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## **Germany as a Market Field – Case Makulaku Lakritsa Oy**

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## **Thesis abstract**

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The objective of this thesis was to find out ways to bring Finnish product to Germany's market area. What are the distribution channel possibilities, what is the situation in Germany at the moment and how should this product enter the markets.

This thesis is done in cooperation with Makulaku Lakritsa Oy, which is part of Makua Foods Oy Group. The target product that the thesis handles is the Happy Reindeer organic liquorice. The target country, like mentioned above, is Germany.

This thesis consist a presentation about the targeted company Makulaku lakritsa Oy and the product Happy Reindeer. It also gives an analysis about Germany as a market area. The goal for this thesis was to make as clear information packet for Makulaku Lakritsa Oy as possible, that they could use when launching the target product to the German markets. All important factors in this process are counted in this research.

Keywords: market potential, market entry, marketing mix, situation analysis, export

SEINÄJOEN AMMATTIKORKEAKOULU

## Opinnäytetyön tiivistelmä

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Opinnäytetyön tarkoitus on selvittää, kuinka suomalainen tuote saadaan vietyä saksan markkina-alueelle. Mitkä ovat jakelukanavat ja niiden mahdollisuudet, mikä on tällä hetkellä markkinatilanne kohdemaassa ja miten tuote kannattaisi sinne markkinoida.

Opinnäytetyö on tehty yhteistyössä toimeksiantavan yrityksen Makulaku lakritsa Oy:n kanssa, joka toimii Makuafoods Oy:n alaisuudessa. Vientituotteena tässä opinnäytetyössä käsitellään Happy Reindeer-nimistä luomulakritsaa. Ja kuten aiemmin mainittu, kohdemarkkina-alueena toimii Saksa.

Opinnäytetyö sisältää esittelyn Makulaku lakritsa Oy:stä sekä kohdetuotteesta Happy Reindeer. Lisäksi opinnäytetyöstä löytyy analysointi saksasta kohdemaana. Tämän jälkeen perehdytään teoriaosuuteen tuotteen markkinoinnista ja uudelle markkina-alueelle siirtymisestä, samalla kertoen kuinka nämä tekijät vaikuttavat toimeksiantajayritykseen. Opinnäytetyö sisältää myös tutkimusosuudem

Asiasanat: Markkina-alue analyysi, vienti, kansainvälinen kauppa

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## Terms and Abbreviations

**The pre-group**      *The group of German students participating to this thesis by giving insight views in a pre-discussion, later used to make the questionnaire.*

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## 1 INTRODUCTION

Changes in the world environment are bringing totally new opportunities and threats to firms and individuals. The challenge is to compete successfully in the global marketplace as it exists today and develops tomorrow. (Czinkota, Rivoli & Ronkainen, 1992, 1).

Since 1992, a lot has happened but the direction of internationalization has not changed. As the world gets smaller with the help of developing techniques and efficient travelling, the area in which even the small companies work in gets bigger. Reasons for companies to internationalize their business are different; some companies see the possibilities to increase the sales, some want to reduce the costs of labour and supplies and some see decline or saturation in their home market area. (IESE Business School 2015, Web publication) For companies in Finland that are longing for international success, a lot of knowledge and experience is needed. There is a lot to take into consideration. First of all, it is highly important to study the culture, the situation in the markets and possible barriers you may face in the new target country. In some countries, having a local partner is a must. Even if no local partner is needed, it is always a benefit to get advised about for example the legal and taxation questions for local experts. (Darilyn Aquino 2014, Web publication).

This study is made for a Finnish company Makulaku Lakritsa Oy. The company already has international business, but is now launching a customized product for international markets. Target countries that the product is launched are for example U.S.A, U.K, Canada and Germany. In this study, the focus is on the German market area. This thesis will work as a tool for the company, making their process easier and helping them in their segmentation and decision making. The research in this thesis focuses on for example the best entry methods to the market, the product itself and the competitor situation in the German markets.

## 1.1 Research problem and goal

In this thesis, the goal was to make as clear information packet for Makulaku Lakritsa Oy as possible, that they could use when launching the target product to the German markets. All important factors in this process are counted in this research.

The research problems in this thesis could be expressed as followed:

- How often similar kinds of products are consumed?
- What are the factors affecting the purchasing decision with similar kinds of products?
- Are Finnish food products known in Germany and if so, what is the general opinion towards them?
- From where do customers prefer purchasing similar kinds of products?

## 1.2 Structure of the thesis

In this thesis, the text is built so that the reader gets the information in a way that will make the text as clear as possible. All the chapters are informationally based on the previous chapter and so on. This thesis is done so that the theoretical knowledge and the research information for Target Company are not separated in different chapters. In the text, there is first a presentation about theories themselves followed by information of/for Makulaku Lakritsa Oy in the next paragraph. This makes it easier for the employer company to find the information they need with theoretical grounds for it. This thesis was done as a development product for the employer company, main agenda was to collect all the needed theories and information regarding the study topic. The researcher wanted also to add some original study information, therefore as part of the thesis there was a study made for the target group to back up the information from all chapters. After all chapters, there is a summary to collect all information so it is easier for the reader to find main points.

This study survey was made in two parts. First, there was a pre-discussion about the topic of the study with a group of German students. Based on the results and opinions from this discussion, a survey was made. The answers for the survey had only one mandatory characteristic, nationality of the future target country.

Different topics and theories are presented in own individual chapters. In chapter one is presented the basic information about the thesis itself, why and for who it is done and what are the research problems and goals.

Chapter two gives the reader information about the target company this thesis is made for. It tells the basic facts about the company, its history, values and production. The target product, the Happy Reindeer is also presented in this chapter.

Chapters three and four give the reader a full introduction about the target country Germany. It presents the basic information about the country and continues to clarify the important theories and analyses about the situation and competitors there for the target company Maku-laku Lakritsa Oy.

In chapter five is the marketing mix concerning the target product Happy Reindeer. In this chapter the reader gets first a basic theoretical knowledge from the four "P's" used, followed by research information from Happy Reindeer in the next paragraph.

Chapter six includes a wide presentation about the entrance theories, factors to be considered when making decisions and selection of the export mode. The theories and research findings for the target company are presented the same way as in previous chapters.

Chapter seven introduces the reader to the study methods possible.

From chapter eight the reader can find the empirical study done for this thesis. The method and process for the survey are presented and analysed, and the results reported carefully.

In chapter nine there is a conclusion about the thesis, summarised answers for research problems and analyses for findings made during the process. At the end of this thesis the reader can find appendices and sources for this text.

## **2 MAKULAKU LAKRITSA OY**

Makulaku Lakritsa Oy is Finnish company working under Makua Foods Oy Group. It has been developing liquorice products over two decades. Company's focus in developing their products has always been the taste. Makulaku Lakritsa Oy wants to create perfect products for their customers. Other important value for the company is organicity. This can be seen from the product themselves but also from other factors. The quality in production is highly important, this is why Makulaku uses natural ingredients that are carefully tested from the selection of their long-term suppliers. (Makulaku Lakritsa Oy, Web publication).

The company first started developing liquorice products in 1994. Their first organic black liquorice was produced in 1997. In 2011 Makulaku Lakritsa Oy created the first organic filled liquorice, which is still the only organic filled liquorice in the world. Several new real novelties will be launched in 2017. (Makulaku 2017, PowerPoint presentation).

The production of Makulaku Lakritsa Oy is FSSC 22000 certified. Their factory, located in Porvoo Finland, was built in 2011. Organic values can be seen from this factory. It is designed to be as environmentally friendly as possible, using for example geothermal energy for heating the facilities. In the factory, a new production and packing line was built in 2016, which added more capacity for production. (Makulaku 2017, PowerPoint presentation). The production itself is certified as organic. (Makulaku Lakritsa Oy, Web publication).

### **2.1 Happy Reindeer**

The target product for this thesis is the Happy Reindeer. It is an all vegan and organic liquorice without any GMO. Happy Reindeer is made with natural flavors without added colors. (Makulaku 2017, PowerPoint presentation). Although Makulaku has been producing organic liquorice since 1997, the new brand Happy Reindeer was launched in 2016 after years of research on how to make the flavour even better. Happy Reindeer is expected to succeed in international markets where there is not much or any good organic liquorice products available. (Oliver Nieburg 2016, Web publication).



Picture 1 Happy Reindeer

### 3 TARGET COUNTRY GERMANY

Officially the Federal Republic of Germany, “Bundesrepublik Deutschland”.



*Picture 2 Germany on the map*



*Picture 3 German flag*

#### 3.1 General information

Germany is one of the biggest countries in Central Europe with 82.2 million inhabitants. With its leading position in the EU, it is also one of the most influential economic and industrial area in Europe. As being a federation, Germany has 16 states that all have their own areas of responsibility. All the states have their own capitol, but the capitol city of all Germany is Berlin. Leader of all federations is the federal president, but the most influential person is the federal chancellor. Chancellor's task is to be the head of the government. From 2005 Angela Merkel has had this post. (Bundesregierung, Web publication).

Geographically Germany reaches from Baltic Sea to the North Sea and to the Alps. It has a moderate climate, in July degrees vary from 21.8 Celsius degrees to 12.3 Celsius degrees. But in January the mean maximum temperature is 2.1 degrees. Germany shares border with Belgium, Austria, the Czech Republic, Denmark, France, Luxembourg, the Netherlands, Poland and Switzerland. The country also has approximately 1,484 miles of coastline. (Facts about Germany, Web publication).

### **3.2 History and culture**

Germany has an interesting and diverse history. The country has seen many strong leaders and faced a lot of wars in its time. Among these strong leaders are for example Otto von Bismarck and Adolf Hitler. Germany was part of both world wars and after the WW II, it was divided in eastern and western parts. In 1989, (officially 1990) the two Germanys were united again. The breakdown of the Berlin wall that separated the divided city into half was the event that symbolizes the German re-unification. (Facts about Germany, Web publication).

The culture in Germany is very original and known across the globe. Oktoberfest, different sausages and beers and people dressed in Bavarian clothing are some of the first things that come to mind when thinking about the German culture. However, the culture and language differs from the northern to southern parts. Cars like Audi, Volkswagen, BMW and Mercedes Benz are also well known German brands. German car shows in TV are popular also abroad. Cultural aspects in Germany and in Finland are quite similar to each other. With some difference with f.ex. food, the two countries share a long history together. (German culture, Web publication).

As a target market area, Germany is a good choice for Makulaku Lakritsa Oy. Licorice has existed in the country for a long time, and even if it doesn't share the popularity with chocolate, the favorite candy of Germans, it is still known in the country. Main candy company in Germany is Haribo, more about the competitor situation is explained in chapter 4, where is also told more about the situational analyses of the target country. Makulaku Lakritsa Oy already has a steady international situation, with almost half of the revenue coming from export operations. Germany being in the EU and having close trade connections with Finland already, is therefore a good candidate for a new trading market.

### **3.3 Agreements between Finland and Germany**

Germany and Finland have always had really close connections with each other. The two countries share companionship long to the history. Nowadays, the representatives and country leaders have often visits to each other's countries. There is approximately 13 000 Finnish living in Germany and 400 subsidiaries of Finnish companies.

In the long term, Germany's share in the Finnish import about 14-15% and in export about 11-12%. Finland's share in the German foreign trade is about one percent. Germany is the second important export and import partner of Finland. (Finnish ministry of foreign affairs 2012, Web publication).

### 3.3.1 EU

The biggest influencer in the trade between Germany and Finland is the European Union. Germany is one of the founding countries of the EU, Finland joined the union in 1.1.1995. Finland, like Germany, is the member of the EMU. This is the economy and monetary union of the EU. Due to these memberships, the currency of both countries is the Euro. This makes trading inside the union more convenient. (Eurooppatiedotus, Web publication).

European Union is one of the biggest traders in the world. Its share of the import and export of the world is approximately 16.5%. Freeing the trade was one of the founding goals of the union and it also drives for the freeing of all international trade. Being a member of EU, countries can also join the free trade agreements done by the union with for example to the transatlantic markets.

The founding principles behind world trade are the rules of WTO (world trade organization). They are created to make sure that the trading agreements and responsibilities between traders are fair and open. The trade policies are also targeted to fight against child labor and make sure that products are as traceable as possible to their origin. The decisions of the trading policies in the EU are made only on level of EU itself. The European Commission negotiates general trading agreements for the EU, using the WTO as a guideline. These decisions are made closely in cooperation with the EU countries own governments and the European Parliament. (Europa 2017, Web publication).

When it comes to trade between Germany and Finland, all of EU's agreements of free movement of labor, products and trade apply. Same currency makes trading useful and because transactions between member countries are made as easy as possible, buying and selling between Germany and Finland is vivid.

*Picture 4 Flag of the European Union*





### 3.3.2 OECD

With the membership of the European Union, Finland and Germany are both also part of the OECD. The OECD was established in 1961 to harmonize and improve member countries' economic growth and free trade, as well as increasing social welfare. The OECD continues the work of OEEC (Organization for European Economic Co-operation), that was founded in 1948.

OECD goal is to help member countries governments to increase their wealth, economic growth and financial stability. Due these factors, the OECD is also targeted to fight against poverty. OECD is also targeted at making sure that environmental implications of economic and social development are taken into account.

The foundation for the work OECD does is the ongoing monitoring of events in the member countries, and outside the OECD are. This also includes regular projections of short and medium-term economic developments. Data is collected and analyzed by the secretariat, and after that committees discuss policy regarding this information, the Council makes decisions, and then governments implement recommendations. (OECD 2016, Web publication).

#### OECD's way of working



Figure 1 OECD way of working

Time to time discussion in the committee-level of OECD can grow into real negotiations, where OECD member countries agree rules for international trade and cooperation. Examples of these kinds of formal agreements concern about bribery and arrangements for export

credits. In that case, the OECD produces standards, models and recommendations. These are used f. ex. in the application of bilateral treaties. (OECD, 2016, Web publication).

### 3.3.3 Deutsch- Finnische Handelskammer

One of the connecting organizations between Finland and Germany is the German-Finnish Chamber of Commerce; Deutsch- Finnische Handelskammer. This union is made to increase the cooperation with Germany and Finland and help members of this organization to get help while doing business in the partner country. Unlike other treaties presented in this thesis, the Chamber of commerce is not an agreement between different countries. It is an organization where business people can join to make their trade even more efficient.

For its members, the German-Finnish Chamber of Commerce gives, for example language training and important facts about doing business in partner country. It also provides legal services and help for startup companies. Business trips and seminars are also something that are organized every once in a while. The Chamber of Commerce has a lot of high level companies in its list of partners (f. ex. BAYER and UPM), and the organization recommends its members as business partners for these companies. Also internship places are offered for students. (Deutsch- Finnische Handelskammer, Web publication).

### 3.3.4 Other agreements

Finland and Germany have made many agreements outside of the conventions coming from EU or OECD. These however do not play as significant role in the import and export actions as those mentioned earlier. Examples from these agreements are:

- 1997, 28.4. Agreement of Social Security 66-67/1998
- 1978, 27.9. Agreement about Cultural Cooperation 28/1979
- 1981, 11.9. Agreement about International Cargo and Private Person Transport 25-26/1982
- 1974, 21.5. Agreement of Air Traffic 10/1980

In Germany there is also various group of associations and organization tightening the bond with these two countries. For example the Finland-Institut in Deutschland, DFG and Finpro.

(Finnish ministry of foreign affairs 2012, Web publication).

### **3.4 Summary**

The target country of Makulaku Lakritsa Oy is Germany. Germany is one of the biggest economic and political influencers in Europe with its around 60 million inhabitants. Germany has a unique culture that is known around the world with famous beer and food in front. The country is also known for its industrial success, especially with the auto industry.

The biggest combining element between Germany and Finland is the European Union. It unites the two countries under same currency, political values and free trade area. Other agreements that needs to be taken into consideration are f. ex. OECD.

Germany and Finland have similar kind of cultures, both being modern western countries. With slight differences noticeable, people behave somewhat similarly in both countries when making buying decisions.

Germany is well suited as a target country for Makulaku Lakritsa Oy. Similar cultures, close trading relations and same currency make the area relatively easy target for the employer company.

## 4 SITUATION ANALYSIS IN GERMANY

In this chapter the situation in Germany is under analysis. This means taking in consideration all the factors that can possibly have an effect on Makulaku Oy when taking their product to new area of business.

Firstly, it is crucial to know the competitor situation in Germany. This is because even if the product is good and people interested, if other companies already have a similar product on the markets, it's harder to get the customers interested. Analysing customers is also important so you will learn their strengths and weaknesses. Knowing this gives your company great advantage when making decisions about marketing, where to sell the product etc.

Second analysis that gives good insight to the situation in a market area is the SWOT-analysis. In a SWOT analysis, factors focused on are Strengths, Weaknesses, Opportunities, and Threats. SWOT is performed in order to find out the positive forces that work together and potential problems that need to be recognized and possibly addressed.

In the third part of the chapter, we take a look at the cultural situations in Germany and compare them with Finland. This thesis uses Hofstede's cultural dimensions as a tool to analyse the cultural aspects. Knowing the cultural situation is valid information for the company when it starts working with the factors of marketing mix. Potential customers and the general culture in the market area have a big influence on the marketing actions, as well as the product characteristics as is told in chapter 5.

### 4.1 Competitor analysis

Competitor analysis is one of the key elements when making a situation analysis for a company. Knowing what kind of products, competitive companies and their strategies are in company's target field is crucial when making decisions on how to enter the markets, marketing etc. Is there a similar product in the market area and what kind of companies are the biggest influencers are the main question the competitor analysis is giving answer to. (Competitive Analysis, Web publication)

Business dictionary defines direct competitors as “A term that describes a company that produces a virtually identical good or service that is offered for sale within the same market as those produced by one or more other companies. In addition to watching their relative pricing for similar products, a business operator will keep track of any significant technological innovations at any direct competitor that might put them at a competitive disadvantage.” (Business Dictionary, Web publication)

With this target product, main competitors are both direct and indirect. Big companies that make liquorice are usually producing other types of candy as well. Liquorice is not the most popular candy product for the chocolate loving Germans, so the direct competitors who make liquorice are at the same time indirect competitors offering other candy products to the market as well.

The candy business in Germany is ruled by four main German companies, Haribo, Katjes and Trolli. There are also big foreign competitors like Mars and Nestle, but in this thesis the focus is on the German companies who make liquorice products.

#### 4.1.1 Haribo-Holding GmbH & Co. KG

German candy company founded in 1920. It is one of the biggest and most well-known candy companies spread around the world. Haribo is most known for its gummy bears, but it produces a wide range of other sweets too, including different kinds of liquorice. (Haribo home page, Web publication)

Having the biggest selection of liquorice products and a huge popularity in Germany, Haribo is possibly the most noticeable competitor that Makulaku Lakritsa Oy will face in the market area. However, Happy Reindeer is quite unique product that will stand out from the crowd.

Net Sales (in millions): \$3,029  
 Number of plants: 15  
 Number of employees: 6,000 +  
 (Candy Industry, Web publication)



*Picture 5 Haribo logo*

#### 4.1.2 **Katjes Fassin GmbH + Co. KG**

German company founded in 1950. It started developing its liquorice products already in 1910. Katjes has many brands, for example Vicks. Values of the company are naturalness, sustainability and environment. (Katjes home page, Web publication)

Katjes is not as well-known as Haribo, but still a major competitor. Having similar values for the company and its products and good selection of liquorice products, it is the most direct competitor company in the list.

Net Sales (in millions): \$445

Number of plants: 6

Number of employess: 1,200

(Candy Industry, Web publication)



*Picture 6 Katjes logo*

#### 4.1.3 **August Storck KG**

Established already in 1903, August Storck is a family business that exports its products to 100 countries. Under the Storck name are many brands, like Toffifee, Werther's Original and Riesen. Company heads for high quality products and a recognisable brand. (Storck home page, Web publication)

Storck is more focused on chocolate products than liquorice, so from the companies mentioned is more on the indirect side of competitors for Makulaku Lakritsa Oy. However, it is still highly popular and successful company with many brands.

Net Sales (in millions): \$2,272

Number of plants: 5

Number of employess: 5.800+

(Candy Industry, Web publication)



*Picture 7 Storck logo*

#### 4.1.4 Mederer GmbH/Trolli GmbH

Fourth largest manufacturer of gummi candy in Germany behind Haribo, Storck and Katje. It was founded in 1948. The main idea of the company is “quality you can taste” and it is very proud of its German heritage. Trolli is also a highly international company, exporting products around the world. (Trolli home page, Web publication)

Trolli is more focused on gummi candy rather than liquorice, but is still major competitor for the employer company. Much like Haribo, the brand is colourful and very attractive for kids especially.

Net Sales (in millions): \$382

Number of plants: 6

Number of employees: 2,000

(Candy Industry, Web publication)



*Picture 8 Mederer logo*

## 4.2 SWOT analysis

In this thesis, the SWOT analysis is made by using adapted form of SWOT matrix by Fred David. In his book *Strategic Management Concepts and Cases* (2009), he uses this method to create four types of strategies for a company. Matching key external and internal factors is the most difficult part of developing a SWOT Matrix and requires good judgment. The strategies of the SWOT matrix are:

- SO (strengths-opportunities) Strategies. The goal of a SO strategy is to use company's internal strengths to benefit from outside opportunities.
- WO (weaknesses-opportunities) Strategies. By using WO strategies, the company wants to minimize the effect of internal weaknesses by taking advantage of external opportunities.
- ST (strengths-threats) Strategies. With these strategies, the aim is to get rid of external threats by using company's own strengths. This does not mean that the organization should always meet threats in the external environment head-on

- WT (weaknesses-threats) Strategies. These strategies are used as a defensive mechanism, the company wants to create tactics to reduce the impact of both internal weaknesses and threats coming outside the company.

(David, 2009, 178-179)

#### 4.2.1 SWOT matrix Makulaku Oy in Germany

	<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>• Solid revenue: 6 685 000 euros for 12 months in 2016</li> <li>• Quality in production</li> <li>• New product on the market area</li> <li>• Organic product</li> <li>• 40% of sales in export</li> <li>• Modern production facilities</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>• Brand not known in Germany</li> <li>• Liquorice not popular in Germany</li> <li>• Company quite small in comparison to competitors: 44 employees</li> <li>• Having a production in Finland is expensive</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>• Goal is to double the export volume in near future</li> <li>• Negotiations going on for exporting Happy Reindeer to U.S, England and Canada</li> <li>• Organic food trendy right now</li> <li>• Germany consumes most candy per capita</li> </ul>	<p><b>SO Strategies</b></p> <ul style="list-style-type: none"> <li>• Increasing the export volume will add to the revenue in long run</li> <li>• Organic food with quality production makes a product appealing to today's consumers</li> <li>• Germany being the candy loving country, new sweet product will awake interest</li> </ul>	<p><b>WO Strategies</b></p> <ul style="list-style-type: none"> <li>• Effective marketing strategy presenting the new product</li> <li>• When adding the volume of export, company can increase its size if needed</li> <li>• Product being completely Finnish can be used as an "exotic" factor in marketing</li> </ul>
<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>• Many competitors in Germany: Milka the most famous brand.</li> <li>• People not so happy to try new products</li> <li>• Chocolate really famous in Germany</li> </ul>	<p><b>ST Strategies</b></p> <ul style="list-style-type: none"> <li>• New product will awake customer's interest even among big brand competitors</li> <li>• Already big part of company's sales</li> </ul>	<p><b>WT Strategies</b></p> <ul style="list-style-type: none"> <li>• Emphasize the product as an everyday luxury, a candy that gives you a little extra for your daily life, will make the product stand out from the</li> </ul>



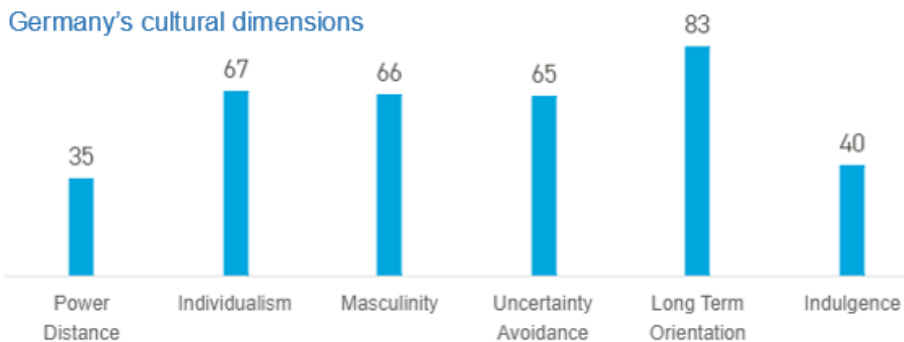
<ul style="list-style-type: none"> <li>• Lower priced products in the markets</li> </ul>	<p>comes from export, giving them experience on the matter</p> <ul style="list-style-type: none"> <li>• Product is not trying to compete with price but with quality</li> </ul>	<p>products of Haribo as an example</p>
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### 4.3 Hofstede's cultural dimensions

In this thesis, Hofstede's cultural dimension theory is used to get better insight to the cultures in Finland, the homecountry of Makulaku Lakritsa Oy and Germany, Target market area of the company and the product Happy Reindeer liquorice. This theory is often used when talked about the cultural aspects of international business.

The cultural dimensions theory was developed by Geert Hofstede, Dutch cultural researcher. With the help of others he came up with six cultural dimensions that can be used by the society in order to come to terms and learn about itself. Each dimension describes different aspect of the culture and is shown on a scale 0-100. (Geert Hofstede, Web publication.) Below is shown the cultural points for Finland and Germany. After this, all dimensions are explained more detailed.

Germany's cultural dimensions



Picture 9 Germany's dimensions

### Finland's cultural dimensions



Picture 10 Finland's dimensions

#### 4.3.1 Individualism

Individualism describes the amount of people's feelings of independency in comparison with feeling being more as a part of a bigger group. Individualism tends to be bigger in western countries, U.S.A having the biggest score. Asian countries are usually having low score from this dimension. (Geert Hofstede, Web publication.)

Finland and Germany have almost similar scores from this dimension. Being modern, western countries they are, tendency to focus on own achievements and responsibilities rather than thinking about the group reputation etc. is more common.

#### 4.3.2 Power Distance

Power distance is used to describe the relations between powerful member of the society and less powerful, and how easily the less powerful accept power in society to be divided unequally. In practise this is shown f. ex. in work places, the attitude for employers and employees to each other, the amount of respect and even fear that is shown to more powerful people and equality in the system. (Geert Hofstede, Web publication.)

Once again, Germany and Finland have similar scores in this dimension both scoring around 35. This is quite low score to have, and send a message of equality in society and power dividing in the system relatively rarely.

### 4.3.3 Masculinity

Masculinity dimension is used to describe the amount of the use of force in endorsed socially. The more masculine the country is, the more people tend to appreciate high statuses and to show their success to other with f. ex. expensive cars etc. In more feminine countries people want to be seen as equal and showing off is considered to be arrogant and rude. (Geert Hofstede, Web publication.)

In this dimension, there is a significant difference between the two compared countries. Germany is more masculine country scoring 66 from this dimension, whereas Finland scored only 26. This dimension shows the attitude towards success and showing it off to others.

### 4.3.4 Uncertainty Avoidance

This dimension deals with the general tolerance in the society towards uncertainty of life, and the fact that you can never be sure what is going to happen. This is not the same as avoiding risks or following rules. It is more to do with the amount of anxiety in the face of the unknown. (Geert Hofstede, Web publication.)

Once again, Germany and Finland have similar scores. Germany scoring slightly more, both countries have a tendency to avoid facing situation they cannot prepare for or predict beforehand. In comparison with looser countries like Italy or Spain where the overall attitude towards unknown tomorrow is more relaxed, the two targeted countries try to prepare as much as they can to avoid facing situations unprepared.

### 4.3.5 Long-term orientation

If the culture is more long-term-oriented preparation the general idea is that preparation for future is always needed. If the culture is more short-term-oriented, the belief is that past provides a moral compass that people should target ahead. (Geert Hofstede, Web publication.)

This is another dimension where Germany and Finland have noticeable differences. Germany scored 83 from this and Finland 38. This tells us that as a society, Germany tends to plan

and focus for longer term than in Finland. In business life this is shown when making more long term strategies, investments and cooperation's.

#### 4.3.6 Indulgence

This dimension shows the attitude towards the appreciation of good things in life. This dimension describes the feeling of doing what your instincts tell you to do as good. Appreciating friends and freedom is common. In a country that is more restrained, duty comes first and is the normal state of being. (Geert Hofstede, Web publication.)

From this dimension, Finland scored 57 and Germany 40. Germany is known for its duty appreciating attitude in the society. Even if Finland seems to be quite restrained country, it still has more appreciation for freedom and the good things in life.

### 4.4 Summary

Situation analysis is one of the most important factors when doing a market area analyse for a company. Analysing the situation in an area, in this case in Germany is a wide matter with several aspects to take into consideration. For this thesis, three of the main aspects of situation analyse have been explained.

Firstly, it is important to know the competitors waiting in the new market area. For the target products organic liquorice Happy Reindeer a direct competitor product would be liquorice, even better an organic one. Since liquorice is not the most popular candy product in Germany the competitor companies presented are German candy producing companies that have liquorice products available. These four biggest competitor companies that fill these requirements were Haribo, Katjes, Storck and Trolli.

From the competitor analyse, the focused mowed on the SWOT analyse. SWOT analyse is one of the most commonly used tools when making these kind of studies. In this thesis, analysing was done by applying the SWOT matrix to the employer company Makulaku Lakritsa Oy. This way all the strengths, weaknesses, opportunities and threats were named and strategies presented on how these factors could be combined to make a plan for the company to succeed in the new market area.

Last factor of the situation analyze took a look at the cultural aspects. Cultural differences can be a major factor later, so it is vital to know how the target market area differs from the domestic one. This study was done by using Hofstede's cultural dimension, representing different aspects of the culture in both countries. Germany and Finland have mainly similar scores on the dimensions, proving on their part that the cultures are quite similar and cultural differences don't have a big role in this case.

This chapter gives the employer company the information they requested on the new target country. Having already export experience, only detailed information on the new market area was needed with basic theories.

## 5 MARKETING MIX 4 P'S

Being one of the most used marketing tool, the marketing mix handles various aspects of marketing in international market areas. After market areas targeted are decided, the next step is to create a working marketing efforts as appropriate levels. Marketing mix is a great tool for that. Using the traditional model of the 4 P's (product, place, price and promotion), the marketing model gives Makulaku Lakritsa Oy all needed basic information on what to take notice on when entering new market area.

### 5.1 Product

The services and products a company offers, forms the core of all their international operations. Key to success depends how well the product can satisfy the needs and wants of the customer. The target product of this thesis is the Happy Reindeer organic liquorice.

#### 5.1.1 Factors in product adaptation

When taking your product to international markets, product adaption to fit the regional, country or local characteristics. Usually the market environment clarifies majority of the modifications the product should undertake. Government regulations can also demand some changes before the product can enter the market area. Some of these demands can simply serve a political purpose. For example protection of the domestic industry against exported products. Product decisions made by marketers of consumer products are especially affected by the local behaviour, taste, attitudes and traditions. All these has to be taken into consideration when the target is to gain the customer approval. With this, knowledge of the culture is the key to success.

Since the plan of the employer company Makulaku Lakritsa Oy is to start with the market area of Germany with the product Happy Reindeer, no major changes to the product has to be made. Product is made for export from the beginning and trade between Germany and Finland is made pretty simple as long as the company follows the agreements etc. between the countries like mentioned in chapter three. When it comes to cultural differences, Finland and

Germany share the biggest cultural influencers and aspect, like seen from the Hofstede's cultural dimensions in chapter 4.

Sometimes, the product itself does not have to go through changes, but the positioning of the product has to. Positioning in this case means the perception by consumers of the firm's brand in relation to competitor's brand. This is the mental image of the brand. Makulaku Lakritsa Oy as a brand is not very well known in Germany. People are not too familiar with Finnish food products, as is explained in chapter 7. However the attitude towards them is highly positive.

Nontariff barriers include product standards, testing or approval procedures, subsidies for local products and bureaucratic red tape. These barriers affect the products usually concerning its elements outside the product's core elements. Because nontariff barriers are often created to keep foreign products outside the market area to protect the domestic products, getting around them can be the most difficult task the international marketer will face. Since Germany and Finland are both in EU, the regulations for food products is quite the same. This product has been made for export from the beginning, so that there is no problems with product standards in the possible future target countries etc. Also the product is all vegan and has no GMO. This was made clear in the discussions with the presentative of the company Jorma Alanen when starting this thesis.

Monitoring competitor's product features as well as deciding what has to be done in order to get on top of them is essential when making product adaption decisions. Competitive offerings may give a baseline against which resources can be measured. For example, they can help in the determination of what it takes to reach a critical market share in a given competitive situation. Marketing management is also to take into consideration the stage of the development of the foreign market. As the economy in the market area advances, consumer's position in demanding good quality and more sophisticated products gets better. On the other hand, sometimes the situation may require some backward innovation. This means that the company has to create simplified versions of its product because of the lack of purchasing power in some market areas. (Czinkota, Rivoli & Ronkainen, 1992, 417-419). Since the concept of Happy Reindeer as a product is quite simple already and can be sold with reasonable prize, this should not become an issue during the export process.

### 5.1.2 Product characteristics

When making a company international and exporting products to foreign market areas, there is a lot of factors to take into consideration about the product itself. Name of the company and product are one of the essential ones. Brand names don't often travel well, so sometimes the company has to either design the name to be export friendly from the beginning or then modify it later. Also, in some market areas, the government requires brand name changes. Namelab, a California based name development and testing laboratory has four different approaches to this problem:

- Translation, translating the product's already existing name to the language of the exported market area.
- Transliteration, testing the existing product name for any connotative meaning in the targeted market area.
- Transparency, thinking about the export process from the beginning and therefore creating a name that does not mean anything (SONY).
- Transculture, using a foreign name for a brand. French names for perfumes etc.

In consumer markets it is more important to think about the product characteristics than in industrial marketing. Consumer pay a lot of attention to the colour and shape of the product, and this has a major effect on the buying decision itself. In industrial markets, the packaging of the product, the colour or smell doesn't really count as an important factor in the same decision making. Since the target product is meant to be eaten just for the taste rather than for health reasons, the packaging, look of the product and smell has to be good. The presentative stated in the discussion that the Happy Reindeer liquorice bag is made to look simple, stylish and send a message about naturalness. Picture of the product can be seen in chapter 2.

A successful international marketer knows that the product that made a huge success in the domestic market, is not necessarily going to make it in the international markets. One of the characteristic aspect of the product is the made in – sign. When the customer sees the original producing country, it wake's an image of the quality of the product instantly. These types of things indicate that steps must be taken by the international marketer to overcome or at least neutralize biases. This issue is especially important for developing countries that must increase their export and for importers who source products from countries different from



where they are sold. (Czinkota, Rivoli & Ronkainen, 1992, 419-421). Happy Reindeer is produced in Finland. The quality of Finnish food products is not world famous, but being a modern Nordic country it awakes trust for the product as was found during pre-discussion with German students for the survey part of this thesis, more in chapter 7.

## **5.2 Place**

In marketing mix, placement means the different distributional aspects of the export process. Different channels of distribution offer the essential links between producers and customers. This selection of the most fitting channel is the most long term decision of the marketing mix that one's chosen is not easy to change. This decision also means that the company has to give some of its control over the marketing of its product away for the marketers in the distribution channel chosen. This is way the selection off the distribution channel is a crucial decision. However, when this decision is made to the right direction, the distribution system will ideally work as one more than as a collection of often quite different units. (Czinkota, Rivoli & Ronkainen, 1992, 428). The matter of where this product should be sold is part of the survey presented in chapter 7. Candy is usually sold in kiosks, supermarkets and sweetshops. Happy Reindeer will be placed in selected range of supermarkets and grocery stores.

### **5.2.1 Channel design**

The term channel design refers to the quality (length and width) of the channel employed. Channel design is determined by factors that can be summarized as the 11C; customer, culture, competition, company, character, capital, cost, coverage, control, continuity and communication. These 11Cs can be used as a checklist to determine the right approach to reach intended target audiences before selecting channel members to fill the roles. The first three factors are standard, which the company has to fit its actions to. Rest of the factors are somehow controllable to a certain extent by the marketer.

To define the right channel design decision, the demographic and psychological characteristics of the targeted customer must first be decided. Questions like what customers need and why, when and how they buy are used to generate a competitive advantage. (Czinkota, Rivoli & Ronkainen, 1992, 428-429).

Characteristics for target customer for Happy Reindeer can have many elements. Main point is that he/she is German, since that is the targeted market area. Candy and sweets are the kind of products that practically everyone uses time to time. In some cases chocolate is often described as something especially women desire, but liquorice doesn't really have this type of gender idea. Since the product is all vegan and with no GMO, it is also suitable for many who go with even the strictest diets. This kind of organic aspect can also awake the interest of ecologically aware people. Since liquorice is not the most common candy type in Germany, can be assumed that this product will not have the interest of those who prefer to stick to their old favourites and not try new products. Otherwise the target group can be all consumers who eat candy.

Since the target product is a grocery product, it will be bought from a grocery shop of some kind. As seen also from the survey results in chapter 7, supermarket was the most common place to buy sweets from.

### 5.3 Price

Pricing is the only element in the marketing mix that is revenue generating; all of the other are costs. This is why it should be used as an active tool of strategy in all the major marketing decision made. In international environment, pricing products and services is more complicated than in domestic areas. This is because of different factors coming from the internationalizing; government influence, possible different currencies and other additional costs that may occur. International pricing situations can be divided into three general categories: export pricing, foreign market pricing and transfer pricing. (Czinkota, Rivoli & Ronkainen, 1992, 423).

#### 5.3.1 Export pricing

Three main price-setting strategies in international marketing are standard worldwide price, market-differentiated pricing and dual pricing. The first two are cost-oriented pricing methods that are simply to understand and also cover all of the necessary costs. The third one differentiates between domestic and export prices. **Standard worldwide pricing** is based on average unit costs of fixed, variable and export related costs.

**Market-differentiated pricing** is more linear with the marketing concept, because it is based on a demand-oriented strategy. In this method, consideration of competitive forces is used when setting the export price. Lack of information, exporter's permanent problem is the major risk in market-differentiated pricing. This is why in most cases, marginal costs provide a basis for competitive comparisons, on which the export price is set. In the process of developing the price, unique export related costs have to be taken into consideration. These are the prices that come on top of the normal domestic prices. These costs include for example:

- Costs of possible modification of the product when taken into a foreign market
- Operational costs of the export operation. As an example; personnel, market research, additional shipping and overseas promotion costs.
- Costs endured in entering foreign markets. Examples: tariffs and taxes, risks associated with buyer in a different market and dealing with foreign currency.

Both clear-cut and hidden costs appears in export prices far more often than in domestic prices. This is called price escalation.

**Dual pricing** is the method where the export price is often based on marginal cost pricing, resulting in a lower export price than the domestic price. Based on the incremental costs, this method considers the direct costs of producing and selling products for export as the floor beneath which prices cannot be set. Other fixed costs have been recaptured by domestic operations.

This may lead companies to dumping (selling goods overseas for less than in home markets) charges, because determination of dumping has generally been based on average total costs. These can be significantly higher. Lower export prices are common, especially in Western European companies, which have heavier tax burden on their domestically sold products. This is called value added tax. In exported products, this tax is lower because the tax is refunded for exported products. Cost orientated pricing method however has some major problems. These are as an example that it is based on arbitrary cost allocations, it doesn't take into consideration highly differing market conditions and that it is subject to differing internal conditions in the various markets, such as entry mode and stage of the products life cycle in the respective markets. (Czinkota, Rivoli & Ronkainen, 1992, 423-423).

### 5.3.2 Foreign market pricing

In foreign market pricing, pricing with the individual markets in which companies operate is determined by:

- Corporate objectives
- Costs
- Customer behaviour and market conditions
- Market structure
- Environmental constraints

Naturally all of these factors differ from country to country. This means that pricing policies must vary as well. Price discrimination is an essential tool in pricing policies in companies that have business actions in different market areas. However, there are still argumentations in favour of the uniform pricing in multinational markets. Coordination of the pricing function is necessary, especially in larger, regional markets such as the EU. Standardization efforts usually address price levels and the use of pricing as a positioning tool. (Czinkota, Rivoli & Ronkainen, 1992, 426).

### 5.3.3 Transfer pricing

Transfer, or intracompany, pricing is the pricing of sales to members of the corporate family. The whole financial and competitive position of the company forms the basis of any pricing policy. This is where transfer pricing plays the main role. Intercorporate sales can easily change consolidated global results because they often are one of the most important ongoing decision areas in the firm. Transfer prices are usually set by the company's major financial officer.

Over time, four main transfer pricing possibilities have been formed. These are:

- Transfer at direct cost
- Transfer at direct cost plus additional expenses
- Transfer at a price derived from end-market prices
- Transfer at an arm's length price

The main consideration with transfer pricing are both internal and external for international companies. Manipulation of intercorporate prices complicates internal control measures, and without appropriate documentation, this will cause big problems. If the company operates on a profit-centre basis, some thought has to be given to the effect of transfer pricing in the subsidiary's profit and its actual performance. Transfer prices include the tax and regulatory jurisdictions of the countries in which the company does business. (Czinkota, Rivoli & Ronkainen, 1992, 426-428).

## **5.4 Promotion**

When it comes to international marketing, a company must choose a good and working combination of different promotional tools. These are for example advertising, personal selling, public relations and sales promotion. Tools that are used to create images among the intended target audience. The choice will depend on:

- The target audience
- Company objectives
- The product or service marketed
- The resources available for the endeavour
- The availability of the tool in particular market

### **5.4.1 Advertising**

In advertising, the main decisions to be made are media strategy, the promotional message and the organization of the promotional program. The tool used in the selection of media vehicles and the development of a media schedule is the media strategy. In some cases, the international marketer may find that the choices are limited. There can be limits to advertising depending on the product. For example, in most countries advertising tobacco products is not allowed, but in Germany it is. However in Germany, using superlatives such as "best" is prohibited.

Some media vehicles are developed to speak to target audiences on at least three different continents. In this situation, the buying takes place through a centralized office. Global media

is traditionally provided marketing place for targeted audience using regional publications. For example, the *Time* magazine has several different editions in different countries, as does the popular lifestyle magazine *Cosmopolitan*. So the international marketer can choose in which areas their company wants to advertise. (Czinkota, Rivoli & Ronkainen, 1992, 431-432).

One of the most important decisions a company has to do is to create a **promotional message**, which is often referred as the creative strategy. During this process, the marketer has to define what the consumer is really buying. This will tell what the consumer's motivations in buying the product are. These motivations can differ, depending on:

- The diffusion of the product into the market
- The criteria on which the consumer will evaluate the product
- The product's positioning

Having a strong brand is the most ideal situation to have when developing message strategy. This can be seen for example, is the product known as the same no matter what the market area is. Coca-Cola, for example, has the same iconic red-white packaging style all around the world with only small adjustments. This will make the product easily recognizable. However, these adjustments are necessary since the market areas have a differences in culture and language. (Czinkota, Rivoli & Ronkainen, 1992, 433-434).

Happy Reindeer is targeting on creating its own Coca-Cola like recognizable product and brand that can be used in advertising and in other marketing actions. Stylish and simple package like seen in chapter 2 with the Nordic reindeer is meant to awake attention to the natural, Nordic background of the product.

#### 5.4.2 Personal selling

Personal selling, like advertising, is strongly part of the promotional efforts. When a product is new to the market area, at the start of the internationalization, personal selling is needed. Personal selling is most efficient when it happens on a local level. Attending trade fares and making new vital contacts there, and spreading the information about your product is crucial at the start of your export processes.

Later on, the importance of personal selling depends on the product itself. Expensive luxury products demand much more of personal selling than cheaper products that you can buy from your local supermarkets. Also the amount of customization of the product plays a role in the personal selling aspect. (Czinkota, Rivoli & Ronkainen, 1992, 434).

### 5.4.3 Public relations

Public relations is an aspect of the promotional process that focuses on creating a public understanding and acceptance towards the company and its product. For achieving this, both to internal and external communications has to be paid attention to. Especially for international companies, internal communication is important, because that way is created an appropriate corporate culture. External campaigns can be reached through the use of corporate symbols, corporate advertising, customer relations program and the generation of publicity. Companies can for example publish special material about their actions to special audience in order to create a special kind of an image that helps with the personal selling efforts.

One of the most iconic public relations scandal concerning a company was about Nestlé's practices in advertising and promoting infant formula in developing countries where infant mortality is really high. Situation that happened long ago, took a massive hit on the company's reputation and is still in people's minds. (Czinkota, Rivoli & Ronkainen, 1992, 435).

Having a good image is very important for the target company since it works in the food industry, where people pay close attention on what kinds of products they are consuming. Public relations situation for Makulaku Lakritsa Oy is good in a way it has a good reputation, quality products and responsible production. It has not been part of any scandals and only positive publishing has been made. The key element for public relations is to hold on to this somewhat innocent and trustworthy reputation and image even when increasing the business operations and spreading to even more countries.

### 5.4.4 Sales promotion

One aspect of promotion in general is the sales promotion. It has not so much to do with advertising although it's close to it. It's not about public relations or personal selling even though

those also come to mind. It is kind of a mixture of all of these. Sales promotion is targeted straight to consumers, and it designed to lure the consumer try and buy a certain product. As an effective tools with sales promotion, companies can use couponing, sampling, premiums, discounts and direct mail and emails. For sales promotion to work, the campaigns planned by manufacturers or their agencies have to gain the support of the local retailer population. (Czinkota, Rivoli & Ronkainen, 1992, 434-435). The sales promotion possibilities for the target company and the product Happy Reindeer would be working together with the retailers and have the product among their sales, campaigns etc. In Germany, different kind of discount coupons are often used for specific products, this would be one sales promotion possibility.

Sales promotion can also be directed to intermediaries, and is then known as trade promotion. This includes activities such as trade shows and exhibits, trade discounts and cooperative advertising. (Czinkota, Rivoli & Ronkainen, 1992, 434-435). Target product is an everyday item and small as size and relatively cheap with price so this kind of trade promoting is not the best way for the product. However, according to the presentative of the company for this thesis Jorma Alanen, the company Makulaku Lakritsa Oy has been part of various trade fairs presenting their products. This kind of trade promotion is crucial especially when starting with a new product in a new market area. The researcher also visited three different trade fairs in Hannover, Germany. The city is known for its massive trade fair events. In this fairs it became clear that big stands and international presentations in trade fairs are big part of German business life, and the effort put to these events is visibly bigger than in the trade fairs in Finland.

## **5.5 Summary**

The goal of this chapter was to give Makulaku Lakritsa Oy information on things to consider with different factors inside the company and its product. All though the name of the tool used in this is marketing mix, it is not only focusing on marketing activities in the traditional way on might assume. When entering in to a new market area, the company must define the aspects of the product and everything attaching to it and make decisions about what changes have to be done or are there any.



For the product, situation is quite simple. The target product Happy Reindeer was made for international sales from the beginning, as stated by the company's representative for this thesis, Vice-president of the company Jorma Alanen. The name and the reindeer in the package was chosen to represent the Nordic aspect of the product. In some cases, changes for the product have to be made to fit the culture in the target are. In this case, home country of the company Finland and the targeted market area Germany have so similar cultures, that these kind of changes are not necessary.

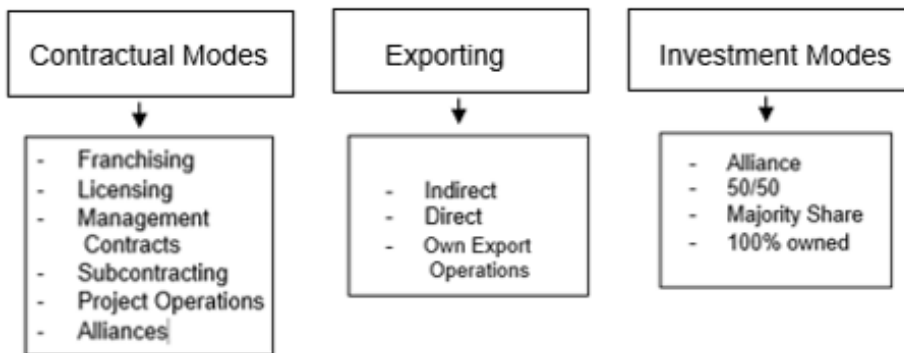
For the placement, identifying the target customer is needed. For the target product, this is relatively easy. Customer in the market area who eats candy. If more detailed definition is needed, this would be someone who is interested on the natural aspect of grocery products, since these are the values Happy Reindeer is marketed with. Place where this product would be purchased, would be retailer that sells grocery products, f. ex. Lidl or Billa.

Pricing of the products is always a challenging decision. In this case, similar currency makes it easier in defining the price. When defining the price, production costs have to be taken into consideration, as well as the cost of export actions. Since Happy Reindeer is a candy bar, the price cannot be expensive, this will have effect on the buying decision, although not the biggest one according to the study in chapter 7.

Last factor of the marketing mix focuses on the different promotion aspects. The product is sending a marketing message of Nordic natural and quality product, something new and little exotic in the market. This is proven with the name and the package, happy and free animal from the north presenting GMO-free and tasty candy product. Sales promotion is done via retailers and in the beginning by attending trade fairs.

## 6 ENTRANCE OF MAKULAKU LAKRITSA OY IN GERMANY

There is a wide variety of operation methods used by companies with international business actions. Each company will define the needs and wishes they have for their internalization, and then choose the method to be used. The main operation modes can be seen from the figure below:



Picture 11 Entrance for Makulaku

Makulaku Lakritsa Oy uses export as a method in their international activities. In this chapter is presented the basic information about export, why it is the right option for the target company and which export mode fits the company best.

Export presents one of the three main groups of mode options used by firms to achieve entry to international markets. For a long time exporting has been at the center of attention in national economic deliberations and policy, as well as in supranational organizations, f. ex. the World Trade organization (WTO). The global policy context has been moving to favour the usage of export in international business activities for years. Export is also often viewed as part of the country's economic situation; growth in export is seen as a positive sign. Originally export referred only to physical goods and products, nowadays it has been broadened to both goods and services. However despite the continuing growth in trade of international services, measured export of physical products still exceed them by about 4:1. (Welch, Benito & Petersen, 2007, 237)

Makulaku Lakritsa Oy has targeted its actions towards international markets since the beginning states Jorma Alanen, vice president of the company.

## 6.1 Why to export

Variety of studies show that exporting is often most commonly used modes of companies' internalizations, especially in the beginning and for manufacturers. Exporting is frequently thought to be the only that has no consideration of alternatives by those embarking in international activity. (Welch, Benito & Petersen, 2007, 239)

Exporting is also relatively easy option in comparison with the other methods of internalization, it is often quite simple expansion to what the company is already doing domestically. When compared to setting up facilities abroad, entering into joint ventures or establishing extended contractual arrangements with foreign parties, exporting is definitely easier way to bring the company to new market areas. (Welch, Benito & Petersen, 2007, 240-242)

For the employer company, choosing export as the mode for international operations is the most logical decision. This is because the company is a manufacturer with great production facilities in Finland. Quality and ecologically responsible production and ingredients are the values of the company. Having the production in Finland instead of transferring it to cheap labour countries supports these values in practice. And since the company is relatively small in the international environment with 44 employees, the best strategy is keeping the business actions mainly in Finland and only exporting the ready-made product to foreign retailers to be sold. For small and medium-sized firms, exporting is flexible and quite affordable way to develop foreign markets and to learn about customer needs. Internet has become the number one key in opening up world markets and giving companies competitive advantages. (Hill, 2009, 404)

## 6.2 Choosing the right export mode

According to Luostarinen & Welch (1993), even though export modes can have different forms, there can be recognised three main types; indirect, direct and own export operations. Many other economic specialists like Hill (2009) have also divided export modes in to categories based on their nature in international actions. From these three options the most commonly used are indirect and direct export.

### 6.2.1 Indirect export

Indirect export means that the manufacturer is not taking direct care of export operations. Instead, there is another company in the home market who is in charge of them. This means that in addition to the middleman in the target country, the company also has one domestically also. This other middleman company can be f. ex.:

- Domestic distributor firm specialising in foreign trade
- A joint export organization
- Publicly owned export organization
- Another industrial company
- Foreign owned company located in exporting company

All of these alternatives present indirect ways for export. However, these sub-alternatives differ tremendously from each other. This makes the decision on which one the company should choose important. (Luostarinen & Welch, 1993, 21)

The reason why to choose indirect export to be used in their international activities is that many companies lack the resources, expertise and market contacts to cover international markets. When this is the situation, it is easy to turn to trading companies to get the products to foreign markets. Using trading companies has a long history in business world, today these companies provide the needed contacts, trade expertise and commercial financing. (Hill, 2009, 403)

Indirect export is not the best option for Makulaku Lakritsa Oy for many reasons. It is expensive to use additional domestic member in the distribution chain. The employer company also already has knowledge, contacts and expertise in exporting so these additional parties are not needed. Another reason why indirect export would not be the best option is that it blocks the information flow. Since Makulaku Lakritsa Oy is reaching to double its export volume in near future like mentioned earlier in this thesis, the information gained in international operations is valuable for the future. Indirect export is also the most inactive mode of foreign business operations since the domestic middleman takes care of all the export actions. (Luostarinen & Welch, 1993, 23)

### 6.2.2 Direct export

Direct export is used when the manufacturing company handles the export activities without no extra middle man in the home country. This means that the company has direct contact to the target country and the first middleman is from there. This middleman can be:

- A special distribution company for import purposes
  - In the case of Makulaku Lakritsa Oy, a wholesaler and a retailer to spread the product to customers
- Joint buying organization
- An industrial firm

Direct exporting is more active way to take care of company's international operations. In this mode the company has direct contact to the targeted market area and does some actual selling and marketing work. The manufacturing company also handles or at least organizes exporting techniques and routines. (Luostarinen & Welch, 1993, 25)

For firms like Makulaku Lakritsa Oy, which have the needed resources and means to handle their own export actions, direct export is the best option. It is beneficial since companies deal face-to-face with distributors and customers from foreign market areas. This kind of learning as they go is a great situation when the company wants to continuing to develop international business in the future too. As markets develop and sales increase, marketing subsidiaries can be established to improve market contacts and customer relations. (Hill, 2009, 403)

Even if direct export demands more resources and knowledge than f. ex. indirect export, it is the best option for Makulaku Lakritsa Oy. This is because the distribution chain becomes shorter, which makes is cheaper for the company. The company has more direct contact with the targeted market area, and according to Luostarinen (1993) the company will be able to:

- adapt the product to the needs of the distributors and customers
- make strategic plans for future improvements and growth
- plan and develop efficient marketing operations

The requirements for this operation mode to work are fulfilled in the employer company, so it is the most logical option. Makulaku Lakritsa Oy handles all the export operations in Finland, and the first middleman is the retailer or wholesaler in the target country.

### 6.2.3 Own export operations

Own export operations is the situation that applies when there is no middlemen in the home country or abroad. The manufacturer deals straight with the final customer. If a company has its own sales unit abroad, the situation is the same but this is not considered to be an own export situation since there is direct investments made and this is regarded as belonging to subsidiary operations.

Own export operations demand constant travelling and contact with the customers, and can therefore be the most expensive way of exporting. But it might also be the most efficient one. Still, this method is not applicable to all products. Consumer non-durables are usually sold through distributors because of the large number of selling events and customers. Own export is most suitable f. ex. for industrial goods. (Luostarinen & Welch, 1993, 28)

This export methods is not suited for Makulaku Lakritsa Oy, because of the nature of the product. Happy Reindeer being a grocery product, candy, it is meant to be sold to many customers at the same time, via retailers like supermarkets. Selling candy from producer straight to the customer in Germany is not efficient or economical.

## 6.3 Summary

Makulaku Lakritsa Oy will continue to do its international actions using export. It is the easiest way for this type of a company to move in to new market areas and bring products to new customers.

Export has three main export modes, indirect, direct and own export to choose from. Best option for Makulaku Lakritsa Oy and for the product Happy Reindeer is direct export. In this way the company will handle the export operations itself, but have a middleman in the target country to be in charge of selling the product to customers. In the case of the employer company, these middlemen would be wholesalers and grocery stores like Billa, Kaufland or Lidl.

## **7 RESEARCH METHODS**

When making a research for academic texts like this thesis, a proper research methods have to be chosen. The two main types of research methods are qualitative and quantitative research methods. In this chapter is presented first qualitative then quantitative research method in their own parts since they were both used for the research part of this thesis. After these is presented why they were chosen for this thesis in a separate part.

### **7.1 Quantitative research method**

The goal of quantitative research is to give overall understanding on the studied topic. This means the characteristics, quality and the meanings that the topic has. Quantitative research is often conducted with questionnaires, where there is clear options for answerers to choose from. The goal is to get numerical overall analysis on the subject without getting too deep in to the subject. Quantitative research is appropriate when for example there is a broad subject on which general information is needed. For example, what characteristics German consumer have when purchasing candy products. Quantitative research allows the generalizations of results from sample to whole targeted population. (Qualitative and Quantitative Research, Web publication)

### **7.2 Qualitative research method**

The goal for qualitative research is to get deeper information about a subject than in qualitative research. Whereas in quantitative research questionnaires and clear options are common, in qualitative research interviews are the most common way in conducting the research. Qualitative research method is used when there is an assumption on the subject already, and there is a need to find out more detailed information. This could be for example that the assumption is that liquorice is not very common candy for consumer to consume in Germany, and the needed information is what are the factors liquorice might be missing and what would make it more attractive in the eyes of German consumers. Qualitative research also often created hypotheses and assumptions for later study possibilities. (Qualitative and Quantitative Research, Web publication)

### **7.3 Research in this thesis**

For this thesis, both research methods presented earlier were used. First the qualitative research method was used in the pre discussion of the study. In this part, the researcher had guidelines for the group interview with participants in order to gain more insight on the topic. From this first part, a lot of important data was collected, and then used for the making of the questionnaire for quantitative part of the study.

The quantitative part of the study was done with a survey for German consumers. From the knowledge collected from the qualitative part, a survey was made to get knowledge on the German customer behaviour. Quantitative part was chosen so that the results could be generalized for the whole population. The targeted amount of answerers was 100, and the final amount of answers collected was 66. However, all answerers were German and together with the qualitative part, this research is reliable and fit for the goal of the thesis as an info package to the



## **8 EMPIRICAL STUDY FOR GERMAN CONSUMERS**

The idea of this thesis was to give the company a good information package, so that the entrance for this new market area would be as easy as possible. The wish from the employer company Makulaku Lakritsa Oy was to have this kind of document they could use possible in the future too. The researcher has therefore collected all the main theories and analysed all the main information, so that this thesis can be called development project for the employer company. This quantitative study was made to support the information presented in this thesis and to give extra results for the employer company.

For this kind of topic is however important to know what the future consumers think and feel about the new product. This lead to the conclusion that the researcher created a questionnaire for the target group, German people who eat candy. This means most of the population.

### **8.1 Interviews for pre-group**

The process for making the empirical research started with face to face discussions with 5 German students under 30 years old. The discussion topic what is their idea about the topic of the thesis and the target product. Later in the text they are referenced as “the pre-group”. This discussion part is the qualitative part of the research.

The employer company had already made research concerning this topic, so the main idea for this research was to have some insight from the candy eating habits of German consumers. The information of this thesis might be used with other similar products in the future also.

The information from this part of the research is presented in the next chapter alongside with the information from the survey. This is because then it is easier for the reader to get understanding on why each question was chosen for the questionnaire and what was the assumption for results beforehand.

## 8.2 SURVEY FOR GERMAN CUSTOMERS

After the pre-discussion, based on the statements and recommendations a questionnaire was made. This was the quantitative part of the study. The title for it was “The Great Candy Survey” and it was done by using Webropol program. Entering to the survey happened via a link that could easily be shared for target group answerers. Answering the survey, like taking part in the pre-discussion could be done without sharing your private information for the thesis. The questionnaire was open for three weeks in February 2018. In this time, the researcher collected as many German answerers possible, using the help of German friends and university groups.

After the closing of the survey, 66 representatives of the target group had given their answer. In this chapter is presented the questions of the survey, how they were answered to and what can be gathered from this information.

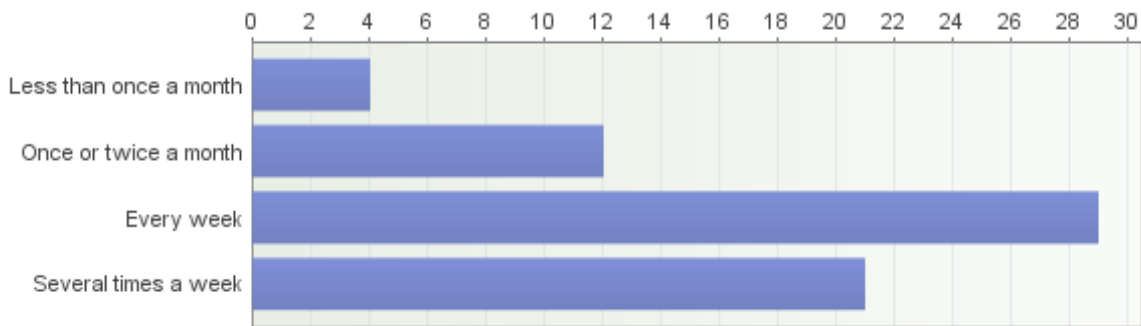
### 8.2.1 How often similar kinds of product are consumed?

The first question is to give answer to the research problem, how often similar kind of products are consumed. This question was phrased: “how often do you eat candy?” This question was chosen to be the start of the survey since it gives the researcher an idea how often possible future customers consume similar kinds of products. Knowing what is the usage amount of this kinds of products is, gives insight on what to expect for the target product.

For this question there was four different answer possibilities:

- Less than once a month
- Once or twice a month
- Every week
- Several times a week

The answer possibilities were chose to point out the frequency and attitude of consuming candy products: rare luxury, daily habit or something in between.



Picture 12 Question 1

As can be seen from the picture, majority of the answerers consume candy products every week, but not several times. People consuming candy several times a week were the second biggest group.

### 8.2.2 How popular are similar kinds of candy products popular in Germany?

For this question, the idea was to find out how well the studied group liked liquorice. During the pre-discussions there was some doubts that liquorice might not be the most popular option among the chocolate loving Germans. This is why it was asked: “how much you like liquorice?”

This question was designed so that the answerer determined how much he or she likes the candy by selecting a number on a scale 1-5, 1 meaning that liquorice is not in favour at all and 5 meaning it is very tasty.

	1	2	3	4	5	
Not at all	19	6	21	9	11	Very much

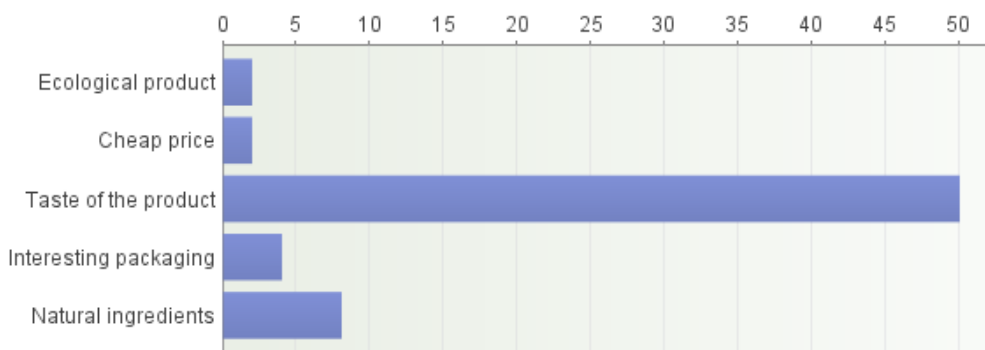
Picture 13 Question 2

Much like the pre-group predicted, licorice seems not to be the most popular candy product for the target group. According to this research, majority considered licorice to be OK, but the second biggest vote went for not good at all. Like mentioned several times in this thesis, the challenge can be people’s opinions about licorice but it still has a steady fan base.

### 8.2.3 Which factors have the biggest effect on customers purchasing decisions?

For an answer for the research problem of the thesis in finding out what factors have an effect in customers purchasing decisions, this question was asked in the questionnaire. The question was phrased: “what factor has the biggest effect on your purchasing decisions?” Since the target product is all vegan and organic liquorice without any GMO, like mentioned before, finding out how important this kind of natural aspect is for customers in comparison with other factors affecting the purchase process. Factors to choose from in this question were:

- Ecological product
- Cheap price
- Taste of the product
- Interesting packaging
- Natural ingredients



Picture 14 Question 3

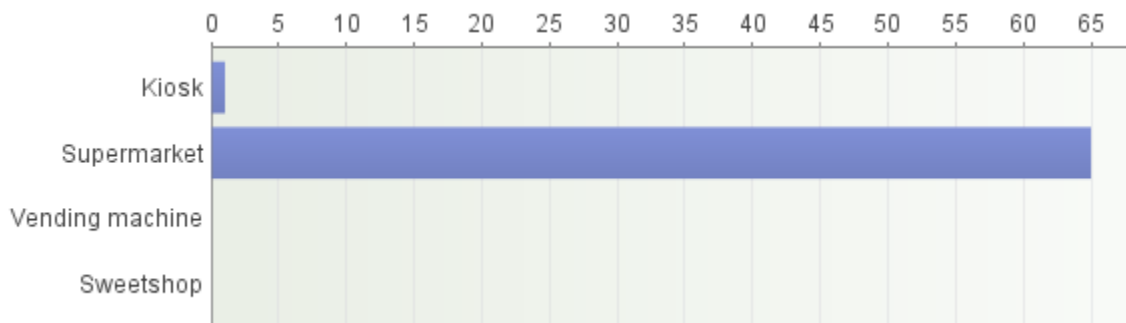
During the pre-discussion, the general thought was that taste is the only relevant factor when making a purchase for a candy product. After some discussion, other possible factors came up. Still, like predicted taste was the most voted factor by far. 50 answerers chose this to be the most important thing. The second most popular factor was natural ingredients, which suits the target product well.

### 8.2.4 From where would customers prefer buying the target product and similar products?

Giving an answer for the research problem of the thesis, the point of this question was to give the employer company an idea where they could locate the products to be sold. In the pre-discussions the selected group stated that in Germany it's common to use kiosks as the

place for their small purchases, candy being among them. The question was phrased: “Where do you usually buy your candy from?” All possibilities were:

- Kiosk
- Supermarket
- Vending machine
- Sweetshop

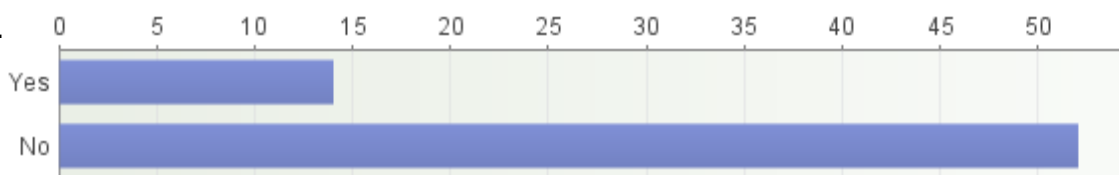


Picture 15 Question 4

Surprisingly, with this question the pre-group’s predictions failed. 65 out of 66 answerers voted supermarket as the place where they buy their candy from, with only 1 vote for kiosks. Vending machines and sweetshops had no votes.

### 8.2.5 Are Finnish food products well known among German consumers?

Very important part of the research problem for this thesis is to know what the situation is for Finnish food products in Germany at the moment. During the discussion with the selected pre-group, not many knew any Finnish food products beforehand before having a try-out in the meeting. General opinion was that this would be the case with most of the population. In this question the researcher wanted to solve how commonly known or not known Finnish products are. The question was also targeted to focus on food products instead of f. ex. Nokia. This information was asked with: “Are you familiar with any Finnish food products?” Much like the pre-group pictured, the knowledge of Finnish food products was not strong

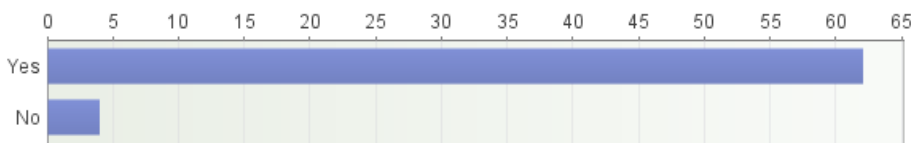


Picture 16 Question 5

Majority of people answering had no knowledge on Finnish food products. Still, surprisingly many knew at least some, which is a really positive sign.

### 8.2.6 What is the general opinion towards Finnish food products?

Following the previous research problem on how well Finnish food products are known, is also important to know what the opinion towards them is. During the discussions with the pre-group about the topic Finnish food products, when the group had doubts on how well Finnish food products are known they all also stated that they would be interested in trying. After having some sample liquorice to taste, general opinion was that this could be something they would see themselves buying in the future. This is way a question “Would you be interested in trying any?” followed the previous question.



Picture 17 Question 6

Similar opinions had the answerers. Almost all, 62 out of 66 stated that they would be in trying Finnish products.

## 8.3 Summary

The results of this study give the employer company valid information on the customer behaviour towards similar kinds of products as they offer, and also some insight on the attitude and amount of knowledge on Finnish food products.

The frequency on how often similar kinds of products as the Happy Reindeer are consumed is positive for Makulaku Lakritsa Oy. With great majority of people answering stated that they consume similar kinds of products at least once a week, it gives a good prediction for the company that there is a demand in the market for this kind of a product.

The next question gave information on the general opinion about liquorice. Even though there was a lot of popularity for not liking it at all, majority still stated that they think it's rather good, and 18% that it is really good on their opinion. Combining on how often people consume similar products and how well liquorice is liked, the target company can look forward to a positive welcome to Germany's market area.

Since the product is marketed by using its naturalness as a positive aspect, in question three the focus was on the importance of different aspects of product in purchase decision. Also the results from this question predicts success for the target product in the new area. Taste collected significant majority of the votes, followed by natural ingredients. Since the product can rely on both of these aspects with its products, there should not be any issues regarding the purchase decisions of possible future customers.

Question four targeted the placement of the product. From this question the target company can think about where future customers could purchase their product from and what kind of retailers to consider. Supermarkets are without a doubt the best option, followed by kiosks according to the answers for this study.

The last two questions were to give some customer insight on the Finnish origin of the product. The information from these gave no significantly surprising information, Finnish food products are not well known at the moment, but if given the opportunity, consumers would be interested in trying, according to this study.

All in all, the study gives a positive prospect for entering the German market area for the target company. This was a general feeling also in the pre-discussion. All questions and the answers for them supported the idea that Happy Reindeer has all the possibilities on succeeding.

## 9 CONCLUSION

At the beginning of this thesis was presented the problem and goal for the topic. It was to make a clear information package for the employer company on entering the market area in Germany. This package that the thesis is, contains information on the target company and country, so even a reader with no knowledge on the subject can understand what the situation in all is.

Next important thing is to make clear the situation between the two countries, Finland being the home country of the company and Germany the targeted market area. Important agreements, general information were presented and summed up on how it is influencing Maku-laku Lakritsa Oy. Biggest combining factor for these two countries is the European Union and same currency from this. Finland and Germany have a long trading history and good relations giving the target company good prospects for successful export.

One of the key elements on succeeding in entering a new market area is to make a situation analysis. In this thesis the chosen most important aspects were analysing the competitors in the new market area, making the SWOT analysis and strategies and taking a look on the cultural aspects. From the targeted new market area, several big companies with similar kind of products could be found, with Haribo being a biggest of them. However having a good brand and an "exotic" background, Makulaku Lakritsa Oy and the Happy Reindeer should stand out from the ground just fine. Cultures in Finland and Germany are quite similar, so this should not become an issue when entering the area. All of this information is not only important on their own, but also making a basis for the next chapter and the creation of the 4 P's.

These P's together create the marketing mix. Examining the company and the product from various aspects, it gives information on what to consider and presents the theory part and the situation for the company and product, so it's easy for the reader to understand the given information and use it in real life.

Chapter six presented the entrance decisions for the company. First taking a look on the entrance in general, then going in more detailed information for Makulaku Lakritsa Oy. As a result from this chapter, the best way for the company to enter the new market area is direct export.



Chapter seven presented the research methods used for this thesis. It also answered on why they were chosen and is the research reliable. This thesis had both qualitative and quantitative parts of research to give best possible results for employer company and make the results as reliable and valid as possible.

In the last chapter, the survey part of the thesis was presented and analysed. In two parts, the survey was done by using the future possible consumers, Germans who eat candy as the study group. Results of the study were positive for the target company, predicting successful entering to a new market area.

As for answers to the research problem presented in chapter one, similar kinds of products as the target product are consumed in general at least once a month according to the questionnaire. The two biggest factors affecting to the consumers purchasing decision according to the study are taste of the product and natural ingredients. The target product has both of these factors on its side. Finnish products are not that known in Germany based on the study for this thesis, however consumers would be interested in trying them given the chance. As for from where customers then would prefer purchasing the target product, supermarket would be the best option according to the answers for the study. The research problems were answered successfully, and the results back up the assumption that the target product has all the factors for succeeding in the new market area.

All in all, all chapters point to the same direction. There is always challenges when entering new market areas abroad, and that is the case with the target company's case as well. However, overcoming these challenges should not be too complicated and the company can predict successful export operations for Happy Reindeer in the future.

*“A little uncertainty is good for everything”*

Henry Kissinger

## APPENDICES

### APPENDIX 1. The Great Candy Survey

#### The Great Candy Survey

**1. How often do you eat candy? \***

- Less than once a month
- Once or twice a month
- Every week
- Several times a week

**2. How much do you like liquorice? \***

Not at all      Very much

**3. Which factor have the biggest effect on your purchase decisions? \***

- Ecological product
- Cheap price
- Taste of the product
- Interesting packaging
- Natural ingredients

**4. Where do you usually buy your candy from? \***

- Kiosk
- Supermarket
- Vending machine
- Sweetshop

**5. Are you familiar with any Finnish food products? \***

- Yes
- No

**6. Would you be interested in trying any? \***

- Yes
- No

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