinion about this situation?

## APPENDIX 2. Questionnaire in English

**Pork Market Consumption Questionnaire**

Dear customer,

In order to acquire the consumption status of pork market and consumers' opinion regarding the importing pork, we sincerely invite you to join the questionnaire. And all of your answers will be kept confidential, so stay assured of your privacy.

Thank you for your cooperation.

**1. What type of meat do you usually buy?**

- |                                 |  |
|---------------------------------|--|
| <input type="checkbox"/> Pork   | <input type="checkbox"/> Poultry       |
| <input type="checkbox"/> Fish   | <input type="checkbox"/> Beef & Mutton |
| <input type="checkbox"/> Others |  |

**2. How often you buy the meat?**

- |  |  |
|--|--|
| <input type="radio"/> Everyday                     | <input type="radio"/> Once or twice a week     |
| <input type="radio"/> Three to five times per week | <input type="radio"/> Three times in two weeks |
| <input type="radio"/> Semimonthly                  | <input type="radio"/> Once a month             |

**3. What's the unit price of the meat that you usually buy? (Yuan/Kg)**

- |                                       |  |
|---------------------------------------|--|
| <input type="checkbox"/> 5 ~ 10 Yuan  | <input type="checkbox"/> 10 ~ 15 Yuan      |
| <input type="checkbox"/> 15 ~ 20 Yuan | <input type="checkbox"/> 20 ~ 25 Yuan      |
| <input type="checkbox"/> 25 ~ 30 Yuan | <input type="checkbox"/> More than 30 Yuan |

**4. What's the amount of meat do you buy each time?**

- |  |                                     |                                   |                                      |
|--|-------------------------------------|-----------------------------------|--------------------------------------|
| <input type="checkbox"/> Less than 0.5 | <input type="checkbox"/> 0.5 KG ~ 1 | <input type="checkbox"/> 1 KG ~ 2 | <input type="checkbox"/> More than 2 |
|--|-------------------------------------|-----------------------------------|--------------------------------------|

KG

KG

KG

KG

5. Where do you usually buy meat?

- |   |  |
|---|--|
| <input type="checkbox"/> Chilled Meat Store | <input type="checkbox"/> Local Market      |
| <input type="checkbox"/> Super Market       | <input type="checkbox"/> Convenience Store |
| <input type="checkbox"/> Others             |  |

6. What do you concern the most when choosing the meat?

- |                                  |   |
|----------------------------------|---|
| <input type="checkbox"/> Price   | <input type="checkbox"/> Freshness        |
| <input type="checkbox"/> Quality | <input type="checkbox"/> Source of Origin |
| <input type="checkbox"/> Brand   | <input type="checkbox"/> Reputation       |

7. If there are two types of pork: the first one is ordinary pork in domestic feed, and the price is normal; The other one is importing pork from Finland in green production, the price is little higher than the normal price, Which one would you choose?

- |                                     |                                      |
|-------------------------------------|--------------------------------------|
| <input type="radio"/> Ordinary Pork | <input type="radio"/> Importing Pork |
|-------------------------------------|--------------------------------------|

8. What do you expect that the importing pork described above should have better than the domestic ordinary pork?

- |  |   |
|--|---|
| <input type="checkbox"/> More beneficial to health | <input type="checkbox"/> Taste better             |
| <input type="checkbox"/> Safety                    | <input type="checkbox"/> Higher nutritional value |
| <input type="checkbox"/> Others                    |   |

9. What's the acceptable price of the importing pork from you own perspective?

- |  |  |
|--|--|
| <input type="checkbox"/> < 1.5 times of the normal price | <input type="checkbox"/> < 2 times of the normal price |
| <input type="checkbox"/> < 2.5 times of the normal price | <input type="checkbox"/> < 3 times of the normal price |
| <input type="checkbox"/> Others                          |  |

**10.** If having meals in restaurant, will you choose dishes made with importing pork?

Yes

No

**11.** Will you choose importing pork as gifts or festival supplies?

Yes

No

**12.** Your gender:

Male

Female

**13.** Your age:

< 18 years old

18~24 years old

25~30 years old

31~40 years old

41~50 years old

> 50 years old

**14.** Your income:

- |   |  |
|---|--|
| <input type="checkbox"/> < 2,000 Yuan       | <input type="checkbox"/> 2,000 ~ 5,000 Yuan  |
| <input type="checkbox"/> 5,000 ~ 8,000 Yuan | <input type="checkbox"/> 8,000 ~ 1,2000 Yuan |
| <input type="checkbox"/> > 12,000 Yuan      |  |

**15. Your marriage status:**

- |                              |                               |
|------------------------------|-------------------------------|
| <input type="radio"/> Single | <input type="radio"/> Married |
| <input type="radio"/> Others |                               |

APPENDIX 3. Empirical analysis and conclusions based on Meat Consumption Overview, Reflections on Importing Pork and Other Ways to Promote.

Appendix 3 is declared as confidential.