

A BUSINESS MODEL
IMPROVEMENT PROPOSAL
FOR FINNISH
ENTERPRISES DOING
BUSINESS IN CHINA

CASE STUDY: Hankintatukku Oy

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Mengzhen Wang: A BUSINESS MODEL
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ABSTRACT

This study aims to propose a more adaptable business model for Finnish Hankintatukku Oy to help it be more successful in China. To achieve the objective, inductive research approach with qualitative and quantitative research methods are used in this thesis. With inductive research approach, data is collected to analyze the main elements inside a business model and marketing development trend in China. As a result, the final proposal comes out based on the marketing development trend in China and the marketing facts of the case company itself.

Basically, this thesis includes two parts: theories and case study. Data for theories mainly comes from books and websites. In the theoretical part, business model is defined and main elements inside a business model are figured out. In addition, marketing analyzing tools such as SWOT analysis, PESTLE analysis are also defined to be used in the empirical part. And for the case study, the data has two divisions: primary data and secondary data. Primary data comes from the price research and interview, while secondary data is from research results from Internet. In the case study, marketing development trend in China and marketing facts of the case company are introduced and analyzed.

After the research and analysis in the case study part, it was discovered that business model contains four elements, which are customer segments, value proposition, financial model and value chain. It was also discovered that the Chinese middle-class customers are the mass customers and the Chinese business environment is more like Internet oriented. Thus, proposals are made and are regarded as the main findings of this thesis. Hankintatukku Oy could focus more on the Chinese middle class and try to adapt to online channel. Following the business model proposal, as a result, Hankintatukku Oy has potential to develop in China.

Key words: Business model proposal, Business model elements,

Business Model Canvas, marketing analysis, Hankintatukku Oy

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LIST OF ABBREVIATIONS

BMC	Business Model Canvas
B2B	Business to Business
B2C	Business to Consumer
CIA	Central Intelligence Agency
CNNIC	China Internet Network Information Center
CNY	Chinese Yuan
C2C	Consumer to Consumer
EUR	Euro
NBS	National Bureau of Statistics
O2O	Online to Offline
QQ	Tencent Instant Messenger
USD	US dollar

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1 INTRODUCTION

1.1 Background

China, the biggest emerging market in the world, is developing with incredible speed. After the reform and opening in 1978, the door of China had been opened to the world. Since then, China has been successfully shifted from planned economy to market economy (WORLD BANK GROUP, 2015). Time went to the 21st Century, followed by accession to WTO, successful hosting of the Olympic Games and launching spaceships, China is demonstrating unbelievable power to the whole world.

The rapid growth of Chinese economy brings more and more purchasing power for Chinese people. From 2000 to 2010, China's consumption grew more than double, from around \$650 billion to almost \$1.4 trillion. The huge Chinese consumption can not exist without huge household income. The Chinese household income is about \$5 trillion per year. (Towson & Woetzel, 2015) Increasing purchasing power means Chinese people have more money in hand.

There is a fact that, in the Chinese market, product quality always scares Chinese people, which makes them buy foreign-brand products due to the belief of higher quality (Beattie, 2013). Based on the author's own life experience in China, the product quality problem especially food safety problem is still serious. In the year of 2008, the Sanlu baby milk powder scandal took the trust in food out of the hearts of Chinese people. In addition, for Chinese people, buying foreign brand products makes them feel elegant and like having a higher life quality. Driven by this kind of awareness, Chinese people have high willingness to pay more money on foreign products. (Cheek, 2015)

Under the background above, many foreign companies from different countries entered into China to hold a share in this potential market. More and more, foreign products' advertisements filled China's streets, internet

and TV programmes. Therefore, in many industries, competitors emerge endlessly. The battle for the Chinese market is quite intensive.

Finland is a geographically small country, but it is in the leading position in many industries through the whole world, and it is worth mentioning the pure food from Finland. In the process of internationalization, a lot of companies specializing in different industries from Finland have already entered into the Chinese market. Obviously, it's of vital importance for Finnish enterprises to have long term development in the Chinese intensive economic environment. The case company of this thesis, Hankintatukku Oy is one of them.

Finnish Hankintatukku Oy is the leading manufacturer of food supplements in the Nordic countries. Since the year of 2007, Hankintatukku started market expansion in China. (Hankintatukku Oy, 2015) The food supplement products from Hankintatukku Oy are with high quality and are functional to the human body. It's a coincidence for the author to find out that Hankintatukku Oy started business in China already from the year of 2007. But in fact, the author never heard about this Finnish food supplement brand before coming to Finland. The initial motivation for the author to write this thesis starts from this point. Furthermore, in general, a lot of Finnish companies and products who have already existed in China have a similar situation.

Generally speaking, a business model is a presentation about how a company creates, delivers and captures value (Osterwalder & Pigneur, 2010, p. 14). Nowadays, the ability to create an innovative business model determines a company's long-term competitive success (Gassmann, et al., 2014, p. 3). In the 21st century, business models do not last as long as they used to in twentieth century, as the longevity of a business model is decreasing due to the rapid emerging of new players, new technology and refusal to old industrial rules (Kaplan, 2012, p. xv). With the macroenvironment mentioned beforehand, China is a country which is developing with high speed, and the whole Chinese society is in a fast

transforming period. Thus, from the business model's point of view, the business model of Finnish enterprises could be innovated to some extent to follow the developing trend in China. More specifically, in this thesis, during the process of research, the author aims to propose a more adaptable business model for the case company-Hankintatukku Oy to be more successful in China.

1.2 Objectives

The main objective for this thesis is to propose a more adaptable business model for Hankintatukku Oy. Since business model is a general term, to describe more specifically, it is important to find out the elements inside a business model which could be improved. Furthermore, the result of this thesis could be a reference for other Finnish enterprises who have already existed in the Chinese market, or who are willing to develop business in China.

1.3 Research Questions

The main research question for this thesis is:

What kind of business model could be proposed for Finnish Hankintatukku Oy to be more successful in the Chinese market?

As mentioned before, business model is usually described as a general term, finding out the elements inside a business model is clearer for the readers to understand how the business model could be improved. And from the background, it's obvious that the marketing situation in China has strong influence on a foreign country's business model. It's of vital importance to integrate the marketing situation with the business model in order to get the final improvement proposal.

The sub-questions are listed below:

- Inside a business model, what are the elements which could be found to improve in the case company?
- How could the marketing situation in China influence the business model for Hankintatukku Oy?

1.4 Theoretical Framework

Theoretical framework is a collection of related theories to demonstrate the relationships between theories and is a guidance of research (Borgatti, 1999). In this thesis, the theoretical framework is demonstrated in the following chart:

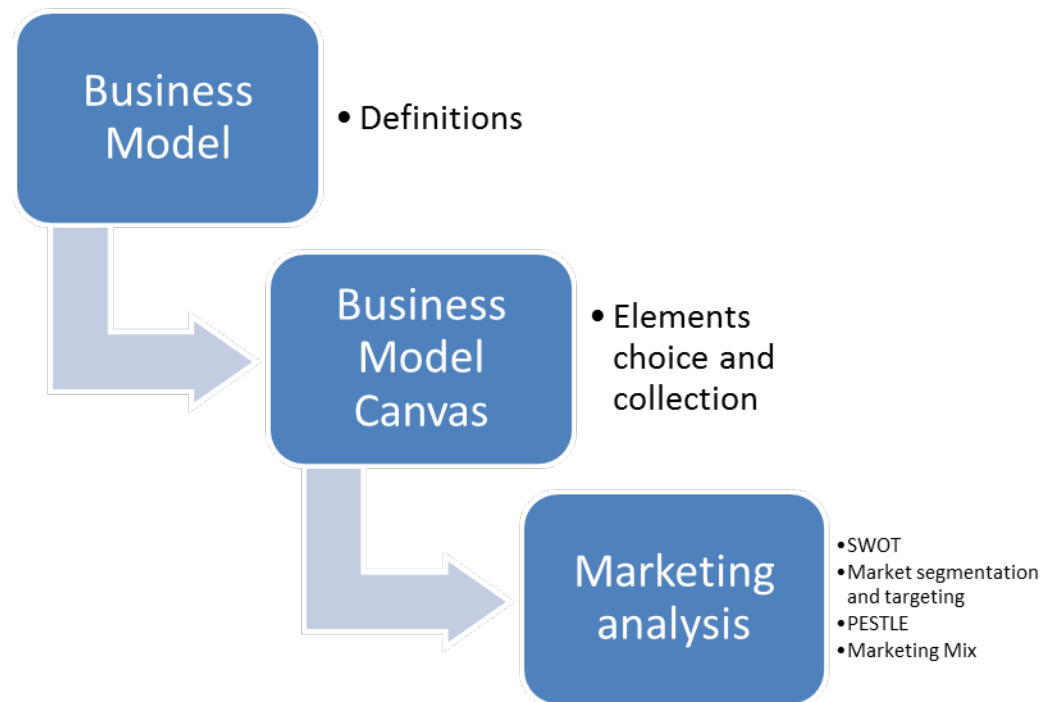


Figure 1. Theoretical framework

First, business model, the main concept of this thesis, is defined by different literature reviews to find the main elements. Second, main elements which are found from the previous definition part are listed on the business model canvas. The author aims to conclude the elements and thus make a newly-developed business model canvas. Third, theoretical background of marketing analysis tools are listed in order to prepare for the case study part.

1.5 Limitations

For this thesis, the author is concentrating on a proposal of business model for Finnish Hankintatukku Oy in the Chinese market based on theory, data, own research and case study. The research results are proposals, not decisions. The proposals are not absolute answers for all of the Finnish enterprises who have or are willing to have business in China.

Second, since business model is a general business term, resources and materials which are related to business model listed in this thesis may not cover all the statements about business model because of the time limitation. The final result of this thesis may not be based on a perfect understanding about the business model.

Third, according to the author's life experience in Finland, Finnish enterprises which have already entered in China always regard China as an important market to develop. And, for Finnish enterprises who are willing to do business in China, it's also necessary to have a previous understanding on how the Chinese environment influences the business model. Thus, except Finland, enterprises from other countries will not be considered. Since this thesis is based on business operations in the Chinese market, statements and conclusions from this thesis are only applicable for the Chinese market, not relevant to other Asian countries.

1.6 Research Method and Data Collection

Qualitative research method is often described as a contrast with quantitative research method (Eriksson & Kovalainen, 2008, p. 4).

Qualitative research indicates verbal description in real life, for example, phenomenon, process, meanings, theoretically based concepts. While quantitative research often means numerical analysis between variables. (Silverman, 2014, pp. 4-5) In this thesis, both qualitative and quantitative research methods are used to achieve the research objectives.

Inductive approach starts with the observations and theories and are formulated as a result of observation (Research Methodology, 2015). Inductive approach is usually a generation of new theory based on the data collection while deductive approach is often aimed to test the theory (Gabriel, 2013). This thesis does not intend to test the theory, while the data is more important to get the final proposal. Thus, in this thesis, an inductive research approach is applied with both the qualitative and quantitative research methods.

Data collection is to gather information from varieties of resources with a systematic approach in the area of interest (Rouse, 2013). Data which is collected from first-hand experience is called primary data. While published data and data which is collected from the past and other resources is called secondary data. (Business Dictionary, 2015) The data used in this thesis is divided into primary data and secondary data.

Primary data concentrates on the case company itself, it is collected from the author's research on price comparison of Hankintatukku's products in China and Finland and an interview of Hankintatukku Oy. Secondary data is mainly contributed by sources from Internet. In this thesis, secondary data is more used to describe the marketing situation of China. For example, in PESTLE analysis part, data of each factor comes from CIA official website and CNNIC. In business model proposal part, figures of magnitude of Chinese middle-class people come from Mckinsey's official website.

1.7 Structure of the Thesis

This thesis is divided into four parts: Introduction, theories, case study, findings and conclusions. The structure of this thesis is shown in the following figure:

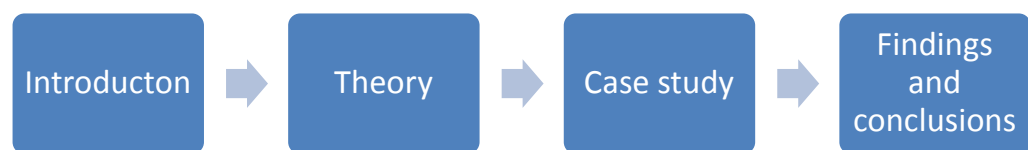


Figure 2. Structure of the thesis

In the theory part, the theories which are used in this thesis are defined and listed. The definition of a business model is presented by different literature reviews. After that, elements inside a business model is concluded on a Business Model Canvas. Besides the theories related with business model, theories which are related with marketing analysis are also stated in this part: SWOT analysis, Marketing segmentation and targeting, PESTLE analysis and marketing mix. Finally, a conclusion of the theory part indicates the concluded elements inside a business model.

In the chapter of case study, Hankintatukku Oy as an empirical example is first introduced. Data which is used in this part is demonstrated. Then, the marketing situation of Hankintatukku in China is illustrated with applied theory. Finally, based on the marketing situation of China, business model proposal is stated with different elements.

In the final chapter, the findings from this thesis are listed. Business model proposal is concluded in this part. Also, concerning the research in the future, suggestions are given for further research in the final part.

2 BUSINESS MODEL AND MARKETING ANALYSIS TOOLS

In this chapter, the theories which are used in this thesis are defined. First, the definition of a business model is introduced with different representative literature reviews. Second, the main elements inside a business model are summarized to a business model canvas. After theories about business model, theories which are related with marketing analysis tools are presented. Marketing analyzation theories such as SWOT analysis, marketing segmentation and targeting, PESTEL analysis, and marketing mix are defined. Finally, a conclusion is done to present the four elements inside a business model and the marketing analysis theories used in this thesis.

2.1 What Is Business Model?

Michael Lewis stated that the business model phrase is 'a term of art', like an art, it's easier for people to recognize instead of defining it (Ovans, 2015). Business model is usually a general term in business study. Nevertheless, the starting point for any discussions on business model innovation should be based on the understanding of what a business model actually is (Osterwalder & Pigneur, 2010, p. 15). Thus, before the case study, the theories which defined the business model from different literature reviews are given. Then, it's important to conclude the main elements inside business model, so that it's easier to give a specific research direction than general but endless description.

2.1.1 Gorchels' View

In Gorchels' opinion, a business model is a total process of how the value is been produced by a firm, it includes strategy, organizational design, infrastructure, culture, and operational processes (Gorchels, 2012, p. xii). Gorchels pointed out that there are two foundations when leaders make strategic business model decisions: who are the strategic customers (including industries, markets, segments, countries etc.) and what value

proposition would be provided for them (including products, services, solutions, technologies, revenue streams etc.). Thus, Gorchel's view on the elements inside a business model are presented in the following figure:

Customer focus

- industries
- markets
- segments
- countries

Value proposition

- products
- services
- solutions
- technologies
- revenue streams

Figure 3. Gorchels' view on Business Model Elements (modified from Gorchels' 2012, xii)

2.1.2 Kaplan's View

While Gorchel focused more on customer focus and value proposition, another researcher Kaplan have different ideas concerning about the business model. A business model tells a story about how an organization

creates, delivers and captures value (Kaplan, 2012, p. 18). In addition, Kaplan indicates three elements inside a business model, including operating model, customer experience and financial model, should have been paid more attention. The following figure shows Kaplan's view concerning the elements inside a business model:

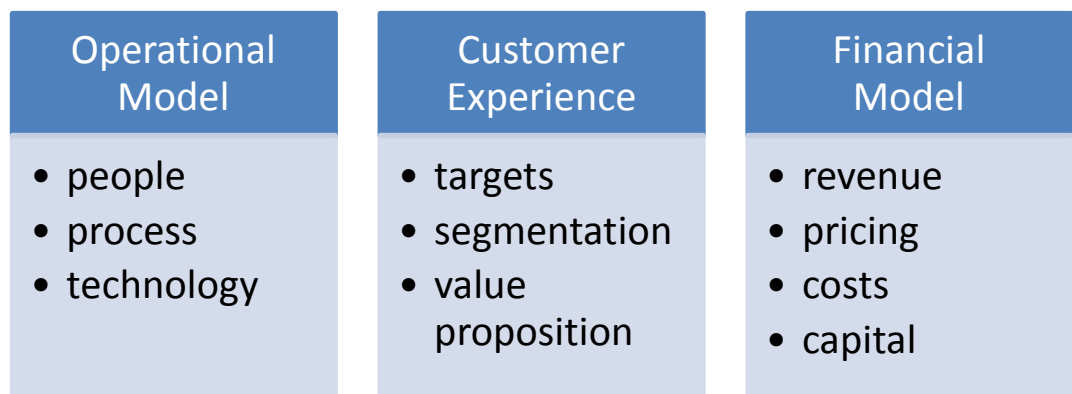


Figure 4. Kaplan's Business Model Elements (modified from Kaplan 2012, 18)

Moreover, Kaplan makes those three models into three specific questions:

- *How does your organization create value?*

Business models are aiming to create value for customers. Any business model is to clearly state how the business model creates value and for whom. What attracts customers to choose your company, product or service? (Kaplan, 2012, p. 19)

- *How does your organization deliver value?*

This element of a business model tells how a company or an organization deliver value. It describes how the company or organization operates and is a way to describe company's operating vision and model. (Kaplan, 2012, p. 21)

- *How does your organization capture value?*

Any successful business model can not exist without a sustainable financial model. Financial model is a key element inside a successful business model. It describes how much the value could be delivered out and outlines the profit formula for the business based on the operating cost, revenue as well as the capital required to support ongoing operations and growth. (Kaplan, 2012, p. 21)

2.1.3 Gassmann, Frankenberger&Csik's View

In the book '*The business model navigator*', authors, including Gassmann, Frankenberger and Csik, also stated the opinions about business model. A business model consists four elements, the customers, the value proposition, the value chain and the profit mechanism. A business model is trying to find: who are the customers, what are selling, how to produce the offering, and why the business is profitable. The first two (who and what) are external factors, and the second two (how and why) are internal factors. (Gassmann, et al., 2014, p. 6)The elements of a business model is demonstrated below in chart and brief text:

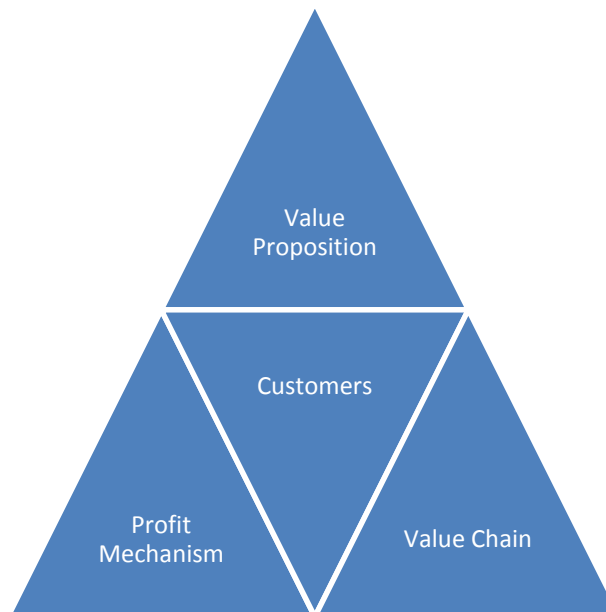


Figure 5. Gassman, Frankenberger&Csik's Business Model Innovation elements (modified from Gassmann, Frankenberger&Csik 2014, 7)

- The customers

Customer means a party who has the ability to choose different products or suppliers and then consumes and receives products or services (Business Dictionary, 2015). Which customer segments are targeted for a company and which are not relevant with the business model is important to be known in the beginning. In every business model, customers are always at the central position. (Gassmann, et al., 2014, p. 6)

- The Value Proposition

The value proposition defines the offerings (products and services) of a company, and how the offerings can be satisfied for the target customers. (Gassmann, et al., 2014, p. 6). A strong value proposition could show how customers view the company and the products (Sadeen, 2015).

- The Value Chain

Value chain is a set of company activities which provide value for the customers and profit for the company (Hollensen, 2007, p. 19). To put the value proposition into reality, processes and activities with related resources and capabilities, and their cooperation along the value chain of a company constitute this dimension (Gassmann, et al., 2014, p. 6).

- The Profit Mechanism

The profit mechanism illustrates the feasibility to make a business model financially (Gassmann, et al., 2014, p. 6).

2.1.4 Osterwalder&Pigneur's View

Coincidentally, in the book '*Business Model Generation*', Osterwalder and Pigneur states the similar opinion with Kaplan. A business model gives explanation of how an organization creates, delivers and captures value (Osterwalder & Pigneur, 2010, p. 14). Besides the concept, in *Business Model Generation*, there's a belief that a business model can be described by nine building blocks to systematically build and change one's business model successfully. Those nine building blocks can be seen as the nine elements inside a business model and cover the four main areas of a business, which are customers, offer, infrastructure and financial viability. (Osterwalder & Pigneur, 2010, p. 15) The nine building blocks of a business model are listed below in figure and explained briefly in text:

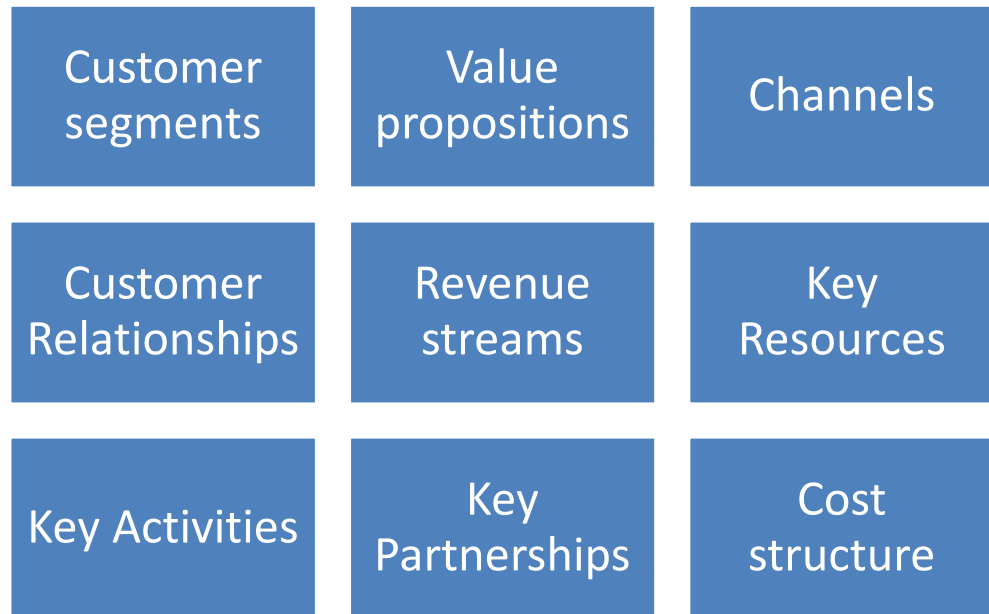


Figure 6. Osterwalder&Pigneur's Nine Building Blocks of a Business Model (modified from Osterwalder&Pigneur 2010, 16)

- Customer Segments

The customer segments mean different groups of people an enterprise or company aim to reach and serve. An organization must have a clear decision on which segments to serve and which not to serve. Once the the segment decision made, a business can be carefully designed to meet the specific customer requirements. (Osterwalder & Pigneur, 2010, p. 20)

- Value Propositions

The value propositions mean the package of products and services which create value for specific customer segments. It is the reason why target customers choose one company over another. It gives solution for customer's one problem and satisfies customers' needs. (Osterwalder & Pigneur, 2010, p. 22)

- Channels

Channels describes, to deliver the value proposition, how a company communicate and reach the target segments. Communication, distribution and sales channels make up a company's interface with customers. Channels play an important role in customer experience. (Osterwalder & Pigneur, 2010, p. 26)

- Customer relationships

Customer relationships demonstrates the relationship which a company build with customer segments. A company should be aware of what type of relationship it wants to establish with every customer segment. (Osterwalder & Pigneur, 2010, p. 28)

- Revenue streams

The revenue streams building block illustrates the cash a company gets from each customer segment after deduct the cost from the revenue. A company must know how much its customer segment willing to pay for the product or service. (Osterwalder & Pigneur, 2010, p. 30)

- Key Resources

To make a business model work, the key resources represents the most important assets needed since every business model needs key resources. Key resources can be physical, financial or intellectual depends on the type of business model. (Osterwalder & Pigneur, 2010, p. 34)

- Key Activities

Every business model has a lot of key activities. Key activities mean the most important things a company have to do to make the company work. Key activities may differ depending on the type of business model. (Osterwalder & Pigneur, 2010, p. 36)

- Key Partnerships

The key partnerships demonstrate the relationships between a company with the suppliers and partners to make a company work. Companies build partnerships to get resources, improve business model or reduce risk. (Osterwalder & Pigneur, 2010, p. 38)

- Cost structure

Cost structure refers to all the costs happens to operate a business model. It describes the most important costs under a specific business model. (Osterwalder & Pigneur, 2010, p. 40)

2.2 Business Model Canvas (BMC)

Before exploring the real business model innovation, it's important to know the core elements in business model and map it. The best tool to map and frame the business model is BMC. It is first introduced by Alexander Osterwalder and Pigneur Yves in *Business Model Generation*. (Kaplan, 2012, p. 33) The statements and literature reviews which are present in business model part all have the main ideas concerning business model and the elements of each. Obviously, all the statements about the elements of a business model have similarities and differences with each other. In this part, elements are concluded to list on a newly-developed business model canvas by author of this paper.

BMC is a shared platform to describe, visualize, assess and change business models (Osterwalder & Pigneur, 2010, p. 12). Thanks to BMC platform, the elements inside a business model could be clearly listed and analyzed. The figure below gives a sample of BMC:

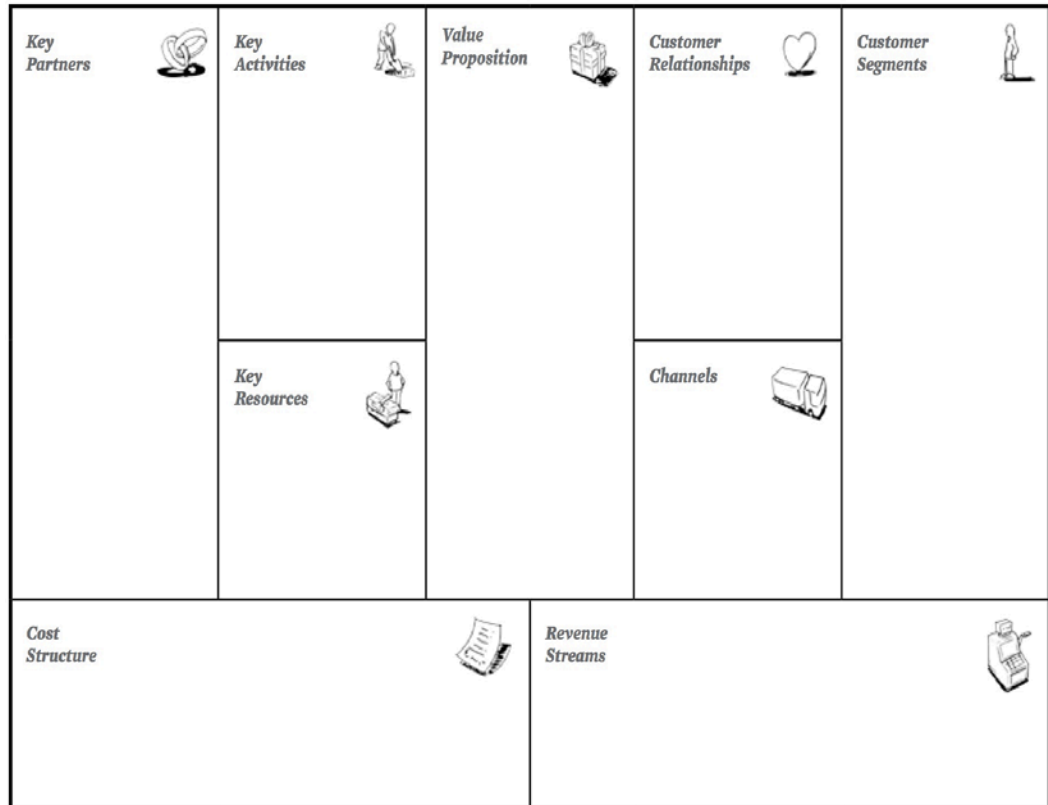


Figure 7. Business Model Canvas sample (modified from Osterwalder&Pigneur 2010)

The figure above is a BMC which is designed by Osterwalder and Pigneur. However, since a new BMC based on different literature reviews on business model elements will be developed in the coming context, the author is not going to use Osterwalder&Pigneur's BMC directly.

Before listing the elements on BMC, an analyzation of element choices should be demonstrated here to make the process intelligible to the reader. Comparative research method is an approach which belongs to scientific research method, it draws aspects of both experimental science and descriptive research. Comparison aims to demonstrate the relationship between two and more variables by presenting the observed similarities and differences. (Carpi & Egger, 2008) The most fundamental technique in comparison method is to visually graph all the data

(Westgard, 2009). The data which is collected from previous literature reviews are elements and can be regarded as descriptive elements for a business model. Thus, a comparative method is applied here by listing all the elements on the graph. After that, the similarities and differences of the elements are defined and result is finally concluded. The following table shows the four writers' view on business model elements:

Table 1. Comparison of four writers' view on business model elements

Writer	Views' comparison			
Gorchels	customer focus	value proposition		
Kaplan	customer experience		financial model	operational model
Gassman & Frankenberger & Csik	customers	value proposition	profit mechanism	value chain
Osterwalder & Pigneur	customer segments	value proposition	cost structure	key partnerships
	customer relationships	key activities	revenue streams	key resources
				channels

From the table above, it's obvious that customer is an element which every writer mentioned and emphasized, because it's important for a company to find the target customer segment precisely, so that customer segment is

the first element inside a business model. Second, value proposition is also most of the writers put forward. Key activities also tell the most important activity that a company is doing to keep the company work, such as producing the products or services. This leads value proposition to the second element. Third, financial model and profit mechanism can be seen as the same term here, both of them tell how the money is managed in a company to make it work profitably. Cost structure and revenue streams are sub elements inside financial model or profit mechanism. Thus, financial model is concluded here to be the third element. Finally, value chain and operational model all demonstrate a set of activities about how a company operates in a specific industry to deliver its products or services to the market. Value chain has the same meaning with operational model here. Key partnerships, key resources and channels are all sub elements of value chain. Therefore, value chain is the fourth element inside a business model.

The following figure shows the concluded four elements inside a business model based on the comparison:

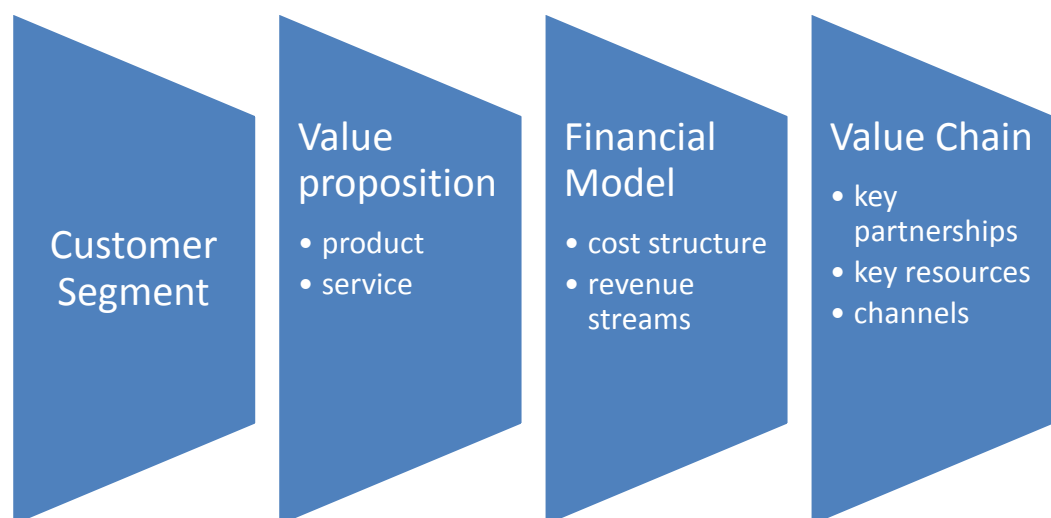


Figure 8. Four elements inside a business model

As the business model elements are listed, it's time to put four elements on a BMC. The BMC developed by the author is visualized in the following figure:

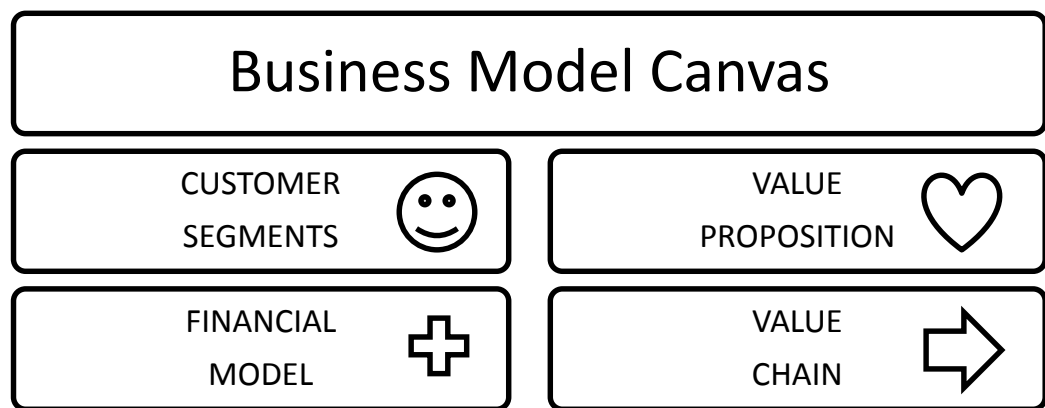


Figure 9. Business Model Canvas with four elements

2.3 SWOT Analysis

As four elements inside a business model are finally summarized, theories continue with marketing analyzation tools. And the first tool to be introduced is SWOT analysis. SWOT analysis includes strength (S), weakness (W), opportunities (O) and threats (T), it is an overall evaluation of a company (Kotler & Armstrong, 2014, p. 77). The primary objective of SWOT analysis is to develop a full awareness of all the positive or negative factors that may affect strategic planning and decision-making for organizations (Goodrich, 2015).

SWOT analysis is described as internal and external scan to help to shape the business model of an organization. Strength and Weakness are internal factors which affects a company's ability to compete. Opportunities and Threats are external factors presenting that a company have to react to or prepare for the future. (Gorchels, 2012, p. 13) In this thesis, SWOT analysis will be used to analyze the case company, Hankintatukku Oy in the third chapter. Brief explanations of each element of SWOT analysis are given as follows:

- Strength

Strength includes internal capabilities, resources and positive situational factors to help the company serve the customers and achieve the objectives (Kotler & Armstrong, 2012, p. 77). Strength should be considered from internal perspective and from the customers and people's point of view in the market (Mind Tools, 2015).

- Weakness:

Weakness means internal limitations, and negative situational factors which will weaken a company's performance (Kotler & Armstrong, 2012, p. 77). It is best to be realistic and face negative truths (Mind Tools, 2015).

- Opportunities:

Opportunities are good factors or trends in external environment that may help the company strengthen the advantages (Kotler & Armstrong, 2012, p. 77). A useful approach for opportunities is to look at the strengths and ask whether these strengths lead to any opportunities and check weakness to see wheter it could be eliminating to produce opportunities (Mind Tools, 2015).

- Threats:

Threats are external factors or trends which are unfavorable that may occur challenges for company's performance (Kotler & Armstrong, 2012,

p. 78). Threats may lead to lower sales and profit loss (Kotler & Keller, 2015, p. 71).

2.4 Market Segmentation and Targeting

SWOT analysis is a tool to drive a company's decision making, but market segmentation and targeting are also important to realize the customers since customer segment is one of four elements inside a business model. For a company to survive, the first step is to decide whom to serve by dividing the market into different customer segments and then select one or more segments accordingly. Market segmentation divides a market into small segments with different characteristics which is often describe as geographic segmentation, demographic segmentation, psychographic segmentation and behavioral segmentation. (Kotler & Armstrong, 2012, p. 214) Four main market segmentations approaches are briefly explained below:

- Geographic segmentation

Geographic segmentation means to divide the market by different geographical units, such as nations, regions, cities etc. For a company, it may operate in a few areas or all areas by paying attention to geographical differences. (Kotler & Armstrong, 2012, p. 215)

- Demographic segmentation

Demographic segmentation divides a market into segments by variables, for example age, gender, income, occupation, education and so on. Demographic segmentation is the most popular way to segment customers, because demographic variables often influence by demographic variables. (Kotler & Armstrong, 2012, p. 215)

- Psychographic segmentation

Psychographic segmentation divide customers by social class, lifestyle or personal characteristics (Kotler & Armstrong, 2012, p. 220).

- Behavioral segmentation

Behavioral segmentation mean to divide customers by their knowledge, attitudes, uses or responses to a product. There's a belief that many marketers regard behavioral factors as the best starting point to build market segments. (Kotler & Armstrong, 2012, p. 220).

After market segmentation, the company has to decide how many and which segments to serve. *Thus, a set of buyers sharing common needs or characteristics that the company decides to serve is called market targeting.* (Kotler & Armstrong, 2012, p. 225) After a company making decisions on market segments, it can start targeting by email, magazine, radio, television and even Internet marketing. To target specific customers, right ads on right media are required to create. (Suttle, 2015)

2.5 PESTLE Analysis

While market segmentation and targeting are in a more micro perspective, PESTLE analysis concentrates more on macro perspective. PESTLE means Political, Economic, Sociological, Technological, Legal and Environmental. PESTLE analysis is aiming to make an overview of the macroenvironment which is operating by an organization. It's a guide for strategic decision making. (PESTLEANALYSIS, 2015) In this thesis, the PESTLE analysis is conducted to demonstrate the background of China. The following part introduces sectors of PESTLE analysis:

- Political:

Political factor indicates how a government may influence the business environment or a specific industry. It includes tax policy, fiscal policy, trade tariffs and so on. (PESTLEANALYSIS, 2015) Political factors often have influences on how organizations do business, and organizations needs to react quickly to legislation and make changes on their marketing policy accordingly (PROFESSIONAL ACADEMY, 2015).

- Economic:

Economic factor means the performance of one country's economy which directly influences a company's long term development. It includes inflation rate, interest rate, economic growth rate etc. (PESTLEANALYSIS, 2015)

- Sociological:

Social factor refers to the social environment of the market, for instance, cultural trends, demographics and population structure and so on (PESTLEANALYSIS, 2015). Social factors have direct effect on how marketers understand customers and what drives them (PROFESSIONAL ACADEMY, 2015).

- Technological:

Technological factor describes the ability to innovate in technology of one country which may affect the operation of a specific industry. It refers to automation, research&development, technological awareness etc. (PESTLEANALYSIS, 2015)

- Legal:

Concerning the legal factor, there are certain laws which would affect the business environment in one country, for instance, consumer laws, safety standards, labor laws and so on (PESTLEANALYSIS, 2015).

- Environmental:

Environmental factor means the surrounding environmental influences on specific industry, for example, tourism and agriculture. It mainly refers to climate, weather, geographical location etc. (PESTLEANALYSIS, 2015). This factor is concerned by marketers since more and more customers prefers products they buy are ethically and are from sustainable source (PROFESSIONAL ACADEMY, 2015).

2.6 Marketing Mix (4Ps) Analysis

After PESTLE analysis, the final marketing analysis tool-Marketing mix analysis is introduced. Marketing mix is a set of strategical marketing tools – product, price, place and promotion that the company blends to produce the response it wants in the target market (Kotler & Armstrong, 2014, p. 76). Thus, the marketing mix is categorized into four Ps. Brief theory of 4Ps is illustrated below:

- Product

Product refers to the goods and services that a company could offer to the target market (Kotler & Armstrong, 2014, p. 76). A product could be tangible regarded as physical item and it could also be intangible as a service (Marketing Teacher, 2015).

- Price

Price means the money that a customer have to pay to get the product (Kotler & Armstrong, 2014, p. 76). Setting the right pricing makes big difference on turnover and profits, and it's difficult since too high price makes the customers turn to other cheaper competitors and too low price make customers feel low quality of the product or service (The Marketing Donut, 2015).

- Place (Distribution)

Place consists of the activities of a company which makes the product available for target customers (Kotler & Armstrong, 2014, p. 76). Place is also known as channel, distribution or intermediary. It is a mechanism which goods could move from manufacturer to end consumers. (Marketing Teacher, 2015)

- Promotion

Promotion is the activities to tell the advantages of the product and make the customer buy the product (Kotler & Armstrong, 2014, p. 77). It includes

all the tools which are available for the marketer to do marketing communication (Marketing Teacher, 2015).

2.7 Conclusion

This chapter firstly presents definitions of business model from different points of view. Going deeper, elements inside a business model from these different views are given. In BMC part, four elements, which are customer segment, value proposition, financial model and value chain, are concluded with comparative method, and finally build up into a newly developed BMC. Theoretical background of business model and the elements are ready to be used for case study of this research.

Moreover, four marketing analysis tools including SWOT analysis, marketing segmentation and targeting, marketing mix, and PESTLE analysis are described in detail. These marketing tools theories are essential to be defined precisely to prepare for the empirical study. To be more specifically, first, a real life SWOT analysis of Hankintatukku Oy will be done in next chapter to understand the company itself. Then, marketing segmentation and targeting is used to analyze and describe the target customers of the case company. After that, PESTLE analysis of China is going to be demonstrated to understand the country from macro perspectives. Finally, marketing mix shows the real marketing strategy the case company is applied.

3 CASE STUDY: HANKINTATUKKU OY

In this chapter, the business model proposals for Hankintatukku Oy are proposed based on the research and analysis. First, the case company is introduced. Then, data which is used in this chapter is introduced with methods and motivations. After that, the theories of marketing analysis tools are applied to see the company itself in China and what the marketing develop trend is in China. Finally, customer segments, value proposition, financial model, value chain, which are the four business model elements are also directly used to achieve proposals.

3.1 Introduction of Hankintatukku Oy

Founded in 1982, Finnish Hankintatukku Oy is the leading food supplement manufacturer in the Nordic countries with over 30 years experience. It has more than 300 varieties of food supplement products, including vitamins, mineral, trace element supplements, lecithin, oil supplements, weight control supplements, herbal remedies, various extracts, tonics and herbal cosmetics. (Hankintatukku Oy, 2015) The logo of Hankintatukku Oy is:



Figure 10. Logo of Hankintatukku Oy (modified from Hankintatukku Oy 2015)

The factory of Hankintatukku Oy is located in a beautiful town which is called Karkkila in southern Finland and products are produced there.

Hankintatukku Oy is a company which has strong willingness to export. Currently, Hankintatukku Oy sells to over 50 countries all over the world. And, in the year of 2007, Hankintatukku Oy started the business in China. (Hankintatukku Oy, 2015) The Chinese name of Hankintatukku is called ‘汉诺金’ with pronunciation of ‘Han Nuo Jin’, which means golden promise.

The core value for Hankintatukku Oy is to keep the highest quality. Upholding this belief, Hankintatukku developed the business step by step in China. So far, it has hundreds of stores in China. These stores can be divided into two distribution systems, one is the department store, and the other is the pharmacy. Currently, department stores and pharmacies which are distributed to sell Hankintatukku’s products exists in many Chinese cities like Beijing, Shanghai, Xi’ an and so on. (Latvus & Hukkanen, 2015)

Furthermore, Hankintatukku Oy regards China as one of the most important markets to develop. Following the marketing strategy of Hankintatukku Oy, there will be more stores opening in the Chinese market in the future. (Latvus & Hukkanen, 2015)

3.2 Data Collection

The following section aims to present the motivations and methods of the data collection. As mentioned in the introduction chapter of this paper, data which is used in this thesis is divided into primary data and secondary data. Primary data is based on the author’s research on the price comparison of 10 representative products of Hankintatukku that sells in Beijing and Lahti and the interview of Finnish Hankintatukku Oy. The pricing research and the contents of interview are appended in the end of this thesis work. Internet resources are main contributors of secondary data. Both of them are detailed explained in next sub sections.

3.2.1 Primary Data

Marketing mix strategy contains 4Ps, which are product, price, place and promotion. Since the marketing mix strategies of Hankintatukku in Finnish and Chinese markets are different, and price in the 4Ps is the most direct element to present the difference, the author is then interested to do a price research to find out the price difference for the same product category in Chinese and Finnish markets. To do this research, 10 products as the representative products of Hankintatukku are chosen randomly by the author. After choosing the products, the author searched the price in Life store of Lahti. At the same time, the author's friend Ms Liu, who lives in Beijing, goes to a department store in Beijing and help to record the price there.

Besides the price research, the author tends to get more official data of Hankintatukku's marketing strategy and situation in China. Doing an interview inside the core team of Hankintatukku Oy is necessary to get the official information concerning the marketing strategy and situation of China.

To do the interview, the author first searched the contact information on Hankintatukku's official website. The author sent emails to Mr Arno Latvus, and Mr Arno Latvus accepted the interview. The interview is done by the author through interviewing two important persons in Finnish Hankintatukku Oy, they are Mr Arno Latvus and Ms Johanna Hukkanen. Mr Arno Latvus is the directing manager of Hankintatukku Oy. And Ms Johanna Hukkanen is the area export manager specializing in Asian market of Hankintatukku Oy. The author believes that two person in a same company with different job position could give more comprehensive information.

Concerning the questions in the interview, both of the interviewees gave answers from their own point of view. The author mixed the answers and finalized the contents of discussion in this interview. Questions in the interview are related with Hankintatukku's marketing strategy and situation

in China. Contents of the interview cover key theories of this paper: marketing mix strategy; SWOT analysis; customer segments; value proposition and value chain. And it is worth to point out that in the marketing mix strategy part, Mr Latvus and Ms Hukkanen has given valuable information on comparison of marketing strategy between Finland and China.

3.2.2 Secondary Data

Secondary data which is used in this chapter is mainly from internet resources. In the key theory part, data of the whole Chinese food supplement capacity and PESTLE analysis comes from secondary resources. Figures of Chinese food supplement capacity are from NBS Chinese official website. And, to do the PESTLE analysis, the author searched information about China on CIA official website and CNNIC to get the official and accurate figures for different factors inside the PESTLE. Then, according to the author's own life experience in China, PESTLE analysis is finally finished.

In the business model proposal part, data mainly comes from websites of consultant companies to get the trend of Chinese marketing. For example, Mckinsey's official website gives data on division of Chinese urban households based on the disposable income, so that market segmentation and targeting of Hankintatukku Oy in China could be figured out. And Mckinsey also gives figures on magnitude of Chinese middle-class people, it leads to a proposal based on the data in customer segment part. Moreover, for financial model and value chain proposals, basic information of O2O model and Chinese E-commerce development mainly comes from Chinese consulting websites to show the real online channel development in China. Since the data collections of this section has been introduced, the marketing situation of the case company in China is going to be introduced and analyzed in the following section.

3.3 Marketing Situation in China

In China, followed by economic development, increasing disposable income, transforming of awareness and advances in health care, people tend to change the disease treatment from afterwards to beforehand. Therefore, the consumption on food supplement products is continuously growing. The Capacity of the Chinese market brings good opportunities for food supplement companies. In the year of 2014, the market capacity of Chinese food supplement reached incredible 1852.29 billion CNY, which is around 264.61 billion EUR (Zhiyan Consulting Group, 2014). The figure below shows the Chinese food supplement market capacity development from the year 2009 to 2014, which the data is collected from NBS of China:

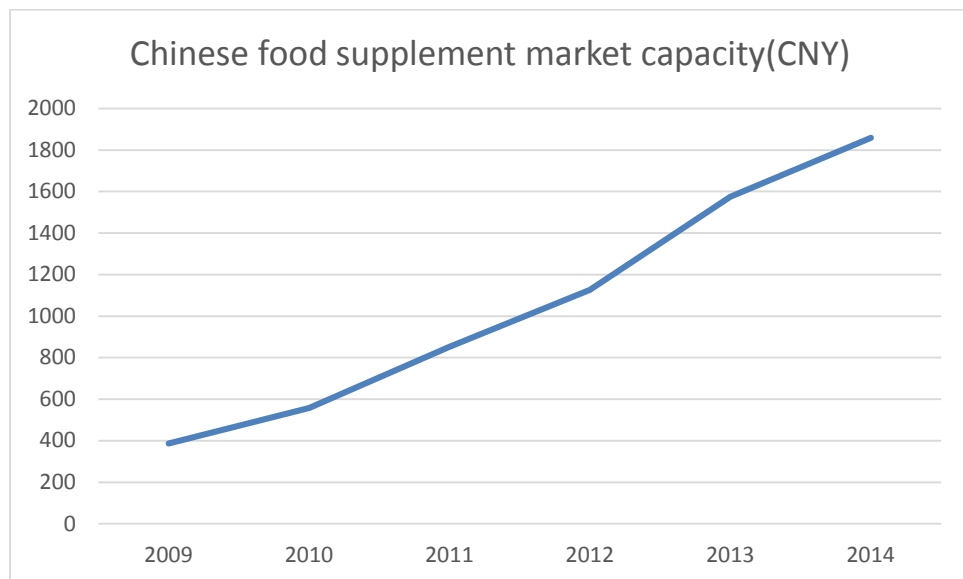


Figure 11. Chinese food supplement market capacity (modified from NBS of China)

As the figure above illustrates, the Chinese food supplement market capacity grows year by year in the last five years, and it could be estimated that in the future, this figure will keep increasing. It is worthy to mention that Hankintatukku Oy already started business journey in China since the year of 2007. Increasing food supplement capacity in China means that Hankintatukku Oy as a food supplement company has good opportunity to develop in China's huge market. As mentioned in the first chapter, this thesis aims to propose a more adaptable business model proposal for Hankintatukku Oy to be more successful in China, thus it's essential to have a whole understanding of the marketing situation first. After that, the company's own situation in Chinese market is also an important point to realize by applying the theory of SWOT analysis.

3.3.1 SWOT Analysis

SWOT analysis includes Strength, Weakness, Opportunities and Threats, and it is an overall evaluation of the company itself. Thus, to understand the company itself, SWOT analysis is necessary to be introduced first. The following figure shows the SWOT analysis of Hankintatukku Oy specializing in Chinese market, which the viewpoints are collected from the interview of Hankintatukku Oy:

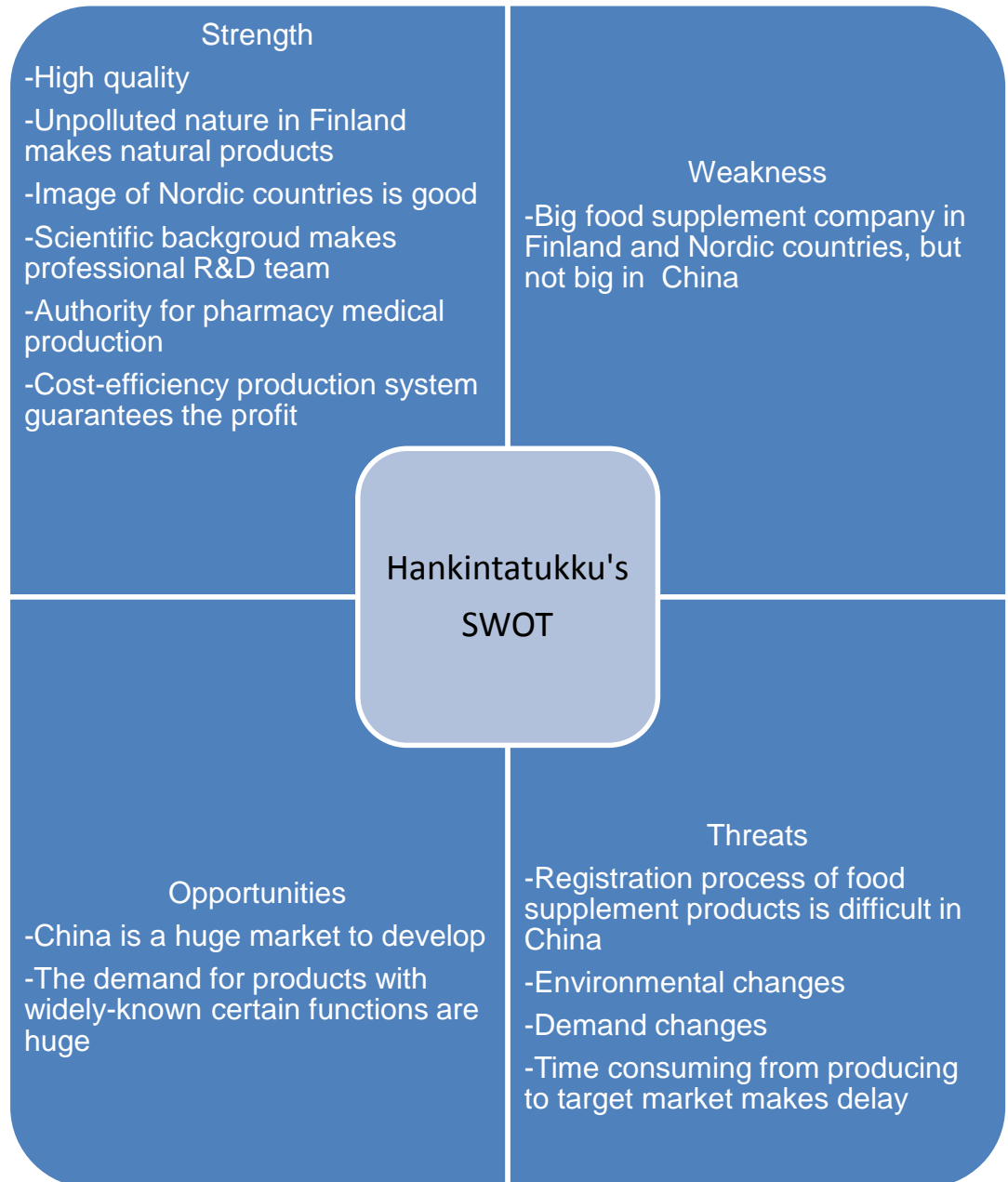


Figure 12. SWOT analysis of Hankintatukku Oy (modified from Latvus & Hukkanen, 2015)

In the literature review chapter, it is mentioned that strength and weakness are the internal factors to show the ability of a company to compete. Thus, strength and weakness are first explained to show the internal factors of Hankintatukku Oy.

For strength, it's no doubt that products of Hankintatukku Oy are of high quality. And high quality food products do not come alongside without the pure nature of Finland since pure nature is a premise of pure food materials. Also, Hankintatukku Oy has very professional research and development team that powers this company the ability to develop more high-quality products. In addition, Hankintatukku Oy has the authority for pharmacy medical productions in Finland. Those strengths completely guarantee the profession and quality of the products. Moreover, it has been widely accepted that the image of Nordic countries is good, which is also one of the reasons why Nordic products are popular in many other countries. Despite the product itself, cost-efficiency production system guarantees considerable profit of a company. Good profit could support the long term development of Hankintatukku Oy.

For weakness, Hankintatukku Oy itself is a big food supplement company in Finland and Nordic countries, but it's not big in China, so that it is important for Hankintatukku Oy to get more market share in China.

While these internal factors play essential roles in Hankintatukku's business operations in China, external factors which include opportunities and threats are also important to know about Hankintatukku Oy.

China is the biggest emerging market in the world, with around 1.3 billion people (CENTRAL INTELLIGENCE AGENCY, 2015), it's a quite huge market to develop. The Chinese market, which is huge and potential, is not only an opportunity for Hankintatukku Oy, but also a good opportunity for other Finnish companies. Although cultural factors make differences concerning the food supplement field between Finland and China, there are still some common knowledge that most Chinese consumers accept. Thus, demand for certain function products is huge in Chinese market.

For threats, the registration process of food supplement products is difficult and this brings difficulties to Hankintatukku Oy to register legally in China. And, the environment of China may change and thus cause changes to demand on consuming food supplement products. Another threat is the

time delay due to the time consumption in delivering products from Finland to China. It is known that products of Hankintatukku exported to the Chinese market are all originally produced in Karkkila's factory and then directly shipped to China. It takes so long to ship these products on the way and then pick them up from the Chinese customs that new varieties and new packages of Hankintatukku products may not be launched in China in a short time period.

3.3.2 Market Segmentation and Targeting

After viewing the company itself in China from SWOT analysis, the marketing strategy and analysis with macro perspectives are going to be introduced, marketing segmentation and targeting is first analyzed to realize the target customers of Hankintatukku Oy in China. According to the interview of Hankintatukku Oy, everybody who is interested in Nordic food supplement products are target customers. At the same time, it is known that people with very higher income in China are the main parts of the target customers of Hankintatukku' products in Chinese market. However, in fact, consuming Nordic food supplement products is often described as a favorable lifestyle in China and people's income level is considered as the expression of one's social class in China.

In China, defined by annual disposable income per urban household, people can be divided into four categories: affluent, upper middle class, mass middle class and poor. The annual income for those four categories are: >229000 CNY (32,714 EUR); 106000-229000 CNY (15,142-32,714 EUR); 60000-106000 CNY (8,571-15,142 EUR) and <60000 CNY (<8,571 EUR). (Barton, et al., 2013) Therefore, Chinese people who earn more than 229000 CNY which is about 32,714 EUR per year are the real target customers of Hankintatukku Oy. Thus, Hankintatukku Oy makes market segmentation by psychographical factor: lifestyle and social class.

3.3.3 PESTLE Analysis

PESTLE analysis for China is a tool to understand Chinese macro environment. The following table shows the PESTLE analysis for China, data in this table is collected from CIA official website, CNNIC and the author's observation in her own life experience in China.

Table 2. PESTLE analysis for China

Political	Economic
<ul style="list-style-type: none"> -Communist state with stable environment -Government support the development of technology and new energy -The documents for foreign enterprises to register are complicated 	<ul style="list-style-type: none"> -World's largest economy in 2014 -Rapid economic transformation -Import \$ 1,949 trillion in 2013 -High tariff tax and business tax -Increasing disposable income
Sociological	Technological
<ul style="list-style-type: none"> -Urban population: 54.4% -Population at working age(15-64 years) is 1.0040 billion in 2014 -Clear social class division 	<ul style="list-style-type: none"> -Internet users is 0.618 billion in 2013 -Internet penetration rate 45.8% in 2013 -Own social media tool: QQ, Sina Weibo, Wechat -Online shopping user amount: 0.332 billion in 2014
Legal	Environmental
<ul style="list-style-type: none"> -Civil law is with highest position -Law and legal system in China are not perfect 	<ul style="list-style-type: none"> -Air pollution, soil erosion and water table falls followed by the fast developing economy and low awareness of protecting the environment -Serious food safety problem

From the perspective of political factor, it is known that Hankinatukku is operating the business in a stable political macroenvironment. However, it is still difficult for foreign companies to register in the specific field such as food supplement industry in another country since it is always difficult to distinguish food supplement products with medical products according to legal regulations in many countries.

From the economic point of view, there's no doubt about the fact that the Chinese market is a huge market and it is in economic transformation period. China is an open economy to import products of huge value. This is very important for Hankintatukku Oy because it could have better development in Chinese market. High tax means Hankintatukku has to pay high rate of tax on importing and doing business in China. Increasing disposable income means that people's purchasing power is stronger than before. The strong purchasing power improves the living standard, people tends to consume more for their health. This is a good factor for Hankintatukku Oy.

From the sociological perspective, over half of the Chinese people currently live in urban areas and this figure is increasing continuously. A huge number of population is at working age which means China is enjoying the population benefit. It leads to a result that Hankintatukku Oy has the opportunity to get more market share due to the huge purchasing power of Chinese people. In addition, in China, people are clearly divided into different social classes based on the variety of income level, family background and so on.

From the technological point, from the huge number of internet users and high internet penetration rate, it is known that China is an information country with high speed of Internet technology development. Internet is an essential role in the life of Chinese people. A lot of Chinese people use Chinese own social media tools such as QQ, Sina Weibo and Wechat, to search the news, do shopping and contact with friends. Based on the author's life experience in China, a large number of widely known foreign

brands use Chinese social media platform quite often to promote the products. Some of them even open online shops by having independent website or by opening a shop on Chinese largest B2C E-commerce platform like Tmall. From the interview, it seems that Hankintatukku Oy doesn't play very big a role on online activities in China.

Looking into the legal sector, in China, Civil law is in the highest position. At the same time, law and legal system in China are still not perfect. It means that when Hankintatukku Oy does business in China, it may meet some problems related with the legal regulations.

The environmental problem is currently a serious problem in China. Fast developing economy and low awareness of protecting the environment causes serious environmental problems such as air pollution, soil erosion and water table falls. Environmental degradation makes food safety a huge problem in China. Under this background, Chinese people's demand for pure food increases and a lot of people start seeking pure food from other countries. Finland is exactly a country with famous pure food, and many Finnish companies like Hankintatukku Oy use food materials from Finland to process the products. Big opportunity stands out over there for Finnish enterprises.

3.3.4 Marketing Mix Comparison between China and Finland

After the PESTLE analysis of China, another important marketing analysis tool-marketing mix is demonstrated in this part. Marketing mix is a set of marketing strategic tools which include four variants: product, price, distribution (place) and promotion. To make the 4ps more clearly, a comparison of them between Finland and China is done to show the differences between Hankintatukku's marketing strategies. The data for the price factor comes from the author's research on Hankintatukku's products and except the price factor, most of the data are based on the interview. Contents of marketing mix are how Hankintatukku Oy actually

operates in both markets. The marketing mix comparison is summarized in the table below and explanations are as follows:

Table 3. Comparison of marketing mix strategy between Finland and China (modified from Latvus & Hukkanen, 2015)

Marketing Mix	Finland	China
Product	- standardization - full category	- standardization with Chinese labels - part of the category
Price	middle	very high
Distribution(place)	markets, special shops, pharmacies	department stores, pharmacies
Promotion	ads on TV, magazines, newspapers, own Vitaali ads	Sina Weibo and exhibitions

a. Product

The products of Hankintatukku Oy are using standardization mode. Products of Hankintatukku in China have the same package and design style with whom in Finland since all of the products are produced in Hankintatukku's factory in Karkkila. In addition, Finnish Hankintatukku Oy makes Chinese labels for products exported to China. (Latvus & Hukkanen, 2015) Furthermore, concerning the product categories, the author searched Hankintatukku's Chinese official website: www.hankintatukku.cn, and found that not all products which are selling in Finland are also at the same time selling to China. It means that all the

product categories could be found in Finland, but in China, only part of the product categories could be found.

b. Price

To demonstrate the difference in price of products of Hankintatukku between China and Finland, research is carried out by choosing 10 representative Hankintatukku's products which are selling in a department store in Beijing and Life store in Lahti. Price in Life Lahti is collected by the author. And Ms Liu helped to collect the price data in Beijing. The price comparison is demonstrated in the column chart below:

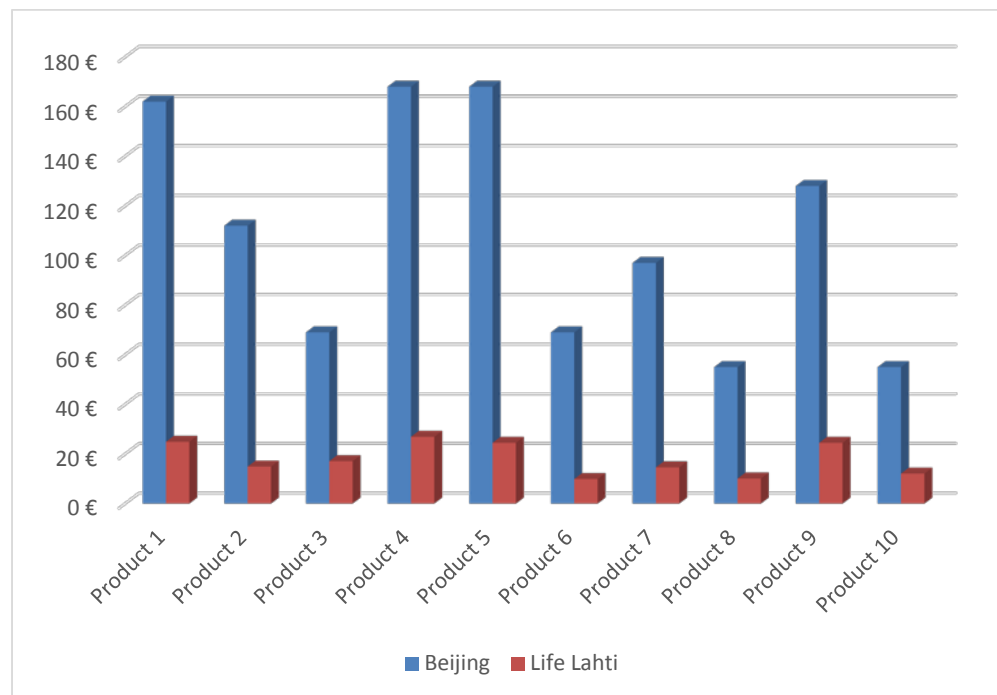


Figure 13. Price comparison of Hankintatukku's products between China and Finland

The research result shows that the price in China is much higher than in Finland. High price meets the purchasing power of Hankintatukku's current target customers in China, which are Chinese affluent people. It is obvious in this chart that the price of some Hankintatukku's products in China is even eight times higher than that in Finland.

c. Distribution (place)

In Finland, there are 3 main distribution systems for Hankintatukku. First of them is the markets, for example, K markets and S markets. Second is the special shops, for instance, Life Finland Oy. The last distribution system in Finland is the pharmacies, a good example is Yliopiston Apteekki. (Latvus & Hukkanen, 2015)

However, in China, the distribution system is divided into only two channels including department stores and pharmacies. Department stores and pharmacies which sell Hankintatukku's products have already existed in many big cities of China and there will be more stores open in other Chinese cities in the future. From the interview, it's been noticed that Hankintatukku Oy does not have any official independent online shop both in Finland and China. (Latvus & Hukkanen, 2015)

d. Promotion

In Finland, Hankintatukku Oy makes advertisements on TV, magazines and newspapers. And, Hankintatukku has its own Vitaali ads which are published three times per year. For every year, Vitaali has around 1.3 million publishing pieces in Finland. In addition, Hankintatukku also does promotions on social media platform like Facebook, but social activities are fairly rare. (Latvus & Hukkanen, 2015)

Meanwhile, in China, Hankintatukku Oy currently has two major ways to make promotion. One way is tweeting news and other information on the famous Chinese social media platform, Sina Weibo. The other is attending various exhibitions in China. (Latvus & Hukkanen, 2015) Hankintatukku on Sina Weibo is also not active which can be seen by the fact that there is

currently only a small number of followers and the latest post was published about two years ago.



Figure 14. Screenshot of Hankintatukku's Sina Weibo in China

3.4 Business Model Proposal

Since in this chapter, the case company-Hankintatukku Oy has been introduced first, after that, methods and motivations of the data are also demonstrated. Then, the marketing situation of Hankintatukku Oy and macro perspectives of China has been introduced and analyzed. Thus, the research of this paper comes to the stage of business model proposals.

In the second chapter of this paper, four business model elements are concluded based on different literature reviews, including customer segments, value proposition, financial model and value chain. Therefore, in this part, four elements is going to be used directly and proposals for each element is put forward based on the marketing develop trend of China. Data for the marketing develop trend mainly comes from consultant company's websites such as McKinsey and Chinese Consulting Companies.

3.4.1 Customer Segments

As mentioned in the marketing situation part, the customer segmentation of Hankintatukku Oy in China is divided by psychographic factors: life style and social class, and the target customer of Hankintatukku in China is the affluent Chinese people. From the SWOT analysis, Hankintatukku Oy intends to be a big food supplement company in China, so that it is important to gain more market share. However, the mass consumers in China are the middle class people who are in different social class than Hankintatukku's target customers.

The Chinese middle class is growing with explosive speed and has brought huge economic change and social transformation. Mckinsey's research estimates that, by 2022, in Chinese urban areas, more than 75 percent of the consumers will earn 60000 to 229000 CNY per year which is around 8,571 to 32,714 EUR. (Barton, et al., 2013) In the past three decades, Chinese poverty fell from 84 percent to 13 percent from 1981 to 2008 (WORLD BANK GROUP, 2015). The poverty is reducing continuously and moving people to the middle class with incredible speed. The following figure from Mckinsey shows the category of Chinese urban household and the tendency of Chinese middle class:

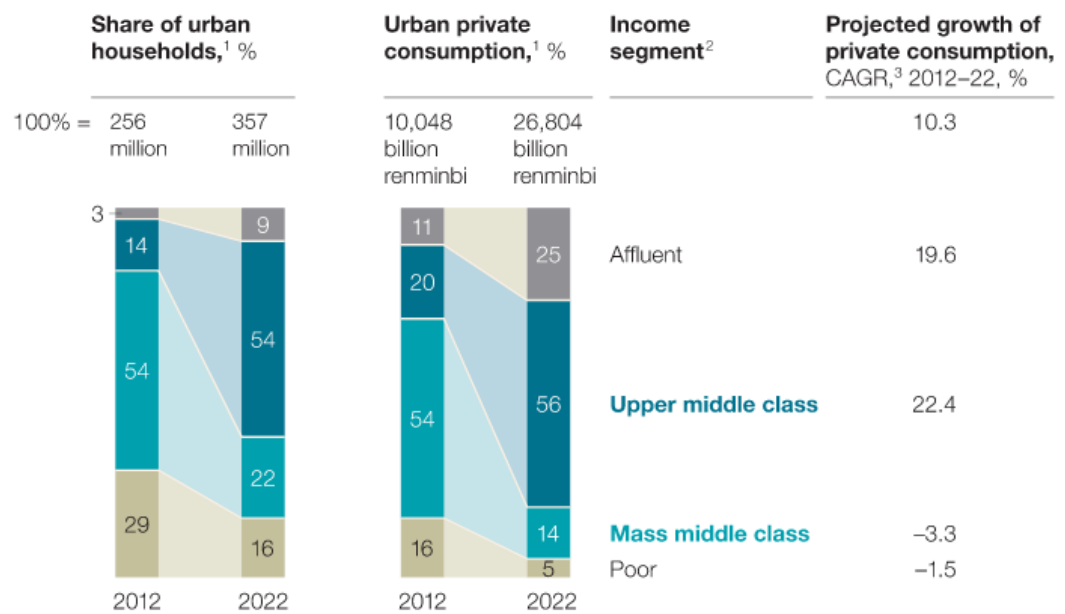


Figure 15. The magnitude of China's middle-class growth (modified from Barton, Chen&Jin, 2013)

This figure demonstrates that the Chinese middle class people will grow much faster than the affluent class. The World Bank indicates that, based on the experience, it is more difficult for people to transit from middle-income to high-income than from low-income to middle-income (WORLD BANK GROUP, 2015).

From the author's research on price comparison of Hankintatukku's products between Chinese and Finnish markets, it's obvious that the price of Hankintatukku's products in China is much higher than in Finland. For some of the product categories, the price in China is almost eight times higher than in Finland. Although the price increases in China may be caused by the high tax and the difficulties in registration process, the market segmentation and targeting is still the main reason for the high price. Chinese middle-class consumers can not afford such high price concerning the income level. Thus, the suggestion to get more market share in China is, Hankintatukku Oy could focus more on the growing

Chinese middle class people. It is marked in business model canvas as follows:

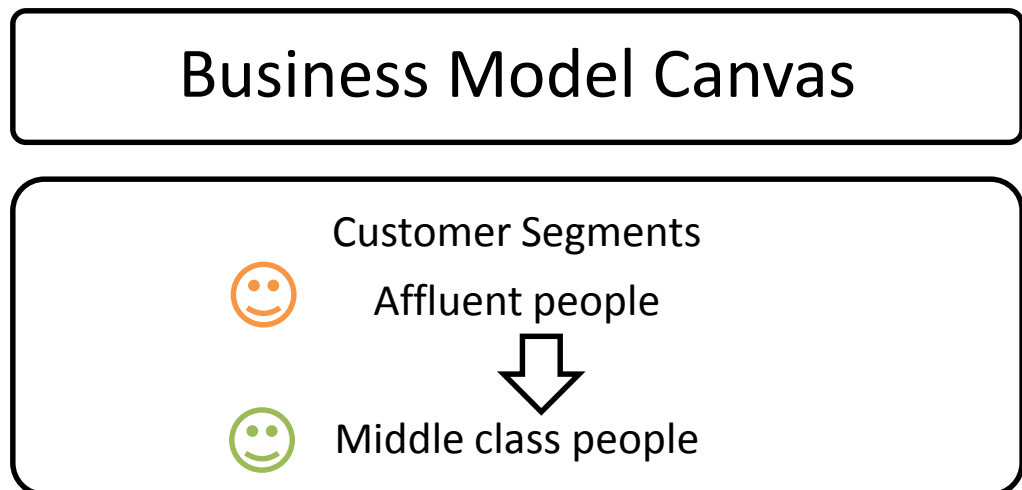


Figure 16. Customer segments of BMC

3.4.2 Value Proposition

The value propositions that Hankintatukku could bring to Chinese target customers are the high quality food supplement products. Hankintatukku Oy has more than 300 varieties of products covering the whole range of food supplements and other special products (Hankintatukku Oy, 2015). However, its product categories in China cover only parts of the whole product categories, which means not all of Hankintatukku's products could be found and purchased by Chinese people. In the health care field, there are a lot of differences between the awareness and common knowledge between Chinese and Finnish people due to several factors such as historical, cultural, technical ones and so on.

For the value proposition, what Hankintatukku could do is adding more Finnish science promotion activities. From the promotion part of the marketing mix, it is known that Hankintatukku in China is now doing the promotion activities via Sina Weibo and attending exhibitions. But on Sina Weibo, it is not active and the latest post was about two years ago. China is the biggest social network market in the world (Statista, 2015). In the interview, Mr Latvus also pointed out that the most effective promotion tool is the social media platform nowadays. And as mentioned in the PESTLE analysis part, there are various localized social media tools such as Sina Weibo, QQ, WeChat and so on in China. In the year of 2013, Chinese Internet users reached 0.618 billion, 58% of them also use the social networks (Statista, 2015), and 38% of them make purchase decisions based on the recommendations which are given over social networks (Spencer, 2015). The following table shows the top five social networking sites and the number of the active users in China:

Table 4. Chinese top 5 social networking sites and number of active users (modified from Spencer 2015)

SOCIAL NETWORKING SITE	ACTIVE USERS(MILLION)
TENCENT QQ	830
QZONE	755
SINA WEIBO	600
WECHAT	468
PENGYOU	260

It needs to be mentioned, that three sites in the table above including Tencent QQ, Qzone and WeChat are all provided by Tencent Inc. The table shows that, besides Sina Weibo, three social media sites have over 600 million active users. Since Hankintatukku in China has already had a Sina Weibo account, it could perform more actively to promote the products and related scientific knowledge. And despite Sina Weibo, Hankintatukku also could try to promote on other Chinese social media platforms to attract more customers. By promoting on various social media platforms, Hankintatukku could attract more followers and let more Chinese people get to know their products. Proposal for value proposition is marked in BMC in the following figure:

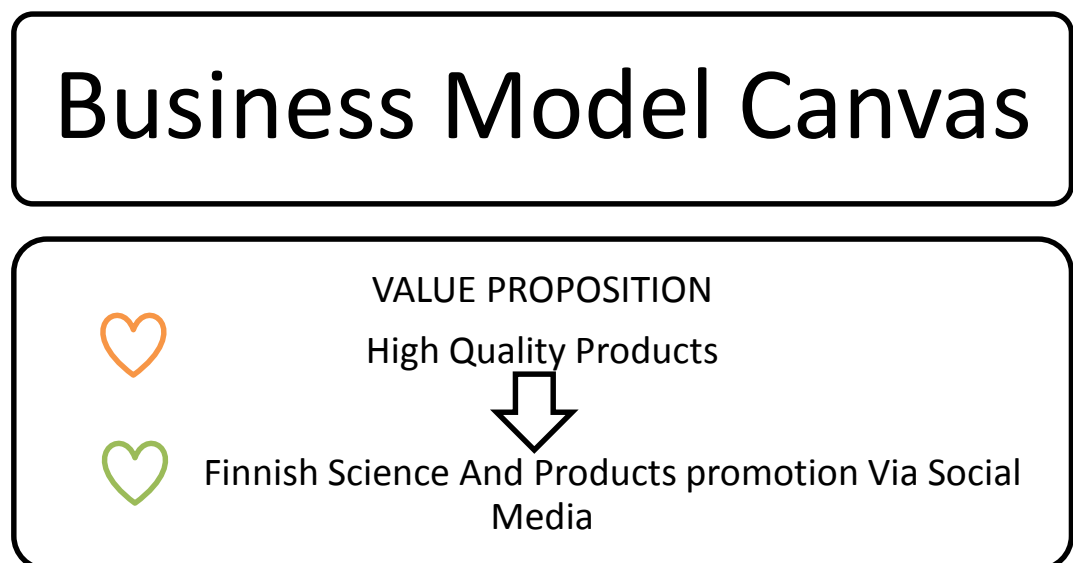


Figure 17. Value proposition in BMC

3.4.3 Financial Model

Hankintatukku Oy gets profit by selling hundreds varieties of products. From the SWOT analysis, it is known that the cost efficiency production system could control the costs and guarantee the profit. Since Hankintatukku already has such a system, the proposal concerning the financial model will not focus on cost control. Meanwhile, the objective for improving the business model is to achieve the goal of more market share in China. From financial point of view, more market share means creating more revenue. Therefore, the following text concerning the financial model proposal will focus on discussing what the ways are to achieve more revenues.

As mentioned in the distribution part of marketing mix section, currently there are two main distribution channels to sell Hankintatukku's products in China, which are the department stores and the pharmacies. To increase revenues in a way other than these two used nowadays in China, O2O model could be introduced in since Internet is widely used in China.

O2O means online to offline and is a new business model which operates quite successfully in China. By the intergration of internet-connected devices, such as smartphones, tablets, tablet PCs etc, O2O commerce connects the online digital world with the real life. For example, customers could be driven to offline physical stores by online information like e-coupons, QR codes and mobile payment systems. (TMO Group, 2015).

Another important point is that O2O creates hybrid logistics. Hybrid logistics is a developing trend in big cities around the world. Customers make orders online and could choose to pick up in a store or receive the goods from the nearest offline shop or warehouse. Hybrid logistics saves pretty much time in delivery. O2O is an efficient way to improve customers' shopping experience and increasing revenue. (TMO Group, 2015) The following figure shows briefly the mode of Hybrid logistics in O2O model:



Figure 18. Hybrid logistics in O2O commerce (modified from TMO Group 2015)

Therefore, the O2O model is proposed as a new way to improve the current financial model for Hankintatukku Oy. An online store could be established and more online activities are considered as importances. In detail, with the hybrid logistics in O2O model, great opportunities are produced and could bring more revenue for offline stores. For instance, customers can order online, and offline stores could do delivery job. Also, offline stores could do promotion activities in the online store or social

media platforms to attract customers to visit the offline stores, and so on. O2O could also improve customer's shopping experience in purchasing Hankintatukku's products and thus increase its revenue, brand awareness and other benefits in China. It is marked in BMC as follows:

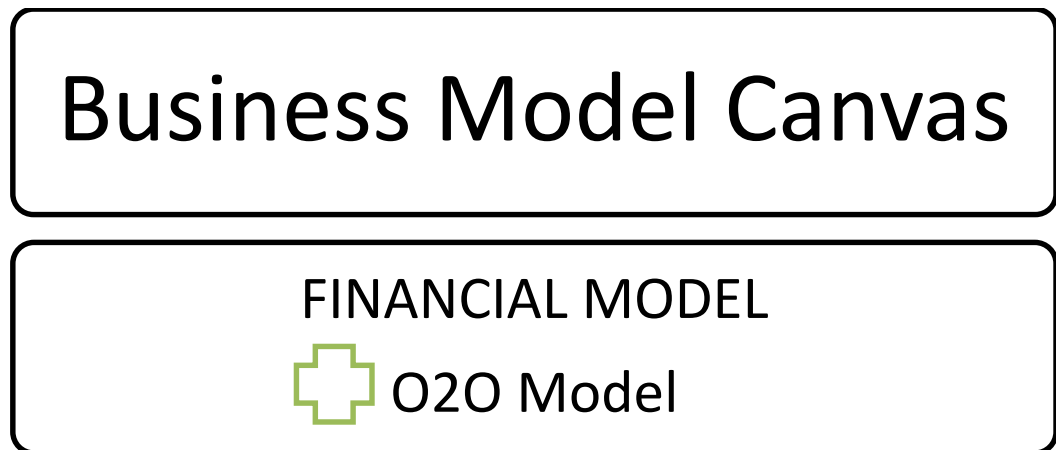


Figure 19. Financial model in BMC

3.4.4 Value Chain

The value chain proposal is similar to the financial model, since the whole value chain of Hankintatukku is complete and applicable from materials to end customers. What else needs to be concentrated on is the distribution channel, and to be more specific, online channel. In China, online shopping is now very popular and is an essential role in people's daily life. Based on CNNIC's data, until 2014, there are already about 0.332 billion online shopping users in China which occupies $\frac{1}{4}$ of the whole population (Cui, 2014).

CNNIC indicates that E-commerce development in China experiences five periods: starting period (1990-1993); embryonic period (1993-1997); development period (1998-2000); stable period (2000-2009) and maturity period (2009-present). Currently, following the improvement of regulations and increasing awareness in online shopping, Chinese E-commerce development has already jumped into the maturity period. Internet users and online shopping capacity in China will increase with high speed in the coming years, and consumers' dependence on online shopping will also increase. (Cui, 2014) Since the year of 2003, the compound annual growth of China's e-tailing industry is 120%. In the year of 2012, e-tailing produced sales of more than 190 billion USD. (Dobbs, et al., 2013)

Therefore, despite the fact that two distribution channels currently exist including department stores and pharmacy, the author proposes that Hankintatukku could concentrate more on E-commerce. Building an online store is not only of great help for value chain, but also giving great benefits to Hankintatukku's financial model.

There could be two different options for an online store, one is a standalone online shop while the other is a store in some other E-commerce platforms. What is going to be discussed is the E-commerce platforms since the author is not familiar about building a standalone online shop. E-commerce platforms are developing fast nowadays in China. By the end of 2014, combining B2C, C2C and B2B sectors, the online retail transactions of China reached 13 trillion CNY, which is about 1.85 trillion EUR. In the B2C sector, Tmall and JD are the two biggest players. (Bysoft China, 2014) The table below illustrates the top 5 B2C E-commerce platforms in China with their own market shares:

Table 5. Top 5 B2C E-commerce platforms in China (modified from Wan 2015)

E-COMMERCE PLATFORM	MARKET SHARE (%)
TMALL	60
JD	19
SUNING	3
VIPSHOP	3
GOME	2

There are also other E-commerce platform players in the Chinese market but the top five E-commerce platforms occupy most of the Chinese E-commerce market. Tmall (B2C) and Taobao (C2C), who are from Alibaba Group, are the biggest E-commerce platform players in China. (Bysoft China, 2014) Thus, if Hankintatukku tends to have online store on Chinese E-commerce platform, it's recommended for Hankintatukku to have an online store on Tmall. The following BMC presents the proposal for value chain:

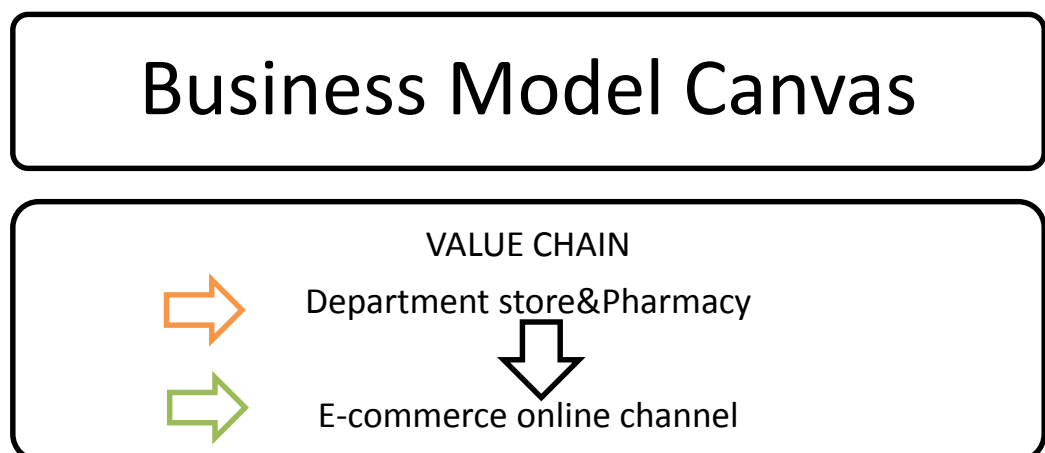


Figure 20. Value chain in BMC

4 FINDINGS AND CONCLUSIONS

We now have research on elements inside a business model that could help improve the case company to expand its business operations in China, and research on situations in China that could influence the business model proposal for Hankintatukku Oy reach to this stage. Summaries of proposals and conclusions based on these proposals could be given now as findings and conclusions for this study. Additionally, future research recommendations will also be given for further studies.

4.1 Findings

Findings based on research questions given in the beginning of this paper are presented in the table below:

Table 6. Findings based on research questions

Research questions	Findings
Inside a business model, what are the elements which could be found to improve in the case company?	<ul style="list-style-type: none"> • Customer segments • Value proposition • Financial model • Value chain
How does the marketing situation in China influence the business model for Hankintatukku Oy?	<ul style="list-style-type: none"> • Growing middle-class people • Social media platform is a popular tool to promote • O2O model is successful in China to increase shopping experience and revenue • E-commerce gives great opportunity to build online channel

4.2 Business Model Proposal

As a conclusion, based on this thesis study, there are several business model proposals the author suggests based on four elements, which are customer segments, value proposition, financial model and value chain inside a business model that could help the case company expand its business operations in China. The proposals are marked in the following BMC and explained briefly:

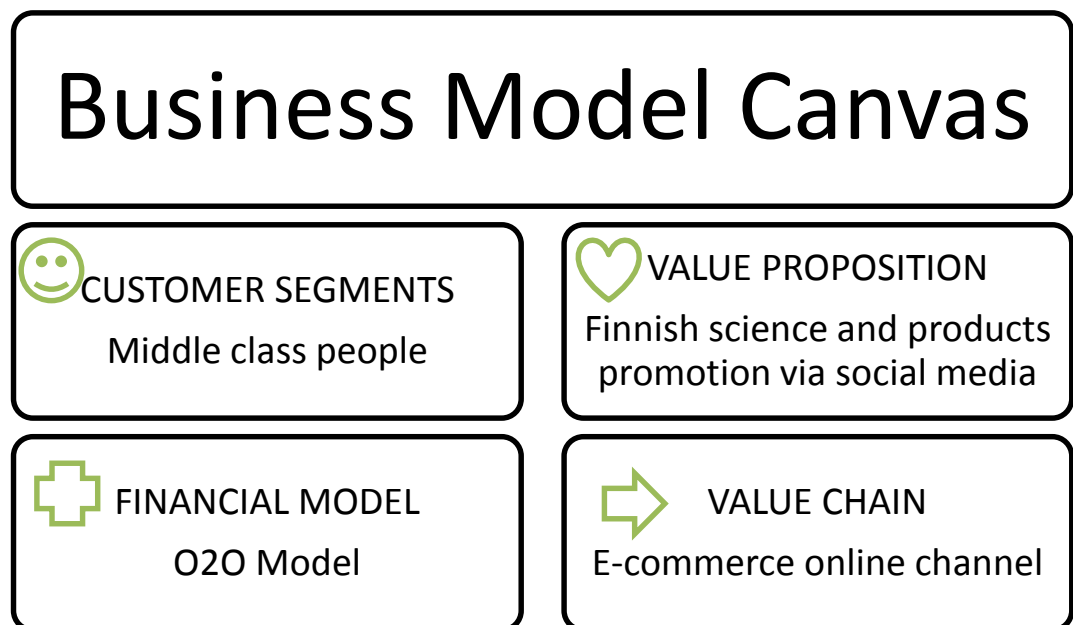


Figure 21. Business model proposal in BMC

- For target customers, focusing more on the growing Chinese middle class.
- Promoting Finnish science and products on various social media platforms such as QQ and Wechat to attract more followers and let more Chinese people get to know the products.

- Adopting O2O model as a new way to improve the current financial model of Hankintatukku Oy.
- Opening an online store on Chinese E-commerce platforms such as Tmall.

4.3 Reliability and Validity

This thesis uses inductive research approach with qualitative and quantitative research methods. Therefore, data is the most significant factor to analyze and draw conclusions from. As mentioned in the first chapter, primary data and secondary data are combined to achieve the objective of this research. Thus, the reliability and validity of both the primary data and secondary data is discussed here.

First, primary data includes the price comparison and the interview. The data for price comparison is collected by the author and the author's friend Ms Liu. And there's no reason for the author and Ms Liu to make up the price, since the price in China and Finland is clear and objective. Second, the data from the interview is original from the case company's Directing Manager and Area Export Manager, both of them are in high level of the company and are faithful to their jobs. The information that they gave to the author must be reliable and valid concerning the products and the Chinese market. Thus, the primary data and the result of data analysis is reliable and valid.

For secondary data, despite authoritative McKinsey, CIA and CNNIC, most of them come from reliable websites of consultant companies. The websites of Consultant Companies always post the recent figures and statements to do analysis. Therefore, in this thesis, most of the secondary data is also reliable and valid.

4.4 Conclusion and Future Research Recommendations

To conclude this thesis, in the theoretical part, the theories which are used in the case study chapter are first defined. By using comparative method, four elements inside a business model are figured out. The marketing analysis tools such as SWOT analysis, marketing segmentation and targeting, PESTLE analysis and marketing mix are also defined in the theoretical chapter.

Following by the theoretical chapter, the case study chapter is finished. In the case study chapter, the case company of this paper-Hankintatukku Oy is first introduced. After that, theories are applied to understand the case company itself and the Chinese market in a macro perspective. Then, business model proposals are made based on the marketing develop trend in China.

The author believes that Finnish Hankintatukku Oy has strong power to develop in the Chinese market if it could follow closely the developing trend in China. Since China is in a fast transforming period, to get more market share, Hankintatukku itself has to adapt to the Chinese marketing environment. The explosively growing middle-class, favorable social media tools, the huge power of E-commerce and the success of the O2O model would all give trends to focus on for Finnish companies like the case company itself for doing business in China. Besides Hankintatukku Oy, other Finnish companies should also be aware of various new factors rising up in China nowadays.

For future research, it would be great help to do a study on data analysis of online business after Hankintatukku adopts O2O model and opens online shops. Results based on such research could help Hankintatukku in making decisions on further actions. Besides, a research topic about performances of Hankintatukku's main competitors, especially competitors from other countries, doing business in China is recommended. Finally, research on social marketing tools and E-commerce platforms in China

could help Finnish enterprises making entry decisions on these kind of business operations.

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APPENDICES

Appendices 1. Research on price of 10 representative Hankintatukku's products which is sold in Beijing department store (China) and Life Lahti (Finland)

Product 1.



Product name: Pycnogenol strong

Price in Beijing: 1138 CNY
(162 EUR)

Price in Life Lahti: 24.9 EUR

Product 2.



Product name: Urisan

Price in Beijing: 788 CNY
(112 EUR)

Price in Life Lahti: 14.9 EUR

Product 3.



Product name: Visiobalance Opti

Price in Beijing: 488CNY (69 EUR)

Product 4.



Product name: Vivania skin beauty&anti wrinkle

Price in Beijing: 1180 CNY (168EUR)

Price in Life Lahti: 17.1 EUR

Price in Life Lahti: 26.9 EUR

Product 5.

Product 6.



Product name: Bactosan clear complexion

Product name: Vitatabs E 50mg

Price in Beijing: 1180 CNY (168 EUR)

Price in Beijing: 488 CNY (69 EUR)

Price in Life Lahti: 24.5 EUR

Price in Life Lahti: 9.9 EUR

Product 7.

Product 8.



Product name: Vegekalk

Product name: Xylisweet Acerola

Price in Beijing: 680 CNY (97 EUR)

Price in Beijing: 386 CNY (55 EUR)

Price in Life Lahti: 14.6 EUR

Price in Life Lahti: 10.1 EUR

Product 9.

Product 10.



Product name: Femi Glandin

Product name: Calcia plus

Price in Beijing: 896 CNY (128EUR) Price in Beijing: 388 CNY (55EUR)

Price in Life Lahti: 24.5 EUR

Price in Life Lahti: 12.1 EUR

Appendices 2. Interview about Hankintatukku Oy in China

Interviewee: Arno Latvus (Directing Manager)

Johanna Hukkanen (Area Exporting Manager)

1. Q: Currently, how many department stores does Hankintatukku Oy have in China? In which cities?
A: There are hundreds of stores which sell Hankintatukku products in China, not only department stores but also pharmacies. Big cities like Beijing, Shang Hai and Xi'an, they all have Hankintatukku stores.
2. Q: Does Hankintatukku Oy have any plan to open more stores in China in the future?
A: Yes. Hankintatukku regards China as a very important market to develop, so that in the future, there will be more stores opening in China.
3. Q: What are the core values for the products of Hankintatukku in Chinese market?
A: Keeping the highest quality is always the core value of Hankintatukku Oy, not only in China, but also in other markets.
4. Q: Who are the target customers?
A: Everybody who is interested in Nordic food supplement is the customer. In China, specifically, people with very high income level are the target customers.
5. Q: SWOT analysis is an overall evaluation of a company. From this point, how does Hankintatukku Oy think about its strength, weakness, opportunities and threats in Chinese market? In brief.
A: For strength, our products have high quality. And unpolluted nature in Finland provides good materials to make natural products. Also, we think image of Nordic countries is good. In addition, our research and development team is very strong with professional background, and we have the authority to do medical productions in Finland. Finally, from the financial point of view, we have cost-

efficiency production system to control the cost and guarantee our profit.

For weakness, we are big food supplement company in Finland and Nordic countries, but not big in China.

For opportunities, we think China is a quite huge market to develop our business. And the demand for products with widely known certain functions are also very huge.

For threats, we would say that it's hard for us to register legally in China because our products are food supplement products, and there are some conflicts between food supplement products and medical products to register in China. Due to the environmental changes in China, the demand of food supplement products may varies. And there's time delay for our products to ship from Finland to China.

6. Q: How does Hankintatukku Oy think about the social media platforms as a promotion channel? For example, Sina Weibo. Are you willing to be more active in this part?

A: Hankintatukku Oy regard social media platform as the most effective way to promote. Currently, Hankintatukku Oy has the Sina weibo account in China, and Hankintatukku Oy wish to be more active on Sina weibo.

7. Q: How does Hankintatukku Oy think about E-commerce platform as a distribution channel? Does Hankintatukku Oy have online store in China? If not, is there any plan in the future?

A: Currently, Hankintatukku Oy does not have any own E-commerce channel or online store in China. Hankintatukku in China is developing step by step, department stores are developing with concentration currently. After finishing registration process in China, it's possible to have an online store in China.

8. Q: O2O is a new and popular way of doing business in China. It emphasizes the customer experience and aims to reach more customers. By doing online promotion activities, it attracts

customers going to the physical stores and consume there. Does Hankintatukku Oy have the similar way?

A: No. O2O is also new to Hankintatukku, in the future, Hankintatukku wish to be more active online.

9. For Hankintatukku Oy, is there any localization strategy concerning Chinese market? For example, products, price, distribution, promotion etc.

A: Yes.

In china, for products, Hankintatukku adds Chinese sticker, private labels are also possible.

For price, it's higher in China to meet the high income group.

For distribution, there are two systems in China, department stores and pharmacies. In Finland, there are 3 systems to distribute, super markets like S and K group; special shops like Life; Pharmacies like Yliopiston Apteekki.

For promotion, Hankintatukku has Chinese social media account like Sina weibo, in addition, Hankintatukku always attends the exhibitions in china. In Finland, Hankintatukku has social media platform like Facebook, but not very active because of lacking time. Also, Hankintatukku has TV and newspaper ads. Hankintatukku also has own Vitaali ads which are published 3 times in a year with 1.3 million publishing pieces.