

## **Pros and cons of different market entry modes**

– a study of Finnish companies entering the South Korean market

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<p>Abstract:</p> <p>This thesis is a research on which market entry modes Finnish companies use when entering the Korean market. The purpose of this research was to generate information on how to enter the South Korean market particularly for internationalizing Finnish companies that are producing natural plant products and are hoping on expanding to South Korea. The research starts with a summary of the most common market entry modes and the advantages and disadvantages of these. The paper continues with an introduction of the recent economic development of South Korea, followed by an overview of the case company Helsinki Wildfoods and a review of the demand for Finnish foodstuff products in the Korean market. Finally, the results are introduced. This thesis has used qualitative methods in order to gain precise and current information on how to enter the South Korean market. Theories on internationalization modes were used to analyze the interview data. The research was conducted by scheduling interviews with seven interviewees at Finnish companies mostly from the foodstuff industry who already have experience from the South Korean market. The results from the interviews showed that Finnish Small and Medium sized enterprises (SME) producing foodstuff products usually start their expansion into the South Korean market through indirect export using a local importer.</p>	
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# 1 INTRODUCTION

The four Asian Tigers, also known as the Asian Dragons, are the fast-growing economies of Singapore, Hong Kong, Taiwan and South Korea. The four Asian nations have consistently sustained high-growth economic rate since the 1960s, charged by rapid industrialization and exports, which facilitated these economies to be in line with the world's wealthiest nations. In 2015 South Korea officially overtook Japan in GDP terms moving second place to China in terms of financial feasibility. (Docurex, 2017)

During the last couple of decades, the growth in activity of Finnish enterprises in South Korea has been quite visible and especially during the past few years Finnish smaller brands have started to gain more and more visibility. The Nordic lifestyle has been on the carpet in the 2010s and has even become some sort of trend in South Korea. In Korea the Nordic countries are viewed as something exotic, which is seen as an increased interest when it comes to Nordic lifestyle, education, design, interior, fashion and food. For Finnish companies, this trend is only positive, providing opportunities for getting new Finnish products on the Korean market.

According to a report by the Finnish Ministry of Foreign affairs (2016) it is now fashionable in South Korea to admire the Nordic countries. Nordic lifestyle, education, social security and gender equality are of interest to both state actors, companies and Korean consumers. Finland has a major share of this general interest. The Koreans consider Finland as an example to learn from when it comes to education, start-up and clean-tech skills. Slush has been prominent in Korean media and Korean investors have also participated in the event. (Formin, 2016)

For a Finnish enterprise planning their expansion, South Korea is, in relation to its huge neighbors China and Japan, a great starting point when expanding to the Asian markets. According to the interviewees for this research, the country is considered as a gateway to Asia and the market culture is viewed as more surmountable than the neighboring markets. However, the ministry of foreign affairs of Finland states that Korea is only

Finland's third most important trading partner in Asia, after China and Japan and, in many respects, underestimated to its potential.

Particularly interesting for this research is the Food from Finland program which was started in 2014 by Finpro (later named Business Finland). The program helps Finnish food companies to internationalize and creates new growth for the whole industry. The program is carried out in cooperation with Team Finland organizations, The Finnish Food and Drink Industries' Federation (ETL) and private companies in the Finnish food sector. The target of the program is to double Finnish food exports to around €3 billion by 2020. Food from Finland's main target markets are Scandinavia, Germany, China, South Korea and Japan. (Business Finland, 2018)

## **1.1 The aim and research question**

This thesis is researching how Finnish, mainly foodstuff organizations, have entered the South Korean market- what have been the main obstacles and what have been done in order to remain successful in South Korea. The purpose of this research is to generate information on how to enter the South Korean market particularly for internationalizing Finnish companies that are producing natural plant products and are hoping on expanding to South Korea.

The focus is on market entry modes. As South Korea has a large distance with Finland the thesis will also cover subjects on the South Korean recent economic development in order to give a broader understanding on the destination market for this thesis.

The research question is looked at from the angle of how small Finnish foodstuff enterprises should choose their market entry mode when entering the South Korean market. The research question is “How do Finnish foodstuff companies enter the South Korean market?”

The subject is chosen due to the author’s personal interest in the Asian markets after studying and working in China and later working at a South Korean company in Finland.

## **1.2 Research process and methodology**

The thesis starts with a study on market entry modes, followed by an introduction of the South Korean economy. The research continues with introducing the case company Helsinki Wildfoods and then digging into the relationship between Finland and Korea. Finally, there is an empirical analysis and discussion on the results with a suggestion on how to enter the South Korean markets for smaller Finnish enterprises which produces natural plant products and are planning on starting the export of their products to South Korea.

This thesis has used qualitative methods in order to gain precise and current information on how to enter the market. The research was conducted by scheduling interviews with Finnish companies mostly from the foodstuff industry who already have experience from the South Korean market. The aim of the interviews was to obtain what business managers and business owners believe and practice and then connect with the theory. The interviewees were asked questions regarding the background of why they chose to start exporting to South Korea, which kind of products they have chosen for the South Korean market and if they have modified their products and packages to fit into the market. Furthermore, there were questions on the market entry mode, target groups, distribution channels and challenges they have faced when expanding to South Korea. The data which was gained from the interviews was used as main qualitative data supporting the theory part. Interviews were conducted as face-to-face interviews when possible. One interview was done over phone due to scheduling and distance challenges.



## **2 ECONOMIC DEVELOPMENT OF SOUTH KOREA**

South Korea's development over the last half century has been nothing short of spectacular. Fifty years ago, the country was poorer than Bolivia and Mozambique; today, it is richer than New Zealand and Spain, with a per capita income of almost \$23,000. For 50 years, South Korea's economy has grown by an average of seven percent annually, contracting in only two of those years. In 1996, South Korea joined the Organization for Economic Cooperation and Development, the club of rich industrialized countries, and in 2010, it became the first Asian country and the first non-G-7 member to host a G-20 summit. (Noland 2014.)

The Gross Domestic Product (GDP) in South Korea was worth 1377.87 billion US dollars in 2015. The GDP value of South Korea represents 2.22 percent of the world economy. GDP in South Korea averaged 387.10 USD Billion from 1960 until 2015, reaching an all time high of 1411.33 USD Billion in 2014 and a record low of 2.36 USD Billion in 1961. (Trading Economics 2017b.)

According to Trading Economics (2017c) the South Korean GDP is projected to trend around 1602.00 USD Billion in 2020. (Trading Economics 2017c.)

### **2.1 Recent economic development**

South Korea has made tremendous economic gains during the past four decades, transforming itself from a recipient of foreign assistance to a high technology manufacturing powerhouse and middle-income donor country in the span of two generations. South Korea experienced real GDP growth of 3.3 percent in 2014, a slight increase from 2013's 3 percent, but lower than the 3.9 percent originally targeted, largely because of a decrease in domestic consumption and investment due to national malaise in the wake of a tragic ferry sinking and slower growth in many of its export markets. Growth is expected to remain moderate in coming years, due to the South Korea's relatively devel-

oped economy, an aging population, and inflexible labor markets. Nonetheless, the South Korea has so far weathered the global economic uncertainty and continues to remain a generally favorable destination for foreign investment. (U.S. Department of State 2015.)

Following the 1997-98 Asian financial crisis, South Korea made significant progress in reforming its financial institutions and capital markets. In addition, the Korean government took steps to strengthen its competitiveness, enacting measures to boost foreign investment incentives and allow non-Koreans to own land and real property. With these changes, most Koreans recognize foreign investment and free trade as positive for the nation's development, despite continuing protectionist sentiment among certain elements of society. (U.S. Department of State 2015.)

The highest levels of the Korean government remain committed to ensuring a level playing field for foreign investors. However, many foreign and domestic firms continue to express concern with what is seen as an overly burdensome regulatory environment. Many regulations are unique to Korea and not consistent with global standards. The regulations are prescriptive and generally only allow activities that are explicitly authorized, thereby constricting the development of disruptive business models. Multiple foreign firms have asserted that they have refrained from increasing investments in the South Korea due to what they view as an intrusive bureaucracy that does not create sufficient incentives to invest in the country. (U.S. Department of State 2015.)

## **2.2 Employment rate**

Noland states that economists normally ascribe growth to the availability of basic inputs labor and capital as well as to increases in productivity. From 1963 to 1997, when South Korea was growing at its fastest, it benefited not only from the general openness of the world economy but also from a rapid expansion of its labor force and a relatively low number of dependents per worker, combined with a major increase in the education level of its workforce. But those favorable demographics are now reversing. In 2010, South Korea's "core productive population" citizens aged 25–49 fell for the first time. If cur-

rent trends continue, its dependency ratio will begin to rise within the next decade, and by 2030, its population will start to decline, falling below current levels by 2050. (Noland 2014.)

According to the Korean Ministry of Employment and Labor there were approximately 26 million economically active persons in South Korea with an employment rate (OECD standard) of approximately 65.3 percent. The overall unemployment rate of 3.4 percent in 2014 was much lower than the unemployment rate of youth aged 15-29, which at 9.0 percent is becoming a domestic concern. Since 2004, South Korea has implemented a “guest worker” program known as the Employment Permit System (EPS) to help protect the rights of foreign workers. EPS allows employers to legally employ a certain number of foreign workers from 15 countries, including the Philippines, Indonesia, and Vietnam, with which South Korea maintains bilateral labor agreements. For 2015, South Korea increased its quota to 55,000 migrant workers. At the end of May 2014, approximately 459,000 foreigners (including overseas Koreans) were said to be working under EPS in manufacturing, construction, agriculture, livestock, service, and fishery industries. (U.S. Department of State 2015.)

## **2.3 Structure of Exports**

South Korea has an export oriented economy and its exports accounts for more than 50% of GDP. The country exports mainly machinery and transport equipment (59 percent of total exports) such as: electrical machinery, apparatus, appliances and electrical parts (18 percent); road vehicles (13 percent); telecommunications, sound recording; reproducing apparatus and equipment (8 percent). Other exports include: petroleum, petroleum products, related materials (6 percent); iron, steel (4 percent) and plastics (4 percent). Major export partners are China (26 percent of total exports), the United States (13 percent) Hong Kong (6 percent), Vietnam, Japan (5 percent each) and Singapore (3 percent). Others include: India, Taiwan, Mexico, Australia, Saudi Arabia and Philippines. (Trading Economics 2017a.)

## **2.4 Structure of Imports**

South Korea imports mainly petroleum, petroleum products, related materials (16 percent of total imports), electrical machinery, apparatus, appliances and electrical parts thereof (13 percent) and food, live animals (5 percent) and natural gas (5 percent). Other imports include metalliferous ores, metal scrap, iron, steel, industrial machinery and equipment. Main import partners are China (21 percent of total imports), Japan (11 percent), the United States (10 percent) and Germany (5 percent). Others include: Saudi Arabia, Taiwan, Qatar, Australia (4 percent each) and Russia (3 percent). (Trading Economics 2017e.)

Imports to South Korea increased by 23.3 percent year-on-year to USD 35.97 billion in February of 2017, compared to a 18.6 percent rise in the prior month and above consensus of a 21.7 percent growth. It was the strongest growth since February 2012. For 2017, imports are projected to rise 7.2 percent. Imports in South Korea averaged 12157.23 USD Million from 1966 until 2017, reaching an all time high of 45899.19 USD Million in July of 2014 and a record low of 38.61 USD Million in January of 1966. (Trading Economics 2017e.)

## **2.5 Foreign direct investments into the country**

During the nineties, South Korea has become more and more open to foreign investments. The main sources of Foreign Direct Investment (FDI) in South Korea are the European Union, the USA and Japan. Opportunities for foreign companies to invest in South Korea exist in some markets, such as:

- Geographic Information Systems (GIS) – because of South Korean government's ten-year plan dedicated to the development of its national spatial data infrastructure
- Software and Internet based solutions – due to the large use made by South Koreans of Internet and IT solutions

- Non-memory semiconductors – these are in high demand in South Korea
- Pollution control and safety and security equipment at an industrial level – this is due to South Korean government increasing concern about pollution control and safety issues at the workplace
- Aircrafts parts and equipment – these are still largely imported by South Korea and the demand is increasing due to an increase in air travel
- Education – more and more South Koreans travel abroad to complete their studies, mostly to Canada and the USA but also to the EU. English teaching training programmes and business training programmes are becoming more popular every day

(SeoulKoreaAsia 2017.)

Korea aims to attract more foreign investment by promoting its eight Free Economic Zones (FEZ): Incheon (near Incheon Airport, to be completed in 2020); Busan/Jinhae (in South Gyeongsan Province, to be completed in 2020); Gwangyang Bay (in South Gyeongsan Province, to be completed in 2020); Yellow Sea (in South Chungcheong Province, to be completed 2020); Daegu/Gyeongbuk (in North Gyeongsan Province, to be completed in 2020); Saemangeum/Gunsan (in North Jeolla Province, to be completed in 2020), East Sea (in Donghae and Gangrung) and Chungbuk (in North Chungcheong Province). The FEZs differ from other zones designated for foreign investment in their focus on creating a comprehensive living and working environment with biotechnology, aviation, logistics, manufacturing, service and other industrial clusters as well as international schools, recreational facilities, and international hospitals. (U.S. Department of State 2015.)

As of April 2014, there are also four foreign-exclusive industrial complexes in Gyeonggi Province (Hyungok, Pyosung, Chupal, and Hansan), designed to provide inexpensive plant sites, with the national and local governments providing assistance for leasing or selling in such sites at discounted rates. In addition, there are 13 Free Trade Zones in Donghae, Suncheon, Gunsan, Daebul, Masan, Ulsan, Gimje, Yulchon, and seven logistics areas near airports and harbors, where companies may pursue their business with government support, but without the usual legal requirements such as approval procedures for export and imports and customs duties. There are also 23 Foreign Investment

Zones designated by local governments to accommodate industrial sites for foreign investors. (U.S. Department of State 2015.)

### **3 INTERNATIONAL MARKET ENTRY MODES**

The most common market entry modes are introduced in this chapter. The strategies are split into non-equity modes and equity modes depending on the level of commitment each mode require. Equity modes allow the company to be closer to the customer. On the other hand, non-equity modes are a strategy for an organization to expand its products or services into a new market without having to make an investment in items such as facilities within that market.

There are several studies on international market entry modes. Daniels and Radebaugh (2001) claim that a company's choice of entry mode to a foreign market depends on different factors, such as the ownership advantages of the company, location advantages of the market and internationalization advantages of integrating transactions within the company. (Daniels, Radebaugh, 2001)

Four forms of entry strategies are used by the majority of firms that initiate international business activities: indirect exporting and importing, direct exporting and importing, licensing and franchising. Other modes of entry, such as direct foreign investment, management contracts, contract manufacturing, and turnkey operations, are mostly used by larger and more experienced firms. (Czinkota and Ronkainen, 2007)

Once a company has decided to market in a foreign country, it must determine the best mode of entry. The choice of market entry depends on a number of factors such as company resources, product characteristics, foreign investment target, market distribution pattern, number of customers etc. For a small company, the option is usually to start exporting via a foreign representative. A larger company with the opportunity to invest in a sales company often finds this solution more attractive considering the benefits from a

marketing perspective. In some case the products characteristics impose such requirements on e.g. technical know-how of sales and staff and service that only one establishment is practically feasible. The market entry mode is an important means of competition. In order to choose the correct market entry mode one should know the pros and cons of each mode.

(Kotler, Armstrong, Wong, Saunders 2008)

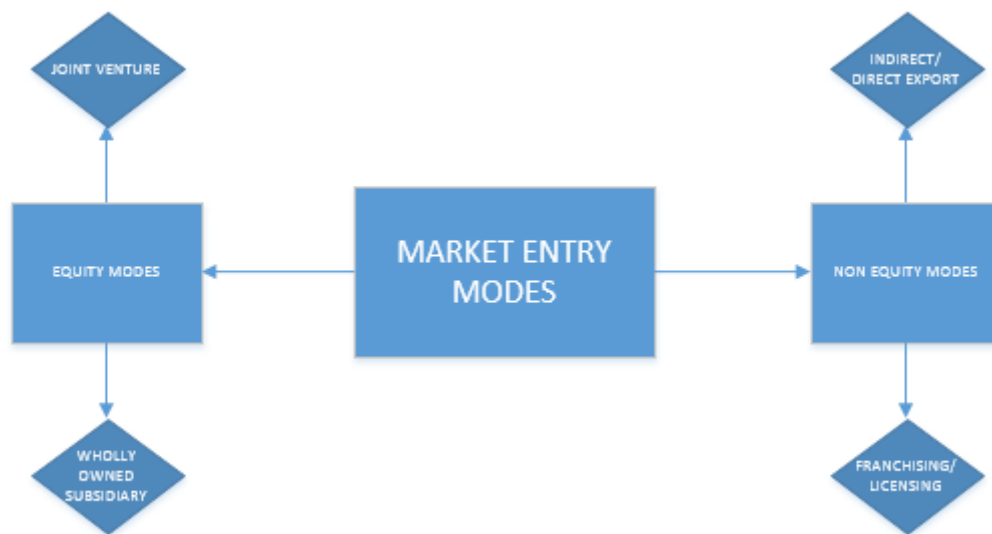


Figure 1: Market entry modes (authors own studies)

### 3.1 Non-equity modes

Non-equity modes include indirect and direct exporting, franchising and licensing.

#### 3.1.1 Indirect export

Companies typically start with indirect exporting, working through independent international marketing intermediaries. Indirect exporting involves less investment because the

firm does not require an overseas marketing organization or networks. It also involves less risk. International marketing intermediaries- home-based export merchants or agents, cooperative organisations, government export agencies and export-management companies-bring know-how and services to the relationship, so the seller normally make fewer mistakes. (Kotler, Armstrong, Wong, Saunders 2008)

Trading houses usually means companies engaged in both export and import trade. Traditionally, trading houses have been defined as companies that buy on a permanent basis for further sale. There are also trading houses that convey business to commission. The manufacturer transfers the product to the trading house which then accounts for all actions associated with the export. The manufacturers ability to control the performance of the activities is small while the distribution of costs is low. Trading houses (export houses) do not normally require the manufacturer to have its own export competencies, but on the other hand, it gives the manufacturer a poor understanding of the local market and customer. Since the export house buys on fixed terms the credit risk is low.

(Kotler, Armstrong, Wong, Saunders 2008)

A representative is a marketing organization independent from the export company on a foreign market. The representative can either be an agent, commissioner or dealer.

An agent or a commission agent is an independent intermediary representing the supplier in the foreign market. The main task of the job is to convey the contact between the sellers and buyers. The role of which the agent plays varies from solely seeking out new customers to independently stand for the promotion on the foreign market. (Kotler, Armstrong, Wong, Saunders 2008)

According to Holmvall et al. (2010) an agent may be a person or company representing the organization locally. He has contact with the buyer, but delivery and invoicing goes directly from exporter to importer. The agent usually works on commission and legally represents the exporter unless otherwise stated. Therefore, the exporter may be responsible for the deals the agent does, even if the exporter did not participate in the negotiations. An agent is not a distributor. (Holmvall, Åkesson 2010)



A broker can be seen as a broker between buyers and sellers and works much like a real estate broker. The task is to find customers or suppliers and he / she charges either in a fixed amount or commission per sold unit. The broker can convey buyers and sellers of eg. oil and metals or other commodities. (Holmvall, Åkesson 2010)

An importer is a company that purchases the product into the importing country and then sells it to the customer or retailer. The exporter has access to a company with built-in local customer contacts and knowledge of the local market (Holmvall, Åkesson 2010)

### **3.1.2 Direct export**

Sellers may eventually move into direct exporting, whereby they handle their own exports. The investment and risks are somewhat greater in this strategy, but so is the potential return. A company can conduct direct exporting in several ways. It can set up a domestic export department that carries out export activities. Or it can set up an overseas sales branch that handles sales, distribution and perhaps promotion. The sales branch gives the seller more presence and program control in the foreign market and often serves as a display centre and customer service centre. Or the company can send home-based salespeople abroad at certain times in order to find business. Finally, the company can do its exporting either through foreign-based distributors that buy and own the goods or through foreign-based agents that sell the goods on behalf of the company. (Kotler, Armstrong, Wong, Saunders 2008)

Holmvall et al. (2010) states that direct export can also be conducted through a dealer. The dealer himself determines his final price to the customer without instruction from the seller or exporter. The dealer's agreement with the manufacturer means that he undertakes to buy and resell goods from the manufacturer. The dealer keeps the product in stock, takes over billing activities and account receivables, i.e. operates as an independent company. Since the dealer works in his own name and may well have his own brand, there is a risk that the manufacturer's brands will not be so famous in the market. This is a disadvantage as the manufacturer may establish a separate sales company in

the relevant market at a later stage. Another disadvantage is that the manufacturer has little opportunity to control the dealer's marketing. The manufacturer often knows nothing about the final customers or the price level. The advantage of having a representative is that this form of establishment does not entail particularly large investments or costs and the products are quickly represented on the market. (Holmvall, Åkesson 2010)

Branch or sales offices mean that there is a permanent establishment on the foreign market. The branch office must be registered in the current country but it is not an independent legal entity. The branch office is not authorized to sign agreements itself. The parent company is responsible of the operations of the branch office. (Kotler, Armstrong, Wong, Saunders 2008)

### **3.1.3 Licensing**

Licensing is a simple way for a manufacturer to enter international marketing. The company enters into an agreement with a licensee in the foreign market. For a fee or a royalty, the licensee buys the right to use the company's manufacturing process, trademark, patent, trade secret or other item of value. The company thus gains entry into the market at little risk; the licensee gains production expertise or a well-known product or brand name without having to start from scratch. Licensing has potential disadvantages, however. The firm has less control over the licensee than it would over its own production facilities. Furthermore, if the licensee is very successful, the firm has given up these profits, and if and when the contract ends, it may find it has created a competitor. (Kotler, Armstrong, Wong, Saunders 2008)

Licensing, which is a form of technology, consists in principle of buying and selling knowledge, e.g. knowledge that is not freely available. Licensing means that the proprietor (licensor) of an industrial right or know-how for remuneration transfers or assigns the right of use or knowledge to any third party or company (the licensee). The license object, ie. what the supplier entrusts or assigns to the licensor may consist of patents, designs and trademarks, and partly by the licensor's know-how, such as manufacturing

secrets, operational experience and marketing methodology. The licensee pays compensation for this to the licensor in the form of down payment or royalty (fee to the patent holder). Licensing is a way of reaching distant markets, but in nearby markets, licensing may also be relevant. (Holmvall, Åkesson 2010)

Licensing is often used when the company has patents, design protection or protected trademarks, and for which the exporting company for different reasons does not want to manufacture and market in the country itself. The reason may be political risks, but also that it is not sufficiently profitable to establish in a market. Licensing allows another company to make and sell one's products on a market against payment. It often means selling skills, manufacturing secrets, operational experience or special marketing skills. Licensing provides limited financial compensation, ie. much less than on the sales of finished products. It also provides a limited opportunity to control activities on the market. Licensing agreements are often short-term, which usually means contracts of between five and ten years. Licensing can be seen as an economic addition in a market that a company would not normally have worked on. (Holmvall, Åkesson 2010)

### **3.1.4 Franchising**

Franchising is relatively similar with licensing and means that a company, the franchisor, by contract relates to individually owned other companies. These appear in relation to the clientele with a uniform product range under a common brand, and receive technical and administrative assistance from the franchisor. (Kotler, Armstrong, Wong, Saunders 2008)

According to Holmvall et al. (2010) franchising is a variation of license, but can be seen as more advanced. The supplier provides a lot of support in the form of marketing and training to the franchisee, who must follow special rules, such as current decor in the store and the way in which to act in a sales situation. (Holmvall, Åkesson 2010)

## **3.2 Equity modes**

Equity modes allow the organization to be closer to the customer. Joint ventures and wholly owned subsidiaries are the two options to choose from.

### **3.2.1 Joint venture**

One method of entering a foreign market is joint venturing- joining with foreign companies to produce or market products or services. Joint venturing differs from exporting in that the company joins with a host country partner to sell or market abroad. It differs from direct investment in that an association is formed with someone in the foreign country. There are four types of joint venturing: licensing, contract manufacturing, management contracting and joint ownership. (Kotler, Armstrong, Wong, Saunders 2008)

According to Holmvalld et al. (2010) joint venturing is a common activity such as a Finnish company has a joint venture with a Swedish company for manufacturing and / or sales of goods and services. Some countries do not allow 100% foreign ownership, and in such cases, joint venturing may work. It can also be a temporary solution to get started with the business. Joint venturing provides access to local expertise and local resources while at the same time the exporting company gains more control in the market than when having resellers. The main reason why a joint venture does not always work is the difficulty of having different company cultures cooperate. (Holmvalld, Åkesson 2010)

### **3.2.2 Wholly owned subsidiary**

Subsidiary means that the exporting company has its own local business in the country. The subsidiary can be both selling and producing. This gives the company full control

of the operations in the exporting country. The problem is that it usually costs a lot, as both the premises and staff in the new market must be acquired. In addition, its own range may also be insufficient to provide profitability on the market. (Holmvall, Åkesson 2010)

### **3.3 Other forms of entry**

#### **3.3.1 Cooperative export**

Holmvall et al. (2010) argue that export cooperation is a collaboration between two or more independent companies regarding one or more export activities. For example, temporary event attendance, market research, joint foreign representative or a common export salesman selling on a commission basis or a form of a joint export company.

Moreover, Holmvall et al. (2010) claims that a special case of exports is piggybacking, which means that a company allows another company or its subsidiaries in any foreign market to handle some or all of their exports. The advantages of transferring sales to a company with established market channels are mainly to quickly and reliably introduce their products to new markets. The idea is that the supplier has interesting products that fit into the other company's (seller's) assortment and / or can be distributed through the sellers established channels. (Holmvall, Åkesson 2010)

#### **3.3.2 Management contracting**

According to Kotler et al. (2008) under management contracting, the domestic firm supplies management know-how to a foreign company that supplies the capital. The domestic firm exports management services rather than products. Management contracting is a low-risk method of getting into a foreign market, and it yields income from the beginning. The arrangement is even more attractive if the contracting firm has an option

to buy a share in the managed company subsequently. The arrangement is not sensible, however, if the company can put its scarce management talent to better uses or if it can make greater profits by undertaking the whole venture. Management contracting also prevents the company from setting up its own operations for a period of time. Management contract is an agreement between at least two parties involved, usually a local owner of a company and a foreign company. In the contract, the foreign company undertakes to be responsible for the management of a project or company against a certain amount of compensation. Management contracts are common at turnkey facilities (turnkey facility, such as a factory) to developing countries. (Kotler, Armstrong, Wong, Saunders 2008)

### **3.3.3 Subcontracting**

According to Hegge (2002) who has researched the internationalization of Small and Medium sized enterprises (SME) in Europe, subcontracting is usually visualized as a pyramidal model based on cooperation among parties at several levels, each of which is responsible for the completion of an assembly, a sub-assembly, a part or a component of the finished product. Subcontracting allows prime contractors to focus and specialize in those activities that are crucial to the performance of their firms. (Hegge, 2002)

### 3.4 Advantages and disadvantages of the different modes

Daskiewicz and Wach (2012) have researched the models of internationalization of SME's and according to their research the below table summarizes the pros and cons of each mode that were described in this chapter.

Kotler et al. (2008) state the market entry mode is an important means of competition. In order to choose the correct market entry mode, one should know the pros and cons of each mode. (Kotler, Armstrong, Wong, Saunders 2008)

Advantages and Disadvantages of Different Modes of Internationalization

Mode	Characteristics	Advantages	Disadvantages
Indirect Export	The sale of goods or services through the domestic intermediary	<ul style="list-style-type: none"> <li>- low entry cost,</li> <li>- low financial risk,</li> <li>- entry difficulties are lied on the domestic intermediary,</li> <li>- low staffing requirements,</li> <li>- lack of marketing costs,</li> <li>- the least complicated mode of internationalization,</li> <li>- relatively simple extension of sales markets</li> </ul>	<ul style="list-style-type: none"> <li>- low profitability of the transactions,</li> <li>- full dependence on the domestic intermediary,</li> <li>- lack of knowledge on the foreign market(s),</li> <li>- inability to gain international experience,</li> <li>- the domestic intermediary can find a better provider,</li> <li>- an intermediary may itself start the production in the country</li> </ul>

Mode	Characteristics	Advantages	Disadvantages
Direct Export	Direct Export through a <b>foreign agent</b> (as a foreign intermediary)	<ul style="list-style-type: none"> <li>- low entry cost,</li> <li>- moderate financial risk,</li> <li>- the agent overcomes the difficulties of entry,</li> <li>- relatively low staffing requirements</li> <li>- lack of marketing costs</li> </ul>	<ul style="list-style-type: none"> <li>- low profitability of the transactions,</li> <li>- high dependence on the foreign agent,</li> <li>- inability to gain international experience,</li> <li>- an agent can find a better provider</li> <li>- high transport costs</li> <li>- potential trade barriers</li> </ul>
	Direct Export through a <b>foreign distributor</b> (as a foreign intermediary)		
	Direct Export through a <b>representative office</b>	<ul style="list-style-type: none"> <li>- physical presence on foreign markets,</li> <li>- direct contact with foreign Customer,</li> <li>- the permanent possibility to respond to foreign market signals</li> </ul>	<ul style="list-style-type: none"> <li>- the relatively high costs of maintaining a representative office,</li> <li>- high transport costs,</li> <li>- potential trade barriers</li> </ul>
	Direct Export through <b>an own foreign distribution network</b>	<ul style="list-style-type: none"> <li>- physical presence on foreign markets,</li> <li>- very good direct contact with foreign customers,</li> <li>- full control over the sales process,</li> <li>- relatively high profitability compared with other forms of exporting</li> </ul>	<ul style="list-style-type: none"> <li>- high entry cost,</li> <li>- high cost of maintaining the own distribution network,</li> <li>- time-consuming of building up the own distribution network</li> </ul>
Cooperative export	Export grouping	<ul style="list-style-type: none"> <li>- distribution of costs for partners,</li> <li>- synergy effect</li> </ul>	<ul style="list-style-type: none"> <li>- dependency on the export partner(s)</li> </ul>
	Piggybacking		
Management contracts	An exporter provides management services for a company that is owned by the importer	<ul style="list-style-type: none"> <li>- low capital commitment,</li> <li>- low risk,</li> <li>- gaining experience on the foreign market(s) by domestic managers,</li> <li>- can be regarded as a "substitute" form of foreign market entry</li> </ul>	<ul style="list-style-type: none"> <li>- relatively low profitability</li> </ul>
Turn-key operations	Any complete construction of any industrial plant abroad	<ul style="list-style-type: none"> <li>- potential higher profits,</li> <li>- chance of a permanent presence on the foreign market(s) after the completion of the investment,</li> <li>- ability to earn returns from technologies in countries where FDI is restricted</li> </ul>	<ul style="list-style-type: none"> <li>- require high costs,</li> <li>- a form difficult to implement,</li> <li>- high financial risks</li> </ul>
Subcontracting	The foreign counterparty shall have a domestic manufacturing company to execute a specific order (components or semi-finished products)	<ul style="list-style-type: none"> <li>- low capital commitment,</li> <li>- low risk</li> </ul>	<ul style="list-style-type: none"> <li>- relatively low profitability,</li> <li>- inability to gain international experience,</li> <li>- weak position of the exporter in negotiations with the consignee</li> </ul>



Mode	Characteristics	Advantages	Disadvantages
Licensing	Sales abroad of rights covered by a patent or design or any intellectual property to be used for commercial purposes	<ul style="list-style-type: none"> <li>- low entry costs,</li> <li>- low financial risk,</li> <li>- ensuring a steady income,</li> <li>- a strong presence in foreign markets by commercial brand and logo,</li> <li>- the licensee knows the local conditions,</li> <li>- does not require a large commitment of staff</li> </ul>	<ul style="list-style-type: none"> <li>- the possibility to lose control over technologies and know-how,</li> <li>- lack of control over the maintenance of the quality on the foreign market(s),</li> <li>- the threat of disloyalty of the licensee,</li> <li>- relatively low income (royalties) compared to other forms of internationalization</li> </ul>
Franchising	Sales of the rights by the domestic franchisor to conduct commercial activity by a foreign franchisee	<ul style="list-style-type: none"> <li>- low entry cost,</li> <li>- the possibility of rapid foreign expansion,</li> <li>- the possibility of a simple expansion of both the large and distant markets</li> </ul>	<ul style="list-style-type: none"> <li>- requires some control cost,</li> <li>- sharing profits gaining from foreign markets between the foreign franchisee(s) and a domestic franchisor,</li> <li>- requires appropriate qualifications of franchisees,</li> <li>- the possibility of potential conflicts between the partners,</li> <li>- the possibility of difficulties in maintaining uniform standards and quality,</li> <li>- the possibility of franchisee(s)' disloyalty</li> </ul>
Branch	The creation of an organizational unit of the parent company on a foreign market, which is an organizational and legal part of that company	<ul style="list-style-type: none"> <li>- full control – holding centralized control,</li> <li>- relatively good image of the branch on the local market</li> </ul>	<ul style="list-style-type: none"> <li>- relatively complicated registration procedures</li> </ul>
Joint venture subsidiary	The creation of a foreign subsidiary jointly controlled (minority and majority interests) by the parent company and a foreign partner	<ul style="list-style-type: none"> <li>- synergy effect,</li> <li>- a combination of knowledge of the exporter and a local partner,</li> <li>- spreading the risk between the exporter and the partner,</li> <li>- good image of such a company on the local market (politically acceptable)</li> </ul>	<ul style="list-style-type: none"> <li>- high entry cost,</li> <li>- high risk,</li> <li>- potential conflicts of interest of the exporter and the partner,</li> <li>- complicated registration procedures</li> </ul>
Wholly-owned subsidiary	The creation of a foreign subsidiary wholly owned (100%) by a parent company	<ul style="list-style-type: none"> <li>- full control – holding centralized control,</li> <li>- good image of such a company on the local market,</li> <li>- potentially the highest profitability</li> </ul>	<ul style="list-style-type: none"> <li>- high entry cost,</li> <li>- high risk,</li> <li>- complicated registration procedures</li> </ul>

Mode	Characteristics	Advantages	Disadvantages
Mergers and acquisitions ( <i>brownfield investment</i> )	The merger of the acquisition of an existing foreign entity	<ul style="list-style-type: none"> <li>– economies of scale,</li> <li>– combining complementary resources of a domestic company and a foreign partner,</li> <li>– enriching business activity scope (vertical, horizontal or diversified activities),</li> <li>– possible product or market extension</li> </ul>	<ul style="list-style-type: none"> <li>– high costs,</li> <li>– high risk,</li> <li>– the necessity of integrating an entire company into present operations</li> </ul>

*Table 1: Advantages and disadvantages of different market entry modes (Daskiewicz and Wach, 2012)*

#### **4 THE SOUTH KOREAN FOOD SECTOR**

Being one of the biggest export economies of the world, Korea has strong trade connections around the globe. A Free Trade Agreement with the European Union, that became functional in July 2011, has further improved its status. The agreement has removed the import duties on almost all products from the European Union. Since 2012 Korea also has a Free Trade Agreement with the US, which is the leading exporter of agricultural products to the Asian country. Other important trade partners in the food sector are China, Australia, Canada and Thailand. Korea’s relatively limited agricultural potential, combined with a large population of more than 50 million, force the country to rely quite heavily on food imports (around 70% of its needs). The growth in this sector is fuelled by the consumers’ focus on organic food, more diversification and better product quality, among others. The Korean food market is currently influenced by a number of trends that shape the consumer demand. The population is adopting a western style and diet which opens the door for popular US and European products. The global organic trend that focuses on high quality products with multiple health and wellness benefits also has an increasing following among young professionals and the older population who tries to stay fit. Price is less of a problem than in other Asian countries and the Ko-

reans tend to spend more on nonessential food items. (Best Food Importers: South Korea, 2016)

## **4.1 The retail sector**

According to a survey on Korean food consumption trends conducted by the United States Department of Agriculture in 2014 (USDA, 2014) Korean consumers generally purchase food in small and medium sized supermarkets, hypermarkets, and traditional markets. A large percentage of consumers in the capital area of Seoul use small and medium sized supermarkets and hypermarkets, while consumers in rural areas most frequently visit traditional markets. The younger generation and people with higher incomes tend to use hypermarkets more often. Purchasing food online is not very common among the older generation. However, the younger generation showed a higher usage of online food shopping. The main reasons why consumers go online to purchase food are lower price and delivery service. Environment-friendly food purchases are more common than online food shopping. Hypermarkets are the most commonly visited type of store for environment-friendly food consumers. However, households in urban neighborhoods and households with higher incomes or a higher level of education were the most frequent users of specialized environment-friendly food stores. (USDA: Food consumption trends in Korea, 2014)

South Korea has an unusually large percentage of urban population, about 80%, and a strong food retail ecosystem, which relies on specialized importers and distributors. Hypermarkets hold close to 45% of the market share and are the main channel for imported food products. Some interesting trends can be seen in the retail scene too – for example many Korean seafood buyers tend to shift from shopping only from traditional fish markets to focusing more on the diverse offer of the supermarkets and discount stores. As many Koreans live busy lives and focus on their careers, online shopping is also significantly more developed than in other Asian countries and many retailers have a strong online presence. (Best Food Importers: South Korea, 2016)

The largest hypermarket chains in South Korea are E-Mart (Shinsegae Group), Lotte Mart (Lotte), Homeplus (Tesco) and Kim's Club.



Figure 2: Logos of the largest hypermarket chains South Korea (Emart, Lotte, Home Plus, Tesco, Kim's Club, Costco Wholesale)

The largest supermarkets on the Korean market are Lotte Super, Home Plus Express, GS Supermarket and Emart Everyday.



Figure 3: Logos of the largest supermarket chains in South Korea (Emart everyday, GS Supermarket, Lotte Super, Home Plus express)

Largest department stores are Lotte, Hyundai, Shinsegae, the Galleria and AK Plaza.



Figure 4: Logos of the largest supermarket chains in South Korea (Lotte Department Store, Hyundai, Shinsegae, the Galleria, AK Plaza)

Most common convenience stores are CU, GS25, 7eleven and Ministop.



Figure 5: Logos of the largest convenience stores in South Korea (CU, GS25, 7eleven, Ministop)

Furthermore, there are several internet malls and traditional markets where the Korean consumers do their shopping. TV home shopping is a significant retail channel in Korea as well. (Virtanen, 2016)

## 5 OPPORTUNITIES FOR FINNISH FOODSTUFF ORGANIZATIONS IN THE SOUTH KOREAN MARKET

Nordic food, The New Nordic Kitchen, is now trendy, also in South Korea. At the same time as the Northern luxury and specialty products such as alcoholic beverages and caviar attract attention, there is high level of interest towards products made of oats, berries and mushrooms. Also, the demand of low salt processed meat products is growing. South Korea has a strong culture of eating out. The New Nordic trend can also be seen in the restaurant scene. The first Nordic style restaurants are about to open their doors. The Viking-style restaurant chain is being set up and one can get a Scandinavian café experience in the Swedish style Fika, or in the Moomin-Café. Until now, the Nordic food and drink import has been largely dependent on the initiative of Korean importers. Regarding berries, the U.S. and Chile have been actively marketing cultivated blueberries to South Korea. Also, the Brazilian Acai berry is available for the consumers. Pure and high quality Scandinavian products are valued and there is space at the market for the Finnish super berries— processed, in the context of other foodstuffs or in cosmetics. South Korea has prospered rapidly and its GDP is at the level of Japan. South Korea is a pioneer and a 'trend setter' in Asia, where high quality is a standard, and pure and healthy food and beverage products are valued. To meet this demand it is now time to proactively offer high quality food and beverage products, as well as kitchen equipment to the South Korean HoReCa sector. (Wrang, Virtanen 2017)

According to Wrang (2018) at Business Finland, pork and different parts of pork such as pork belly have been the major Finnish foodstuff products that have been exported to Korea. There is a strong barbeque culture in Korea- Korean BBQ- at where Finnish pork is consumed. Finnish organizations have also exported a lot of berries for both retail sales but also for further processing to the cosmetics and foodstuff industries. Furthermore, there is export to Korea of Finnish dairy products, alcohol and in future also poultry, ice cream and eggs. (Wrang, 2018)

Regarding the berry market in Korea, Wrang (2017) has reported that South Korea has opened their markets for fresh blueberries import in 2011. As the export tariffs have decreased and will completely abolish, the prices have got more profitable to consumers. The demand for berries and berry based products continues to be strong. The East Asian consumers have become more aware of the berries' health effects, especially regarding bilberries which grow naturally in the Finnish forests. New berry products such as dried fruits, juices, oils, seals, tablets and yogurts, have come to the market. Fresh blueberries have flown to the stores mainly from Oregon USA and Chile. US Highbush Blueberry council (USHBC) has been actively marketing the health effects of blueberries in South Korea: According to Wrang (2017) many South Koreans have tasted blueberries for the first time in their life and comprehend these as health and beauty products. (Wrang, 2017)

Frozen blueberries are not part of the South Korean quarantine system, which is why the export from Finland has started within this category. Finnish exporters have good possibilities to open East Asian markets with the superfood, bilberry, the wild blueberry and with other berry based products. Bilberry stands out from the cultivated blueberry because of its healthiness and taste. Even though the healthiness and purity of the Finnish food products are valued, marketing efforts are needed to increase the awareness of bilberry. Food from Finland, the Food export growth program aims to open up new markets and the aim of the program is to help Finnish companies to succeed in the East Asian wild berry markets. (Wrang, 2017)

According to a report by the Finnish Ministry of Foreign Affairs from 2016 (Formin, 2016) Finnish companies in the food business would have an interest in increasing their exports to South Korea. Finnish foods and drinks do have a pure, healthy and organic reputation in Korea. Korean food business, especially foods with animal origin, is farfetched and export licensing processes are often slow. On the other hand, Finland's good reputation, its own activity and authentic food safety have recently promoted for example the licensing process of poultry meat. Overall, the South Korean economy is quite open. (Formin, 2016)



Toivanen, who is working for the Food from Finland program in Seoul claims that the Korean food market is currently characterised by a growing interest for safe and healthy food as well as convenient online grocery shopping. Together with the rise in disposable household incomes, these trends create a growing market for quality products such as natural food from Finland. An increasing number of Korean consumers are willing to spend money on good quality and healthy food as they are becoming more conscious of the food products' origin and content. This accelerating market for premium products is visible in such products' recent value growth on the Korean market. (Toivonen, 2018)

Euromonitor (2014) reports that South Korea has one of the lowest obesity rates in the world. However, a quarter of the population is classified as overweight and obesity is on the rise. Growing attention to this problem, in addition to an ageing population, is causing consumption of healthy foods and snacks to grow, with the largest beneficiaries being fruits, vegetables, nuts, granola bars, and meal replacement products. Consumers are looking for multifunctional effects from health and wellness products, leading manufacturers to invest in new product launches in this area. As seniors become a larger segment of the population, the South Korean government is increasingly concerned about keeping them fit and in good health. Government campaigns promoting healthy living and eating have led to increased consumption of healthy food items, especially fresh food and healthy packaged food subcategories, such as granola/muesli bars and soy milk products. The same healthy categories are also benefiting from growing attention to South Korea's rising obesity rate. Some busy consumers do not have much spare time to shop at stores, and this is one reason for the great popularity of TV shopping channels. The website Arirang TV ascribes its success to South Korea's excellent postal service and reliable delivery service. Generally, South Koreans are very comfortable with technology and it comes as no surprise that online shopping has grown significantly amongst consumers in recent years. (Euromonitor: Market Opportunity Report: SOUTH KOREA, 2014)





[홈쇼핑] 핀란드자일리톨

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Figure 6: Finnish Xylitol in Korean TV home shop (Youtube: Hnsmall, 2017)

Toivanen states that Finnish companies could for example compete in the Korean market with the following products:

- Organic berry/berry-based products and ingredients (powder, smoothie, juice, jam, etc.).
- Premium meat.
- Premium cheese.
- Super grains such as oats, cereal or confectionery (grain cookies & snacks, etc.).
- Other healthy food products.
- Baby food.

(Toivanen, 2018)

Soult claims that there is a rising interest in Finnish chaga mushrooms and birch sap. (Soult, 2018)

## 5.1 Food from Finland

Particularly interesting for this research is the Food from Finland program started by Finpro (Business Finland nowadays) in 2014. The objective of this program is to double Finland's food exports by 2020.



*Figure 7: Food from Finland logo (Food from Finland, 2017)*

According to Jani Toivanen, the program coordinator working in Seoul, the program facilitates the market entry for Finnish companies- Business Finland has approached Korea with a joint offering. The Food from Finland program, together with Business Finland in Korea, has presented Finnish food and beverage products to Korean companies, media and other stakeholders at several events in both Korea and Finland. (Toivanen, 2017)

Through this program, opening-up of new markets, finding the right partners and trading is carried out in close cooperation with Finnish companies. The main markets for the Food from Finland program are Scandinavia, the Baltics, Germany, China, South Korea and Japan. New markets since 2016 are the US and the Middle East. (Food from Finland, 2017)

The program director Esa Wrang claims that the program has been actively promoting Finnish food products in Seoul ever since 2014. Since the program started, the exports of Finnish foodstuff have increased with more than 40%. Reason why Korea is included in the main markets is that Korea's growth is fast, the consumers have a large purchasing power, they are quality conscious and health conscious consumers. Furthermore,

Finns have a good reputation in Korea. Xylitol is well known and has paved the way for other Finnish products. Blueberry is appreciated and this has opened doors for other Finnish companies. (Wrang, 2018)

The program manager Anna-Leena Soult believes that through the Food from Finland program the growth of Finnish products in the Korean market will continue. Business Finland has arranged two events per year in Seoul to promote Finnish food. Through the promotional events arranged by Business Finland in Korea it has been made easier for Finnish foodstuff organizations to gain visibility in the market. Business Finland has also invested actively in media marketing and there have been articles in Korean magazines about Finland. (Soult, 2018)



Figure 8: Finland Xylitol packages in Korea (Hsmoa, 2018)

The below statistics from the Finnish customs show the increase of the exports of Finnish foodstuff to South Korea from the year 2016 to 2017.

Exports from Finland to South Korea:	2016			2017		
	M€	Share %	Change %	M€	Share %	Change %
Foodstuffs	21	3,2	12	22	3,4	32
Furskins	20	3,2	-20	24	3,7	21
Timber products	14	2,2	36	17	2,6	49
Chemical substances and products	85	13,2	52	100	15,5	45
Wood products	30	4,6	-4	31	4,8	35
Paper and cardboard	39	6,0	-27	32	4,9	-1
Metals and metal products	70	10,8	-20	41	6,4	-32
Engines, industrial machinery and equipment	269	41,7	-11	261	40,5	13
Electrical machinery and equipment	55	8,5	9	72	11,3	82
Instruments, meters, etc.	23	3,6	1	19	2,9	5
Other items	18	2,9	-81	25	3,9	57
Total	645	100,0	-14	643	100,0	20

Table 2: Exports from Finland to Korea (Finnish customs 2018)

Now the Food from Finland program will organise its' first exhibition, a Finland country pavilion during the Seoul Food & Hotel exhibition, held in South Korea from 1-4.5.2018. This exhibition is an opportunity for the participating companies to meet with key importers, distributors and industry buyers from retail, catering and the hospitality trade industries across all of Korea. Following the exhibition in May, Food From Finland is also organizing a retail pop-up store in Lotte Department Store for companies who already have importers in Korea. Lotte Department Store is one of the top department stores in Korea and the pop-up store offers an excellent opportunity for companies that want to market their products and increase their presence in Korea.

(Toivanen, 2018)

## 6 THE CASE COMPANY- HELSINKI WILDFOODS OY

The case company of this master's thesis is Helsinki Wildfoods Oy, a company based on producing natural foods products established in 2016. Helsinki Wildfoods is a wellness brand that boosts the awareness of Finnish wild foods, nature hobbies and nature

tourism in Finland. According to the industry description the business covers almost everything from picking raw materials, product development, further processing to manufacturing and sales. In addition, the company's main business covers broadly various activities such as information, training, education, tourism and consulting services. (Kauppalehti 2017: Helsinki Wildfoods)

The activities of the company are mainly split into two sections- physical products and other services. Despite the young age and small size of the company, the company has so far achieved to efficiently use their resources to develop both sections of the business. The wide range of educational background, consisting of experts in the fields of economics, food, biology, communications, environmental management and photography in the company has certainly positively influenced the operations of the company. (Heinilä 2017: Helsinki Wildfoods).

According to Roosa Heinilä (2017) who is responsible for the company's business development and international business, the future goal of the company is to develop into becoming an expert in the field.

## **6.1 Raw material and products**

Helsinki Wildfoods products are listed as follows:

- wellness products
- birch sap, berry and sap beverages
- wild herbs, organic wild herbs
- berry powders, coarsely ground berries, dried berries
- berry juices, smoothies, berry soups, berry concentrates
- fresh wild berries, organic wild berries
- cultivated herbs, organic cultivated herbs
- herbal teas, other herbal product

(Arktiset aromit, 2017)

Raw materials used in the products of Helsinki Wildfoods consist of both naturally grown and semi-cultivated berries, mushrooms, herbs and natural products such as birch sap.

The current product range includes dried herbs intended for cooking or tea drinks, spice mixtures and beverages.

The company's products have a high degree of domesticity and almost all of the raw materials are of domestic origin excluding the Himalayan salt (country of origin Pakistan) which is the main raw material used in the Nettle Crystal Salt and Nettle Mushroom Salt. The products of the company are packed either in recyclable, resealable paper packages (sugars, dry products), glass bottles (beverages, oils) or plastic packages (salts).

(Helsinki Wildfoods 2017)

The product range of the company is currently relatively broad and according to the representatives of the company the product assortment will be narrowed down in future. The company has just launched a new product group called "Just Add", which consists of vegan, gluten-free, dairy free and sugar free natural herbal mixes, which they will invest in more in future. Comparing to the current product range, the Just Add- mixes are more refined and the use of the product is clearer. The Just Add product range consists of different natural, dried herb, berry and mushroom mixes for a variety of daily uses. By adding these mixes to other ingredients, one can prepare fast food meals or juices, smoothies, sauces, dips, pesto's and so on. The idea behind the product development is to develop products that are ecological, easy to use, functional, suitable for all ages, long-lasting, logistically reasonable and suitable for selling online. Currently the operations of the company focus on the domestic markets but the plan is to expand to selected markets in Europe and Asia during 2018-2019 with the new Just Add product range.

(Koponen 2017: Toivanen 2017)





Figure 9: Helsinki Wildfoods "Just Add" products(Helsinki Wildfoods, 2017)

## 6.2 Business Operations and Internationalization

Helsinki Wildfoods, which officially was founded in 2016, is a small micro company employing less than 10 persons, similar with most Finnish companies in the same industry. (Kauppalehti 2017)

The operations of Helsinki Wildfoods is only in the starting phase and therefore it is difficult to estimate the productivity due to lack of numeric data. There has been demand of products of Helsinki Wildfoods and during year 2016-2017 about 15 000 product packages were sold to a worth of EUR 70 000. Unofficially the operations of Helsinki Wildfoods started already in 2015 when the founding members started arranging foraging walks in Helsinki which then led to the production and sales of ready made natural herbal products already in the same year.

From the hobby-like activities in the beginning the founders have quickly moved to more professional, efficient and industrial business operations. In the beginning the products were picked, prepared, packed and delivered for sales by the founding mem-

bers themselves. Currently the raw materials are delivered by a wholesaler and selected vendors and the packing and logistic activities are outsourced. The sales are mainly conducted through the company's own online shop and through the online shops and retail stores of two enterprise partners. The products are delivered directly from the wholesaler through the logistic company to the consumer. Helsinki Wildfoods decided to outsource these certain activities in order to better focus on their core activity- research and development, marketing and sales, customer service and support activities of these. The organization mentions that the advantage of outsourcing is scalability, meaning that the business operations can expand without disturbing other activities. When it comes to sales, the company emphasizes the online sales model which seems to suit the sales articles of the company. Special provisions and high margin requirements of retail stores are mentioned as reasons to why the company favors their online sales channel. The objective of the company is to maintain and develop their own online channel as a primary sales solution, because it enables differentiation through advanced consumer engagement.

(Helsinki Wildfoods 2017)

Helsinki Wildfoods aims to reach the international market and the vision of the company has been labeled *"to become an international pioneer in healthy and ecological Finnish food by 2019"* (Kapanen 2017)

Growth in the natural products industry both in Finland and world wide is accelerated by a global welfare trend driven by phenomenas such as population aging, increased chronic illness, self-care and prevention of diseases becoming more common and a growing number of trained, educated consumers. As the products of Helsinki Wildfoods are vegan, gluten free, dairy free, sugar free and additive free they are very suitable for various special diets. Helsinki Wildfoods also states that it is committed to sustainable development by reducing the ecological footprint and to maintain the diversity and prosperity of the environment. According to Helsinki Wildfoods the company favors nearby companies, domestic raw materials and subcontractors, fair business practices, clean farming and sustainable packaging materials that are easily recycled. Helsinki Wildfoods emphasizes on their web page that their raw materials are clean, either picked wild plants or then ecologically and environmental friendly, without pesticides



cultured plants. The company states that they favor cuisine based on Finnish natural ingredients and want to raise awareness of the use of local plants. It is hoped that the culturing and picking of local plants will enliven and increase the rural business. The company reports that they carry out environmental responsibility by moving into using eco electricity at its premises and by using biodegradable packing materials. Furthermore, they encourage subcontractors and enterprise partners to do more sustainable and ecological choices. Helsinki Wildfoods states that they attempt to continually improve their production processes and keep their activities transparent without compromises, in order to meet the commitment on sustainable development. The company web page takes a broader stance on environmental protection, urban green spaces and forest welfare and the overall well-being of human beings that can be improved. (Helsinki Wildfoods 2017)

### **6.3 Brand and target group**

Helsinki Wildfoods has a strong understanding of the direction in which they want to take the company's brand. On both the company's website and in marketing materials, the company describes itself as a wellness brand specializing in Finnish wild food and native plants. In Helsinki Wildfoods marketing materials, wild food is not only about nutritious foods but part of a healthy lifestyle that involves ethical consumption, meaning vegetable-based, organic and responsible local food. Vegetarianism is also present on the company's website and products are marketed for a vegan diet. The company's written online marketing material and illustrations also present wildness, nature, naturalness, ecology, (including packages), well-being, holistic and on the other hand youth, urbanism, modernity, innovativeness, high quality, efficiency and trendiness- and the Finnishness that connects all this or rather the Helsinki spirit of urbanity that communicates Finnishness.

Helsinki Wildfoods is, by its name a brand that is clearly linked to Finland, but it does not aim to be a Finnish, but an international brand. For example, the company's aspiration to internationalize operations is reflected in the fact that the company's website and

marketing material as well as social media channels are completely in English. However, Finnishness is strongly present in the pictures and concepts. In brand identity Finnishness gains its significance from pure nature, forests, arctic and wildlife. The Helsinki spirit again brings, in opposite to the association of the Finnishness an urban, trendy and youthful nuance. Urban lifestyle meets wildlife in the brand of Helsinki Wildfoods.



*Figure 10: Helsinki Wildfoods logo (Helsinki Wildfoods, 2017)*

The company's consumer target is a consumer segment that understands and identifies with the company's products, imagery and set of values. The company describes its target group with the term "herbonists" which in their material is described as modern, nutrition sensitive consumers that want to improve their comprehensive well-being. Herbonists are described as consumers that are interested in the taste of the food, ease, origin, cleanliness and story behind the product. It is important for the target consumer to identify the ecology and the ethicality of the production chain, the attractiveness of the product packaging and display. The target consumers are also linked together by their use of social media. (Kapanen 2017)

## 6.4 Strengths, weaknesses, opportunities and threats analysis

Before a company begins to export, it must be clear what the goal is with the market establishment. In order to set the goals for a market establishment it is possible to assess the company's export competence i.e. see what skills are available at the company for a market establishment. It is therefore necessary to make an export diagnosis. In order to do this, a thorough analysis of the company's strengths and weaknesses must be made related to the goals of the market entry. The analysis also includes an overview of possibilities and threats. In other words it is a zero-position analysis or SWOT-analysis that the company should conduct. SWOT stands for strengths, weaknesses, opportunities and threats. The factors that should be considered in a SWOT analysis regarding a company include: finance, corporate governance, personnel, manufacturing, product range, marketing and international experience including language skills. Corresponding analysis should also be made of the company's most important competitors. When analyzing a company this method provides a good picture of a company's current situation and future opportunities. (Moberg, 2006)

Strengths, weaknesses, opportunities and threats (SWOT) analysis is a device that helps business managers to evaluate the strengths, weaknesses, opportunities and threats involved in any business enterprise. A SWOT analysis can help them gain insights into the past and think of possible solutions to existing or potential problems, either for an existing business or for a new venture (USDA, 2008; Nouri et al., 2008).

Specifically, SWOT is a basic and candid model that assesses what a business can and cannot do, as well as its potential opportunities and threats. The method of SWOT analysis is to take the information from an environmental analysis and separate it into internal (strengths and weaknesses) and external issues (opportunities and threats). Once this is completed, SWOT analysis determines what may assist the firm in accomplishing its objectives, and what obstacles must be overcome or minimized to achieve the desired results (Singh, 2010).

<p style="text-align: center;"><b>Strengths</b></p> <p><i>Finance:</i> 15000 items worth 70K € has been sold during one year</p> <p><i>Personnel:</i> Deep and versatile competencies including an economist and food scientist, nutrition expert, bio scientist</p> <p><i>Manufacturing:</i> Outsourced production and logistics</p> <p><i>Product range:</i> Products matching well with latest food trends: vegan, gluten free, local foods and superfoods- all with very small carbon footprint, ecological packages</p> <p><i>Marketing and International experience:</i> Powerful brand and high brand awareness. International online store</p>	<p style="text-align: center;"><b>Weaknesses</b></p> <p><i>Finance:</i> Financing requirements for international growth</p> <p><i>Personnel:</i> Retaining competent team with postponed rewards</p> <p><i>Manufacturing:</i> Availability of raw material in case of unexpected large orders during winter season</p> <p><i>Product range:</i> Limited amount of research on natural herbs, only selected species can be sold as food products, limitations set by EU legislation</p> <p><i>Marketing and International experience:</i> Limited experience in international markets. Limited research results on health impacts- marketing has to be based more on story-telling</p>
<p style="text-align: center;"><b>Opportunities</b></p> <p><i>Finance:</i> Possibility to significantly improve profitability through increased export volumes and new packaging technology of HWF's partners (ProPacker, raw ingredient supplier)</p> <p><i>Personnel:</i> By sharing responsibilities no one is overworked</p> <p><i>Manufacturing:</i> Outsourced manufacturing functions</p> <p><i>Product range:</i> Possibility to rapidly change product range according to needs of market. Endless possibilities in product development (expanding to other product categories eg. Food supplements, ice creams, cosmetics)</p> <p><i>Marketing and International experience:</i> Significant international demand potential created by the global megatrends such as urbanization, ecological awareness, sustainable development and health &amp; well-being. Opportunity to create a valuable well-being and wildfulness brand</p>	<p style="text-align: center;"><b>Threats</b></p> <p><i>Finance:</i> Uncertainties of general market and economic development</p> <p><i>Personnel:</i> Limited personnel resources as the company only employs less than 10 persons</p> <p><i>Manufacturing:</i> Difficulties to forecast demands and in case of sudden big demands, there might be difficult to produce the required amounts.</p> <p><i>Product range:</i> Limited experience with the new Just Add-product range. Not sure how suitable it is for international markets</p> <p><i>Marketing and International experience:</i> Possible new competitors entering nature wild foods business, large global players, trade barriers?</p>

Table 3: Helsinki Wild Foods SWOT (authors research)

According to the Helsinki Wildfoods SWOT made by the author after researches of the company, strengths for Helsinki Wildfoods are clearly their strong branding with their exotic and healthy natural foodstuff products. Furthermore, Helsinki Wildfoods has an own online store which works internationally.

Weaknesses at the moment is the lack of experience on the international markets. Regarding the manufacturing there may be production shortages during winter time due to lack of raw materials.

Opportunities are the growth of health-conscious consumers globally and HWF's possibility to change their product range according to the needs of the market.

Threats are the limited experience with the new Just-Add product range which is intended for the international market and also that in case of sudden high demands there may be challenges to produce the required amounts.

Growth prospects for natural food products companies such as Helsinki Wildfoods seems promising when taking the international trends into account. Lack of knowledge, experience, and financial resources are often seen as an obstacle to internationalization for small businesses. Helsinki Wildfoods is not lacking knowledge as the staff is represented by broad expertise in various fields. As a challenge, however, the company sees the lack of international experience, financial resources and the availability of raw materials for natural products and issues in forecasting demands. (Helsinki Wildfoods SWOT 2017)

## **7 RESULTS**

Qualitative data for this research was gathered through face-to-face interviews with managers and business owners at Finnish companies, mainly from the foodstuff industry, with experience from the Korean market.

The responses from the following interviewees are included in this research:

- Esa Wrang, Head of Industry/ Food Sector/ Program Director, Business Finland
- Jouni Ritola, Sales, Kyrö Distillery Company
- Marina Sabel, Managing Director, Riitan Herkku,
- Kim Finne, Business Owner, Arctic Birch
- Anna-Leena Soult, Program Manager, Business Finland
- Mikko Siitonen, Consultant on behalf of Mahla Forest
- Sanna Louhenkilpi, Export Manager, Delipap Oy

Kyrö Distillery Company is in the Korean market with Napue and Koskue Gin. Riitan Herkku exports blueberry soup and lingonberry beverages. Arctic Birch exports birch sap and birch sap flavored with Finnish berries. Mahla Forest exports birch sap, alcohol-free spruce champagne and lemonades made of berries. Delipap exports Bio-Vuokkoset and Moomin-diapers to Korea.

Questions that were asked were related to the backgrounds and reasons why exports of the products to South Korea was started, what kind of external services they have used when starting the exports to Korea, what products they chose to export and if there have been needs to modify their products to fit into the Korean market. Questions regarding choice of market entry strategy and distribution channels were also asked. Furthermore, there were discussions on the challenges they have faced in the market, costs and how the marketing has been implemented and how they have reached their target groups.

## **7.1 Why Korea?**

According to the Food from Finland Program Director, Esa Wrang, reasons why Finnish foodstuff organizations decide to go abroad is that there is no growth in the domestic market and the competition on the Finnish market is very tight. Wrang claims that there are only two main distributors in Finland- S-group and K-group, meaning that there are limited possibilities for growth. Therefore, companies have been pushed to go abroad. South Korea has large market opportunities and the competition is not as hard as in Europe. However, Wrang emphasizes that nothing comes for free in Korea. (Wrang, 2018)

Kyrö Distillery has been targeting to the international markets ever since the company was established in 2014, Jouni Ritola responsible for Sales at Kyrö Distillery states. The company representatives were on tour in Asia already in 2015, when their position in the domestic market was still only taking shape. According to Ritola, they have received very positive feedback in Korea but like Wrang, also Ritola emphasizes that nothing comes easy in Korea. In Kyrö's case the product is difficult as Koreans have a very strong drinking culture with their own Soju (소주) and Korean beer bomb and they are not so familiar yet with Gin. However, Kyrö was recommended to their current Korean importer by Lotte Department store, which is a highly valued Korean retail company. Ritola claims that Korea is a very authoritarian country where references are important and without them it might be difficult to succeed. (Ritola 2018)

Marina Sabel, the Managing Director of Riitan Herkku mentions that the Finnish market is very small and that was the main reason why they decided to go abroad. However, they did not specifically target to the Korean market but it was more of a coincidence that they started their exports of blueberry soup to South Korea as they met their current importer who showed interest in their product at a food exhibition in Paris. Of course, they were aware of that Asia, including China and Japan, is a potential market and that there is interest in Nordic berries, especially for exotic and healthy blueberries. (Sabel 2018)

Kim Finne who is the Business Owner of Arctic Birch explains that they experience Korea like a gateway to Asia for their type of product. Also, Korea is a potential market from where to start their expansion from, because the interest in healthy and natural

foodstuff products in Korea is high. In spring 2018, Arctic Birch is in the starting phase of expanding to Korea. The local importer was met at a Nordic food event in Seoul arranged by Food from Finland. According to Finne they had received requests from Korea before the event, but only after the actual visit to Seoul they had an agreement with the local importer. Finne claims that in order to do business in Korea physical presence and meeting the local people in the market is necessary. (Finne 2018)

Anna-Leena Soult, Food from Finland program manager at Business Finland confirms that the main reason why Finnish foodstuff enterprises go to Korea is that it is smaller than China and it is an easier market to start from compared to China and Japan. Also, Food from Finland has arranged promotional events, seminars and other campaigns in Korea for Finnish foodstuff organizations which has made it convenient for the exporting organizations to go there and meet potential customers and importers. (Soult, 2018)

Sanna Louhenkilpi, Export Manager at Delipap, states that in the beginning the exports to Korea was very small-scaled and Korea was never a priority market. Coincidentally Delipap met their current importer at an exhibition from where the negotiations started and after some time they received permission for importing their products into South Korea. Louhenkilpi claims that it is very difficult to find a good importer who has the correct experience and contacts in the industry and who has the capacity to concentrate on selling your product. The importer which Delipap utilizes in Korea is highly valued. (Louhenkilpi, 2018)

In the case of Mahla Forest, Korea was the destination because the organization was motivated to increase its sales even though the Finnish market was not under complete control at the time, the export consultant Mikko Siitonen explains. The company had an optimistic vision that their exotic product could do well internationally. Mahla Forest was taken to Korea through the events arranged by the Food from Finland program. (Siitonen, 2018)

When asked about what external services enterprises have utilized when beginning their exports to Korea, Wrang lists a number of service providers in the Food from Finland network. There are more than 80 different service providers in different countries such



as fair design offices, logistics companies, promotional companies, online stores, chefs that do promotional events in restaurants. Wrang highlights that it is impossible to expand to Korea alone, without external services. (Wrang 2018)

Soult adds that Business Finland also provides market researches and interpreter services for their members. (Soult, 2018)

Arctic Birch has used an external company that translated their web page and marketing materials such as brochures into Korean. Also, they use an external company who will join promotional events in Seoul. (Finne, 2018)

Riitan Herkku has not used any external services as their importer in Korea has taken care of all logistics and marketing functions. Sabel claims that the local importer has expertise in the Korean market, so there has not been much needed from Riitan Herkku side regarding the marketing and promotional events (Sabel, 2018)

## **7.2 Adaptation to the Korean market**

According to Wrang, Finnish organizations have had to modify their packaging of their products to better fit the needs of the Korean market. Companies also need to reconsider the marketing and pricing of their products when entering the Korean market, not only because of cultural differences, but also because Finnish products are classified as premium products targeted to high income class consumers in the Korean market. Furthermore, the distribution channels in Korea work differently than in Finland. If the products are distributed in the Hotel/Restaurant/Café (HoReCa) sector, then the modifying needs are less than if distributed in the retail sector. Products distributed in retail stores have a lot of adaptation needs, i.e. the products that go to Lotte, which is the largest retailer in Korea, require a lot of modification. (Wrang, 2018)

Kyrö Distillery Company has only modified the etiquette on the Gin bottle with product description in Korean and also a description of the disadvantages and risks of consuming alcohol to fit the Korean standards. (Ritola, 2018)

The packaging used for the products that Riitan Herkku exports to Korea are printed in Korean language. Otherwise the packaging looks as on the Finnish market, but the description of contents and nutrient values and the name of the importer are mentioned in Korean on the back according to Korean law requirements. (Sabel 2018)

Arctic Birch is only delivering their first shipment to Korea at the time when this research is done, so they have not so much of experience regarding the packaging requirements on the Korean market yet. The product has been shipped to Korea as it is in the Finnish market, however, the importer will add a Korean etiquette with the product information and other required information on the back. (Finne, 2018)

Delipap have received specifications from their importer regarding the requirements for the packaging for the Korean market. Also, they have modified the size table on the packaging for Moomin-diapers due to Korean standards. Otherwise, Delipap's products are the same in the Korean market as in Finland. (Louhenkilpi, 2018)

Siitonen has also experience from exporting products of the Finnish company Puhdistamo to Korea. In Puhdistamo's case they have modified the products a lot to better fit the Korean market. E.g. chaga mushroom will be exported in a form of chaga mushroom pate, while chaga mushroom is sold in the Finnish markets as powder. In this case, the product is completely different in Korea compared to Finland. Furthermore, Puhdistamo's packaging in Korea is entirely modified to the Korean markets. Also the packaging of Mahla Forest's birch sap has been modified especially for exports (Siitonen, 2018)



*Figure 11: Mahla Forest birch sap for export markets  
(Mahla Forest, 2018)*

### **7.3 Target group, market entry mode, distribution channels**

According to Soult there has to be a local importer in Korea when exporting into the market, it is really difficult for foreign companies to export any products to Korea without an importer. (Soult, 2018)

Wrang states that the choice of target group is decided by the industrial consumer. E.g. Finnish berries are exported to Korea for further processing purposes for the food industry but also for the cosmetic industry. Then again, the pricing of retailer products is high and therefore Finnish products belong to the Premium segment because of high marketing and logistics costs and due to this Finnish foodstuff products are targeted to high income consumers. (Wrang, 2018)

Furthermore, Soult explains that in e.g. the case of Kiantama, which is exporting Finnish berry products to Korea, that the products are both sold in retail stores directly to the consumer but also as a bulk product as berry powder to the cosmetics and foodstuff in-

dustries. When beginning the exports to Korea Kiantama was targeting to both the retailers and the industry sector, but now the importer has targeted the product more to the industry. Which again leads to lower pricing as the final product is packed and processed in Korea. When it comes to the distribution channel, a lot depends on the importer. Brand conscious exporters are more aware of where they want to sell their product, e.g. if they want to have their product in Lotte, then they negotiate with Lotte and in case Lotte is interested then Lotte is the one who decides which importer is used and Lotte recommends the exporter to the importer. (Soult, 2018)

Kyrö Distillery Company sells their products through smaller independent distributors which also sells products of other exporters in Korea. In future the company may straighten their distribution system which now involves the importer, distributors, retailers, restaurants and bars in order to get closer to the end consumer. (Ritola, 2018)

Riitan Herkku's products are sold in Home plus, which is one of the biggest supermarket chains in Korea. The product is in the current situation not targeted to any specific consumer group in Korea. (Sabel, 2018)

The target consumer of Arctic Birch is one that is health conscious. The company has only needed to search information on what export papers are needed from their side when exporting to Korea. The importer will take care of the distribution of the birch sap in Korea and at the time of the research there is no experience on how the product has been further distributed to the market, because only the first delivery is shipping to Korea at the time when the interview was done. (Finne, 2018)

In case of Delipap, which does not export foodstuff products, but their products are classified as medical products in Korea, the distributors define the target groups and distribution channels. However, the importer introduces the distribution plan for Delipap to approve before distribution starts. The products are sold in the premium product group such as premium department stores like Lotte or pharmacy chains for high income consumers. Louhenkilpi states that their products are also sold in TV home shops in Korea.

TV shops are very popular in Korea among the housewives and a big share of Delipap's sales in the market is through the TV home shopping concept. (Louhenkilpi, 2018)

Siitonen has exported products of Puhdistamo and Mahla Forest to Korea but also products of the Helsinki Distilling Company. Mahla Forest and Puhdistamo produce health stuff foods and these are targeted to health-conscious consumers while the alcohol products of the Helsinki Distilling Company are marketed as an exotic arctic product because Northern products are generally interesting in the Asian markets. Siitonen emphasizes that there are four big distributors in Korea and it is very challenging to get an agreement with any of these. Furthermore, Siitonen states that the products do not sell themselves, one has to focus on the marketing functions in order to get the consumers to buy the products. (Siitonen, 2018)

Toivanen states that online grocery shopping is trending as an increasing number of Korean women are working, which means that families have more money but less time for cooking. As a result, both existing and new internet retailers increasingly start to offer food products and drinks with home delivery. This popularity is reflected by the value of F&B retailing growing with 15 % between 2016 and 2017. The internet retail sales of food and drinks also grew by 97 % in real terms between the years 2011 and 2016. As an answer to the demand, Korean food and beverage companies now increasingly seek products that could be described as organic, natural, healthy and wild and that has no additives or preservatives. Here Finnish suppliers have a competitive advantage as the country's clean nature and high-quality food products have a good reputation in the Korean food industry. (Toivanen, 2018)

Soult from Business Finland mentions that Market Kurly, which is a startup online store for groceries, is trending in Seoul for a couple of years now. Representatives of Market Kurly have visited Finland at events arranged by Food from Finland and they have negotiated and met with Finnish foodstuff organizations. Soult explains that Market Kurly has a creative delivery method in Seoul- they deliver the shipments in the small hours when there is no traffic in Seoul. (Soult, 2018)

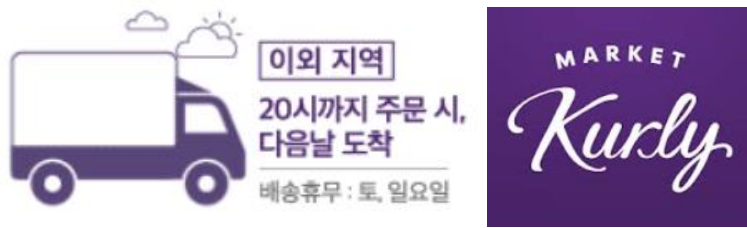


Figure 12: Logos of Market Kurly online store (Market Kurly, 2018)

## 7.4 Costs

One of the biggest costs during the early stages before starting the export, is the travel costs when searching for potential distributors. When looking for a suitable distributor, generally, certain features should be considered such as what brands they have in the portfolio, what kind of sales organization they have, how convincing they are and how much they want our brand there to their portfolio, Ritola from Kyrö Distillery Company explains. Then also in the early stages there might be costs for product registration processes and those can take a lot of time. (Ritola, 2018)

According to Sabel there have not been any significant costs except the travel costs to the destination country when starting the exports to Korea, however printing new packaging for the Korean market has caused some additional costs, (Sabel, 2018)

Finne from Arctic Birch also mentions the travel costs. Then there have been costs for translations of the marketing materials such as brochures. Arctic Birch has also translated their webpage to Korean (Finne, 2018)



### 북극자작나무 음료의 장점

Figure 13: Arctic Birch webpage in Korean (Arctic Birch, 2018)

Soult mentions that for berry products the exporting organizations need to have a radiation certification and these can cost several thousand euros. Also, there are requirements for quality certificates in Korea and many organizations invest in these. Logistic costs can be very high. Soult mentions one Finnish enterprise that started exporting fresh pasta to Korea, but due to high logistic costs the company had to stop exporting this product to Korea. It is very important to choose a profitable freight solution when exporting as far as to Korea. (Soult, 2018)

Louhenkilpi mentions travel costs when exporting to Korea and then occasionally there are launching costs of new products. However, the launching costs are shared with the importer. (Louhenkilpi, 2018)

Siitonen claims that travel costs, printing of marketing materials and translations are the most significant costs. (Siitonen, 2018)

## 7.5 Challenges

There are certain challenges that should be considered when exporting to Korea, e.g. the culture differs from the Finnish culture, language barriers, partnership negotiations take time, the hierarchical negotiation culture is dominant and often one should negotiate with several organizational levels before a contract is signed. It is also challenging to understand the consumer needs in the Korean market as the consumption habits differ from Europe. The logistic solutions can be demanding: the exporting organizations need to see that their loads and freight costs are reasonable and to consider whether transport costs can be shared with other suppliers because of the long distance to Korea. (Wrang, 2018)

For Kyrö Distillery Company the biggest challenge in Korea has been that the consumers are not so familiar with gin as a product yet and the market is therefore very limited. On the other hand, Ritola sees this as an advantage, because once the gin boom reaches Korea, then Kyrö will be one of the first suppliers of gin in the market. Ritola also mentions the cultural differences which may cause misunderstandings and conflicts. Also, the language barriers have caused trouble from time to time. (Ritola, 2018)

Sabel on the other hand mentions that doing business with Koreans have been much smoother than with the Chinese or Japanese and that they have not faced any language problems in the market. (Sabel, 2018)

Finne at Arctic Birch mentions that they have had challenges with the language and the Korean communication culture. The negotiations take time but once the Koreans make a decision everything seems to move on very fast. (Finne, 2018)

Soult claims that when doing business with Koreans, one has to remain persistent, because in the beginning it might seem like there is a lot of interest for your product and decisions are made quickly but it might take years to actually get any sales to Korea. For some Finnish foodstuff organizations, such as producers of ice cream, poultry products and eggs there have been ongoing negotiations for years regarding the export permit of their product to Korea. In some cases, the Korean protect their own production



but in some cases, it is also a political game according to Soult. Furthermore, Soult mentions challenges with the choice of importer, the bureaucracy and language barriers when exporting to Korea. (Soult, 2018)

The political game explained by Soult is confirmed by the report from the Finnish Ministry of Foreign Affairs (Formin) (2016) According to Formin, several foreign companies have reported that they have faced discriminating or unfair treatment with Korean companies. According to a survey conducted by the European Chamber of Commerce the business environment has become more difficult for European companies. Many foreign companies have experienced that they have lost business opportunity in South Korea due to regulatory barriers or barriers to entry. The treatment of foreign companies differs from sector to sector. Some companies feel that the situation has turned to the better, but still many say South Koreans discriminate foreign companies. (Formin, 2016)

Delipap requests sales permissions from the Korean Ministry of Food and Drug Safety (MFDS) and Louhenkilpi mentions this as the most challenging part of the exports to Korea. MFDS require information and a certificate of each raw material used in Delipap's products from the raw material suppliers before the sales permit can be requested from the institution. Before MFDS approves the sales permit to Korea they require a sample for testing purposes from three production batches. Louhenkilpi claims that the process to get the permissions to export to Korea are very complicated. (Louhenkilpi, 2018)

The most challenging part for Mahla Forest has been to find the right distributor. In Korea your references are very important and in order to do succeed in Korea, recommendations from other important players in the market are needed. Siitonen states that if a bigger Finnish exporter of i.e. pork, which is not in competition with birch sap, recommends the Mahla Forest products to their own importer or distributor, then it would be much easier for Mahla Forest to negotiate with a good distributor and get their products into the Korean market. (Siitonen, 2018)

## 7.6 Marketing

At this stage Kyrö Distillery Company is still in the trade marketing area, meaning that they are aiming to the wholesalers, bartenders and all the people that work as messengers to the end consumer and who also have the opportunity to offer Kyrö's product and be able to make it available in the Korean market. All the marketing efforts are therefore at this stage concentrated only to this chain, in other words the message from the importer to the distributor, from the distributor to the wholesaler and the wholesalers message to the bartender. Also, it is important that the message of the company would be described as credibly as possible to the end consumer. Once this part is in shape and the product is available in the shelf- in the restaurants, bars, shops or anywhere where a Napue bottle can be purchased, then the organization will start on focusing on the marketing directly to the end consumer in Korea. The message is communicated to the buyers through story-telling, transfer of various point of sales materials, the opening of the digital media bank and displaying of various tools to them. (Ritola, 2018)

In Riitan Herkku's case the importer has taken care of the marketing functions in the Korean market. (Sabel, 2018)

Arctic Birch has been promoting their products mostly at the events arranged by Food from Finland in Korea and also through partners. Currently it is only the importer of Arctic Birch's products that takes care of the marketing in Korea. (Finne, 2018)

Louhenkilpi states that TV home shop is one big marketing channel of their products in South Korea. Koreans experience that once a product is sold in TV home shop, then it has to be of a very high quality because the purchasers are very strict on what products are sold in TV home shop. Furthermore, the importer takes care of a large part of their marketing functions. According to Louhenkilpi charity work is important in Korea and Delipap takes part in a charity program where when the consumer buys one item of Delipap, then one item produced by Delipap goes to charity. (Louhenkilpi, 2018)

Siitonen states that their brands are only marketed through social media and bloggers in Korea. They have also developed a marketing game for the Korean market which works

very well in a metropolis like Seoul. The game works so that once per week a link is shared to their social media followers in Seoul and once the user follows the link a map is opened with directions to a specific place in Seoul. At this specific place a table is served with their brands for eight people and then two of these people win a trip to Finnish Lapland. (Siitonen, 2018)

## **8 CONCLUSIONS AND SUGGESTIONS FOR THE CASE COMPANY HELSINKI WILDFOODS OY**

This research claims that consumers in South Korea are looking for high value, healthy and convenient food products of good quality. Furthermore, Northern products are highly valued in Korea and seen as something exotic. The natural plant ‘Just Add’- product group by Helsinki Wildfoods would be a great competitor in the Korean food market. The interviewees confirm that Korea is like a gateway to other Asian markets, while it is not as big as the neighboring countries China and Japan.

Although Korea is considered a country which is easier to conquer than the neighboring markets, a smaller foodstuff enterprise that is only starting the export to the country, should make sure that they are supported by a reliable importer who can take care of the import declarations, distribution of the product to the retailers and provide market information as well as promotion of the products.

Importers can be met via various strategies. However, in Helsinki Wildfoods’ case, the easiest solution to meet potential importers and distributors would be to join the Finnish Food promotion events arranged in Seoul and in Finland by the growth program Food from Finland. After the initial contact with the potential importer Helsinki Wildfoods can send various marketing materials, like product brochures and samples, as well as detailed price lists to the food importer. Finally, after these steps, exporters should focus on personal visits which are very important for companies who want to succeed in Korea.

Radiation certificates are needed for e.g. berry products when exporting to Korea. Helsinki Wildfoods should therefore check if any certificates are required for their products in Korea. Getting the required certificates can be costly and also translations of packaging and brochures may increase costs when starting the export to Korea. Once there is a contract on the first shipment to Korea, Helsinki Wildfoods should check if any translations are needed from their side regarding the etiquette on their packaging. Possibly the local importer takes care of printing the Korean etiquettes.

Logistic solutions can be demanding because of the long distance to Korea from Finland. Helsinki Wildfoods should calculate how to ship to Korea so that the freight costs remain reasonable. In some case it is possible to share the freight costs with other producers that export from Finland to Korea.

None of the producers that were interviewed for this research had experience of selling their products to Korea through an online store. In other words, no valid data from online sales to Korea was gathered. However, the program manager of Food from Finland mentioned that online shopping is on the rise in Korea and Food from Finland has cooperated with a local online platform for groceries named Market Kurly. Market Kurly has also visited Finland to meet local producers.

Generally, Finnish food products are in the premium group targeted for high income consumers and the pricing of Finnish foodstuff is higher than average food products in Korea. The pricing is high because of i.a. high freight and marketing costs. The suggestion is therefore that Helsinki Wildfoods should aim to Lotte department store or smaller organic stores in Seoul where the consumers are in the higher income class.

Regarding the marketing functions and promotional events in Korea, a majority of the interviewees mentioned that they have gained visibility in the destination by joining the events and exhibitions arranged in Korea by Food from Finland. The local importer has also taken care of marketing and launching of the exporters products in Korea as the local importer has expertise knowledge in the market. However, nothing comes for free in Korea and it requires hard work to succeed in the market.

The result of this research is a suggestion for Helsinki Wildfoods to start their exports to the Korean market as indirect export through a local importer. This result is both supported by most of the interviewees who are conducting indirect export through their local importer into the Korean market and by the statement by Kotler et al. (2008) that companies typically start with indirect exporting, working through independent international marketing intermediaries. (Kotler, Armstrong, Wong, Saunders 2008)

Indirect exporting involves less investment because the firm does not require an overseas marketing organization or networks. It also involves less risk. International marketing intermediaries- home-based export merchants or agents, cooperative organisations, government export agencies and export-management companies-bring know-how and services to the relationship, so the seller normally make fewer mistakes. (Kotler, Armstrong, Wong, Saunders 2008)

According to Holmvall et al. (2010) an importer is a company that purchases the product into the importing country and then sells it to the customer or retailer. The exporter has access to a company with built-in local customer contacts and knowledge of the local market (Holmvall, Åkesson 2010)

The pros of using an importer as an intermediary when entering a new market through indirect export are that the entry cost is low, the staffing requirements are low and the marketing costs are low as mentioned in the table by Daskiewicz and Wach (2012) on Advantages and Disadvantages of Different Modes of Internationalization. (Daskiewicz and Wach 2012)

The low marketing and entry costs when using an importer when entering the Korean market is also confirmed by the interviewees Finne at Arctic Birch (2018) and Sabel at Riitan Herkku (2018).

However, one has to be aware of the disadvantages when using an importer. One major disadvantage is that the producing enterprise does not have direct contact to the end customer and therefore does not gain much knowledge in the foreign market. The exporting enterprise is fully dependent on the domestic intermediary e.g. the importer. Moreover, there is a low profitability of the transactions. (Daskiewicz and Wach 2012)

Suggestions on further researches related to exporting of Finnish foodstuff products to Korea could be on how to export through online stores or how to establish a branch office in Korea.

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# APPENDICES

## INTERVIEW GUIDE

1. What was the starting point and purpose to begin exports to Korea? Has the starting point been, for example a decrease in domestic demand or the purpose of compensating seasonal variation?
2. What kind of external services have you purchased when starting the expansion to South Korea?
3. What products / product have you exported to Korea? Why has this product been the best product in terms of competitive advantages?
4. Have you had to adapt the product to the Korean market due consumption habits, measurement systems, legislation, technical regulations or trade barriers?
5. How have you chosen your target group, distribution system and export channel for export? Have you practised direct export where the products are sold directly to the target group or are you using an intermediary or do you cooperate with other export companies?
6. What kind of practical costs have occurred at the start of export operations to Korea?
7. What challenges have you encountered when starting your expansion to South Korea?
8. How have you marketed your product for the target group in South Korea?
9. What do the Koreans think about your product?
10. How will the export of your product to Korea look like in the future?