

# Strategic & Global Sourcing

Case Company X, Sourcing Small Home  
Electronics from China

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ABSTRACT

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Global sourcing is becoming more important to supply management and companies conducting international trade. It can offer companies skilled and low-cost labour, inexpensive logistics and less regulations in emerging markets. Company X is seeking to source directly from China for home electronics products. The study focused on finding new sourcing strategies for company X or improving the already existing one.

The study uses a qualitative method. The theoretical part concentrates on understanding the concepts and planning an efficient sourcing strategy for companies. The data for theory was gathered from internet, journals and academic books. The empirical part was an overview of the target country and company analysis. The secondary data was collected for the theory from academic books, journals and trusted internet sites. Primary data, an interview was made with the sourcing director of company X.

It is concluded that company X already has an effective sourcing strategy. Finding new suppliers for home new electronics products is not that hard task for them. However, they should evaluate and research further whether they should stay on the Chinese markets or find new emerging markets to enter.

Key words: BSCI, global sourcing, strategic sourcing

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Globaalista hankinnasta on tulossa yhä tärkeämpää toimitusketjujen johtamisessa ja kansainvälisessä kaupassa. Tämä hankintatapa tarjoaa yrityksille taitavaa ja halvempaa työvoimaa, kilpailukykyisempiä logistiikkakustannuksia ja vähemmän sääntöjä kasvavilla markkinoilla. Yritys X haluaa lisätä kodintekniikan tuotteiden suoratuontia Kiinasta. Tutkimuksessa keskitytään löytämään uusia hankintastrategioita tai kehittämään nykyistä toimintatapaa entistä paremmaksi.

Tutkimus on laadullinen tapaustutkimus. Teoriaosa keskittyy ymmärtämään peruskäsitteitä ja suunnittelemaan hyödyllistä hankintastrategiaa yrityksille yleisesti. Teoriaa varten on kerätty tietoa aiheesta akateemisista kirjoista, julkaisuista ja luotetuista internet-lähteistä. Empiirisessä osassa analysoidaan kohdemaata hankinnan kautta ulkomaisten yritysten näkökulmasta ja analysoitiin yritys X. Sekundaarista aineistoa kerättiin teoriaosaa varten ja primääristä aineistoa kerättiin haastattelemalla yrityksen hankintajohtajaa.

Yhteenvetona on todettu, että yritys X:llä on jo ennestään toimiva hankintastrategia. Uusien toimittajien etsiminen kodintekniikan tuotteille ei ole nykyisillä resursseilla kovin vaikeaa. Kuitenkin, yrityksen tulisi arvioida ja tutkia syvemmin onko parempi jäädä Kiinan markkinoille vai siirtyä etsimään uusia kasvavia markkinoita.

Asiasanat: BSCI-toimintaohjeet, globaali hankinta, strateginen hankinta,

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# 1 INTRODUCTION

## 1.1 Background

Company X is a low-priced retailer in Finland. The company has a versatile collection of everyday goods and items with both international and domestic brands always on customer-friendly prices. They aim for quality in customer service and diversity in product range. (Company X 2017a.)

Strategic sourcing plays an important role because it has a huge role in cost structure and competitiveness. Strategic sourcing skills help to analyze high-volume purchases and develop long-term partnerships with suppliers thus lowering cost structures. Strategic sourcing gives benefits for buyers and suppliers by negotiating higher volume purchases for lower unit prices. Suppliers selling bigger volumes of their output will make planning easier and gives them long-term cash flow visibility. To put it into perspective companies should outsource their non-core activities such as payroll, cleaning, and technical support. This would allow management focus more on its core business activities such as manufacturing or marketing. (Basu 2017, 1.) This research is significant because it focuses on strategic sourcing in China's sourcing markets. China is going on its way to urbanization and more skilled, low-cost workforce are coming to the cities. For foreign companies, China offers a lot from low-priced manufacturers to low-cost skilled labor. The current research aims at what are the strengths and opportunities China has to offer for foreign trade.

The theoretical background focuses on strategic sourcing, global sourcing, China's sourcing market and finding new ways to implement them to company X. The empirical part will concentrate on analysing China as a sourcing country for home electronics products. The analysis will look why China is attracting so many foreign companies and how the country has adapted to meet companies needs. Therefore, the author of the thesis composes a country analysis and sees how it can be implemented on the target category.

First, we need to find out what sourcing strategies company X is already using in China. Second, discover new strategies for sourcing in China and find out what China should offer for company X based on home electronics category. Third, find a way to implement them on this case company X.

This study will focus how company X does their sourcing process in China and how they should improve it to cut down costs and be more efficient with their sourcing strategy abroad. This topic is important theoretically because it may not only offer to find about the weaknesses in case of company X but also give clues to how they could implement and change their strategies to create value and save costs for their business. This topic is also interesting because company X is a Finnish company which is sourcing globally from China.

## 1.2 Objectives and Research Questions

The aim of the research is to focus on strategic sourcing done in Shanghai, China by company X. It is seeking to expand, analyse and create a more efficient sourcing strategy compared to what is used nowadays. The CEO brought the company to the Helsinki Stock market early 2016 and wanted to tighten the company sourcing strategy in China to create more value to their brand. However, there is yet no new efficient way how to build a better sourcing strategy in China. This research investigates new ways to find and promote existing sourcing strategy to company X. The main research question is:

How to find an efficient sourcing strategy to Company X in China for small home electronics?

The sub-questions are:

- What is strategic sourcing?
- What is global sourcing?



- What are the issues and challenges to expand the sourcing office?
- How to implement these strategies for company X?

### 1.3 Research Methods

This thesis is a case study focusing on finding new sourcing strategies for retail in company X. It is seeking to understand the phenomenon of sourcing and sourcing strategy in today's environment. This research is both descriptive and explorative and is approached by the case company X's perspective.

The study aims at answering the questions by using various qualitative methods e.g. an open interview and observations. In addition, the study focuses on country analysis, specifically China and what it has to offer as a sourcing country for foreign companies. The data collection is based on primary and secondary data. The research concentrates on understanding the phenomenon with non-numeric data.

In empirical study, the author of the thesis shall use both primary and secondary data to collect information about the topic. The primary data will be collected by interview and observations made from the author's internship period. Secondary data will be gathered from books, electronic articles, journals and websites. These will gain the author enough information for the theory part of the study.

### 1.4 Research Limitations

This research needs to limit the sourcing country to China and the products should be in this case small electronics such as microwaves or coffee machines. The author of the thesis will rule out other domestic-sourced products or products from other countries. Moreover, this paper will only focus one category and leave the rest out because there are too many categories sourced from China that it would take a considerable amount of time. This research is limited only for the Case Company X and

international strategic sourcing. Strategic sourcing is limited geographically in China and products sourced through it to the case company.

### 1.5 Theoretical Framework

The author will need to familiarize in strategic sourcing and global sourcing to build up theory around this topic. Additionally, the author needs to familiarize China's market and sourcing to answer the research questions. With the help of the theory and analysis of Chinese markets the author shall compare the sourcing strategy of certain category and find out if there is a way to make it more efficient. Using thesis structure in Figure 1, the author will divide the study into two parts: theoretical and empirical. In theoretical part the focus is on chapter two where readers will learn about global and strategic sourcing. This will be later used to analyse the empirical data.



FIGURE 1. Thesis Structure 2017

In the empirical part which includes chapter three and four, the author shall analyse the case company in detail and get a deeper understanding of its sourcing process and criteria when choosing suppliers for company X.

Then, the author of this study will go into detail about Chinese market area and general economy in small electronics industry.

## 1.6 Thesis Structure

The structure of the thesis is a combination of theory and empiric research. The study is divided into five chapters:

- introduction
- strategic & global sourcing
- case study: company X
- target country analysis
- conclusions.

Introduction will give a general idea of background information of the research and detailed questions and sub questions. Second chapter, strategic and global sourcing focuses on these two concepts and how they are a part of the supply chain. The third chapter, which is the empirical part of the study, gives an introduction and short analysis of company X and provides a target country analysis of China as a sourcing enabler. Last chapter will concentrate on the conclusions and summary of the study.

## 2 STRATEGIC AND GLOBAL SOURCING

Sourcing in its simple term is part of purchasing and supply management factors and is responsible of locating and employing suppliers. Here is one definition of strategic sourcing:

*Strategic sourcing is an organisational procurement and supply management process used to locate, develop, qualify, and employ suppliers that add maximum value to the buyer's products and services+(Sollish & Semanik 2010, 1).*

Strategic sourcing separates from regular sourcing because it requires a long-term plan of supply chain action. For example, Figure 2 demonstrates the strategic sourcing process framework.

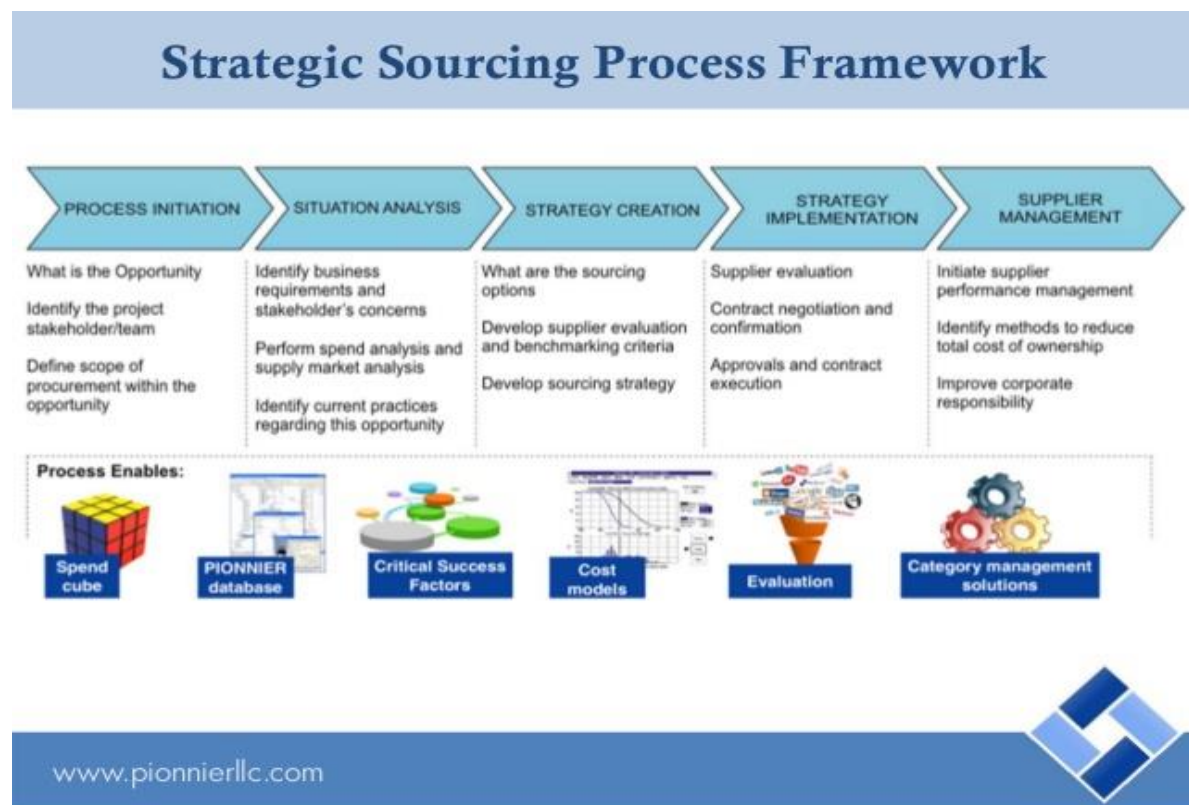


FIGURE 2. Strategic Sourcing Process Framework (Bordivekar 2015)

Day to day sourcing does not include in strategic sourcing nor to the acquisition-process. In addition, it does not include individual quotations for supplies, routine buying activities, logistics, quality assessment, performance analysis nor payment. (Sollish & Semanik 2010, 1-2.)

Strategic sourcing plan is created to go along a company's mission and vision statements. It takes accord to customers requirements and elements of it are listed below:

1. Mission & vision
2. Environmental analysis
3. SWOT analysis
4. Assumptions
5. objectives
6. strategy
7. Implementation. (Sollish et al. 2010, 2-5.)

Mission and vision statement guide to create strategic plan and set objectives to it. Moreover, it need to answer what value it will bring to the sourcing group. Environmental analysis describes the current conditions of the company, its primary customers, supply chain and market industry. The environmental analysis is important because it provides the background to the strategic sourcing plan. The analysis considers the entire supply chain, customers demand, and time of development process. The plan should have a complete SWOT analysis which helps it to find its strengths and opportunities to help implement the strategy. Identifying weaknesses and threats helps the company to prepare a way of dealing with possible hardships. (Sollish et al. 2010, 3-4.)

Market dynamics are ever changing. It is needed to make a forecast and assume that the plan will go forward. Just as environmental conditions, they are used as just-in-case policies. When the assumptions can be replaced with facts, needed adjustments can be made to the plan. The plan's objectives are specific targets that add value to the company. The plan's objects need to be clear and direct. It is important to include measurements, if there are none, there is no way to know whether the plan has achieved anything. It is vital to prioritize the goals because the company's resources might be limited.

Objectives for strategic sourcing may include:

- Saving costs
- Reduced supplier lead times and delivery performance
- New supplier alliances and partnerships
- Reduction of inventory levels
- New demand management, planning tools and models.

Strategy should be aligning according to company's overall mission statement. This way it will achieve the objectives. It is necessary to ensure the strategy goes same direction with the supply chain to adapt economic fluctuations, commodity shortages and market pricing. The sourcing strategy needs the key people in the right place at the right time. Implementing the strategy to first operational strategy is needed so that it serves as a bridge between strategic and operational plan. (Sollish et al. 2010, 4-5.)

## 2.1 Sourcing Process

Strategic sourcing process has a planning and an operational part. There exist four major parts which are joined together in Figure 3.

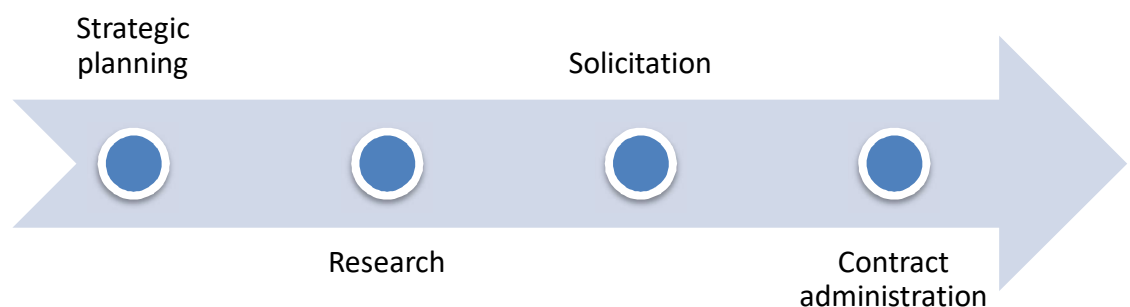


FIGURE 3. Strategic Sourcing Process (Sollish et al. 2009)

1. Strategic planning develops and implements the strategic sourcing strategy together with the overall company business strategy.
2. Research is based on market analysis and prequalification of potential suppliers.
3. Solicitation is a process to prepare a request of invitation, evaluation and selection of the supplier, conducting negotiations and forming a contract.
4. Contract administration is an ongoing process of monitoring the supplier's performance in compliance, business reviews, contractual agreement and generating metrics.  
(Sollish et al. 2009, 16-17.)

#### 2.1.1 Category Sourcing

Category sourcing, which is a way of strategic sourcing with bundled volumes, is a complex task (Carlsson 2015, 20). It describes strategic sourcing by trying to answer what to do and when. Category sourcing includes several activities. How they are used depends on what is required in each unique category. The activities are divided into 25-50 headings, depending on the details desired for each category as shown in Table 1. (Carlsson 2015, 20.)

Category managers have usually a good common process and know when and how the strategic activities should be put into action. Potential disadvantages in the common process are micromanagement and mechanization. When the process description is too extensive it loses creativity, and focuses more on details than solving the business challenges. (Carlsson 2015, 21.)

TABLE 1. An Example of the Activities Within Strategic Sourcing (Carlsson 2015)

Activity analysis	Product development
Contract negotiation	Project directive and plan
Cost calculation	Quality assurance
Cost estimations	Result and spend analysis
Cost management	Segmentation
Create influence and power	Standardization
Customer need and business objectives	Supplier development
Competitive procurement	Supplier evaluation and positioning
Cooperative procurement	Supplier network structuring
Design for X	Technique development
Distribution and development	Tendering
Implementation	Value analysis
Kraljic positioning	Value engineering
Market analysis	Zero-base calculation



A good process seems more like the SWOT-model in Figure 4. It will help to ask questions and enhance creative-thinking, problem-solving, creating simplicity and point towards choices. In addition, the SWOT-model helps to find and create new and better ways of creating value. Increasing the value for already existing products is possible when a company focuses on product development, adaptation, price and volume. (Carlsson 2015, 22.)



FIGURE 4. SWOT Analysis of a Common Process (Carlsson 2015)

The Figure 5. helps to seek out the challenges when the category process is viewed in the business context. Common challenges for company's purchasing function is that purchasing is given a low priority or the company is short of money, volumes are too low, company is risk averse, unable to make decisions or lack of information. In case of category sourcing, work is done in teams by different network of specialists across the world. All departments sales, product development and sourcing aim for one goal: growth. It is the corporate management's task to help those four departments to reach that goal. If executed successfully, costs are reduced, products are marketed and sold in higher volumes and new products are created to strengthen the business. When all the different

departments provide opportunities for each other higher prices and volume will become a chain reaction. (Carlsson, 2015 22-24.)

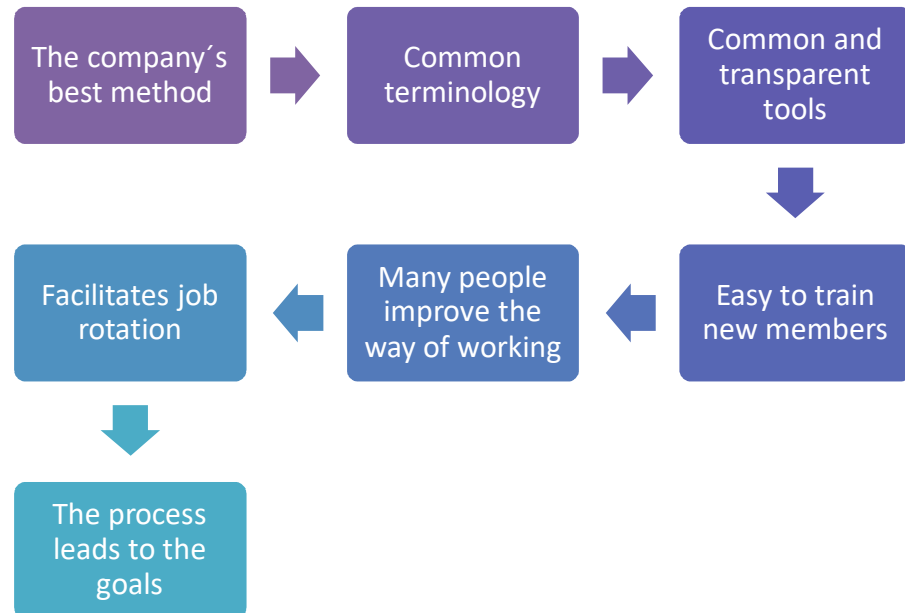


FIGURE 5. A Common Process Structured Around Questions and Transparent Models (Carlsson 2015)

### 2.1.2 Different Types of Categories

In one company alone, there are a lot of different categories and this affects their starting points. How the teams create purchasing goals, organization and collaboration with stakeholders and how the value is created. For example:

- Materials create value in the manufacture process.
- Indirect products and services create value for internal users.
- Components create value in the finished products.
- Finished products create value for end customers.

In business life, the category team members need to address the needs and wants of users and end customers. When buying raw materials, they must understand the manufacturing process. When

they buy indirect materials, they need to focus on the internal users. (Carlsson 2015, 145-146.)

Semi-manufactured materials such as steel or paper, require further processing until they become a part of the finished product. Material sourcing can represent 50-80% of total costs. They have cyclical price fluctuations and are influenced by economic uncertainty and actions of actors on the markets. Prices are often transparent, e.g. oil where everyone follows everyone else. The local market prices usually reflect the world market prices and adjust for distribution costs. (Carlsson 2015, 146-148.)

Components can be divided into advanced technology and simple components. Advanced components are often limited number of global brands and simple components designed and adapted to the finished products e.g. screws. High volumes of components generate when the value is added to the finished products. (Carlsson 2015, 148-149.)

Branded products sourcing is an efficient way to create a solid sourcing strategy to achieve the best results. Supplier's power depends on the value of the product and sales volumes. When there exist many alternatives, the company can compete similar brands against each other or sell an equal product under company's own brand. Market position, (customer value, price level, product range, marketing and sales) leads to developed a brand. When the company buys a larger volume of a certain brand compared to the manufacturer, it will get a price reduction. (Carlsson 2015, 49-150.)

## 2.2 Definition of Supply Chain

Supply chain is a complex system that is created through many different stages, companies and people. All are linked together with different functions which is called the supply chain. Its purpose is to morph the raw materials into finished products for the end customer. It includes information, material and monetary flow and managing these together is

called supply chain management (SCM). Figure 6 shows how SCM works on business context. (Ritvanen, Inkiläinen, von Bell & Santala 2011, 1.)

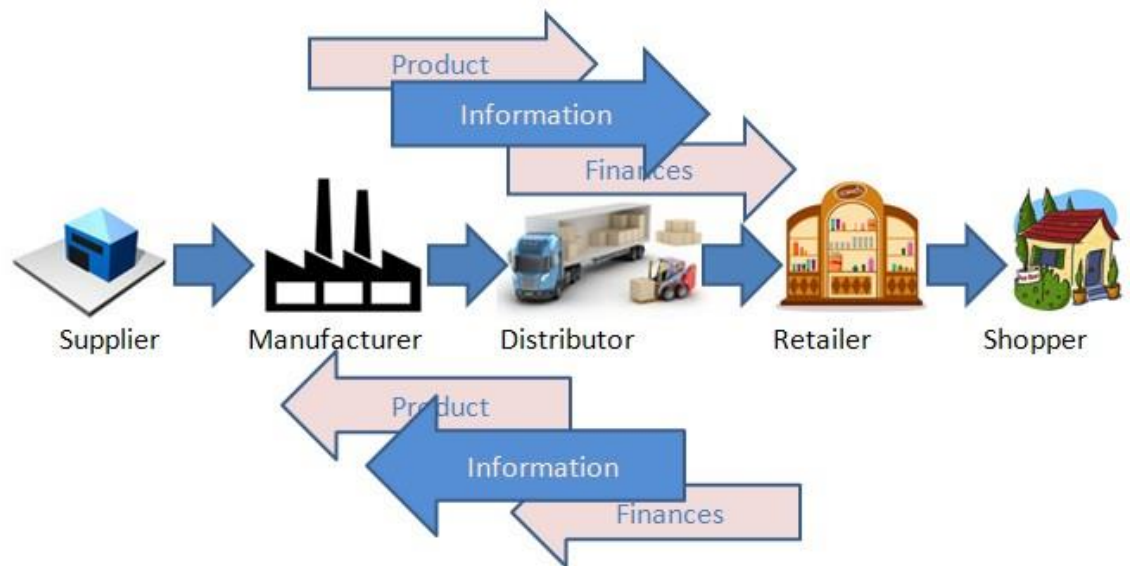


FIGURE 6. Supply Chain Management (Petersson 2016)

Common functions in a supply chain include:

- Logistics
- Sourcing
- Production
- Information control system
- Packing
- Warehousing
- Forwarding
- Transportation.

Many companies are competing in innovation, customer experience, quality and cost. Only leading companies will choose only one to be their primary basis of competition in the market. The idea is to excel in one of the basis that matters to the customer which also provides a strong differentiation possibility. (Cohen & Roussel 2013, 3.)

### 2.2.1 Supplier Selection Process

When selecting a supplier, it should be considered, what is needed and is there already existing contract with this supplier. However, if there is no contract made, the company needs to survey, what kind of goods and services exist, where to find the most suitable suppliers, how to identify a potential supplier and how to approach them. To be successful finding a new potential supplier one must have a good understanding how the supplier markets work.

The goal is to combine and utilize the customers needs, own expertise and understanding how the supplier markets work. First, based on customers demands a company needs to compose pre-qualification criteria for potential suppliers. Second, the potential suppliers are delivered a request for quotation. Based on the collected data, suppliers are chosen. Afterwards, the chosen suppliers will receive an actual offer from the company. (Nieminen 2016, 60-61.)

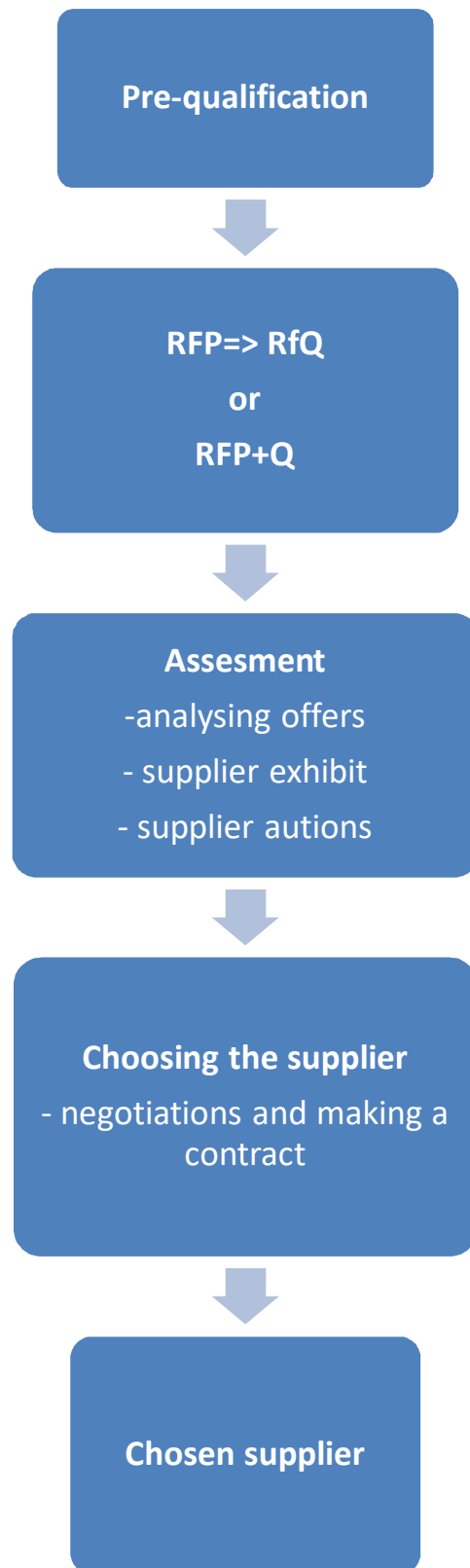


FIGURE 7. Selecting a Supplier (O'Brien 2009)

## 2.2.2 Supplier Criteria

Supplier criteria, which affects to the pre-qualification process as you can see from Figure 7 eliminates those who cannot fill categorical demands.

Such criteria can be

- Huge number of employees
- Turnover
- Certificates program (ISO 9001).

The supplier's backgrounds can be investigated through phone, internet or by using other public sources. The supplier is deemed potential enough a request for proposal (RFP) is asked from them. With this document, the company will get an understanding of supplier's abilities, capacity and suitability. When comparing the offers, supplier tries to determine to which extent the offered products and services correspond to company's business strategy. (Huuhka 2017, 136-137.)



FIGURE 8. Supplier Evaluation Criteria (RWE 2017)

## 2.3 Global Sourcing

Global sourcing means that company's suppliers are selected outside their national borders. It is an organizational procurement and supply management process and a central part of many company's business strategies (Sollish & Semanik 2009, 1.) It takes advantage of low-cost available labour, inexpensive logistics and less regulated operating environment compared to mature economies. Companies have a challenge how to implement global sourcing in a way that secures sustainable advantage. In the last 40 years, global sourcing has fuelled the growth of GDP, in development countries and exported jobs to countries with skilled and low-cost labour. Global trade give economic benefit to both mature and emerging economies. World Trade Organization (WTO) foresees that global supply is the future. It is an ongoing trend and companies are leaving developed markets because it cannot compete with low-cost imports. Global sourcing strategy is becoming more important to the organizations which generates value to both customers and shareholders. (Waters 2007, 331-334.)

### 2.3.1 Advantages of Global Sourcing

Global sourcing aims to take advantage of efficiently delivering goods and services globally. Goods produced in China with lower labour costs or low cost skilled IT personnel from India gives great examples of today's global sourcing advantages.

Advantages of global sourcing include:

- Low-cost manufacturing.
- Combining skills and resources that are not available in the home nation.
- Benefit of alternate suppliers.
- Utilizing efficient supply chain management system.
- Learning global business skills.
- Meeting competition efficiently. (Agarwahl 2017.)



### 2.3.2 Disadvantages of Global Sourcing

Identifying risks and disadvantages in global sourcing include:

- competition for resources
- lack of expertise
- force Majeure
- local and regional politics
- currency issues
- local and regional economics
- relationship between countries
- language and culture
- infrastructure
- government posture
- legal and property rights.

All these risks listed here a company should take time and analyse these risks to avoid them in the future and gain better position to maintain competitive supply chain. Some risks that are common to all companies may affect one company more than another depending on the sourcing location or infrastructure. (Cook 2007, 17-18.)

Competition for resources come from companies looking for less expensive manufacturing e.g. in China. However, lack of skills and expertise make it hard to develop successful supply inbound supply chain. Force Majeure may take place in a form of climate or environmental conditions e.g. earthquake that could present significant risks to the company. Local and regional politics plays a part in company's commercial relationships or political conditions might be unstable. Currency issues and its stability affect greatly on company's businesses. Local and regional economics poses a risk and may lead a company to disadvantage if they are not stable this leads companies to lose money because of sudden decline in currency and economy. Language and cultural issues are easy to tackle. The company needs to maintain good relationships with its sourcing country managers to learn a little about the culture and language

to get better long-term relationships. Sometimes good infrastructure might be a key element for companies sourcing overseas. Therefore, it is essential for sourcing companies to evaluate the local government infrastructure and its ability to support it. Understanding of a sourcing country's legal system (contract law, patent law, and property rights) is crucial if the company wants to maintain good relationships with its suppliers. For more high-end, high-valued products may influence a country's approach to legal protection. Only sourcing low-valued products make legal concerns become less important. (Cook 2007, 19-23.)

#### 2.4 Identifying and Selecting Sources

Selecting a source depends on the item in question. Whether it is a textile or microelectronics. Many factors should be considered before entering new sourcing arrangement. These factors include:

- Quality
- Ethical supply
- Patent protection
- Operational excellence.

Quality is an important factor and it should never be taken for granted. A long-distance supply chain, quality failure may be detected later comparing a local one so that it may become a real issue. Still, companies insist more quality control at vendors. PR is crucial when tackling huge ethical issues such as child labour and environmental conditions. If not done correctly bad press can damage a company's brand and shake their credibility in the eyes of their customers. That is why companies are taking care of conducting regular audits to their sources to make sure this does not happen. (Waters 2010, 381-382.)

Patent protection is also crucial because leaking design and technology has become more common. Outsourcing from a country where respect of patents is less than average leads to ideas and design to reappear different channels. This can be avoided by ensuring that the key

differentiators are protected and contractual guarantees obtained. As far as operational experience, vendors' capabilities may vary and it is necessary to understand the difference between able to perform and expectations. Furthermore, cultural differences should be taken into consideration as well as language where the word 'yes' purpose may change due to circumstances and expectations. (Waters 2010, 382.)

## 2.5 Target Country Analysis as Enabler of Strategic Sourcing

A PESTEL analysis is a framework or tool used by the marketers to analyze and monitor the macro-environmental factors that have an impact on an organization (Professional Academy 2017). In Figure 9 there are the factors PESTEL analysis stands for. In case study of a country analysis PESTEL is used to determine China's macro environment as a sourcing country for company X.

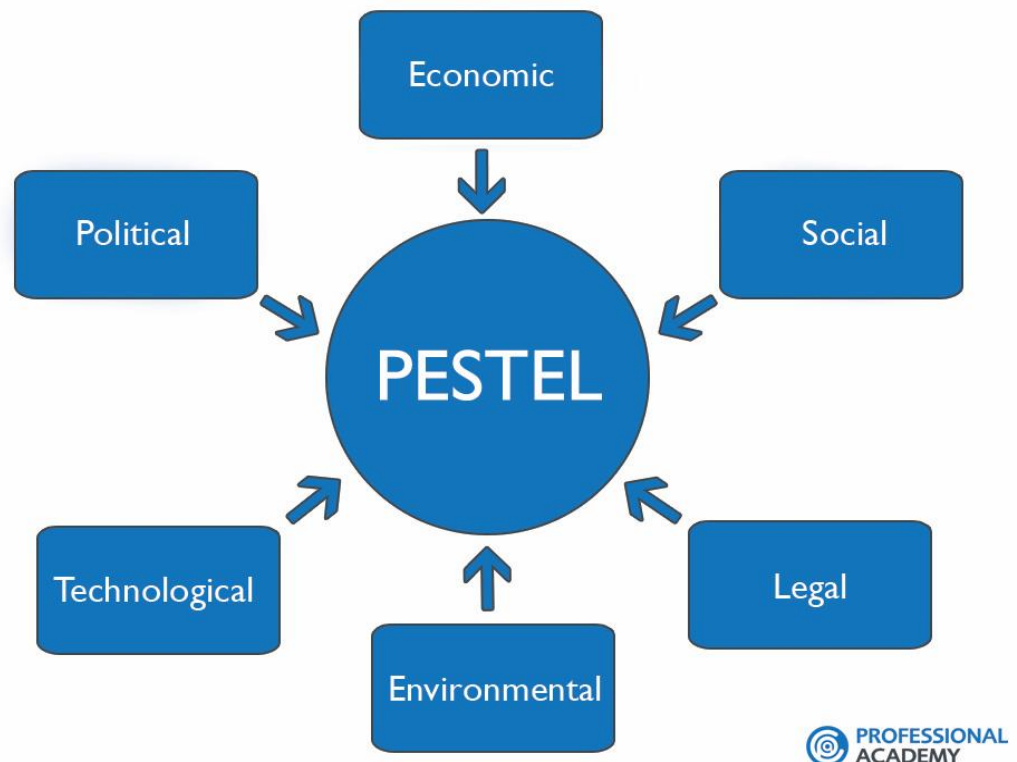


FIGURE 9. PESTEL Analysis (Professional Academy 2016)

A SWOT analysis is an organized list of your businesses greatest strengths, weaknesses, opportunities and threats+(Berry 2017). Strengths and weaknesses represent the internal and opportunities and threats external factors. In this case, a SWOT analysis is made of China and the focus is limited only on the business environment. (Berry 2017.)



FIGURE 10. An Example of a SWOT Matrix (Mazoue 2016)

### 3 CASE STUDY: COMPANY X

In this chapter, there will be a short analysis of company X and its product category. This will help to get a better understanding of company X and their strategic sourcing plan. An interview was made with the company X's sourcing director about their sourcing method and how they operate in the Chinese market. Company X is one of the leading discount retailers in Finland. Company X's mission is to offer quality products at affordable prices and they also offer their customers a wide variety of both Finnish and international goods. (Company X 2017a.)

#### 3.1 Company Analysis

Company X aims to be the lowest cost shopping choice for its customers. The competitive edge is achieved with lower price image than hypermarkets, wider assortment than category killers and with wider network and in-store experience. Company X strategy is to build solid platform to ensure future growth. This is done by rationalization of Finnish general retail market and centralized logistics centre located in Southern Finland.

Company X is improving support systems and strengthening the organization by establishing a solid corporate culture. Company X's strategic era started in 2013. They have focused more on creating better customer experience and category management for private labels such as Alpha or Beta. Direct sourcing from a low-cost country has made company X to keep their prices low and competitive in Finland.

Over 40 million customers visit company X during a year. The key reasons for visiting are low prices and interesting and wide selection of goods. Company X's target customers are usually 45-65-year-old and now they have gained a new target from 35-45-year-old customers with kids that are typically shopping in hypermarkets. (Company X 2017, 1-12.)

The strategy of company X is to continue to be the leading low-cost retailer in Finland. It has few main competitive advantages:

- best price vision
- attractive and diverse product range
- improved customer experience (Company X 2017d.)

### 3.2 Product Analysis

Company X's product assortment comprises over 30,000 stock keeping units. It has six different product categories which includes:

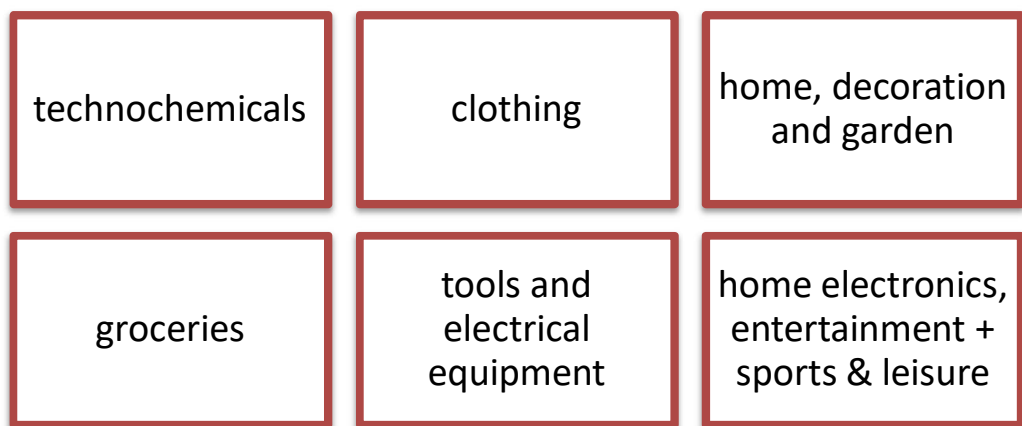


FIGURE 11. Company X's Product Categories (Company X 2017a)

The small home electronics category products include:

- vacuum cleaners
- personal and kitchen scales
- coffee makers
- audio equipment. (Company X 2017b).

### 3.3 Company Interview analysis

An interview was made with the sourcing director of company X. This interview focused on their current sourcing strategy in China. What kind of products the company X was already sourcing in the small home electronics category and what kinds of possibilities expanding the sourcing category will give to company X. The interview was done with a question

sheet and the interviewee was anonymous due to the confidentiality rules of company X.

The first question was what kind of sourcing strategy company X is currently using in China. The company X already has a sourcing office located in China. It has shared ownership with another company.

Company X is using more and more direct import from China and they are using a responsible sourcing strategy. This means that the product quality, safety and responsibility is not to be compromised. The sourcing director answered that they are looking for expanding the category. However, they need to be aware of other possibilities in the emerging markets because in China the labour costs are rising rapidly.

Second question was about the good and bad sides of responsible sourcing strategy. The sourcing director explained that the good side of sourcing from China was that the market was already familiar to them. The suppliers the company operates with are familiar with the responsible sourcing principles (BSCI) and are complying to them. The bad sides are that if company X is focusing on only Chinese markets they may lose opportunities to enter other emerging markets in Asia. Another threat is that the living standard is rising rapidly in China and this may raise the manufacture costs as well.

Third question was what kind of products the company X is already sourcing from China within the small home electronics category. The focus right now is small home electronics such as coffee makers and microwaves.

Fourth question was being they sourcing products with their own private label or without them. The answer was that the products are using the private label of the company X which is Omega+.

Fifth question was about the expansion plans in the small home electronics category. The sourcing director told that the company wishes to expand the category. It demands bigger volumes with certain products to achieve better profitability.

Sixth question was focusing on the competitive advantage in that category. The sourcing director explained that company X imports directly from China so that there are no middlemen. This will make controlling of the supply chain easier. This is important because company X needs to import affordable products to their customers and at the same time hold their position as a leading low-cost retailer.

The seventh question was to inquire company X's biggest competitors. The sourcing director told that their biggest competitors in the business are:

- hypermarkets such as Prisma
- technological store chains such as Power and Gigantti.

The eight question was about the company X's ethical responsibility with their suppliers in China and how it is implemented there. The answer to this question was that company X is a member of BSCI (Business Social Compliance Initiative). The BSCI focuses to comply the United Nations global conduct criteria such as employees' rights, fair pay level, overtime working, freedom of assembly and protecting the environment. Company X is ensuring that the BSCI guidelines are implemented with the suppliers. They are using by BSCI audits and audits done by a third party. Over 90% of the company X's suppliers are applying the BSCI code of conduct. However, some of them still are in the middle of the process of applying for the BSCI certificate and 95% of the purchases come from supplier manufacturers, who are members of the BSCI.

### 3.4 Responsible Sourcing

Company X is improving its sourcing operations by enhancing a responsible sourcing model. This will help the company X to increase direct import from China without compromising the quality, safety or responsibility of the product. The goal is to find and buy products from responsible suppliers and one of the criteria is that the product would be manufactured in an ethically acceptable way. Today company X requires a



BCSI certificate from all the suppliers from China for manufactured goods under company X's private label and normal products.

Company X is a member of BSCI and approves SA8000 certification. The brand suppliers are also required the contracts done by the requirements of BSCI and audition are taken place to ensure that the requirements are met. One of the most important factor in responsible sourcing is product safety. Company X wishes to offer safe products for consumers to enjoy. To ensure the products fulfil the necessary requirements, self-supervision, product testing is to be carried out by either company X or a third party. (Company X 2017c.)

#### 4 TARGET COUNTRY ANALYSIS OF CHINA

China has been opening its domestic markets to foreign investment companies over 20 years. It is politically and socially stable, has great amount of natural resources, low-cost human resources, and developing legal system. China has a high volume of FDI (Foreign Direct Investment). It is expected to increase even further in the future if the legal and economic system will continue to develop favourably. Finland has had its own share since 1996 of direct investments to China and has estimated amount of four billion USD. Large, medium and small Finnish companies have established an enterprise in China. Most of the companies are representative offices and around 60-70 are factories. China is a member of WTO (World Trade Organization) which will enhance foreign investment to their service sector. Opening of the domestic market China has opened areas such as retailing, automobiles, telecommunications and financial services. Meanwhile, the rapid growth of GDP in China has improved its role in economic globalization. The country has built legal framework and is committed to WTO. (Kaulo 2005, 27-29.)



FIGURE 12. Foreign Direct Investment in China (Tradingeconomics.com 2017)

#### 4.1 Country Overview

China has been a member of WTO (World Trade Organization). Since 2001, China is the leading producing nation in the world and at the end of 2008, China was the third largest economy in terms of total gross domestic product (GDP), followed by United States of America and Japan. (Waters 2010, 443.) For foreign outsource manufacturers, China is the best place to be due to infrastructure, low-cost labour and government support. Production costs are generally lower than elsewhere. Manufacturing costs are also lower because of lower taxes, land costs, utility and insurance costs. Then, lower costs bring China to standards with hidden costs that need to be paid in real terms decreasing the quality of life. There is no sales tax, utility tax, gas tax, and so on. (Saxon 2007, 4-5.)

China's official growth rate is about nine percent per year. It has an extremely attractive advantage over the rest of the world. This is educated and low-cost labour supply. In today's labour is such a huge factor in costs so that China's labour has a huge advantage over it. In business context China is not a statistical nor information society. There is no public research facilities or tendency for statistical accuracy. Only recently China has become somewhat intellectually free but it does not have yet the same access to the information that Europeans have. (Saxon 2007, 6-14.)

#### 4.2 PESTEL Analysis

The political situation in China has been a one-party state of the Communist Party of China since 1949. In Beijing, the central government holds place and under it are 23 provinces, 4 self-governing municipalities, 5 autonomous regions and two special administrative regions. From below of the provincial levels are county, township, village, district and neighbourhood levels. What Chinese people consider important from government are peace, safety and economic prosperity. There have been many reforms done in China:

1. Opening the labour market for people giving freedom of movement to the people.
2. Reforms in agriculture that leased farmland to farmers.
3. Freedom of market mechanisms from centrally planned system.

(Ambler, Witzel & Chao 2009, 50-51.)

However, there are problems in China such as homelessness, crime, increasing economic inequalities, rising prices with food and corruption. On everyday level Chinese prefer that politics does not intrude their lives. Even in a Communist country like China the government is improving the quality of life. This is done by raising China's economic situation on international level and relaxing travel and work restrictions. Additionally, Chinese have now more opportunities to get wealthy which is shown in the middle-class that is growing bigger every day. The National People's Congress is taking more part by examining and giving critique to the legislations. The most showing improvement that China has made is the gradual co-option of capitalism having place in the government structure. (Ambler et al. 2009, 52-53.)

The Chinese economy can be summed up as follows: It is big and it is getting bigger+(Ambler et al. 2009, 54). The concerns of Chinese economic systems are inflation, strength of demand, currency exchange rates and economic policy. Previously, the Chinese approach for economic management was to plan everything by setting quotas and measuring production. The industrial investment plan was also planned according to military strategy because of fear of invasion. After the Cultural Revolution, planned economy was stated to be ineffective. This made China to have a decision for market reformation. Thus, free market was introduced slowly in China. The benefits outweighed the risks by far and this has led China to become the strong, self-sufficient, prosperous economic powerhouse it is today. (Ambler et al. 2009, 54-55.)

Chinese social values are important to notice and maintain. The most important values are age, hierarchy, authority, wealth, face and cultural dimensions. By tradition and age which is coming from Confucius. It was

manifested in family life which also had an effect to social life. Hierarchical relations in family and working place were determined by age. Industry and business managers authority was viewed as an absolute right. The superior-subordinate relationships were usually personal. Chinese have a saving mentality and want to be self-sufficient when it comes to wealth but do not show it outside. Loosing face is also a concept that is well understood in the West. By gaining and loosing face questions the dignity and the light one appears in front of others. Loosing face may cause the end of cooperation or even retaliation. By giving face to someone makes it easier to establish good relationships and increase opportunity for rewards. (Ambler et al. 2009, 82-84.)

Technological factors such as intellectual property is probably the most difficult legal issue to resolve in China. Today pirating is illegal in China though antipiracy law-enforcement is taking the current legal system to the limits. However, China has improved its IPR (Intellectual property rights) situation and many courts have even set up a special division to hear these cases. Still, foreign companies do not feel yet secured from IPR infringements. (Ambler et al. 2009, 125.)

China is the world's largest source of carbon emission. The air in many cities fails to meet international standards, waters are contaminated and land has been deteriorated. This has bruised Chinas image internationally and has created more public discontent. Growing awareness for health problems may also create social unrest in the country. However, China is tackling these issues with a five-year plan to issuing nationwide blueprint for climate change. This will require large factories and enterprises in China to publicly report a real-time figure on air emissions and water discharges. (Albert 2016.)

Law and legal issues have given a bad impression of China to the western world about copyright piracy. There exists a law-making process where pieces of legislation may conflict between and sometimes this may create loopholes. The difficulties for many foreign companies are to find out which conflicting law applies to them. However, many disputes have been

usually solved by litigation and mediation. The two ways have a great difference in China. Foreign businesses have two options to choose when they have disputes in China. They can use the court system or use a mitigation or arbitration to find a solution. (Ambler et al. 2009, 115-116.) Mediation is looked as a good way to solve a dispute for both parties without losing face whereas arbitration is a rarer process where a fair compromise is needed (Ambler et al. 2009, 123).

When drafting contracts the version should be in both Chinese and the language of the foreign investor. Furthermore, the contracts must be approved by the Chinese government authorities by issuing an approval certificate. The certificate is issued by central government ministries and provincial or municipal agencies. The amount of investment affects to the level of approval involved as well as the nature of the project. Many separate applications are needed to send to the authorities such as tax authorities, foreign exchange and customs administration. The support of local administration is also important. It must be obtained to assure supplies, materials, labour, plans and costs of construction building and environmental regulations. (Ambler et al. 2009, 122-123.)

#### 4.3 SWOT Analysis

Figure 12 will help to demonstrate the most important internal and external factors that may give clues about the opportunities and threats to foreign investors.

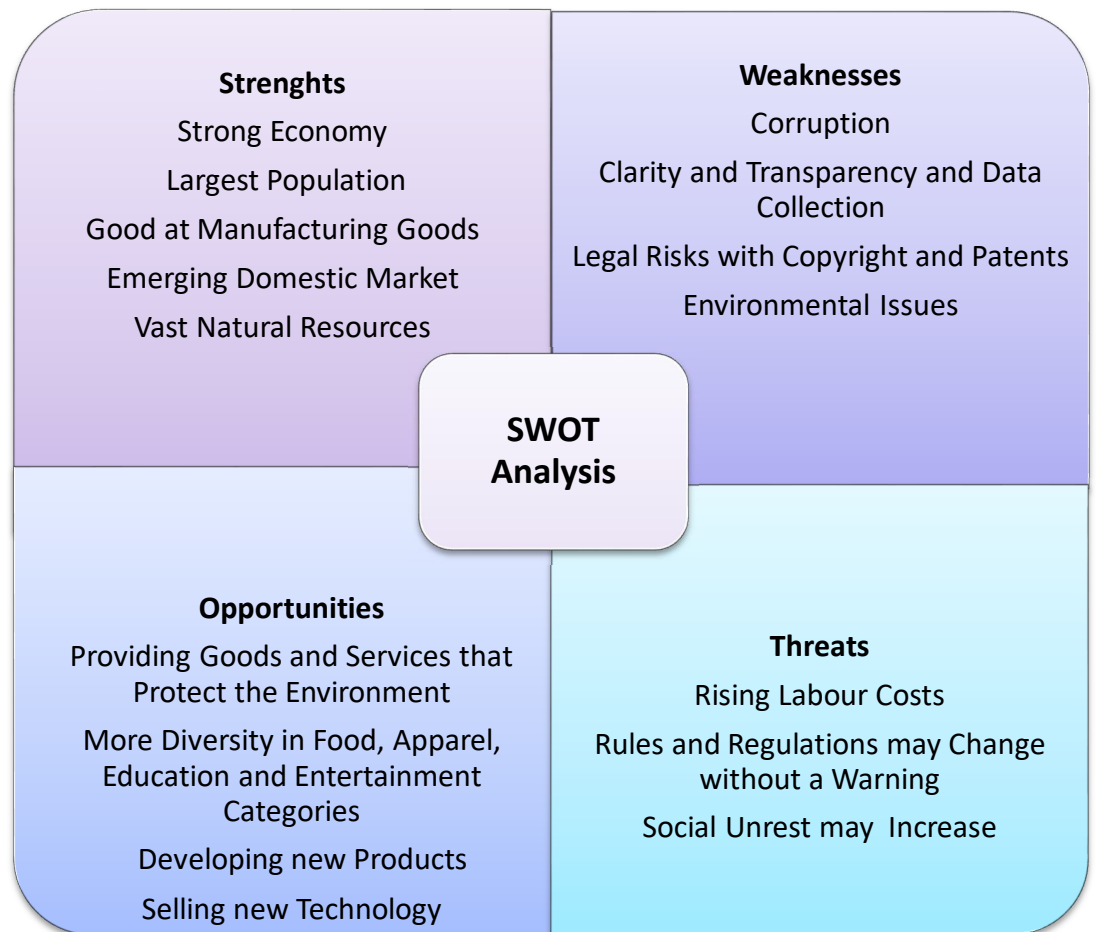


FIGURE 13. A S.W.O.T. Study of China (Asiarisk.com 2011)

China has the largest population in the world and this provides an excellent environment for economy and consumer market. China has a huge number of low-cost labourers and has a rapidly growing domestic market. The weaknesses inside China is corruption that is hard to root out. For foreign investors collecting data is also a risky situation because of the non-clarity and transparency. Legal risks are notable when it concerns copyright and patents. Anyhow, the environmental issues especially pollution is high in China. It affects not only inside the country but also outside in the neighbouring countries. (Asiarisk.com 2011, 68-69.)

The external threats that China might face are rising labour costs. This may have an impact on foreign firms to move their businesses to other countries. Furthermore, the rules and regulations may change without warning. This may cause issues with foreign companies operating in

China. Today's China is facing pollution issues because of its rapid industrialization which affects health of the Chinese. If this issue is not tackled effectively it may cause a social unrest within China.

However, external opportunities offer a great deal for foreign companies in China. The middle-class is growing fast which creates industries to offer more diversities in goods and services. The environmental issues are a hot topic. Providing green products and services will certainly have good opportunities in China. (Asiarisk.com 2011, 68-69.)

#### 4.4 China's Logistics

China has been a bit left behind by other developed countries in logistics. This can be seen in the efficiency of logistics spending to GDP. Its logistics industry has grown between 2000 and 2004 15-30 percent, much faster than its national economic growth for the same period. Over 80 per cent of logistics in China were conducted by producers. Therefore, China is at the stage of industrialization which means huge potential for logistics markets. The logistics operators in China come from five different backgrounds:

- First group is former subsidiaries of relevant ministries (Sinotrans).
- Second group are foreign logistics firms or freight forwarders (DHL).
- Third group consist of logistic department of certain conglomerates (Annto Logistics from Media Group).
- Fourth group consist of transportation firms that try to expand vertically in the logistics market (China Railway Express Co.)
- Fifth group consist of small private firms that focus on special business area (Hercules Logistics). (Waters 2010, 443-445.)

The market of logistics has three relevant focuses:

- infrastructure development
- outsourcing activities with foreign players
- e-commerce distribution activities made by domestic firms (Waters 2010, 445).



Chinese government wants to develop the transport sector. Therefore, new projects for railways, highways, deep-water ways and civilian airport have been invested. However, the country still lack a good intermodal transportation system. Major investments have been made to create logistics parks where China can upgrade their logistics sector. The logistics parks can be divided into three types according to their roles:

- 1) Serving gateway facilities such as airports and ports for international and national trade.
- 2) Regional distribution centres which are located near railway stations and highway interconnections.
- 3) Service centres for city logistics. (Waters 2010, 445-446.)

After China's entry to WTO, huge demands rose for outsourcing and third-party-logistics (3PL). Many foreign logistics service providers have generated joint ventures (JV) with Chinese domestic firms. China's opening for logistics markets tempted foreign organizations and foreign trade volume is growing faster. Global supply chains have their first outsource and production bases inside China. This and the fact that half a billion people are moving from countryside to cities. In the next ten years ten million people are entering the middle-income class and this will have a huge impact on China's domestic consumption market. (Waters 2010, 447-449.)

#### 4.4.1 Challenges in Modern Logistics Development

One of the most challenging situation are huge geographical variations within China. Coastal provinces have become more important to the global market. Since 2007, 96 per cent of total value of foreign trade in China was made in Beijing, Shanghai, Tianjin and nine provinces. Therefore, China is divided by the level of international trade with the rest of the world. Coastal provinces production focus on global economy, whereas inland provinces focus is on the domestic market. China's logistics is currently on dual track system. On one side there is fast track, high-tech coastal region and the other side inland domestic markets. They are

production-driven rather than buyer-driven. Because of this unbalance in development, international and domestic logistics firms need to have strategies to deal with this issue. (Waters 2010, 451-453.)

Second, railways within China has not yet fully integrated as a national transport network. They should be working as key links between inland cities and port cities. The railway system is hard to upgrade because the double-trek trains are not executable on most of the routes. Water-borne transport is not a good option either because there are only few provinces where river barging is economically possible. This has lead highways to become the most important land transport option. However, the trucking economy distance is shown by division between container-accessible coastal regions and rest of the China. This has become a serious issue not only logistics firms but also the government at different levels. (Waters 2010, 453.)

Third challenge is developing modern logistics system in China's local governments. Governments' interventions protecting local interests is probably the most difficult issue. Individual municipal governments compete for logistics. None is willing to see companies based in their cities that set up distribution centres outside of their jurisdictions. This leads to duplicated construction of regional logistics parks in nearby cities. (Waters 2010, 453-454.)

#### 4.4.2 Future Prospects

China's Ministry of Commerce promotes development of modern logistics. This covers administration, management, taxation, financing and market opening. This will include:

1. Standardizing registration of procedures for logistics enterprises.
2. Adjusting administrative procedure from railway, marine and intermodal transport agencies.
3. Simplifying taxation for logistics firms.
4. Improving current regulation practices. (Waters 2010, 455.)

## 4.5 Sourcing Methods

China is a networking society which means that they are more diligent in maintaining personal contacts. Therefore, foreign companies should identify this fact to the person of contact. Chinese prefer a full understanding of the risks and rewards rather than working on-the-come. Their lack of experience in creativeness will give companies hard times if they are not precise with their product specifications or samplings. Using selective sourcing strategy is a good way to list what factors companies are looking for in a partner:

1. Try to get as much recommendations from people who buy or make similar products.
2. Conduct a background search and located quality products like those you are looking for and find out who manufactures them.
3. Research, find information sources and check facts of potential a potential source. (Saxon 2007, 125-128.)

~~%~~Bulk sourcing is gathering data on a non-selective basis that is, finding sources who may be able to fit your needs, but about whom you know little+(Saxon 2007, 129). Basically, companies should list anyone who makes what they are looking for and select a source based on inspection and interviews. Nonselective selection method rather uses information gathered from telephone listings, government records or sourcing based on the location of the business. (Saxon 2007, 129.) The most productive methods to companies is to attend shows and fairs, especially if you have special needs.

### 4.5.1 Fairs and Exhibitions in China

Canton fair in China (Chinese Export Commodities Fair) which is in Guangzhou, is held twice a year. It is the biggest fair to find sources for foreign businesses. Suppliers are eager to do business and are gathered all in one place for visitorsqconvenience. It is open to any industry or business in China and the best place to meet face-to-face the key people

in most companies. The fair is a great way for sourcing because it is easy to learn about their attitudes which reflects customer care and exporting. Also, bigger manufacturers are easier to find than small ones. (Saxon 2007, 129-132.)



IMAGE 1. Canton Fair (Mydeal.lk 2017)

#### 4.5.2 Selecting a Supplier in China

When selecting a supplier in China companies must consider whether the source can do exactly what is asked from them within the time frame. They should have the capabilities to successfully doing what is asked and their attitudes should be examined. This is important because most Chinese

companies have a difficulty to think in terms of utility and price rather than quality. These factors should be considered when deciding to look for Chinese suppliers:

- Capability
- Attitude
- Quality
- Price
- Creativity
- Region
- ISO certification
- Factory audits.

Foreign companies should conduct that the potential suppliers have necessary capabilities in expertise, facilities and resources. Their attitude towards work carries them through hardships. They should listen to the buyers' needs. A good supplier cares about quality and have their products tested. Foreign companies should be looking for low-cost producers who are able to compete in the future markets. Creativity is extra because Chinese are not used to thinking outside the box. Except younger people who are more flexible and creative.

The objectives should be made clear and important objectives should be defined. Sometimes foreign companies should ask about the region reputations. China is a huge country, and in some regions people have a different way of doing business such as practices, beliefs and ethics. Large foreign companies tend to establish a certain level of criteria such as ISO certification for selection. It is a good way of criteria. Companies need to make sure the ISO concept is practised in the factory. Some factories may obtain the ISO certificate other ways without meeting the requirements. (Saxon 2007, 135-137.)

#### 4.6 Home Electronics Industry

The growing consumption in Chinese markets and the rising wages made retailers looking for new home electronics and appliances. The consumer market was worth 4.2 trillion USD in 2016 and it is forecasted to grow more in the next ten or twenty years. The value chains of electronic products can be divided into three stages:

1. Upstream stage to design and develop new models.
2. Midstream stage to manufacture and assemble products.
3. Downstream stage to sell products and conduct after sales services. (Kimura 2014, 13.)

The Chinese home electronics companies try to absorb the technology from their foreign counterparts which is one of the benefits of globalization. Chinese companies have more potential to sell more effectively. However, developing products they are at disadvantage compared to foreign companies. (Kimura 2014, 13.) A foreign company may find suitable sourcing partners in China for example using middlemen online platforms such as Made-in-China-.com-website. It is focused on finding information about Chinese products and suppliers specializing in offering quality Chinese suppliers for global buyers. (Madeinchina.com 2017.) Another way for foreign firms to meet a huge amount of Chinese home electronics suppliers in one place is the CE China exhibition which is international brand show for consumer electronics and is in Shenzhen. The exhibition is solely focused on consumer and home electronics and is attracting leading Chinese retailers e.g. Alibaba. (Messuille.fi 2017.)

#### 4.7 Recommendations for the Case Company

The sourcing products of the company in this study, should look for suppliers producing high quality electronics. The suppliers should have experience in international trade. The potential suppliers should be specialized in home electronics production. The author of the thesis recommends field studies to evaluate more precisely the true situation.

## 5 CONCLUSIONS

This chapter summarizes all the findings and methods of the research. The questions concerning company X are introduced and the validities and reliabilities are explained. Further research suggestions are made to back up the findings and recommendations are made.

### 5.1 Answers to Research Questions

The aim of this research was how to find an efficient sourcing strategy to Company X in China for small home electronics. This was supported by four sub-questions focused on strategic sourcing and global sourcing. The other two sub-questions were about the issues and challenges to expand the sourcing and how company X could implement that.

1. How to find an efficient sourcing strategy to company X in China for small electronics?

The answer is that company X has already a working strategy using responsible sourcing. Thus, they are finding new suppliers to expand their sourcing category because they have already been working few years in the Chinese market. They need to build a long-term relationship with the suppliers which helps them to receive a lot of information about suitable suppliers.

2. What is strategic sourcing?

Strategic sourcing is part of purchasing and supply chain. It is responsible for factors such as locate, develop, qualify and employ suppliers to add value for buyer's products.

3. What is global sourcing?

Global sourcing is part of supply management and purchasing and to locate suppliers outside the nation's borders. It takes also advantage of the emerging economies low-cost labour, cheap logistics and more relaxed regulations.

4. What are the issues and challenges to expand the sourcing office located in China?

Right now, the issues are related to the rising costs for example manufacture in the near future. There is also legislation issues with changing regulations and keeping up with these changes. Linked to the costs because of rapidly growing urbanization there may be better opportunities to try sourcing in another country (Vietnam) rather than staying in China. The challenge is to find a suitable location for the office with reasonable costs and find skilled labour to work for the company's best interest. Furthermore, bureaucracy may hinder establishing contracts and language barriers may exist as well.

5. How to implement these strategies to company X?

Through strategic sourcing plan which is implemented through company X's mission and vision statements. It also requires customer's expectations and other requirements such as environmental and SWOT analysis, assumptions and objectives.

## 5.2 Reliability and Validity

The reliability of this thesis for theoretical part was obtained through academic books, journals and internet sites. Thus, making it reliable in case of theory and facts about basic concepts of strategic and global sourcing. The author of the study tried to choose the right questions for the interview with the sourcing director to give validity to this study. However, the findings of this study are not valid in general and cannot be implemented into other companies.

## 5.3 Further Research Suggestions

This study focused on the basics of strategic and global sourcing in certain category in a target country. The future research suggests on evaluating and measuring the category products and their volumes. Furthermore,



financial figures should be considered how profitable the expansion is going to be in Chinese markets if it would have taken place.

#### 5.4 Summary

Company X is looking for opportunities in China for expanding their sourcing in home electronics category. This study was conducted to plan a working sourcing strategy and to find out the issues and challenges in the target country. Company X wants to have more direct sourcing from China. Company X is also seeking options for expanding their sourcing or move into other emerging markets.

The theoretical part introduces the concepts of global and strategic sourcing to create a working sourcing plan for company X. The country analysis and the company analysis were presented to gain more information about the sourcing implementation. The research was conducted by using qualitative method. Primary data was collected by interviewing the sourcing director of company X and observations. The secondary data was collected from academic books, journals and internet sites. The data was analyzed from the interview and observations of the author.

The interview assessed the current situation of company X and the country analysis was made with the models of PESTEL and SWOT to support the empirical study. In conclusion, the author was able to answer all the research questions successfully. Due to limitations with the country and category and time the study did not focus on the financial side. The future research should focus on evaluating and measuring category products and their volumes. Further interviews from trusted long-term Chinese suppliers could provide more information about the home electronics industry in China.

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