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# **EVALUATING THE POTENTIAL OF CEYLON ORGANIC FOOD PRODUCTS IN THE FINNISH MARKET**

Case company: Epic Life Food LTD.



Bachelor's thesis

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ABSTRACT

This thesis is commissioned by the company Epic Life Food LTD. based in Ceylon, Sri Lanka. The company operates in the business-to-business market and is focused on the production of premium organic food products including a wide range of coconut products, cinnamon, vanilla as well as raw infused bee honey and spices. Virgin coconut oil (VCO) is stated as the target product for the research. The company already exports VCO to Australia, New Zealand, Singapore, Dubai, Canada and Hong Kong and is planning to expand to the EU, especially to the Nordic area.

The aim of the thesis is to evaluate the potential of Ceylon organic food products – VCO in particular – in the Finnish business-to-business food market and to establish the most suitable market entry strategy for it. In order to achieve the desirable result, a solid theoretical framework regarding market research and market entry strategies was developed. Moreover, the author used both primary and secondary data to analyze the current situation of the Finnish food market and to come up with valuable recommendations.

The results showed that the general business-to-business food market environment is positively tuned towards new market entrants in the organic food area. Many companies are searching for natural healthier oil, flour, sugar, flavours substitutes. Therefore, virgin coconut oil as well as coconut flour and coconut sugar could perform as good alternatives. The author gave recommendations about an efficient market entry strategy implementation combining the main strengths of the case company and the current situation of the Finnish market.

**Keywords** Organic food products, Virgin coconut oil, Market entry

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## 1 INTRODUCTION

### 1.1 Background

Nowadays more and more people get obsessed with healthy lifestyle and healthy products. It is so common to meet people jogging down the streets, to see them posting thousands of pictures and articles regarding health, sports and fitness on social media. The number of bloggers promoting healthy organic products and explaining their benefits is rising. Thus, health and wellness trend is growing and making this organic food culture expand throughout the world, especially within Europe. The sense of belonging to healthy food culture makes people feel extremely satisfied, and customer satisfaction undoubtedly is the main goal that every business follows.

Despite the uncertain economic situation, the sales of organic food products in Finland were 5 percent up in 2014, while in 2015 the sales increased by almost 7 percent, compared to the year 2014. According to the estimates by Finnish Organic Food Association Pro Luomu, the Finnish organic food market was worth about 240 million euros in 2015, and the market share of organic products rose to 1.7 percent. (proluomu.fi 2015)

There is an escalating demand for new organic products in bread, frozen foods, sports food, dairy products and meat categories, for instance, and the key fact is that there is a growing popularity of virgin coconut oil (VCO) on the market – the main target of the Thesis research. Such demand escalation offers companies a lot of space for building up business in both business-to-customer and business-to-business sectors. There is a growing demand for Virgin coconut oil in grocery shops as well as a growing tendency for organically processed food application in the bakery and healthy food industries. (proluomu.fi 2015)

### 1.2 Case Company Introduction

The case company is called Epic Life Food LTD. The company was established in 2011 and is based in Ceylon (Sri Lanka). It is focused on becoming a health and wellness lifestyle brand to provide consumers with organic super food and premium food products. Epic Life Food LTD. is exporting to Australia, New Zealand, Singapore, Dubai, Canada and Hong Kong and is planning to expand to EU, Japan and USA soon. Moreover, the company's products are partly sent to domestic supermarkets. Currently, the company's owner desires to aggressively expand into international markets and is looking for potential on the European market, especially the Nordic. The European market has a high demand for organic bioproducts and consumers are already aware of the benefits.

The main product portfolio falls into three main categories: virgin coconut oil, cinnamon and vanilla. The widest product category is pure coco products including virgin coconut oil, extra virgin coconut oil, creamed coco-

nut, coconut flour, coconut snacks and coconut butter. Under the three main categories, there are several value-added products. Epic Life Food is not only limited to the above product range - it has products that are ranging from raw infused bee honey to coconut snacks, sugar, spices, etc. The company's products are HACCP, ISO 22000:2005 FSMS certified.



### HACCP, ISO 22000:2005 FSMS Certified Company

The case company's work force consists with 150 employees that are mainly from the neighboring villages and towns, and many of them have been working for Epic Life Food LTD for years. The company has a principle pointing out that it will not employ minors and does not encourage discrimination based on ethnicity, religion or gender.

The company prefers to operate within the business-to-business market and is going to be opened to B2C in the long-term under its own bio stores and online. Website of the company is now under construction.

#### 1.3 What is Virgin Coconut Oil?

Virgin coconut oil has been called one of the healthiest cooking oils in the world. Cold-pressed from fresh, mature coconuts, Virgin Coconut Oil is unrefined, unbleached and non-deodorized oil that has been used as a wonderful source of well-being and health for centuries. It is known as high-quality plant oil that contains essential fatty lauric acids possessing numerous health benefits such as regular immune system support and healthy metabolism of a body.

As VCO is highly thermally stable, resistant to oxidation and acidification, it can be used greatly both as a food ingredient and as a body-care product. It is widely used in cooking, especially in frying - it is quite a common flavour of South Asian curry. In recent years, coconut oil is increasingly becoming popular among supporters of natural food and vegetarians. It was described in the article of «New York Times», as having "a haunting, nutty" flavour, which also has a touch of sweetness that works well for baking muffins, cakes, sauté, etcetera.

Virgin coconut oil is beneficial not only for bakeries but for athletes and fitness trainers because it is giving them an advantage in sustaining levels of their energy longer without any stimulants or drugs. Restricting carbohydrates and increasing coconut oil in the diet has also led many people to report losing weight with coconut oil. (Brian Shilhavy, <http://coconutoil.com> 2012)

## 1.4 Research Question, Objectives and Methods

The thesis is going to answer the following research question:  
“What market entry strategy should be implemented for Ceylon organic virgin coconut oil in the Finnish B2B market?”

The author has determined the following research objectives:

- Make strong theoretical foundation
- Briefly analyze the entire Finnish food market, customer demands and expectations
- Fundamentally analyze the Finnish B2B food market – grocery shops, baking and sports nutrition industries in particular
- Objectively evaluate the potential of Epic Life Food Ltd. in the Finnish B2B food market
- Find out all the practical information available for the case company (statistics, requirements, legislation, taxes, etc.)
- Establish the most suitable entry strategy
- Give valuable recommendations on strategy implementation

The author’s research has been conducted by gathering secondary data available via public sources and primary data collected from the survey and Skype interview.

## 2 THEORY

### 2.1 Marketing Research

When it comes to evaluation of opportunities of a product, in addition to marketing intelligence information about a customer in general, market-place and competitor, marketers often need detailed and precise information – they need marketing research.

Marketing research is a systematic process of planning, collecting, analyzing and reporting of data relevant to a specific marketing situation that a company is facing at a period of time. Marketing research gives marketers insights into motivations, purchase behaviour and satisfaction level of a customer. It opens doors to market potential assessment as well as possible market share. Moreover, marketing research is commonly used to measure the effectiveness of pricing policy, promotion and distribution channels. (Kotler, Armstrong, Harris, Piercy 2013, 113-114)

Market research studies are project-oriented as they are done for the specific company and with a specific aim. Mostly these studies involve buyer's behaviour, product and brand preferences, advertising efficiency, sales promotion, distribution channels, dealers' behaviour, competition and so on. (Sherlekar, Nirmala Prasas, Salvadore Victor 2010, 79) Marketing research contains the following types of research:

1. Market research. It covers such aspects as nature and size of the market, separating customers in terms of their gender, age, income level. It also covers export market, economic aspects, etcetera.
2. Sales research. This refers to regional variations in sales, sales territories with high potential, assessment of sales methods and incentives.
3. Product research. This relates to strong and weak sides of the existing product, ways of product quality improvement, testing, usage simplification and so forth.
4. Packaging research. Even though it is a part of product research, the recent trends in packaging and significant accent on packaging in advertising have made it an independent position. Marketers should think of packaging research separately because such trends as easiness of usage, saving original quality and environment care have a huge impact and response in the market.
5. Advertising research. It is used to find our advertising trends and to measure advertising effectiveness.
6. Business Economic. This refers to profit and loss forecasting, problems relating to input, output analysis and breakeven point charts.
7. Export Marketing Research. It is connected with terms of export, its hidden obstacles and potential. (Sherlekar, Nirmala Prasas, Salvadore Victor 2009, 84)

A marketing research project may consist of three different types of objectives. The objective of exploratory research is to collect preliminary information in order to help in defining the problem and making the assumption about the causes. The goal of the exploratory research is to report about market potential according to attitudes of consumers. The causal research objective is to study cause-and-effect correlation. For this project, the author had chosen descriptive marketing research considering it as the most useful to the case company at the moment. (Kotler, Armstrong, Harris, Piercy 2013, 114)

As soon as the research problem and objectives have been determined, a researcher should define the exact information needed and to create a gathering plan that ensures maximum efficiency. The plan should include reliable gathering sources, research approaches, contact methods and tools.

The following diagram shows the decision areas of marketing research. (Sherlekar, Nirmala Prasas, Salvadore Victor 2009, 87)





Figure 1 Main Areas of Research in Marketing Field (Sherlekar, Nirmala Prasad, Salvatore Victor 2009, p. 87)

## 2.2 Gathering Secondary Data

Marketers usually start their research by gathering secondary data. A company, especially a start-up, can also use external sources of information including government and commercial data services. In most of the countries of European area almost every government agency, association, news and business publications offer free information. However, such information is harder to find.

Furthermore, it is possible to buy secondary data reports and even analysis from outside suppliers. Researchers can conduct their own secondary data search by using online commercial database services such as ProQuest, Dialog and LexisNexis. These services offer information for some fee and are known as highly informative and reliable. (Kotler, Armstrong, Harris, Piercy 2013, 115-117)

It is undeniable that secondary data can present problems too. The information needed may not exist at all if the topic is not familiar or popular yet in a country of research. It is rarely possible to find all the necessary data through secondary sources only. In addition to that, the information found may not be very usable – it might be outdated or just irrelevant. A researcher should compare data from different sources in order to make sure that it is up-to-date for current decision-making, that it fits research project needs and is carefully collected and objectively reported. (Kotler, Armstrong, Harris, Piercy 2013, 117)

## 2.3 Gathering Primary Data

Secondary data disadvantages mentioned above seem to confirm the idea that primary data gathering is a key to successful market entry strategy. Researchers need to ascertain its accuracy, relevancy and unbiasedness. Research approaches for primary data gathering include surveys, interviews, observation and experiments.

The essentials of this kind of data collection are represented on the table below. (Kotler, Armstrong, Harris, Piercy 2013, 117)

Research approaches	Contact methods	Sampling plan	Research instruments
Survey	Mail	Sampling unit	Questionnaire
Interview	Telephone	Sample size	Mechanical instruments
Observation	Personal	Sampling procedure	
Experiment	Online		

Table 1 Planning primary data collection (Kotler, Armstrong, Harris, Piercy 2013; p. 118)

## 2.4 International Marketing Research

The popularity of international market research has tremendously grown over the past decade due to globalization, trade barriers removal and companies' attitude to find the best-operating conditions and to get the highest profits possible. International researchers usually follow the same steps as domestic, however, international marketing research often faces more problems. International researchers have to deal not with homogeneous markets within one well-known country, but with diverse markets in several non-familiar countries. Such markets vary in their cultures and customs as well as their level of economic development, buying ability and patterns. (Kotler, Armstrong, Harris, Piercy 2013, 131-132)

One of the main difficulties of international marketing research is that many countries have almost no search services at all because the majority of big research companies work in a very limited amount of countries. Therefore, even when secondary information is available, it should be checked through many sources on a country-by-country basis that makes the process of combining and comparing pretty hard. Moreover, cultural differences cause additional problems for international researchers, especially language. For instance, needful information can be found only in a language researcher doesn't know or questionnaires should be prepared in one language and then translated to the languages each country researched without meaning loss. These obstacles not only increase risks of error but also raise research costs. (Kotler, Armstrong, Harris, Piercy 2013, 132)

## 2.5 Market Strategy

It is well-known that there are too many kinds of consumers who have different needs and follow completely different intentions while buying goods. Consequently, companies have to divide the total market into segments, to choose the most suitable one and to design appropriate strategy. Designing of a marketing strategy consists of market segmentation, target marketing and market positioning. (Kotler, Armstrong 2008, 156)

## 2.6 Segmentation

Companies have to identify the market segment and to offer goods for each segment separately because consumers do not buy the same way and have different preferences and motivations to buy one product or another. The smaller the group with specific characteristics is – the faster and easier the marketers are able to reach it. According to Kotler, different reasonable segments that customers may be related to are based on geographic, demographic, psychographic and behavioural studies. (Kotler, Armstrong 2008, 410)

There are several requirements that every segmentation process should meet. First of all, size, purchasing power and profits of market segments should be measured. Secondly, a marketer should make sure that market segments can be reached and served effectively and that particular chosen segment is large enough to serve. Moreover, segments should be conceptually distinguishable and have different marketing programs applied. The last important requirement is actionability – marketer should know how to attract the segment and what kind of serving program to design. (Kotler, Armstrong 2008, 410)

## 2.7 Positioning

Even when the market segmentation has been chosen, products, as well as brand, have not set a position in customers' minds yet. Nowadays markets and their diversity are growing fast, and customers value comfort when choosing products. Some brands with successful positioning map set are getting stronger and some disappear because they haven't created a good or any image in the eyes of buyers and have not been competitive enough to save a good place in their market positioning. Therefore, a company should build unique offers to targeted segment – the ones that meet segment's values best and has an opportunity to become a competitive advantage. For example, a company can use unusual communication tools, packaging methods or provide higher product quality. (Kotler, Armstrong 2008, 435)

## 2.8 Marketing Mix – 7 Ps

### Product

The first step for a company that is going to release its product is to ensure that it is going to offer a right product – an optimal for a targeted segment package of quality, need satisfaction, usage easiness and price. Product portfolio should be methodically built and maintained up to date as market environment tends to change quite often. (Booms and Bitner 1981, 47-51)

### Price

It is very important to determine a proper price by taking into consideration average retail prices as well as production, delivery and other costs.

Public price is sensitive in terms of quality-price ratio – an amount of money that a customer is ready to pay for a product quality offered. In author's opinion, price sensitivity is the most decisive factor while price setting. Some companies set prices only according to total costs and a markup they decided to put. In this case, the final price may not correspond the money customer is willing to pay, or final price can appear to be way higher than other companies offer. The fact is that customer often thinks that higher prices bring higher quality. Consequently, cutting prices to get ahead of a competitor is not always the best strategy. A good tactic here could be adding more value to a product, for example, better quality or accompanying services. As it was mentioned before, the market environment is changeable, and it is necessary to adjust existing prices according to seasonal sales, for instance. (Booms and Bitner 1981, 47-51)

### Place

A distribution channel is called a place. It includes functions that are executed by producers, intermediaries and retailers to deliver goods to customers with minimum time and money consumption. Complete design of a distribution channel before sales start raises the chance to minimize costs and to make product available as fast as possible from the beginning. Furthermore, a company should always have an alternative channel in case of problems or conflicts with the main partner. Thus, besides taking care of optimizing logistics, a company needs to cooperate with other partners in a supply chain. (Booms and Bitner 1981, 47-51)

### Promotion

In marketing communication or in other words promotion several communication methods are used to reach target customers. Advertising is known as the main feature of increasing awareness among company's target. It can be implemented via television, radio, or internet. The most important fact here is that a company should understand that advertising is a long-term process and funds for a full advertising program should be saved beforehand. Otherwise, advertising will not bring any visible effect. Besides, an advertising campaign may easily fail if it does not show what customer desires to see. Direct mail or email campaigns are also used pretty often, however, people do not usually react actively. There are mistakes that are easy to make while designing advertising mail campaign – it may not reach the targeted audience or can be not persuasive enough. Social media marketing is gaining momentum and is perceived as one of the most effective features, especially Instagram, YouTube and Facebook where customers not only look at offers but give a lot of feedback – no need to make questionnaires that most of the customers tend to ignore. In addition, via social media, a researcher can get aware of buyer's arising interest even before this trend gets popularity. Trade shows, seminars, webinars, newsletters and catalogues are also used to promote a product. (Booms and Bitner 1981, 47-51)

### People

A company should pay a great attention to people is recruiting. People are a part of company's image, they interact with customers both directly and indirectly. The more positive and trained employees are – the better results company gets. (Booms and Bitner 1981, 47-51)

### Physical evidence

The term physical evidence can be understood by an appearance in the environment where consumers are free to judge companies for their performance, social responsibility, comfort, and etcetera. It plays important role in creating the first impression, positioning and opens opportunities to support company's image. The more visible product is – the more reliable it seems in the customer's eyes. (Booms and Bitner 1981, 47-51)

### Process

To make all the processes in organization happen smoother and more efficient, it should build a logical path for ordering and delivery. Responsible for one or another department person should be always reachable; people should be encouraged and focused on work – bonus and reminding systems can be suitable in such case. The aim of taking a good care of processes within an organization is to cut waiting time, increase customer satisfaction and loyalty. (Booms and Bitner 1981, 47-51)

## 2.9 Entering New Market and Entry Modes

Market entry strategy is described as a mixture of a chosen entry mode and a marketing plan. The author is going to introduce several entry modes that are perceived as more important in a scope of the bachelor thesis. (Albaum and Duerr 2008, 270)

According to Albaum and Duerr, market entry mode is an institutional arrangement for entry of company's products, technologies, financial or human capital into a foreign market. Entry modes are divided into two groups – export and non-export. Export entry modes are basic and the most common modes that come to companies' minds when it comes to expanding to foreign markets. Export entry modes include direct export, indirect export and cooperative export. Speaking about non-export entry modes, they consist from intermediate (contractual) and hierarchical (investment) modes. (Albaum and Duerr 2008, 270, 305-391, Hollensen 2004, 291-350)

## 2.10 Export Entry Modes

Hollensen introduced the following theory: export entry modes take place when a company manufactures goods in the domestic market or a third world country and transfers them to a foreign market using direct or indirect ways. Such modes have less risk and fewer costs, however, companies have less control over a process of products' sales in a foreign market. (Hollensen 2004, 293-297)

### 2.10.1 Indirect Export

The indirect export mode could be a good option for small and medium-sized enterprises (SMEs) who are pretty limited in resources and would like to test the market at first. This mode requires less risk because a company does not take responsibility for exporting process itself, but uses a domestic company that already has experience and resources to do an export. SMEs can use export management companies, export buying agents, trading companies, brokers and piggybacks. It is important to know that there is a minimum communication between two sides – manufacturing company is usually not aware of its products in foreign sales and is not involved in export activities, while agents or export management companies establish and continue communication with customers. Therefore, a company is not able to deepen its knowledge about the foreign market and loses the opportunity to grow there as independent company. (Hollensen 2004, 293-297)

### 2.10.2 Direct Export

Another mode called direct export occurs when a company takes care of sales to a foreign market itself by selling directly to an importer or a buyer. In this mode, a company has more control of product sales, especially its conceptualization, targeting, delivery and distribution. Consequently, responsibility involves higher risks that not every organization is ready to take. One popular way to reduce responsibility in direct export mode is to do transporting by another courier company. After transporting way is identified, a company usually finds distributors or foreign local agents. Distributors can be independent local merchants that buy products from a firm and conduct their own sales process. Agents take the title of goods according to an agreement with a manufacturer and make money from price differences. (Hollensen 2004, 298-301)

### 2.10.3 Cooperative Export

Cooperative export is a mode in which two or more companies cooperate together in manufacturing, marketing, exporting and selling, and are united by limitations caused by economies of scale and resources. Cooperating firms share the risks and are able to reduce costs of manufacturing, carriage, marketing and selling. But before choosing this mode, it should be taken into consideration that the main risk here is a complication of relationships within a partnership. (Hollensen 2004, 298-301)

## 2.11 Non-export Entry Modes

Intermediate and hierarchical modes compose non-export entry modes. Intermediate modes consist of contract manufacturing, licensing, franchising, joint ventures and strategic alliances. By using these modes, a company shares risks and control with a cooperative company. Moreover, ownership can be split. The hierarchical mode is when entry is wholly owned and controlled by a company, but risks are higher and flexibility is lower.

Hierarchical entry modes can be implemented through a greenfield investment, an acquisition or by using sales representatives. The author is going to focus on intermediate entry modes because they may be suitable for the case company. (Hollensen 2004, 298-301)

### Intermediate entry modes

By utilizing these modes, companies are able to transfer developed knowledge and specific skills to create sales overseas. It is pretty common that a company has developed a competitive strategy but cannot apply it in the real business world because of resource limitations. Thus, it can transfer this competitive advantage to another party and create a contractual agreement. Intermediate modes share ownership, risks and control. (Hollensen 2011, 346)

### Licensing

Licensing is working the following way: after receiving a payment, licensor gives a license to use intellectual property such as technology, patent or trademark. It is a low-cost mode and has an advantage of low commitment and local production. The legal terms of a contract are specified in issues such as compensations, privileges, boundaries, rights and duration of a contract. However, in some countries intellectual property right protection is weak, and a company should think twice before using licensing there. (Griffin and Pustay 2015, 370-374)

### Franchising

Franchising is a broader form of licensing. It is a business format that provides full business concepts, operating systems, trademarks, support in quality and marketing programs – a franchisee pays a royalty or another agreed amount to a franchisor in order to have a right to use franchisor's trademark or concept. Franchising systems can be direct and indirect. Direct franchising is when a franchisor coordinates and controls the activities, while in indirect franchising franchisor is working through master franchisee – subfranchisor who has its own subsystem within a chosen host area. The main advantage in indirect franchising is that a master franchisee usually knows the local market well, already has networking done, and knows the level of reliability of potential franchisees. However, a franchisor has less control over a situation. (Griffin and Pustay 2015, 375; Hollensen 2011, 361)

### Strategic alliances

The strategic alliance is a relation between two or more companies to do business together to increase the performance of each company, which is more than a business-to-business dealing, but less than a merger. The parties involved in the alliance may invest their resources such as products, knowledge, capital, distribution channels, and etcetera. Strategic alliance's goal is to gain profitable synergy with divided expenses, risks and rewards, wherein the strength of such interaction surpasses individual ef-

forts. In such mode, companies continue operation as individual entities. (Hollensen 2011, 366-367)

### Joint ventures

The joint venture is one of the forms of strategic alliance. It is a temporary partnership between two or more companies that form a separate legal entity. Parties invest funds in creating a jointly owned new company that indicates interests of both parties. This means that these companies do not continue operation as individual companies. They contribute their resources, technologies, skills and share control, revenues and expenses. Mutual interest can be based on combining complementary resources, overcoming competitors or entering closed markets. This entry mode is popular among both private and public corporations and may ensure lower risks, high profits, pooling of resources as well as optimum utilization of resources. (Young, Hamill, Wheeler and Davies 1989, 17-18)

### Contract manufacturing

Contract manufacturing is a specialized entry mode in which a company gives the responsibility of producing to another company, typically foreign. Two parties sign a contract which has an expiration date after which relationship can be continued or ended. This type of manufacturing leads to a reduction of labour costs, production and delivery expenses, tariffs and quotas. This mode does not require huge investments, but issues such as warranty, product quality and production capacity may appear. (Hollensen 2011, 356-358)

## 2.12 Choosing Entry Mode

Choosing an entry mode is one of the most important strategic decisions in internationalization. In this chapter, the author is going to introduce Root's three rules of entry mode selection that will be helpful for every company aiming to enter a new market. A company can use one or several entry modes depending on environment and specific situation.

### 2.12.1 Naive Rule

Naive rule's concept is the usage of the same entry mode for all the foreign markets that company is planning to enter. The main benefit of this rule is standardization of entry process – as it is planned exactly the same way everywhere, it requires less preparation time and fewer costs. On the other hand, one entry mode cannot be suitable for all foreign markets, some significant mistakes may occur in the middle of the process, and problem-solving may cost more money than proper preparations beforehand. (Hollensen 2004, 278; Albaum and Duerr 2008, 292)



### 2.12.2 Pragmatic Rule

The pragmatic rule is described as usage of an individually selected and workable entry mode for each foreign market. Usually, the pragmatic rule is applied when a firm is just starting doing business internationally. A firm chooses a low-risk entry mode that seems the most workable. Using this rule, a company does not have to spend time and money for extra management investigation of alternatives and information collection. The main disadvantage here is that a company does not get enough familiar with foreign market opportunities. (Albaum and Duerr 2008, 292, Root 1994)

### 2.12.3 Strategy Rule

In strategy rule, a company evaluates and compares all the feasible market entry modes using all the possible information resources and budget planning, and only after that chooses the most suitable entry mode in terms of profitability maximization, resources' availability and minimized risks. Moreover, in strategy rule, companies are aiming to reach non-profit objectives as well. This rule is perceived as the most fundamental and complicated to implement. (Albaum and Duerr 2008, 292, Root 1998)

### 2.12.4 Factors Influencing the Choice of Entry Mode

There are multiple factors that need to be considered while choosing which strategy to use. Internal factors include company size, existing international experience and product concept. External factors refer to socio-cultural distance, country risks, market size, potential market growth and trade barriers. In addition, a company should remember to follow its desired mode characteristics such as risk-averse, control and flexibility. (Albaum and Duerr 2008, 282-291) (Hollensen 2004, 279-284)

While choosing an entry mode, a firm has to take into consideration alternative modes that its competitors use, special trade agreements within a market and major problems related to problems in communication with foreign markets. Moreover, a company should search for reputable partners available in the target market, should think of important logistical elements and legal issues while dealing with intermediary companies.

## 2.13 Virgin Coconut Oil

### 2.13.1 Product Description

Virgin coconut oil (VCO) is related to organic product sector. First, coconuts ripen on certified organic plantations, commonly in the Philippines and Sri Lanka, and then they get harvested and dehusked. After that, coconuts in their hard shell are delivered to a factory. Every coconut lot is necessarily checked for ripeness and presence of dirt, metals and other foreign materials. Within a maximum of 48 hours after harvesting coco-

nuts, virgin coconut oil is obtained from fresh and mature meat of coconut pressed by a special mechanical process which does not involve any chemical changes. Thus, the oil retains its natural coconut taste and smell as well as great amount of minerals, Vitamin-E and medium chain fatty acids. In other words, the oil remains in its most natural and healthy form. The entire process of production is usually finished during a few hours after the coconut is opened. Figure 2 below shows the detailed production process of VCO. (Living Tree Community 2016)

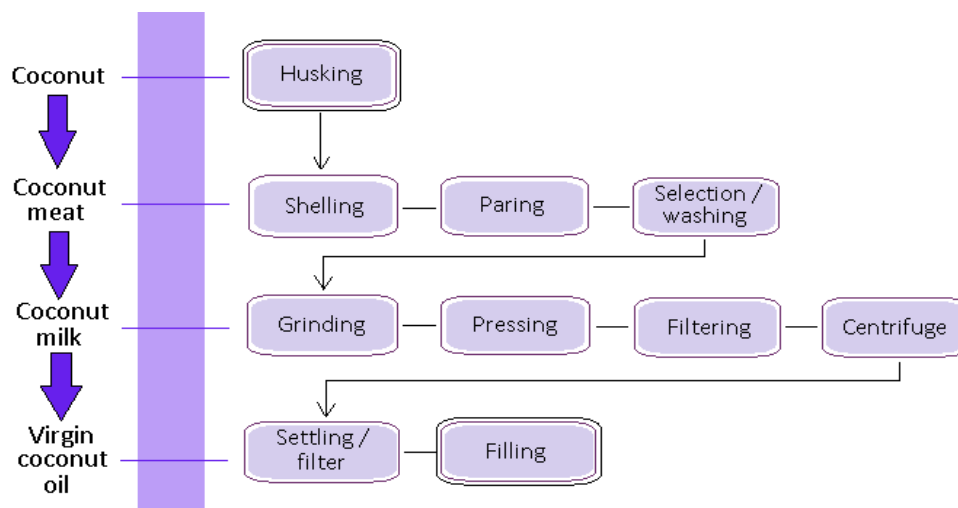


Figure 2 Virgin Coconut Oil Production Process (Living Tree Community 2016)

Virgin coconut oil is rated low in polyunsaturated fatty acids in comparison with groundnut oils and soy. It cannot undergo bleaching, chemical refining or deodorizing. Moreover, it has a high level of lauric acids (around 50%) that provides heat stability and has no trans-fatty acids. The density of the oil is 0.92 compared with the density of water meaning that in a jar of 1000 ml a manufacturer can fit 920 grams of virgin coconut oil. (mayagoldtrading.com 2016)

Virgin coconut oil can be used anywhere as a healthier fat replacement. It can be utilized in a cosmetic industry and as a food ingredient, cooking oil or spread. It is perfectly good for both cold and hot dishes and can be used in bakery, snacks, sauces, confectionery and many more industries. (mayagoldtrading.com 2016)

Furthermore, well-known managing editor and founder of the online magazine called “Health Impact News” Brian Shilhavy has published many articles about health benefits that VCO offer. It reduces oxidative stress in heart, kidney, and liver; it helps to prevent Alzheimer’s disease and has a great promise in heart disease treatment. Virgin coconut oil is also effective in treating high blood pressure as well as skin diseases such as acne remedy. (Brian Shilhavy, coconutoil.com 2017)

### 3 RESEARCH PLAN

The author has determined the following step-by-step research plan to concentrate attention on the most valuable points:

1. In order to understand in which direction to move, the author has to find secondary data regarding organic food products and VCO on the European market, including the level of awareness, prevalence and demand.
2. The author needs to gather secondary data about awareness, prevalence and demand for organics and virgin coconut oil in Finland.
3. It needs to be identified which sector is going to grow more in the nearest future – B2C or B2B. Thus, the target sector needs to be determined. Looking ahead, the author has chosen B2B.
4. As virgin coconut oil is a pretty new product in Europe, there is not enough information available via secondary sources. A survey for end users needs to be created. It should find out the level of people's knowledge about VCO and their interest in its application in food production.
5. Survey link for end users can be sent. The goal is to check the real level of customers' awareness, demand, expectations and abilities.
5. After the link is sent, it is turn to check quality standards, all the legal requirements as well as additional companies' requirements for virgin coconut oil exported to Finland.
6. Since the beginning, the author had an idea of VCO application in the bakery business, in the production of sports food and healthy snacks. Therefore, there is a need to find several the most popular companies working in the mentioned industries and to find the contact information.
7. After all the steps are done; the author needs to analyze the information collected from secondary and primary sources and to come up with the most suitable market entry strategy.

## 4 MACRO ENVIRONMENT ANALYSIS, DESTEP MODEL

### 4.1 Demographic

The population of Finland is 5,530,668 people, according to the latest United Nations estimates made in November 2017. The population density in Finland is 18 per km<sup>2</sup> on the total land area of 303,890 km<sup>2</sup>, and the urban population amounts 84.1% of the total population. Finnish population belongs to the following ethnic groups: Finns that amount 93.4%, Swedish 5.6%, Russian 0.5%, Estonian 0.3%, Romanian 0.1%, and Sami 0.1%. (worldometers.info: Finland Population (Live) 2017)

Health and life expectancy has increased continuously, and the average life expectancy is 81,4 years in 2017. Lifestyle-related diseases are increasing - the percentage of overweight teenagers has tripled during the

past 30 years. The most common endemic disease is diabetes with more than half a million sufferers, and one of the most common musculoskeletal diseases are back problems, hip and knee osteoarthritis, rheumatoid arthritis and osteoporosis. The number of cancer patients has slightly increased, but the prognosis has improved continuously. Other growing health problems are allergies and dementia. (The National Institute for Health and Welfare of Finland 2017)

### 4.2 Economical

Finland has a mixed economy which is highly industrialized and has an output per capita equal to European economies such as Belgium, France, Germany and the UK. The services sector, which amounts 66 percent, is the largest in the Finnish economy. It is followed by manufacturing and refining sectors (31 percent) and primary production (2,9 percent). With regard to foreign trade, the main sector is manufacturing in electronics, vehicles, machinery and other engineered products, forest and chemicals industries. (marketresearchreports.com: PESTEL Analysis, Finland 2016)

Even though Finland is often presented as an example of high economic performance and innovativeness, it has been struggling to recover from Eurozone and Global financial crisis. From 2012 to 2014 Finland has suffered a lot because of the anti-Russian sanctions introduced by the EU. In 2015, Finland started to recover from the crisis that had a durable effect on public finances and the debt level, which could double within a decade. In 2015, after three years of economic contraction, there was a little economy increase, while in 2016, the economy continued its growth (1,4 percent of GDP) encouraged by dynamic investments and private consumption. In 2017, the growth is expected to remain moderate. (en.portal.santandertrade.com: Finland. Economic and Political Outline 2017)

The main focus of the Government in 2017 is fighting against unemployment and boosting the industrial sector as well as speeding up transition towards clean energy. Finland's GDP per capita is still one of the highest in the world that leads to high living standard. Wealth distribution is relatively equitable, and the unemployment rate has reached 8,9 percent in 2016. The rate of inflation in 2017 and 2018 is expected to be 1,4 – 1,6 percent. The score of economic freedom is 74 out of 100 which is ranked 24<sup>th</sup> in the world and 13<sup>th</sup> in the region. In accordance with The Economist – Business Environment Rankings 2014-2018, Finnish business environment is on the 9<sup>th</sup> place out of 82. (en.portal.santandertrade.com: Finland. Economic and Political Outline 2017)

The income tax in Finland is 30% and 34% for income exceeding 30000 euro. Corporate income tax rate is 20%. Standard Value Added Tax (VAT) rate is 24%, and reduced VAT provided for foodstuffs category including some agricultural suppliers, restaurants, soft drinks, takeaway food as well as cut plants for food production is 14%. Finnish corporations paying certain types of income have to apply a 20% or 15% withholding tax (WHT) on payments to foreign corporations and a 30% WHT on pay-

ments to non-resident individuals or to entities other than corporate. (nordisketax.net 2017)

### 4.3 Social

Finnish people have a very strong sense of national identity. This is deeply rooted in the history of Finland – its wartime achievements and sporting merit in particular. Nowadays, the sense of national identity is also encouraged by pride in Finland's high-tech expertise. The majority of Finns formally belong to the Evangelical-Lutheran Church (around 83%), while 1.1% belong to the Finnish Orthodox Church. In general, Finnish people are fairly secular in their life views. There is a high level of gender equality in Finland, as can be observed - a relatively high number of women working on advanced positions in politics and other areas of society. The commonly known conception that Finns are silent and reserved is slightly outdated and is applicable certainly not to the younger generations. Nonetheless, Finns do have a special attitude towards words that are taken seriously and towards speech - people are usually held to what they say. Finns' mother tongue is either Finnish, Swedish (5.6% of the population) or Saami (approximately 8,000 native speakers). (Alho, 2010)

In terms of education system quality, Finland is a top-performing country. In the Organization for Economic Cooperation and Development (OECD), the average student is scored 543 in literacy reading, science and maths. The result is the highest among OECD, which average is 497. The school enrolment is around 99 percent which shows that employees are highly educated. (marketresearchreports.com: PESTEL Analysis, Finland 2016)

There is a strong social network or community established in Finland that provides emotional support, access to services, jobs and other material opportunities for citizens. Therefore, 92% of people know someone who they could rely on in the times of need. In Finland, the social security of an entrepreneur is pretty comprehensive and attractive for foreign businessmen - pension insurance for self-employed people, sickness allowance of an entrepreneur, occupational healthcare and unemployment security. Nevertheless, the statutory accident insurance is not covered by the entrepreneur's social security. (Alho, 2010)

### 4.4 Technological

The most important export industry in Finland is the technology industry. The majority of technology companies operate in international markets and attract revenue with investments to Finland. This money is a key to maintaining the welfare of the state with operations composing over 50% of all exports in Finland. Technology companies are responsible for 70 percent of all research and development investments, which means that technology companies play an essential role in the future success of Finland. Approximately 300,000 Finns are working for technology companies; while around 700,000 people work in the technology sector directly or indirectly. The technology industry sector consists of five subsec-

tors: Electronics and the Electro-Technical Industry, Mechanical Engineering, Metals Industry, Consulting Engineering and Information Technology. Recently, many technology companies experienced difficult times due to the crisis, but nowadays the situation has improved, and technology industrial sector is developing. (teknologiateollisuus.fi: Technology Finland March 2017)

### 4.5 Ecological

Finland has been rated as one of the world's leading countries in environmental protection standards, such as Environmental Sustainability Index regularly compiled by the Global Economic Forum. Finland has effective environmental administration and legislation; the importance of environmental protection is considered in all sectors of society. (Jari Lyytimäki, Finnish Environment Institute July 2014)

Many polluted rivers and lakes have been cleaned up. Air quality has improved greatly around industrial locations. Urban air quality in Finland is good in general, and people who live in urban territories have relatively low exposure to air pollution by ozone – PM10 by the EU standards. Nevertheless, small-scale exposures are common because of wood burning, especially in semi-urban and rural areas where district heating is unavailable. Emissions from large industrial facilities have been significantly curbed. Finland's most valuable natural resources – forests – are managed more sensitively, and the overall annual growth rate exceeds the total timber harvest. (Jari Lyytimäki, Finnish Environment Institute July 2014)

### 4.6 Political & Legal

The Republic of Finland is a sovereign democratic state. The head of state is the President. The main executive power belongs to the Cabinet, which is under the Prime Minister's control. Legislative power is conferred on the Parliament of Finland – Eduskunta. The government is holding the limited amount of rights to extent or amend legislation. With the aim to ensure that a single party does not have a chance to have all the power alone, Finland has a multi-party system. The predominant party is Finland's Centre party, and other large parties include centre-right pro-European National Coalition Party (KOK), centre-left Social Democratic Party (SDP), left-wing nationalist party called The Finns (PS), Green Party (VIHR) and many others. The current political leaders are President Sauli Niinistö from National Coalition Party and Prime Minister Juha Sipilä from Centre Party. Finland's Freedom of the Press indicator is very high – 3<sup>rd</sup> place in the World Rank. Finland's political freedom is ranked free. According to the corruption ranking presented by Trading Economics, in 2016 Finland was ranked as the 3<sup>rd</sup> country in the world with the lowest corruption level. (en.portal.santandertrade.com: Finland. Economic and Political Outline 2017; tradingeconomics.com: Finland Corruption rank December 2016)

Finland has the decentralised structure of governance. There are three government levels - central, regional and local. Finland consists of 19 regions (maakunnan liitto) –18 are located on the mainland and governed by regional councils, and one is in the semi-autonomous province of the Åland Islands, an archipelago territory off Finland's south-western coast with its own government and parliament. Finland has 311 municipalities (kunta). (Piotr Bąkowski, Sofija Voronova September 2017)

## 5 MESO ENVIRONMENT ANALYSIS

### 5.1 Current Status of VCO on the Market

In this chapter, the results of secondary and primary data gathering are presented as well as analysis of the outcomes.

#### 5.1.1 Virgin Coconut Oil on the European Market

The popularity of virgin coconut oil on European market has significantly grown over the past years. This progress is reached mainly because of growing consumer attention to a healthy lifestyle and healthy diets. At first, the oil was available for buyers only in health shops. Today, virgin coconut oil has become one of the iconic products of the wellness trend, can be found in regular supermarkets and is more and more applied in the industrial sector. (marketresearchreports.com 2016)

The first significant demand and sales growth of virgin coconut oil were fixed in 2014. For instance, 38% growth was registered in Sweden, 5% in Germany. (CBI Ministry of Foreign Affairs 2016)

There are several trends that offer opportunities for virgin coconut oil on the European market. The first trend is a significant shift to healthier vegetable oils caused by higher attention to the link between health and diet. Virgin coconut non-refined oil is perfect for those people who trace absence of trans-fatty acids and presence of lauric acid. The second trend is increasing usage of virgin coconut oil by the European food industry. More precisely, the market is expanding from direct to industrial consumption. (CBI Ministry of Foreign Affairs 2016)

As the virgin coconut oil extraction process commonly takes place in tropical regions far away from Europe, it makes European companies entirely dependent on imports of the product. As the product is pretty new on the market, data collected about imports and consumption of VCO in European area is limited. The oil does not have a Harmonization System (HS) code and is not well-monitored in terms of retail sales. These obstacles made information search more complicated than expected. The author succeeded to get some statistics from different sources from several countries including the Philippines, Sri Lanka, the UK and Netherlands. (CBI Ministry of Foreign Affairs 2016)

As it was mentioned before, the largest volume exporters of virgin coconut oil to European market are the Philippines and Sri Lanka, and the smaller volume exporters can be found on the Asian and Pacific Coconut Community (APCC) website. This community represents around 90 % of the whole coconut production and exports in the world. In 2015, the major European destinations for exporters from the Philippines were the Netherlands (9%), Germany (8%), the UK and Belgium (2% each). The main destinations for Sri Lankan exporters were Germany (10%), the UK (7%), the Netherlands (4%) and Sweden (3%). Unfortunately, Finland is not on the list. In the author's opinion, this is because the population of Finland is way lower than the mentioned countries. For example, it has twice less population than Sweden does. Consequently, the percentage can hardly reach even 1,5 %. (CBI Ministry of Foreign Affairs 2016)

According to industry sources, VCO sales on the European market have experienced an escalating growth starting from 2013. For instance, in 2015 British webshop BodybuildingWarehouse.co.uk published the fact of 67% sales increase of virgin coconut oil. In 2016 the situation has changed – the demand for direct consumption of VCO has stabilized while demand for industrial sector started to expand. This favourable industrial trend opens good opportunities for exporting in bigger volumes – for both cosmetics and food directions. (CBI Ministry of Foreign Affairs 2016)

### 5.1.2 Increase in Use of VCO by the European Market

Health and wellness trend that is gaining momentum in Europe influence the market for virgin coconut oil positively. This year customers not only desire organics for direct consumption but also desire VCO involved in food production processes to replace non-healthy oils that are normally used. Of course, this trend involves high expenses, but in order to hold customer satisfaction, companies operating in the food industry have to invest in healthier substitutes for sunflower and palm oil.

Currently, virgin coconut oil is successfully applied in the industry of premium health snacks, for example, “Lifefood Coconut Bar” and “Bio Paranuss-Guarana Riegel” in Germany; “The Get Fruity Bar” in the UK. Moreover, VCO has found application as capsules on the food supplement market. (CBI Ministry of Foreign Affairs 2016)

### 5.1.3 End Market Prices for Virgin Coconut Oil in Europe and Finland

Retail prices for virgin coconut oil in 2016 are represented on table 2. The prices are ranging from € 16,06 to € 42,48 per kg. The highest price is in the United Kingdom. The oil is most commonly sold as organic certified; fair trade certification is less common.



Brand and details	Retail outlet	Price and packaging size	Price per kg
Perfectly Pure Virgin Coconut Oil	De Tuinen, the Netherlands	€ 7.99 / 453 grams	€ 17.64
Bio Today Kokosolie extra virgin (organic)	Albert Heijn, the Netherlands	€ 6.85 / 400 grams	€ 17.13
TIANA Extra Virgin Coconut Oil (Fairtrade and organic)	Holland & Barrett, the United Kingdom	€ 21.24 / 500 grams	€ 42.48
Biona Virgin Coconut Oil (organic)	Healthy Supplies, the United Kingdom	€ 17.91 / 800 grams	€ 22.39
Bio Planète Bio Kokosöl (organic)	Amazon.de, Germany	€ 10.29 / 400 grams	€ 25.73
enerBIO Bio Kokosöl native (organic)	Rossmann, Germany	€ 4.95 / 200 grams	€ 24.70
Bio Planète Huile bio de coco vierge (organic)	Greenweez.com, France	€ 18.70 / 1 kg ml	€ 18.70
La Tourangelle Huile vierge de noix de coco bio (organic)	Monoprix, France	€ 6.68 / 314 grams	€ 21.27
Alnatura Kokosöl Nativ (organic)	Migros, Switzerland	€ 5.40 / 220 grams	€ 24.55
Renée Voltaire Virgin Kokosolja (organic)	Apotea.se, Sweden	€ 8.03 / 500 grams	€ 16.06

Table 2 End market prices for VCO (CBI, Ministry of Foreign Affairs “Exporting virgin coconut oil to Europe” December 15, 2016)

#### 5.1.4 Virgin Coconut Oil on the Finnish Market

In Finland, average retail prices for VCO vary from € 16 to € 25 euros. The prices are affordable for average Finnish end customer. According to the estimates data published by “Pro Luomu” – the Finnish Organic Food Association, in 2014 Finns bought food and drinks from the organic sector for 225 million euro. The sales data collected from Finnish retail shop groups such as Kesko and S-Group shows that in 2015 the market share of organic products was 1,7 %. (proluomu.fi 2015)

According to this research, the growth shows that organics are an every-day choice for some consumers – 27 percent of them are active consumers who buy organic products regularly every week and 22 percent buy organics every month. Moreover, the most frequent users were found in the area of Helsinki, and the most active organic users were families with children and childless couples of a different age range. The main reasons why Finns buy organic food products are purity and wholesomeness of those products as well as their good taste and ecological friendliness. Trade specialists evaluate that by 2020 organic food sales are going to increase up to 410 million euros, which would create an even better environment for organic products sales. (proluomu.fi 2015)

In accordance with statistics published by the executive director of "Pro Luomu" Marja-Riitta Kottila, there is a growing demand for the following organics: frozen foods, dairy products, baby foods, baked goods, coffee, spices and meat. The growing popularity of coconut oil was also pointed out. Moreover, VCO can be utilized in several mentioned growing sectors as well as sold independently. (proluomu.fi 2015)

## 5.2 Possible Entry Channels

Virgin coconut oil is perceived as special and is traded in smaller volumes than commodity oils such as sunflower or conventional coconut oil. Virgin coconut oil as food is represented in two well-defined market segments: the consumer market and the food industry. The largest segment is consumer market where the oil is packed as cooking oil or butter straight for the end user. This type of products can be found in the majority of mainstream supermarkets in Western and Northern Europe. The smaller and developing segment is the food industry where the oil is utilized as an ingredient for food supplements and healthy snacks, which become highly demanded by consumers. Speaking about virgin coconut oil as a cosmetics ingredient, it is increasingly used in luxury soaps, make-up removals, anti-ageing creams, lip gels and etcetera. However, the author is not going to deepen into cosmetics segment because of the limited scope of the bachelor thesis. (CBI Ministry of Foreign Affairs 2016)

Importing companies are the major entry points for virgin coconut oil. There are a number of companies focused on virgin coconut oil importing in Europe. They are mainly based in the UK, Germany and the Netherlands. Some of them are intermediate contacts between exporter and consumers. These companies provide services such as financing, storage and quality control. Other importing companies also organize product filtering and bottling for the end-users. The figure below presents possible trade channels for virgin coconut oil in Europe. (CBI Ministry of Foreign Affairs 2016)

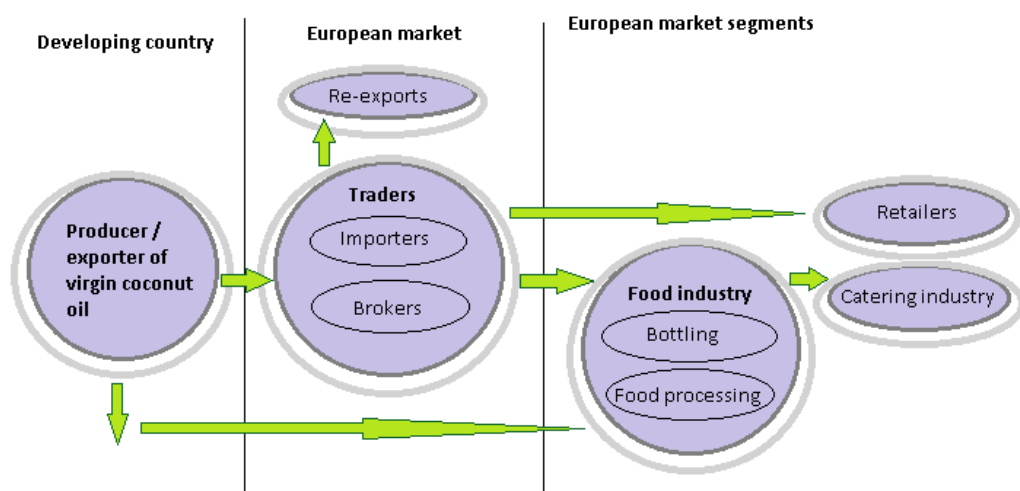


Figure 3 Trade channels for virgin coconut oil in Europe (CBI, Ministry of Foreign Affairs "Exporting virgin coconut oil to Europe" December 15, 2016)

### 5.3 Necessary Requirements for Virgin Coconut oil on the European Market

The European Union customers have pretty strict requirements for virgin coconut oil. If the product complies with these requirements, customers are more willing to buy the product. Before entering the European organics market, Epic Life Food Ltd. should make sure that its product corresponds the standards listed by the European Legislation Covering Food Information to Consumers and the Asian and Pacific Coconut Community Standards for Virgin Coconut Oil. (CBI Ministry of Foreign Affairs 2016)

#### 5.3.1 Quality

VCO should be sediment free, colourless, and free from rancid tastes or odours. High-quality virgin coconut oil should have fresh natural coconut scent and should melt easily. The high-quality product is extracted from the first coconut pressing and within 48 hours after harvesting.

There are two major factors which determine the quality of the product: lauric acid content that should range from 45 to 50 %, and moisture content that should not be higher than 0,5 %. VCO should be stored protected from light at room temperature, which allows keeping the highest quality. (CBI Ministry of Foreign Affairs 2016)

#### 5.3.2 Legal Requirements

An exporting company must have documentation that proves the conformity of its products to the legislation. In some cases, laboratory testing results and inspections are required. The food industry in Europe is governed by plenty of regulations that control food safety and quality. The main food safety principle in the European Union is "from farm to fork". The food law EC178 / 20 027 is applied for all EU countries and aims to protect human life and health as well as the safety of plants, animals and the environment. Food legislations vary depending on the product type and include hygiene, labelling, maximum residue values, contaminants, etcetera. There is a separate EU regulation for organic products – EEC2092 / 91 that the case company should study carefully. (Finnpartnership 2008, 11)

There are legal regulations which exporter company have to follow while entering the European market:

- Traceability, hygiene and control
- Contamination (especially fungus contamination)
- Erucic acid content (not relevant for VCO)
- Extraction solvents (not relevant for VCO)
- Product composition
- Labelling, including allergens, health claims and nutrition
- Food contact materials

If the EU authorities do not accept the submitted by exporter documents, they may require additional goods testing that takes time and involves additional costs. (Finnpartnership 2008, 12)

### 5.3.3 Additional Requirements for B2B

In most of the cases, only legal requirements are not enough for building successful export cooperation with EU companies. Most of the companies require Food Safety Certification, which shows the standards that are now used by manufacturers and retailers worldwide to meet quality, transparency and efficiency requirements that result from globalization. It can be International Featured Standards (IFS) certificate or British Retail Consortium (BRC) certificate. This certification can also be seen as an extra differentiation from other suppliers and as a competitive advantage for a company. (CBI Ministry of Foreign Affairs 2016)

There are two more types of certification that might be useful if a company is going to operate in a niche market such as VCO. Organic certification is important for those companies who would like to sell virgin coconut oil to health shops because these shops always sell certified products only. Fairtrade-certified products sales are positively impacted by customers' attention to social responsibility and production conditions of a product. The leading fair trade standard-setting organization is called FLO-Cert, and it is beneficial for an exporter that FLO-Cert has not specified the minimum price for virgin coconut oil. There are several certifying agencies more, but they are less popular and less recognized. (CBI Ministry of Foreign Affairs 2016)

### 5.3.4 Additional Requirements for Finnish End Users

If a company wants to receive maximum attention for its products in Finland, the products need to have Joutsenmerkki or Fair trade sign, better both.

When Finnish customers are searching for environmentally friendly products, they look for the Swan sign (Joutsenmerkki) on the packaging. It looks like this:



Figure 4 Swan sign (Joutsenmerkki), [www.expats-finland.com](http://www.expats-finland.com), 2017

The purpose of this sign is to help consumers to make an environmentally conscious choice as well as to urge companies to produce more goods and services supporting sustainable development. The sign poses strict criteria for products and it's one of the most respected environmental friendliness sign.

The Fair trade sign is found on products that support developing countries and sustainability which is perceived as very important characteristic among Finnish people. Fair trade products can be found among regular products. The Fair trade sign looks like this:



Figure 5 Fair trade sign, [www.expats-finland.com](http://www.expats-finland.com), 2017

### 5.3.5 Labelling

In case Epic Life Food Ltd. chooses to pack VCO for retail in the country of origin, the company should follow the European Legislation Covering Food Information to Consumers. The consumer must find the following information regarding the product on the package:

- Product name
- List of ingredients, including allergens
- Nutrition information
- Quantity and categories of ingredients
- Particulars of origin
- Quality identified: organic product in EU must have the certification number, the name and code of the certifying body, and the European Union's logo
- Recommended storage conditions and instructions for usage
- Best-before date, minimum storage life
- Net quantity
- Business name and address

If the case company is going to sell its product to the food industry segment, it should use the English language for labelling, unless the buying company indicates otherwise. For the bulk packaging, the case company must provide the following information:

- Product name
- Batch code
- Indication that the product is destined for use in food sector
- Declaration of allergenic substances
- Recommended storage conditions
- Best-before date, minimum storage life
- Net weight
- Name and address of exporter

(CBI Ministry of Foreign Affairs 2016)

### 5.3.6 Consumer Packaging

The main role of packaging is to preserve the original quality of a product until customer's purchase. There are several packaging regulations that take care of customers' health and safety. The regulation EC1935 / 20049 is focusing on material types, plastics or cardboard that can be utilized in direct contact with food. Moreover, the regulation includes provisions on packaging waste prevention, reusing and recycling. (Finnpartnership 2008, 12; Organic-revision.org. 2007)

The recommended materials for consumer packaging are high-density polyethene and glass. The examples are presented in the pictures below.

High-density polyethylene (500 ml)



Glass (1400 ml)



Figure 6 Examples of consumer packaging suitable for VCO (Witsenburg.net, De-Tuinen.nl, 2016)

### 5.3.7 Bulk Packaging

The recommended materials for bulk packaging are high-density polyethene and steel. In order to avoid rancidity and save the highest quality, Epic Life Food Ltd. should carefully clean and dry the drums before oil loading as well as to fill the drums as fully as possible to keep away ventilation and light. It is very important to ensure appropriate temperature conditions and to avoid sunlight or heat during loading, carriage and pumping. VCO should be physically separated from other oils. The examples are presented in Figure 7 below.



Figure 7 Examples of bulk packaging suitable for VCO (Biomedicals.com.au, Janusvaten.nl, 2016)

### 5.4 Survey for the Finnish End Users

#### 5.4.1 Objectives and Description of the Survey

In order to more clearly evaluate awareness, growing demand and overall opinions of Finnish people about organic food and virgin coconut oil in particular, the author has conducted a questionnaire using application Google forms. It comprised of the following five easy multiple choice questions that have been carefully selected:

1. How often do you eat organic food?
2. Is organic certification of a product important for you?
3. Do you know what virgin coconut oil is?
4. Would you like unhealthy palm and sunflower oils be replaced in food production by extremely healthy virgin coconut oil?
5. Are you ready to pay more money for healthier products?

The author tried to make questions as easy to understand as possible as well as tried to reduce the number of questions to the minimum with an eye not to load respondents' minds and thereby to receive as many responses as possible. The author has defined 200 Finnish people aged from 21 to 28 from Helsinki and Tampere area as the target audience for the survey. The following age gap represents young people who get more influenced by new trends, waves and movements than people of other age categories. Moreover, people of the chosen age group are working or combining studies with work, which means that they are able to afford organic products in their everyday ration. Furthermore, people of the discussed age group are perceived as future of the country, and their opinion is going to remain more or less the same when they reach the age of 30, 40, 50 or 60. Generation of their children is also going to follow parents' perception of the right type of nutrition. Speaking about chosen areas, Helsinki and Tampere areas are known as the trendiest, popular and progressive. In addition, people from these areas are the most frequent buyers. Questions about precise age, location and gender have been defined as less

important, therefore, haven't been included, because eight questions are less likely to be answered than five questions.

The author has chosen Facebook as a tool for spreading the questionnaire among the chosen audience. Links to the questionnaire have been sent via private messages to each respondent separately. Every private message included person's name and question "how are you?" (if applicable) in order to make the message more personalized and harder not to answer.

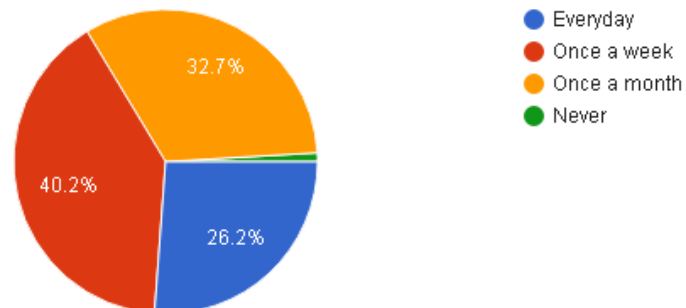
### 5.4.2 Results

There is always a possibility that not 100 percent of responses are completely honest because people tend to embellish themselves and the truth. However, there is nothing left to do than just to ignore this fact and to analyze the information gathered as the crystal truth. 107 Finns from targeted 200 filled in the form, which amounts 53,5 percent. The author is satisfied that answering percentage of Finnish people appeared to be higher than 50 percent. Other 46,5 percent of the audience has not been reached for reasons such respondent's busyness, laziness, or a common feature of Finnish people such as closeness.

The results are presented below in the form of diagrams:

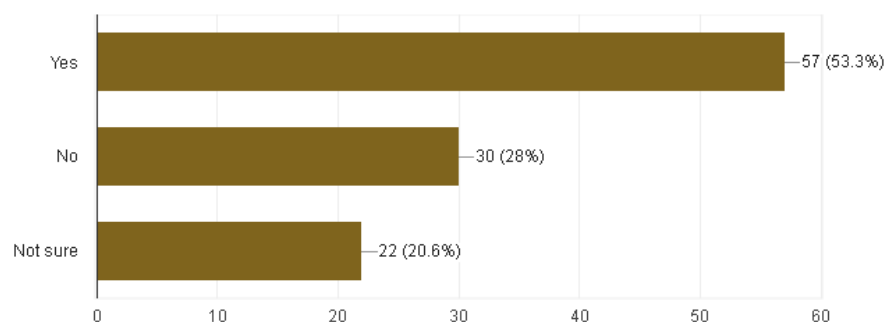
#### How often do you eat organic food?

107 responses



#### Is organic certification of a product important for you?

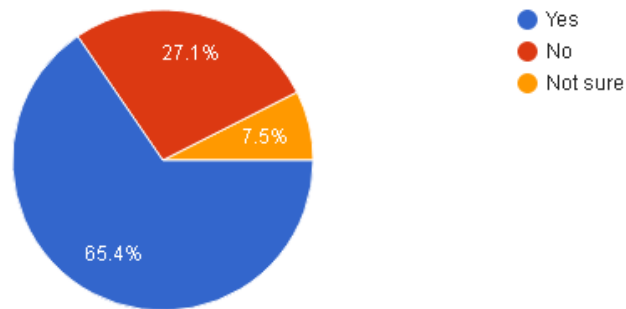
107 responses





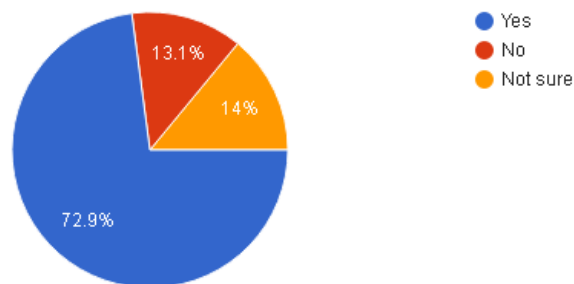
### Do you know what virgin coconut oil is ?

107 responses



### Would you like unhealthy palm and sunflower oils be replaced in food production by extremely healthy virgin coconut oil?

107 responses



### Are you ready to pay more money for healthier products?

107 responses

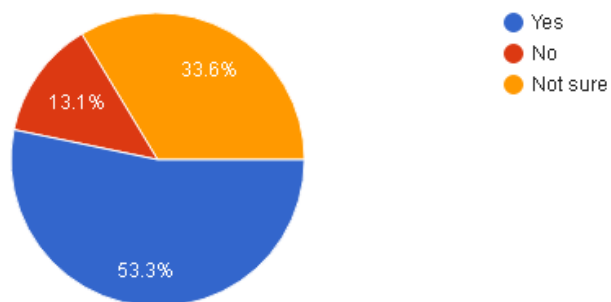


Figure 8 The results of the questionnaire conducted by the author, 2017

#### 5.4.3 Analysis

The survey has shown that for 26,2 percent of the respondents organic food is an everyday choice, while 40,2 percent eat organic food every week and 32,7 percent think that they eat organic food once a month. The statistic proves information regarding organic food consumption in Fin-

land gathered from the secondary sources such as Pro Luomu publications – Finnish market is moving towards premium organic food products.

Speaking about organic certification, half of all the respondents agreed that certification of an organic product plays an important role in their buying decision making, but only half of those who consume organics every day pointed organic certification as important. 66,7 percent of people who eat organic food every week agreed on the importance of certification, and 40% of monthly consumers perceive organic certificate as important. It can be concluded that the case company should definitely have an organic certificate in order to meet expectations of average 58,35 percent of regular and weekly consumers.

It was important to know how many people are aware of what virgin coconut oil is. The answers have shown that 65,4 percent of the respondents think they know what VCO is, while 27,1 percent are not aware of such product. 7,5 percent abstained from clearly stated opinion. The good news is that 100 percent of everyday organics users know about VCO. With weekly users the situation is a lot worse – 50 percent of weekly users do not know what virgin coconut oil is and 16,7 percent are not sure they know. This fact makes the author doubt that people who answered “every week” about consumption frequency actually consume organics weekly.

72,9 percent of all the respondents would prefer to replace unhealthy food production oils such as palm oil by healthy VCO, 75 percent of end users and 66,7 percent of weekly users are interested in such replacement. 27,1 percent of all respondents either refuse to support replacement or feel uncertain about the situation. Most probably, such opinions come from the lack of knowledge or desire to change something.

More than a half of the people surveyed are ready to pay more money for healthier organic products. However, only 50 percent of everyday consumers agree to pay more for product healthiness, 25 percent are not willing to pay and other 25 are not sure about the idea of extra payment. The author has also found out that 50 percent of those who do not know what VCO is are ready to pay extra money for healthier products and other 50 percent are not sure which means that Finnish people who are not aware of virgin coconut oil on the market yet are most likely inclined to try it as substitution and to pay for it if needed.

To sum up, overall consumer environment in Finland is auspicious for business development of the case company.

## 5.5 Bakery and Cereals Sector in Finland

### 5.5.1 Environment

Baking and cereals sector in Finland covers baking mixes, baking ingredients, morning goods, breakfast cereals, bread, cakes, pies, pastries, biscuits, and etcetera. The sector is driven by pretty high disposable income

and by escalating preference for convenience foods among consumers. Consumption of breakfast cereals per capita is high in comparison with regional and global levels. According to the specialists from marketresearchreports.com, the bakery and cereals sector in Finland is forecasted to grow in value terms at 1,8 CAGR during the period 2016-2021. (Country Profile: Bakery & Cereals sector in Finland, marketresearchreports.com 2016; Breakfast Cereals in Finland, euromonitor.com 2016)

As it was mentioned above, food convenience is one of the leading trends in the Finnish consumer market. Moreover, health and wellness trend among Finnish people is driving them to choose food benefits such as health management and general wellbeing and to pay attention to the ingredients, which means that organic food products are valued the most. The third valuable trend in the consumer market is flexible packaging. (Breakfast Cereals in Finland, euromonitor.com 2016)

The largest distribution channels of bakery and cereals products in Finland are supermarkets and hypermarkets. The leading players of the Finnish bakery and cereals sector are Oy Karl Fazer Ab, Vaasan Oy and Moilas Oy. (Bakery in Finland, marketresearchreports.com 2016)

### 5.5.2 Baked Goods: trends and competitive landscape

Baked goods are a mature and relatively stable category. However, many consumers were avoiding carbohydrates in 2012-2013 due to the booming popularity of low carb diet, which negatively impacted baked goods sales. In 2014, when the low carbohydrate trend went out of fashion, Finns started to return to bread, but with more careful attention to the ingredients. Several new discussions on nutrition have been opened since the low carb trend, people's perception of product healthiness has changed and some consumers have switched their choice to more natural products such as additive-free bread. Such growth in value of product healthiness has led to the escalation of the popularity of premium food products - artisanal bread, organic, fortified or gluten-free goods in particular. (Bakery in Finland, euromonitor.com 2016)

The company called Fazer Leipomot continues to maintain its leading position on the baked goods market. In 2014, the market share of the company was 26 percent. As the company has a long history in Finland as well as the biggest production volume and sales, it has invested a great deal in product development and innovation. Fazer has established impressive distribution network and gained prime shelf positioning. Fazer brand has a wide range of products available and suitable for any taste. According to the information published by Finnish magazine Helsingin Sanomat, Fazer has launched revolutionary bread made from domestically grown grasshoppers. It is going to appear on the shelves of more than 10 hypermarkets including Prisma and K-Supermarket in Helsinki starting from 24<sup>th</sup> November 2017. This bread is going to be the first in the world bread, in which insects are used as food ingredient deliberately. In addition, it is going to be Finland's first insect product sold in regular grocery stores. The ready-made bread is going to include 3% of flour from grass-

hoppers meaning that one product is going to contain about 70 grasshoppers. Later, the manufacturer plans to expand bread's distribution to 47 stores throughout Finland. (Bakery in Finland, euromonitor.com 2016; Helsingin Sanomat November 2017)

Another well-known domestic baked goods manufacturer called Vaasan has reached the second biggest market share with 19 percent of loyal customers. Likewise, Vaasan company is highly trusted by consumers. The company enjoys large product portfolio, updates its product lines and invests a lot in marketing campaigns. (Bakery in Finland, euromonitor.com 2016)

### 5.5.3 Baked goods: opportunities for the case company

Even though bakery industry sector has suffered from sales decline in 2012-2013 and in 2014-2015 has been facing the consequences and trying to recover, in 2016-2017 the crisis passed. Larger companies nowadays invest a lot in product development and innovation aiming to meet the growing consumer demand for premium organic food components. As production of baked goods is massive, virgin coconut oil might be too expensive to put into such high volume production, from the author's point of view. Nevertheless, several baked product lines with VCO as an ingredient could perfectly fit a company's product portfolio. Furthermore, the case company's coconut flour and coconut sugar could be perfectly applied as well. All the products mentioned could be an influential competitive advantage positively reflecting on both the case company's and a buyer company's image. The author evaluates Epic Life Food LTD's opportunities on the Finnish baked goods B2B market as moderate.

### 5.5.4 Biscuits: trends and competitive landscape

Biscuits are also a mature category on the Finnish market; however, per capita consumption of the category is not expected to grow. Manufacturers will have to seek for other ways to attract consumers, and the most significant way will be value increase by launching new premium products with an updated organic list of ingredients. Also, there is a high probability that customers will be attracted by new product developments in the nearest future, and Fazer Makeiset company has already started its development by launching confectionary brand extensions into biscuits. For example, Geisha and Marianne are already being sold in a biscuit form. Such extension significantly increased sales. Moreover, during recent years, the majority of customers have been making their purchase decisions based on flavour, price and packaging type. Small packages increased in popularity because of customer spending reduction. (Bakery in Finland, euromonitor.com 2016)

Mondelez Finland company, which famous for such brands as Oreo, Marabou, Milka, Jaffa and Tuc, had a 39 percent value share in 2014 because of its wide and diverse product portfolio as well as active advertis-

ing. Fazer Makeiset was challenging the sales leader with its 25 percent market share. (Bakery in Finland, euromonitor.com 2016)

### 5.5.5 Biscuits: opportunities for the case company

As product development is on a high level within the biscuits market sector and mature companies are seeking for new tastes, flavours and alternatives, virgin coconut oil could be utilized as a natural ingredient with a fresh flavour that ensures health benefits and incredible taste. The author thinks that Epic Life Food products such as coconut flour and coconut sugar could be a discovery in biscuits product development. However, the biscuits sector is not expected to grow in the nearest future but the sector is already large enough to serve. The author sees biscuits production segment of the B2B market as potentially profitable in terms of Epic Life Food LTD's opportunities.

### 5.5.6 Breakfast cereals: trends and competitive landscape

Breakfast cereals sector is well-developed and relatively stable too. As this product category has a little room for expansion, companies invest in product development following health and wellness trend. Manufacturers started to emphasize high product quality such as high-fibre and natural origin accenting ingredients fulfilled by vitamins and minerals. Another factor that manufacturers pay attention to is food convenience trend caused by a busy lifestyle of Finnish people. Due to this trend, many cooking facilitation products such as instant hot cereals have been launched. Potential customers are expected to pay attention to features such as high fibre, full grain, fortified bonuses, lower or no sugar content. Other important trends are packaging and domestic origin. (Breakfast Cereals in Finland, euromonitor.com 2016)

Nordisk Kellogg's Finland was leading breakfast cereals market in 2014 with 19 percent value share. The second largest value share of 17 percent belonged to domestic manufacturer Raisio which is known as health and wellness trend-setter. It offers breakfast cereals containing natural ingredients, organic products and high protein level. Kellogg's Finland has a strong position on ready-to-eat cereals category, but Raisio dominates hot cereals category. Both brands are known as reliable and popular among Finnish people. (Breakfast Cereals in Finland, euromonitor.com 2016)

### 5.5.7 Breakfast cereals: opportunities for the case company

As health and wellness trend is popular among the consumers of breakfast cereals sector, the major players of the sector are trying to encourage consumption by emphasizing natural origin of ingredients and their composition full of vitamins and minerals. Usually, breakfast cereals are intended to be consumed in sweet version or slightly sweet due to the natural sweetness of some ingredients. Virgin coconut oil or coconut chips could provide this natural sweetness and a full complex of vitamins and minerals that consumers highly appreciate. The author thinks that the breakfast ce-

reals sector may also bring medium opportunities for the case company Epic Life Food LTD.

### 5.6 Sports Food Sector in Finland: trends and competitive landscape

According to NutraIngredient's latest market research, the global sports nutrition sector has become mainstream and is forecasted to jump in size from 28 billion dollars in 2016 to 45 billion dollars in 2022. Forecasts show that not only North American market is growing, but European as well. Euromonitor reported that in 2017 Finland, Sweden and the UK are the biggest sports nutrition markets in the EU in terms of per capita consumption. The main reasons are an increasing number of recreational and lifestyle protein bars, energy gels, muscle milk users and increasing number of athletes searching ways to improve their fitness. Even though sports nutrition was traditionally associated with core users and bodybuilders, more and more regular people get involved in sports nutrition while seeking a healthy lifestyle. Sports nutrition continues to be the fastest growing consumer health segment for several years in a row. (Organic beverages in Finland, euromonitor.com 2016)

Euromonitor reported that in 2016 mass media and brands are trying to broaden consumer perception of sports nutrition in order to reach wider consumer group. Another research company Mintel says that the amount of female sport nutrition users has significantly increased, and the number of products aimed at this consumer group is expected to rise. The interesting fact is that the most popular product category among female consumer group used to be weight management, and has switched to sports nutrition very recently. (Organic Health and Wellness in Finland, euromonitor.com 2017)

Mintel and Euromonitor both agree that one of the most important areas of sports nutrition innovation is flavour. One of the Euromonitor authors Kseniia Galenytska noticed that consumers started to move away from unhealthy synthetic flavours like chocolate towards herbal or fruit flavours that seem healthier in consumers' minds. Even though chocolate flavour masks the strong protein taste perfectly, companies need to select natural flavours such as vanilla, banana or strawberry to substitute chocolate. Mintel reported that there is an increasing interest in unusual flavours such as coffee and tropical fruits. Thus, natural coconut flavour of virgin coconut oil could be an extremely healthy substitute and could perform as strong enough ingredient to disguise strong protein taste. (mintel.com 2016, Organic beverages in Finland, euromonitor.com 2016)

The author had interviewed Antti - the representative of one flavour company operating in Finland regarding utilization of virgin coconut oil in its production via Skype on 17<sup>th</sup> September 2017. The representative gave valuable information but decided to keep his family name and the name of the company confidential - known only by the author and the case company. From his words, palm oil and the derivatives from it are a highly controversial issue in Finnish food industry these days. It destroys forests mainly in the eastern part of the world and is used in almost everything,

especially in flavours (aromas), spices, etcetera. The growing amount of people who care about nature and environment are campaigning for that coconut industry to stop. Therefore, for the shifting overall mentality, companies try to find substitutes or other ingredients to replace palm oil in their products and also from their suppliers' products. The interviewee shared with the author that he had sent out hundreds of requests regarding around 20 ingredients that the company is planning to replace in the products they order or offer. Thus, there are real opportunities for VCO supply expansion in Finland. (Interview with the flavour company representative, 17<sup>th</sup> September)

Furthermore, organic, "free from", vegetarian and vegan offerings also strengthen their positions on the sports food market. One more growing trend in sports nutrition is non-animal derived proteins that are suitable for vegetarians and vegans. Nuts and seeds that are known as great sources of good fats, energy and proteins are used in the production of functional goods and protein bars more and more often. Other trending ingredients in Finland are berries that are associated with Nordic diet.

Sales channels for consumer health segment in Finland are under the process of transformation. The channel of grocery retailers has grown and is expected to continue its growth in the near future. It had the significant value share of vitamins, sports nutrition and dietary supplements in 2017. In 2016, a new retailing format offering health and beauty products was established by Yliopiston Apteekki. The company has launched a health and wellness chain called Ego. The major producer Oriola Oy and the second biggest Finnish retailer Kesko followed Yliopiston Apteekki by creating a joint venture opening 100 health, beauty and wellness stores in key locations throughout Finland. (Health and Wellness in Finland, euromonitor.com 2017)

### 5.6.1 Sports Food Sector: opportunities for the case company

As discussed earlier, Finland is one of the largest and one of the fastest growing sports nutrition markets in the European Union. Sporty lifestyle every year involves a lot of Finnish people who start buying protein bars and muscle milk. More and more people not involved in sports go for a walk in active wear and buy sports food products to feel trendy, healthy and confident. The growing demand for healthy and sporty food makes manufacturers reconsider the list of ingredients they use, especially flavours. The companies are trying to switch to natural herbal, fruit or tropical flavours in their sports nutrition products. The author came to a conclusion that virgin coconut oil which contains many vitamins, minerals and essential fatty lauric acids and has a fresh coconut scent could be very useful in the Finnish sports nutrition industry as a replacing ingredient. Moreover, the case company could sell coconut chips as ready healthy snacks or as energy bar ingredients to sports nutrition manufacturers. Epic Life Food LTD's opportunities are evaluated as high within the Finnish sports nutrition market.

### 5.7 Grocery Shops and Supermarkets Sector in Finland: trends and competitive landscape

Finnish grocery retail industry can be characterized as an oligopolistic market served by two retail groups: S Group and K Group (Kesko). According to the information published on [statista.com](http://statista.com), in 2016 S Group's value market share was the largest: 47 percent of grocery retail in Finland. The share of Kesko amounted 36 percent in 2016. The third biggest player on the Finnish in 2016 market was German discount supermarket Lidl (Lidl Suomi Ky) with its approximately 10 percent of market share. (Grocery Retailers in Finland – Statistics & Facts, [statista.com](http://statista.com) 2016)

The S group controls four popular Finnish supermarket chains: the hypermarket Prisma, the medium-sized supermarket S-Market, and the small-sized supermarkets Sale and Alepa. Altogether there are approximately 1050 supermarket stores belonging to the S Group. The main revenue comes from Prisma (3,5 billion euros of sales revenue in 2016) and S-market (3,3 billion euros in 2016). The K Group represents the following grocery store chains: K-city market, K-supermarket, K-market and Neste-K in Finland as well as K-Ruoka in Russia. Moreover, Kesko controls supermarket chains Euromarket, Valintatalo and Siwa after Suomen Lähikauppa acquisition. Altogether the K Group owns the largest amount of grocery stores: 1450 in 2016. Speaking about Lidl chain, there were 157 stores in 2016, and the chain's sales revenue amounted 1,5 billion euros. The other players on the Finnish grocery retail market include the discounter Tokmanni, the hypermarket chain Minimani and the department store chain Stockmann. (Grocery Retailers in Finland – Statistics & Facts, [statista.com](http://statista.com) 2016)

The average grocery shopping basket value in Finland in 2016 was 21,7 euros. Consumer needs shifting towards health and wellness have positively reflected the sales growth of plant-based and organic food products in supermarkets. For example, from 2014 to 2016 the rise of organic food product sales reached the number of 20 percent. (Grocery Retailers in Finland – Statistics & Facts, [statista.com](http://statista.com) 2016)

#### 5.7.1 Grocery Shops and Supermarkets Sector: S Group and K Group requirements for suppliers

As virgin coconut oil belongs to the processed food category, the author has found valuable information about S Group's and Kesko Group's requirements and expectations regarding processed food.

##### Quality Requirements for Processed Food

The Suppliers must ensure their products comply with the safety requirements of European Union / the European Economic Area as well as Finnish legislation. The Supplier is responsible for the performance of all its subcontractors as for its own performance. The mode of operation stated in the HACCP principles must be observed in the production of food (the HACCP-Codex Alimentarius Principles). The risk assessment



must be covered – allergens, new production techniques and novel foods in particular. Internationally recognised and approved product safety and quality certifications include, for instance:

- BRC (Technical Standard and Protocol for Companies Supplying Retailer Branded Products)
- GRMS (Global Red Meat Standard)
- IFS (The International Standard for Auditing Food Suppliers)
- SQF 2000 Code (Safe Quality Food)
- FSSC 22000 (Food Safety System Certification)
- EFSIS (Standard and Protocol for Companies Supplying Food Products)
- The ISO 22000 or ISO 9001/2000 standards for quality management systems
- PAS 220 (Publicly Available Specification)

At the Buyer's request, the Supplier must provide documentation relating to product safety and quality assurance. If the authorities notice deviations in the quality of the products, the Buyer may request the Supplier to order additional analyses from an accredited laboratory. (For suppliers: Our expectations for you, s-kanava.fi 2017)

### Environmental Responsibility

The Supplier must ensure that the manufacturing activities in the delivery chain follow the requirements of European Union / European Economic Area and ensure that the activities are applicable to national environmental legislation. Treatment methods of chemicals, waste, and emissions must be described by the Supplier. Internationally recognised environmental system certificates are, for example, ISO 14001 and EMAS. The Buyer is entitled to perform an inspection or auditing visit to examine environmental responsibility issues. The use of PVC plastics in packaging and the utilization of bleaching methods based on elemental chlorine for the bleaching of materials used for packaging is strictly forbidden. (For suppliers: Our expectations for you, s-kanava.fi 2017)

### Social Responsibility

The Supplier must verify that the supply chain, including raw material procurement, complies with the respective country's laws and collective labour agreements as well and the ILO's minimum norms and the principles of the UN Universal declaration of human rights and Convention on the Rights of the Child. The Supplier undertakes to comply with the following principles in the supply chain: Employees are entitled to form associations and be members of trade unions. Employees must be treated equally. Overtime pay must be paid for overtime at least at the level required by national legislation. Employees must be paid salary of an amount at least at the level required by law, and a higher salary must be paid for overtime. (For suppliers: Our expectations for you, s-kanava.fi 2017)

Employees in the countries of manufacturing must be provided with a safe working environment, and harassment must not be allowed. The minimum working age cannot be lower than required by national law and the provisions of the ILO Minimum Age Convention (ILO 138). The employment relationship must be voluntary, employees cannot be required to provide collateral or other security in exchange for the employment relationship. Employees must be free to leave the workplace at the end of their work shift. (For suppliers: Our expectations for you, s-kanava.fi 2017, kesko.fi 2017)

The Buyer requires the signing of the BSCI Code of Conduct (or corresponding document) and the implementation of a self-assessment and an audit by suppliers whose production or whose subsupplier's production is located in a risk country or who import/market Products manufactured in a risk country. For the purpose of BSCI (Business Social Compliance Initiative), countries are classified into two different categories: Risk and Low-risk. Risk countries have WGI (Worldwide Governance Indicators) average rating between 0-60 or three or more individual dimensions rated below 60. Countries with WGI average rating higher than 60 and no more than two individual dimensions rated below 60 belong to Low-risk category. (For suppliers: Our expectations for you, s-kanava.fi 2017)

The BSCI Code of Conduct does not have to be signed by suppliers/supply chains that use one of the following systems: Social Accountability International (SAI), Member companies (SA 8000), Ethical Trading Initiative (ETI), Sedex Members Ethical Trade Audit (SMETA), Initiative Clause Sociale (ICS), Sustainability Initiative of South Africa (SIZA), Global G.A.P. GRASP (GLOBAL G.A.P. Risk Assessment on Social Practice), Rainforest Alliance, Fair-trade certified, and UTZ-certified. (For suppliers: Our expectations for you, s-kanava.fi 2017)

At the Buyer's request, the Supplier must provide the Buyer with copies of the certificates and auditing reports. Suppliers must have a functioning and described traceability system with which raw material consignments and packaging used in the manufacturing of products and the suppliers thereof can be identified. Upon the request of the Buyer, the Supplier must be able to provide the Buyer information on the origin of the product and its raw materials as well as on the entire supply chain (names of manufacturing plants and packages) all the way to primary production (information on primary producer). In case of health hazards or suspected health hazards, the Supplier must give the buyer the information on the consignment in question without delay, and in other cases within 48 hours. (For suppliers: Our expectations for you, s-kanava.fi 2017)

In accordance with European Union / European Economic Area and Finnish legislation, a Supplier of organic products operating in the European Union must be a member of the control system for organic products. The Supplier must provide the Buyer with a documented report of the Supplier's membership in the control system and must inform the Buyer of the name and identity code of the body monitoring the Supplier. (For suppliers: Our expectations for you, s-kanava.fi 2017)

If the Buyer is an importer of organic products in accordance with European Union / European Economic Area and Finnish legislation, the Supplier is responsible for ensuring that imported organic products include an organic production inspection certificate. Import permits are required for certain organic products imported from outside the European Union. If the Buyer is the importer, the Supplier must provide the Buyer with all information and documentation required for obtaining the permit. In other cases, the Supplier must provide the Buyer with a copy of the import permit and any other information and documentation needed by the Buyer. (For suppliers: Our expectations for you, s-kanava.fi 2017)

As regards the temperatures applicable to products, the Supplier is required to comply with the statutory temperature requirements applicable in the EU and Finland or other valid temperature requirements applicable to food premises and transports handling foods prior to retail. If no temperature requirements are set for a product in legislation, the permitted temperature range is +2 – +25°C. Products are not permitted to freeze and melt during transport. The Buyer does not accept ingredients originating from cloned animals, unless otherwise separately agreed. If fresh vegetables are genetically modified or if genetically modified ingredients have been used in food or animal feed, the Supplier must inform the Buyer thereof in writing in advance. The use of azo dyes is not allowed in any foods. (For suppliers: Our expectations for you, s-kanava.fi 2017)

### 5.7.2 Grocery Shops and Supermarkets Sector: Opportunities for the Case Company

As grocery sales of plant-based and organic products growth are escalating in Finland, Epic Life Food LTD could offer VCO both as an end-market product and as an ingredient for the food industry. The author thinks that virgin coconut oil sold by the case company could be successfully utilized by many Finnish grocery food manufacturers in several chosen healthier product lines. Even if only one or two product lines include VCO or coconut flour/sugar in their composition, the possible volumes of raw material supply will be higher than in sports nutrition sector, for example. Therefore, opportunities of Epic Life Food LTD on the Finnish B2B grocery market are evaluated as great.

### 5.8 Competitor analysis

Currently there are a plenty of companies in Finland who sell virgin coconut oil and other coconut products online. The most visible ones on the market include fi.iherb.com, foodspring.fi, arnetica.com, luxplus.fi, fitnessstukku.fi. However, the majority of these online shops are not manufacturers but distributors. This means that the prices they offer are higher than the actual manufacturer can provide. Online store arnetica.com is considered as manufacturer doing business in Finland through established company in Germany, but the website looks very poor and offers only two product types – VCO and coconut sugar.

Moreover, all the listed companies sell to the end-user market – the author did not find any offers for manufacturers published on their websites. Therefore, business-to-business market is opened for the case company’s Ceylon organic food products, especially for virgin coconut oil, coconut flour and coconut sugar.

## 6 MICROENVIRONMENT ANALYSIS

### 6.1 SWOT Analysis

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>- High product quality proved by HACCP, ISO 22000:2005 FSMS certification</li> <li>- Modern technology in production</li> <li>- Each step monitoring and assessment of production</li> <li>- Wide and unique product portfolio, especially virgin coconut oil, coconut flour and sugar, coconut snacks</li> <li>- Strong principles, responsible attitude towards production and employees</li> <li>- 150 employees</li> <li>- Rich exporting experience (Australia, New Zealand, Singapore, Dubai, Canada and Hong Kong)</li> <li>- Efficient advertising experience on the domestic market</li> <li>- Its coconut products are New Zealand’s top restaurants’, cafes’ and markets’ choice</li> </ul>	<ul style="list-style-type: none"> <li>- The lack of knowledge about the European market</li> <li>- The lack of export experience in the EU</li> <li>- Limited amount of resources in terms of money</li> <li>- The lack of Joutsenmerkki or Fair trade certification signs perceived as the most valued in Finland</li> <li>- Website that is under construction meaning no physical evidence of Epic Life Food LTD on the market</li> </ul>

Opportunities	Threats
<ul style="list-style-type: none"> <li>- Health and wellness lifestyle trend in Finland</li> <li>- Growing demand for organic food</li> <li>- Growing demand for organic products in industrial application (baked goods, biscuits, breakfast cereals and sports nutrition)</li> <li>- Significant sports and health nutrition market growth</li> <li>- Major market players' active investments in product development</li> <li>- Relatively small competition in the Finnish B2B food market</li> </ul>	<ul style="list-style-type: none"> <li>- New market entrants with similar product or strategy, consequently, increase in competition</li> <li>- Slow target segments growth or the lack of it</li> <li>- Low sales volumes</li> <li>- Supply chain issues</li> <li>- Trend changes in Finland</li> </ul>

Figure 9 SWOT Analysis for Epic Life Food LTD, 2017

## 6.2 Growth Strategy (S+O)

The growth strategy is based on the company's internal strengths and its opportunities in the market so that strong points could respond well to the external factors and bring profit. High product quality, a modern technology used in virgin coconut oil production and careful production monitoring supported by growing demand for organic food, especially in industrial application, open great opportunities. The key is to maintain stability in offered quality and to add value by continuous product development. Moreover, Epic Life Food LTD's principles including not employing minors and not encouraging discrimination based on ethnicity, religion or gender, would meet both Finnish companies' and end users' expectations regarding the foreign production of the goods they consume. The company is advised to highlight these principles while making offers to the Finnish manufacturers. One more growth strategy that should be necessarily applied in the future is to offer coconut snacks to companies operating in sports and health nutrition markets because the product has a big chance to become unique and popular among health and wellness trend followers. Furthermore, the case company's coconut flour and coconut sugar supported by high product development interest as well as significant product quality investments could become a revolution in baked goods, breakfast cereals, biscuits and sports nutrition industrial sectors. The majority of the Finnish companies in the mentioned sectors are searching for healthier substitutes for the ingredients they currently use. Relatively small competition in the Finnish business-to-business food market definitely makes all the strengths listed in the SWOT more visible and easier to pay attention to.

### 6.3 Defence Strategy (S+T)

The defence strategy is based on the external threats and the company's strong points. This strategy shows the ways to defend the case company against possible threats it may meet using its strengths. There is a possibility of new market entrants with similar product offer or strategy. In order to meet the competition worthy, Epic Life Food LTD is suggested to differentiate itself from other companies as much as possible and to put more effort in advertising its products and proving its leading position by excellent work quality and high reliability. As every decision in any company is made by a person, such characteristic of Finnish people as relatively high uncertainty avoidance is going to act in Epic Life Food LTD's favour – Finnish people, as well as Finnish companies, are usually not willing to make significant changes in their life or business. Speaking about slow target segments growth or the lack of it, the case company is advised to have a plan B in case sales volumes get too low. As the company already has rich experience in exporting to other countries such as Australia, Canada, Dubai, Hong Kong and others, the author is pretty sure that it already has extremely helpful experience in solving low sales volumes problem. In order to manage with possible trend changes, the company should just be flexible and adaptive towards new opportunities. However, due to the lack of information, it is hard to identify the flexibility level of the case company.

### 6.4 Improvement Strategy (W+O)

The improvement strategy is based on the company's opportunities and its weaknesses meaning external factors where the organisation can improve itself through its weak points. Due to the healthy lifestyle trend and growing demand for healthy organic food products, more information on these topics about the European market becomes available on the public sources. Thus, the case company can easily gain knowledge in this field, especially by reading the bachelor thesis discussing the European food market.

The lack of export experience in the European Union is going to be compensated by starting the exports. Such weakness is impossible to be taken care of beforehand. The company's limited resources are not going to be limited forever – in case the company's entry strategy works, after reaching the breakeven point and the raising turnover amount, Epic Life Food LTD is going to have more resources to spend for further development. The problem such as the lack of Joutsenmerkki or Fair trade certificate could be solved by asking potential B2B buyers if the existing certification is applicable. If not applicable, it is not a big deal to get the needed certificate, from the author's point of view. Regarding the website which is currently under construction, construction works usually take a maximum of six months, after that, only maintenance works should be done. After the website is done, the company will be visible on the market and will be perceived as more reliable.

## 6.5 Retreat Strategy (W+T)

The retreat strategy is based on the external threats and the company's weak points in which the organisation must defend itself from possible threats but due to the weak points is currently unable to do that. In other words, the strategy reflects what moves should the company currently avoid. According to the SWOT Analysis conducted, Epic Life Food LTD should not start its business in Finland before it clarifies which certificates the company's products are required to have. Moreover, it should wait until the website is done and translated to the target audience.

# 7 RECOMMENDATIONS

## 7.1 General Recommendations

In order to establish market entry as efficient as possible, Epic Life Food LTD should have a closer look at the company's potential competitors and to learn from them in terms of the website, social media marketing, trade fair participation, valued product characteristics such as quality and taste as well as certifications and processing techniques which add value to premium organic food products – VCO in particular.

For effective marketing, the case company is advised to promote the lesser-processed virgin coconut oil qualities such as extra virgin and cold-pressed. High quality and healthiness could also be conveyed by pointing out that the oil is made from the first pressing. Of course, all the mentioned features could be promoted only if they are true. Moreover, Epic Life Food LTD should not claim health benefits that are not scientifically proved as this is not allowed by European legislation. The company should check the European Union's register of nutrition and health claims made on foods to check whether its claim for VCO is on the list. In addition, it would be useful to check European upcoming trends and to discover target markets via attending trade fairs such as Food Ingredients Europe or BioFach. If there is no possibility to attend the fairs physically, valuable information regarding new product launches and exhibitor lists with the potential buyers can be found on their websites.

Before being involved in a fair-trade certification programme, the company should verify that this label has an adequate demand in the company's target market by arranging a consultation with potential buyers.

As the sector of industrial application is expanding, the case company should always be aware of new waves in industrial application and new manufacturers within the sector. The great opportunity would be to reach a manufacturer with direct sourcing strategy. Direct sourcing is a process of identifying contract or full-time candidates for a specific role in an opened project within an organization using their own resources and without involving a third party such as staffing agency or consulting firm to perform recruiting functions. This strategy ensures higher margins and

long-term relationship; however, Epic Life Food LTD should be attentive and realistic about the volumes, quality and consistency the company is able to provide.

As the company's product portfolio includes coconut snacks made from organic coconut fresh kernels in different shapes such as rings, chips, shredded, sliced and etcetera, the author highly recommends starting their sales in Finland as soon as possible. The product is going to be pretty unique and well-demanded on the market which opens great sales opportunities and a great way to differentiate from competitors and get brand awareness on the Finnish market.

Unfortunately, due to the limitations in the thesis scope, the author does not have opportunity to do go deep into details about products such as coconut flour and coconut sugar. These products have huge potential in the Finnish business-to-business market because for several product ranges not only production oils are demanded to be replaced, but regular flour and sugar too. Moreover, companies producing flavours could be very interested in coconut product that the case company offers.

Another suggestion would be to check "find-connect-trade" platforms such as go4worldbusiness.com where Epic Life Food LTD could find potential B2B buyers. The platform already has two inquiries for virgin coconut oil from Finnish companies.

### 7.2 Market Entry Strategy

The paragraph below is going to answer the main research question of the Bachelor Thesis: "What market entry strategy should be implemented for Ceylon organic virgin coconut oil in the Finnish B2B market?".

1. The author came to the conclusion that virgin coconut oil currently suits better as the food ingredient for industrial application in Finland. As the product belongs to the premium class, trade price for Finnish companies should be average, not the lowest. In this type of products, low price is not the key choosing criteria but the reason to doubt about product quality. The company should position itself as highly reliable, transparent and responsible in terms of actions towards production, customers, employees and the environment. In this case, the lower price is no longer a beneficial feature.

2. In the author's opinion, the most appropriate market entry strategy would be to contact the companies who produce grocery products, sports nutrition and baked goods, to provide them with all the essential information about the product, the ways of its utilization, its' benefits and necessary certifications. Then the company needs to make sure that the chosen target segments are large enough to serve. The next step would be to negotiate and agree on trade prices and working conditions. In this way, virgin coconut oil is sold to food industry sector without any intermediaries and extra costs. However, to be realistic, the case company is not well-known in Europe and has its website under construction which is, most



probably, perceived as higher risk for potential B2B buyers because of the lack of physical evidence. In case the companies refuse to cooperate, Epic Life Food LTD should start its work through traders – importers or brokers who have its own profit while performing as intermediaries.

The author was considering indirect export as an option, but the owner of the case company desires to have maximum control over the situation and to learn about the market as much as possible because reaching the Finnish end-user market with premium organic virgin coconut oil is one of his long-term goals.

It is pretty common that a company with developed competitive strategy but cannot apply it in the real business life because of resource limitations. As the case company is relatively small and does have limitations, it should consider cooperative export entry mode in which exporting and selling could be implemented by putting resources of two or more companies together in order to reduce carriage costs. For example, Epic Life Food LTD could find Ceylon tea or spices exporter who will benefit from such cooperation. Nevertheless, it should be taken into consideration that the main risk here is a complication of relationships within a partnership. Another way to reduce transportation costs, as well as risks, would be to hire a carriage company who will take care of the goods transportation. It is necessary to make sure that special VCO transporting and storage conditions are followed.

3. It is essential to maintain a good stable image of the company in the eyes of B2B buyers which involves regular hard work. Moreover, the case company is advised to add value to its products from time to time by physical evidence in media or ratings, technological development or environment treatment.

4. A good step towards higher profit in the future would be to establish a discount system for those who buy VCO in bigger volumes or loyalty discount programs for those who proved their loyalty by signing a long-term partnership agreement. As Epic Life Food LTD is also selling other coco products, cinnamon, vanilla and spices, special working conditions with extra discount could be provided to those companies who buy several product types from the case company – it would be a great opportunity for other product categories to smoothly enter the Finnish market.

## 8 CONCLUSION

The commissioning company Epic Life Food LTD that was established in 2011 in Sri Lanka is focused on becoming a health and wellness lifestyle brand to provide its consumers with premium organic food products. It already has pretty impressive experience in exporting to several countries including Australia, New Zealand, Singapore, Dubai, Australia, Canada and Hong Kong which means that exporting to the EU – Finland in particular, is expected to go pretty smooth. The company's owner desires to aggressively expand into international markets and is looking for potential on the European market, especially the Nordic. Currently, the company is

focused on business-to-business cooperation. Therefore, the author's goal was to analyze the potential of Ceylon organic food products in the Finnish business-to-business market – in particular, virgin coconut oil, which is one of the main company's products.

VCO popularity on the European market has grown significantly over the past years due to the growing consumer attention to a healthy lifestyle and healthy diets. According to the estimates made by the Finnish Organic Food Association Pro Luomu, the Finnish organic food market in 2015 was worth around 240 million euros, and the market share of organic food products was 1.7 percent. The growth shows that organics are an everyday choice for some consumers – 27 percent of them are active consumers who buy organic products regularly or every week while other 22 percent buy organics every month. The main reasons why Finnish people buy organic food products are purity and ecological friendliness. Trade specialists evaluate that by 2020 organic food sales are going to increase up to 410 million euros ensuring an even better environment for organic products sales.

According to the author's survey results, for more than 60 percent of the respondents, organic food products are either daily or weekly choice. Half of all the respondents agreed that organic certification plays an important role in their buying decision making. Speaking about virgin coconut oil awareness, more than 60 percent of the respondents think they know what VCO is, and the result is pretty satisfying. The majority of all the respondents would prefer to replace unhealthy food production oils such as palm oil by healthy VCO, and more than a half of the people surveyed are ready to pay more money for healthier organic products, which shows that Ceylon organic food products could become valued in the Finnish market.

The accelerating growth of health and wellness trend followers in Finland proved by the information gathered from both secondary and primary sources is pushing food producers towards healthy organic ingredients application in their production. Baked goods, biscuits, breakfast cereals, sports nutrition and grocery supermarkets that have its own food production lines are considered as the possible target markets for Epic Life Food LTD.

SWOT Analysis conducted by the author has shown that the case company has all chances for a successful market entry – high product quality, strong image positioning, wide and unique product portfolio and export experience. However, the website construction should be finished and certification requirements checked and followed before the actual market entry.

In general, the author evaluated Epic Life Food LTD's organic food products' potential in the Finnish B2B market as good and recommends to enter the market as soon as possible before the rise of the competition level.

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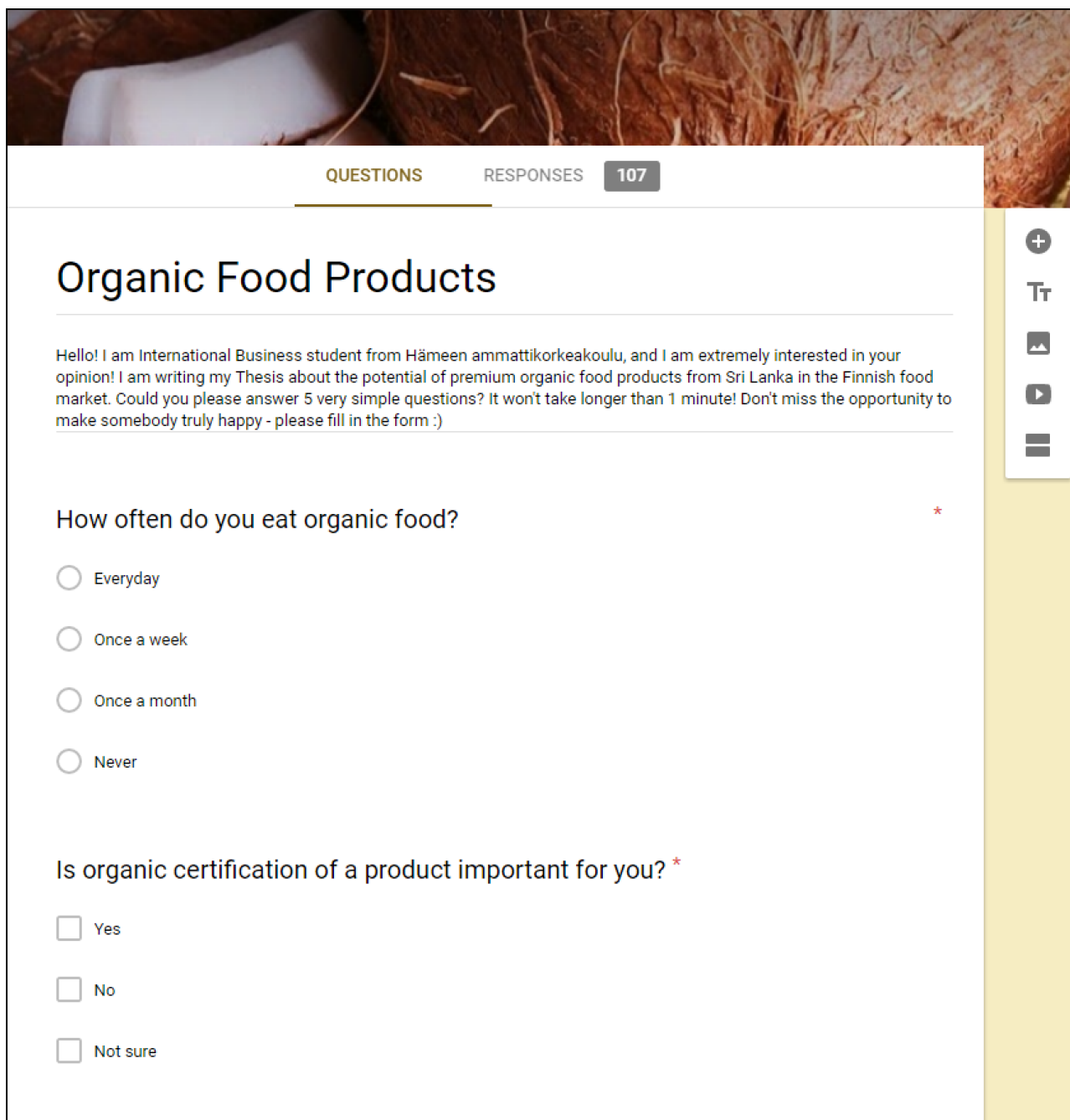
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QUESTIONNAIRE, 2017



The image shows a screenshot of a survey interface. At the top, there is a header with 'QUESTIONS' and 'RESPONSES 107'. The main title is 'Organic Food Products'. Below the title is an introductory message: 'Hello! I am International Business student from Hämeen ammattikorkeakoulu, and I am extremely interested in your opinion! I am writing my Thesis about the potential of premium organic food products from Sri Lanka in the Finnish food market. Could you please answer 5 very simple questions? It won't take longer than 1 minute! Don't miss the opportunity to make somebody truly happy - please fill in the form :)'. The first question is 'How often do you eat organic food?' with four radio button options: 'Everyday', 'Once a week', 'Once a month', and 'Never'. The second question is 'Is organic certification of a product important for you?' with three checkbox options: 'Yes', 'No', and 'Not sure'. On the right side, there is a vertical sidebar with icons for adding, translating, sharing, playing, and a menu icon.

QUESTIONS    RESPONSES    107

## Organic Food Products

Hello! I am International Business student from Hämeen ammattikorkeakoulu, and I am extremely interested in your opinion! I am writing my Thesis about the potential of premium organic food products from Sri Lanka in the Finnish food market. Could you please answer 5 very simple questions? It won't take longer than 1 minute! Don't miss the opportunity to make somebody truly happy - please fill in the form :)

How often do you eat organic food? \*

Everyday

Once a week

Once a month

Never

Is organic certification of a product important for you? \*

Yes

No

Not sure

Do you know what is virgin coconut oil? \*

- Yes
- No
- Not sure

Would you like unhealthy palm and sunflower oils be replaced in food production by extremely healthy virgin coconut oil? \*

- Yes
- No
- Not sure

Are you ready to pay more money for healthier products? \*

- Yes
- No
- Not sure

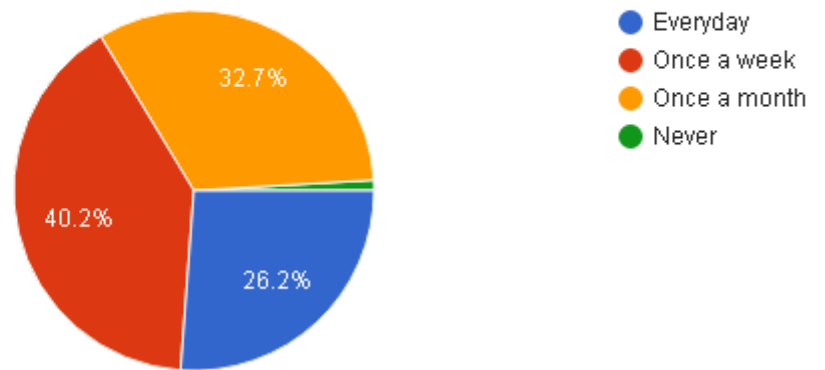




QUESTIONNAIRE RESULTS, 2017

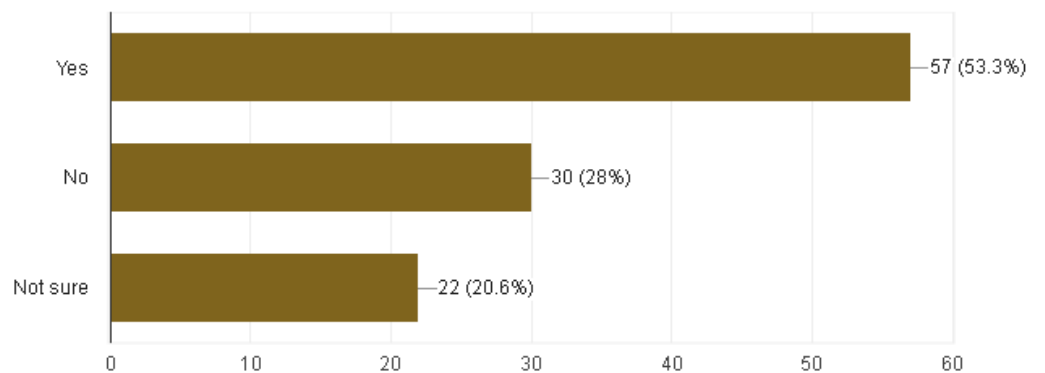
### How often do you eat organic food?

107 responses



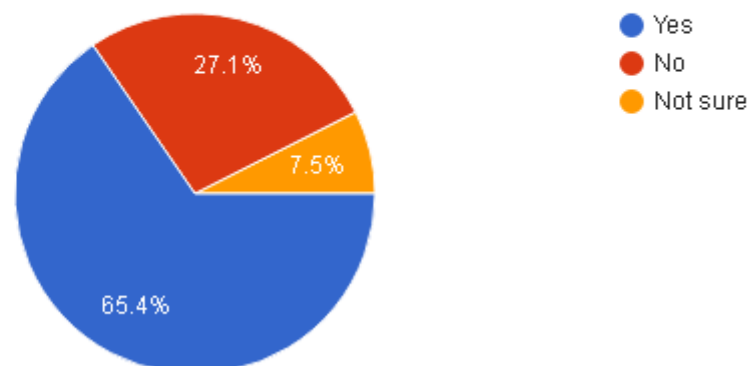
### Is organic certification of a product important for you?

107 responses



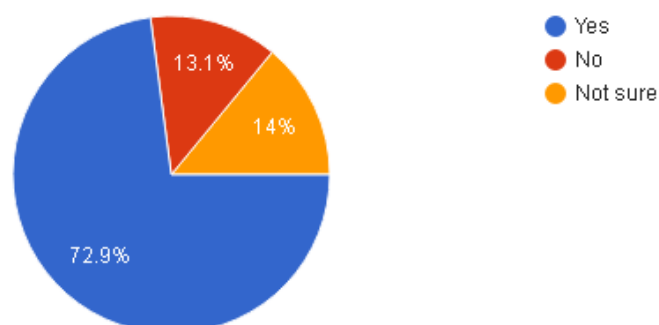
### Do you know what virgin coconut oil is ?

107 responses



### Would you like unhealthy palm and sunflower oils be replaced in food production by extremely healthy virgin coconut oil?

107 responses



### Are you ready to pay more money for healthier products?

107 responses

