

Veera Kakko

ASSESSMENT OF LICENSING OPPORTUNITIES IN  
SINGAPOREAN TEA MARKET-  
CASE COMPANY X

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MARKKINAKARTOITUS LISENSOINTI MAHDOLLISUUKSISTA  
SINGAPOREN TEEMARKKINOILLA, CASE: YRITYS X

Kakko, Veera  
Satakunnan ammattikorkeakoulu  
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Opinnäytetyön tarkoituksena oli kartoittaa kansainvälisiä lisensointimahdollisuuksia eurooppalaiselle pakkausalan case Yritys X:lle ("CX") sekä määrittää kriteerit joiden mukaan näitä mahdollisuuksia arvioidaan. Kansainvälistä liiketoimintaansa aloittava case-yritys lisensoi tealalle soveltuvaa biohajoavaa pakkauskeksintöään teebrändeille, hotelli-, kahvila- ja ravintola-alan omille tuotemerkeille sekä pakkausvalmistajille. Tämä opinnäytetyö keskittyi Aasian markkinoista etukäteen valittuun Singaporeen, jonka liiketoimintaympäristöä tarkasteltiin erityisesti lisensoinnin ja aineettomien oikeuksien suojaamisen kannalta sekä arvioitiin mahdollista kysyntää yrityksen teepussipakkauskeksinnölle paikallisella teemarkkinalla. Jatkossa case-yritys voi käyttää tutkimuksesta saatuja kriteerejä avuksi määrittäessään muiden Kaakkois-Aasian markkinoiden potentiaalia.

Tutkimus oli luonteeltaan tapaustutkimus, jonka suoritustapaan sovellettiin kvalitatiivista metodologiaa. Tutkimuksen teoreettinen osuus keskittyi esittelemään tarvittavan pohjatiedon aineettomista oikeuksista, lisensoinnista ja kansainvälisten markkinoiden valintakriteerien määrittämisestä sekä käytettävistä analysointimenetelmistä. Empiirisessä osiossa case-yrityksen johdon haastatteluiden perusteella muodostettiin markkinanvalintaan vaikuttavat kriteerit, joita verrattiin Singaporen liiketoimintaympäristön ja tealan analysoinnista saatuihin tuloksiin.

Singapore on teenkulutukseltaan yksi Aasian pienemmistä markkinoista, jossa suuret kansainväliset brändit, kuten Lipton ovat markkinajohtajia. Singaporeen on kuitenkin viime vuosien aikana perustettu paikallisia premium- ja luksusteebrändejä, jotka myyvät mm. pussiteetään verkkokaupan tai jälleenmyyntikanavien kautta maailmanlaajuisesti. Singaporessa vierailee myös vuosittain kasvavissa määrin turisteja mm. Iso-Britanniasta ja Japanista, jotka ovat globaalisti suuria teenkuluttajia.

Tutkimuksen tuloksena todettiin, että Singaporen liiketoimintaympäristön puolesta useat vapaakauppasopimukset, kehittynyt aineettomien oikeuksien suojaus ja valvonta sekä pyrkimykset kierrättämisen lisäämiseen ja innovaatioiden hyödyntämiseen tarjoavat mahdollisuuksia. Case-yrityksen määrittelemien kriteerien osalta Singaporen mahdollisuudet lisensoinnin kannalta ovat ideaaliset, mutta teemarkkinan osalta vielä rajalliset. Lisäksi, Singaporen yleinen liiketoimintaympäristö sekä osittain myös tealan trendit tukevat mahdollisuuksia. Sen sijaan case -yrityksen omat kyvykkyydet ja resurssit eivät nykyisellään tue uusille markkinoille laajentumista.

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Kakko, Veera

Satakunnan ammattikorkeakoulu, Satakunta University of Applied Sciences

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The purpose of this thesis was to assess international licensing opportunities for a European case Company X (“CX”) operating in packaging industry and define the criteria of how these opportunities are assessed. The CX is beginning its operations internationally by licensing the right to use their biodegradable packaging innovation for tea brands, the private labels of hotels, cafes and restaurants (HoReCa) as well as packaging manufacturers. This thesis focused on licensing opportunities in Singapore, which was chosen beforehand among Asian markets. The business environment of Singapore was researched especially from the perspective of licensing and protection of intellectual property rights (IPR), as well as by evaluating possible market potential for company’s biodegradable teabag packaging innovation in a local tea industry. In future the case company can use the established criteria as a base also for their assessment of licensing opportunities on other Southeast Asian markets.

The research was conducted as a case study and applied with qualitative methods. Theoretical part focused on the necessary background information regarding to IPR, licensing, international market selection criteria and the basics of used analysing methods. In the empirical part the CX’s management was interviewed to define the assessment criteria which was compared with findings from the analysis of Singaporean business environment and tea industry.

Singapore is one of the smallest markets in Asia regarding domestic tea consumption, where multinational brands such as Lipton are market leaders. Although in recent years in Singapore have been established local premium- and luxury bagged tea brands with global distribution channels via e-commerce and retailers. In addition, Singapore receives annually growing numbers of visitors from traditional tea countries such as Japan and the United Kingdom.

As the results of the research were found that behalf of Singaporean business environment, in favour are the multiple free-trade agreements, developed the protection of IPR, as well as the recent efforts for increasing the recycling rate and boosting local companies to license or acquire innovations. According to market criteria defined by the CX, Singapore has an ideal business environment for licensing although limited opportunities in the tea market. In addition, the business environment of Singapore in general as well as partly the trends in tea industry supports the opportunities. However, the current competencies and resources of the CX do not support expanding to new markets.

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## 1 INTRODUCTION

The lack of protection of intellectual property rights has been a problem especially in Asia, where many western companies in the past have had cautions on entering markets through licensing. (Kotler, Keller, Ang, Leong & Tan 2012, 794; Hollensen 2014, 373-374.) Thus, how does a licensing company decide on the markets where to start their internationalisation and looking for potential partners in? There are several existing theories and models on the international market selection process, such as the two-stage model used by Rahman and Gaston-Breton & Martín Martín although none of them solely match with a company that business model is purely focused on licensing. Therefore, the objective of this thesis will be on implementing some of the key theories and models for the market selection process and adapt tools used in these models to assess markets with a licensing perspective.

The chosen market to be looked closer will be Singapore. Singapore has mentioned to be one of the most advanced economies in Asia, and to have established a robust and stable governmental system which favours education and the enhancement of its labour force. In recent years, Singapore has succeeded by increasing of their intellectual property capita and improved their ability to innovate. (Tarulevicz 2013, 10-11; World Economic Forum 2015, 23-24) The Company X (“CX”) is a European start-up whose packaging technology has been utilised for the purposes of beverage industry and especially to tea bag packaging. Therefore, the focus on Singaporean markets will be on tea industry and surrounding factors influencing on licensing and potential customers in Singapore. Tea, globally, is now the second most consumed beverage after water. In recent years, the demand for tea and especially tea consumed in tea bags, has been increasing even in countries who have not been generally categorised as tea drinking nations or traditional tea countries. (Website of the Tea Association of the U.S.A. Inc. 2015; Dufrière 2016, 38) The increased demand has attracted new entrants to tea industry, especially to markets where major global tea brands owned by Unilever and Twinings are market leaders, as there is demand for differentiation. This research is

important for the CX to give suggestions and knowledge in the current situation of Singaporean business environment and tea market.

This research focuses on the assessment of Singaporean tea market through defining the macro features affecting business environment, and micro features affecting industry. Study begins with forming the layout and structuring of the problems and starting points, such as the description of CX and background on licensing intellectual property. The theoretical part will focus on the market assessment criteria, the business environment analysis by using PESTLE and the tea industry's competitiveness by using Porter's Diamond. The empirical part is constructed through interviews, researcher's observation and benchmarking to form market selection criteria for the CX and define their own competencies to operate in Singapore. The opportunities and threats of the business environment of Singapore and tea industry will be analysed and compared with criteria and finally with the CX's competencies, to estimate the licensing opportunities in Singaporean tea market for the CX.

## 2 PROBLEM SETTING AND CONCEPTUAL FRAME OF REFERENCE

### 2.1 Research Problems and Objectives

The purpose of the research is to identify the market selection criteria for the case company and compare these criteria with possible licensing opportunities in a foreign tea market. The researcher has chosen Singapore as an object of this study down to the relatively small size of the island and the success in international business environment and IPR protection rankings. As a multi-ethnic nation, research on Singapore might give perspectives on general characteristics of Asian cultures and ease the further research on other markets.

The main research problem in this research is whether in the Singaporean tea market is licensing opportunities for the CX. These opportunities are scoped by factors supporting licensing in Singaporean business environment and favouring circumstances

in the tea market. In order to define whether these opportunities are to be reckoned with the CX's operations and strategies, the company's own competencies will be looked through interviewing the CX's management team. The objectives of the research have been modified to following research questions, which form a basis for gathered data and analysis.

- 1 What are the Company X's criteria for a new market?
- 2 What are the opportunities and threats for licensing in Singapore?
- 3 What are the licensing opportunities in the Singaporean tea market?
- 4 What are the recommendations for the Company X on foreign licensing actions?

The CX can use the findings of this research as a background information in their decision-making for foreign trade operations in Southeast Asia and it will offer them information on market assessment and licensing in Singapore. The research will look licensing in a commercial perspective and does not withhold specific legal details. Before entering markets, one should consult the expert of the target country laws and legislation to have as binding contracts as possible.

## 2.2 Conceptual Framework

The purpose and objective of this research is to examine the opportunities in the Singaporean market from the aspects of licensing packaging innovation to tea companies. The structure of the research process, the key concepts and their relation to each other can be seen in Figure 1. The key concepts of the research include Intellectual Property Rights (IPR), IPR's protection and licensing, and market assessment. Certain licensing terminology is used, which are explained in the Background of the Research –chapter. In the same chapter, the description of the Company X and the definitions of the concepts of IPR and licensing will be covered.

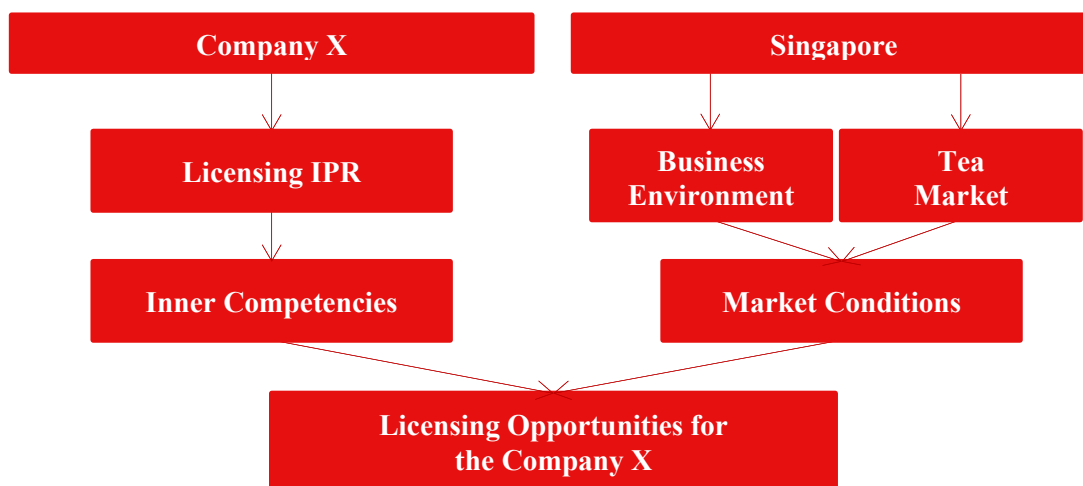


Figure 1. Conceptual framework for assessment of licensing opportunities

The theoretical part will include advises for market assessment from the South-East Asia IPR SME Helpdesk and Rahman's study on Australian SME's international market selection criteria. The data created by this research will look at these theories and models from a licensing perspective. The extended PEST with –LE is used for assessing the intellectual property protection laws and the market's awareness on environmental issues. The factors of PESTLE in Singapore are first scoped on global level, through looking at the ranking of Singapore in global indicators such as World Bank's Ease of Doing Business ranking. In the Porter Diamond, the focus will be on how the business environment of Singapore contributes to the competitive advantages of local tea industry.

In the empirical part the CX's management team is interviewed on the company's inner competencies and expectations on the Singaporean market, which will be used as a basis for SWOT-analysis and market criteria. The factors of PESTLE and Porter Diamond analysis will be scoped on a company level, with combining these market conditions to the inner competencies in SWOT. The threats and opportunities will be assessed with the criteria and competencies to cover the potential opportunities. Professional literature, articles, news, statistics and other related references will be used as a theoretical background for the final conclusion and recommendations.



### 3 BACKGROUND FOR THE RESEARCH

#### 3.1 The Company X (CX)

The CX is a European private company and has been operational since 2013. Their operations this far have been focusing on global patent pending, trademark registrations as well as research & development (R&D). The team consists of the Chief Executive Officer & Inventor (CEO), Chief Operating Officer (COO), Legal & IPR Advisor, Manager of International Relations and members of the Board of Directors. Most of the team works as consultants through their own enterprises. The CX's business model is to license the use of their intellectual property on packaging innovations to different operators in tea industry, instead of manufacturing or selling the final tea product to consumers directly. The special characteristics of teabag packaging made by utilising their technologies are the combination of environmental friendliness and improved usability. The CX's licenses are granted on the business-to-business basis and can be used globally by tea brands, packaging companies, and private labels with their own products. The CX's associates mostly comprise on packaging manufacturers, material suppliers and organisations involved in R&D.

#### 3.2 Definition of Intellectual Property Rights (IPR)

The *Intellectual Property Rights* (IPR) can be defined as right to receive acknowledgement and compensation from one's created or owned content. IPR can be registered or patented to receive a formal sole right to use and forbid others from using owned IPR. (World Intellectual Property Organization 2016, 2-3.)

The South-East Asia IPR SME Helpdesk gives advice to EU based SMEs on the IPR matters in the Southeast Asian markets. According to them, the first priority for a SME is to form an IPR strategy by identifying the items, which require protection and decision on how extensive the protection should be. The movement of goods in the South-east Asia (SEA) is relatively free, therefore a SME should specify priority markets where their items are sold or manufactured, as well as the secondary markets where related products or services might be sold or counterfeited. According to these then

register IPR as extensively as possible to cover protection for both markets. Before registrations, SMEs are advised always to make a confidentiality agreement with their partners, as in several countries in SEA the first-to-file-practice is used in IPR registration. This means that whoever is the first to file a registration application will be seen as entitled owner of the invention or trade name. SMEs should seek advice from a competent local lawyer or IPR specialised agent to provide information on the local legislation and make sure IPR registrations are done accordingly. (South-East Asia IPR SME Helpdesk & Kelvin Chia Partnership a 2016, 9; South-East Asia IPR SME Helpdesk 2016, 3; Treutler 2016; Website of the South-East Asia IPR SME Helpdesk 2017.)

### ***Trademark***

A *trademark* can be a recognisable word, arrangement of letters, numerals with drawings, colours, holograms, animations, symbols or signs, which are used to legally differentiate company's offerings and brand from others. A *brand* can combine all the same aspects in broader sense, as well as be a guaranteed promise of quality and customer service, or certain emotion that makes the customer choose the particular brand instead of others. A trademark can be used to protect the distinctive parts of the brand through registration. When the trademark has been registered, the owner will hold a legally enforced protection and is granted with the exclusive right to use and control the trademark. The owner can allow others to use the trademark in return to receiving compensation while holding the rights on oneself. The symbol ® should be used in all registered trademarks for the attention of others that all unauthorised uses of the trademark will be considered as infringement. (Smith 2015; Kotler, Keller, Ang, Leong & Tan 2012, 298; Tuominen & Tanskanen 2007, 6, 10, 16; World Intellectual Property Organization 2016, 9; Website of the South-East Asia IPR SME Helpdesk 2017.)

The registration of a trademark in Singapore requires a detailed application in English, including the detailed description of the trademark and the classification for products and services related. The registration can be done online and by anyone who has the evidence of authorisation to file. Singapore does not have any restriction regarding foreigners to register although a Singaporean address is required for the application. The application will be evaluated, released and set up for opposition, hence if within

two months the IPOS have not received clauses against the trademark it will be registered. The registered trademark needs to be used within 5 years after the registration, in order to qualify for the 10 -year protection period and evade cancellation. Afterwards the trademark can be protected again for 10 -year periods. (Website of the SingaporeLaw.sg 2015; De Tullio 2017; Website of the South-East Asia IPR SME Helpdesk 2017; South-East Asia IPR SME Helpdesk 2016, 8; South-East Asia IPR SME Helpdesk & Kelvin Chia Partnership a 2016, 6.)

The company or individual willing to have ownership on the registered trademark in Singapore should apply for registration as soon as possible. At the same time with the trademark registration it is advisable to consider ensuring the usability of local domain names, identities in social media and other online identities, and register these as well, to avoid someone else registering these first (Website of the South-East Asia IPR SME Helpdesk 2017; Treutler 2016). Some SEA based companies have been noted to register well-known foreign trademarks and then selling these on a high price back to original trademark holders. Problems have also occurred in cases where foreign companies have allowed their agents or associates register their trademarks or use their company name, and after contract termination have not received their rights back. In Singapore, according to the Trade Mark Act it is possible for a company without having registered their trademarks to be entitled for protection, if evidence that the trademark is used and has established a value of goodwill among Singaporeans can be shown. Although presenting strong enough evidence can be quite challenging and time demanding. (Treutler 2016; South-East Asia IPR SME Helpdesk & Kelvin Chia Partnership a 2016, 2; South-East Asia IPR SME Helpdesk 2016, 7; De Tullio 2017.)

### ***Patent***

A *patent* will be applied for novel inventions, unique technical details or for parts of the manufacturing process. A person or organisation holding the patent has an exclusive right for its use, distribution, selling or manufacturing, generally for a time period of 20 years. In Singapore, if the patent is pursued to have a full term protection of 20 years, it has to be renewed before the 4th year's expiration and after that annually. The owner determines on the use and the users of the patent, until the protection ends and the patent can be used freely. In order to gain the protection for the patent, the owners

need to give up information to be used by the industry for industry's further enhancements. Before filing a patent application, the inventor is recommended to check national databases for similar patents and discuss on matter with a local IP agent or attorney. In Singapore, IPOS offers an online service IP2SG for patent search. (World Intellectual Property Organization 2016, 6-7; Ma 2009, 4-5; Website of the SingaporeLaw.sg 2015; EPO 2011, 10; De Tullio 2017; South-East Asia IPR SME Helpdesk 2016, 4; Website of the South-East Asia IPR SME Helpdesk 2017.)

Any inventor or person appointed by the inventor, despite their nationality, can apply for patent in Singapore although they must include a Singaporean address to the application. The application is required to be in English and must include the official form, an application fee of 106-133€, all related documents accurately translated into English, a specification of the patent, and a copy of the application if an earlier application for the same patent has been filed in any country that is the member of the Paris Convention (PC) or the World Trade Organisation (WTO). Singapore has first-to-file practise also regarding patent application and if the patent has been applied within 12 months in a PC or WTO member country, the patent protection can be granted in Singapore to start from the same date. Subject to an extent of required research and examination the usual application process varies from one to four years and costs around 800€. (World Intellectual Property Organization 2016, 6-7; Ma 2009, 4-5; South-East Asia IPR SME Helpdesk 2016, 2, 4-5, 7-8, 11; South-East Asia IPR SME Helpdesk & Kelvin Chia Partnership b 2016, 4-5.)

After the patent has been granted, IPOS has an online database where all patent owners are listed and whether they are willing to license the use of their patent, they can be endorsed as "licensors" in the list and receive their patent renewal fees to be halved. (Ma 2009, 4-5; Website of the SingaporeLaw.sg 2015; De Tullio 2017; South-East Asia IPR SME Helpdesk 2016, 2, 5, 11; IPOS 2009, 5-6.)

### 3.3 Licensing

In licensing the licensor is the owner of intellectual property rights and through licensing agreements permits the use of these registered rights to another, within certain

terms and against certain payment, such as royalties or licensing fees. The licensor holds the control over the rights and can maximise the expenditure of utilisation by allowing others to manufacture, sell or market these rights. Licensing can offer extended market opportunities of placing on the products to different markets faster, as the licensee's prevailing local networks, expertise, marketing and distribution can be exploited. (Lai 2015; Tuominen & Tanskanen 2007, 6-7; Kotler, Keller, Ang, Leong & Tan 2012, 794; Hollensen 2014, 372–373, 390; Apke 1998, 5.)

Licensing as an entry mode is seen as less risky and highly profitable way to extent operations to foreign markets, especially for SMEs, which might not have the resources to fully commercialise their IP entirely on their own. The agreement with the licensee will allow the licensor to concentrate on their core competence, such as to the development of the new technology. (Hollensen 2014, 372- 373, 390; Apke 1998, 5-6; Tuominen & Tanskanen 2007, 6-7, 9-10; Kotler, Keller, Ang, Leong & Tan 2012, 794.)

### ***Choosing Potential Licensees***

The selection of partners and licensees, as well as protection of the IPR are some of the risks of licensing. As the relationship between the licensee and licensor relies on mutual trust and benefit, the licensor should confirm the trustworthiness and competence of the potential licensee before entering into an agreement or revealing any IPR related information. The South-East Asia IPR SME Helpdesk advises SMEs to always conduct due diligence, a thorough examination of business operations, resources, finances and ownerships of related IPR, as well as any matters that are relevant to the partnership or coming into agreement with the licensor (Website of the South-East Asia IPR SME Helpdesk 2017; Website of the Cambridge Dictionary 2017). A thorough examination is important for the licensor, as their IP will be uncovered for the licensee, and nonetheless to the licensee's employees, customers and suppliers who might use the IPR without authorisation (Hollensen 2014, 372, 390; Apke 1998, 5-6).

To decrease the risks of the IPR being revealed or misused, the licensor is advised to not to reveal all IP related information to the potential partner or licensee, unless the commercialisation or local regulations require to do so (Website of the South-East Asia IPR SME Helpdesk 2017). The content of confidential nature should be revealed

to a licensee or a partner under a signed confidentiality agreement or confidentiality provisions to protect IPR's novelty and value. All documents containing classified information should be marked as "confidential" or "trade secret" for the third party to be aware of the confidentiality. In Singapore, trade secrets are protected by law if the information is not public and undoubtedly has been marked or let to be known to be confidential. (Website of the South-East Asia IPR SME Helpdesk 2017; South-East Asia IPR SME Helpdesk 2016, 4, 9.)

Another matter of mutual trust, are the royalties. The royalties from licensing agreements are the main source of income to the licensor and the efforts of the licensee are essential to create this income. As royalties are usually few percentages from the total revenue, the licensee has a crucial role on selling items on a level that will truly benefit the licensor. Both parties of the agreement negotiate on terms they are willing to agree on and often negotiation over the licensing scope and standards might be time-consuming, especially if both parties have separate opinions on the matters in question. (Hollensen 2014, 372, 390; Apke 1998, 5-6.)

### ***Licensing agreement***

The licensing agreement embodies the issues both the licensor and the licensee of the agreement have agreed upon. After the registrations of IP rights and due diligence, the licensing agreement can be regarded to be the most important part of licensing operations. It contains highly specific details on the terms and related matters of the licensing relationship. The agreement is legally binding and needs to comprise details, which follow the local legislation, be entered in local language or included with a precise translation and requires a skilled lawyer to draft the contract. In some SEA countries the court of law can approve only the translated agreement as evidence, therefore the licensor should be certain of the translation's accuracy. The licensing agreement should be in writing and include as the detailed definitions of the parties related, the specifics of the registered IP and its ownership, the offerings or services the agreement applies for and whether the agreement entitle the licensee to have exclusive, non-exclusive or sole-license. (Tuominen & Tanskanen 2007, 10-13; Baxter 2012; Website of the South-East Asia IPR SME Helpdesk 2017; South-East Asia IPR SME Helpdesk 2015, 5.)

In Singapore, the Patents Act (Cap 221, 2005) obligates transactions related to IPR be in written and signed by or the behalf of both parties, otherwise the agreement will be invalid. Against cases of IPR violations, all transactions should be registered with the Registrar of Patents or Registrar of Trademarks. The licensee with exclusive rights has the same rights as the owner of IPR, to inform and file for the violation of IPR. (Website of the SingaporeLaw.sg 2015.)

## 4 ASSESSMENT OF BUSINESS ENVIRONMENT AND INDUSTRY

### 4.1 Market Assessment Criteria and Selection

Prior selecting markets where the international operations are focused on, the licensing company is advised to establish realistic and consistent goals for their actions on the foreign markets. A long-term strategy can assist on achieving these goals and minimizing the losses, which may occur from unexpected turns of event. As the costs of registering and monitoring the IPR can be expensive, the licensing company is advised to carefully weight their IPR's vulnerability without registration in each market in comparison to the benefits of the market. (Website of the South-East Asia IPR SME Helpdesk 2017; Kotler & Keller 2012, 72.)

Rahman interviewed the key decision makers of successful Australian companies in 2003 to find out their criteria for new international markets and whether these criteria comply with existing theories on the international market selection process. This sample consisted of 12 companies from different industries on which six were small companies, two governmental organisations, five direct exporters, one licensor or franchiser and two with entry modes of owned subsidiary or joint venture. Most of these companies did not follow any certain criteria when they first moved to foreign markets. However, as their practises and experience grew they started to use the two-stage approach on market selection. (Rahman 2003, 119-121.) This approach compares the macro- and micro factors of the potential market with the company's own competen-

cies and resources to assess the benefits and risks of the market (Kumar, Stam & Joachimsthaler 1993, 33; Hollensen 2014, 7, 19; Kotler & Keller 2012, 619; Hedin, Hirvensalo & Vaarnas 2011, 154).

The analysis of a company's own competence scopes the required international capabilities, financial resources and skills to perform in a potential market, which are used as criteria for prioritising markets. Most of all the outcome of the comparison should estimate whether the financial rate of return for investment is high enough to offer greater value to local customers than the competitors and cover the costs of IPR registration and monitoring. The costs should also be manageable, so that the company's ability to maintain their existing IPR portfolio is not jeopardised. (Website of the South-East Asia IPR SME Helpdesk 2017; Kotler & Keller 2012, 71; Rahman 2003, 122, 124.)

SWOT-analysis is one of the methods that can be used to analyse the company's internal competencies in relation to the external factors of the business environment (Kotler & Keller 2012, 57; Hollensen 2014, 8-9). The SWOT is an abbreviation from Strengths, Weaknesses, Opportunities and Threats. Inner Strengths focuses on the positive influence inside the company that assist on reaching the set objective, such as owned IPR, areas with outstanding performance, specific skills in the workforce, sufficient financial resources, networks and partners, and relationships with suppliers and intermediaries. (Website of the Professional Academy 2016; Etemad 2015, 92; Rahman 2003, 125.) Inner Weaknesses on converse are the factors with negative influence, such as areas with lacking performance, antiquated IPR, the absence of certain skills in the workforce, insufficient financial resources and the non-existence of required networks and partners (Website of the Professional Academy 2016).

The External Opportunities focuses diversely on the positive influencers of the business environment that can be beneficial in reaching the objective, such as market changes and trends, the flaws of competitors, the enforced protection of IPR and access to the latest technology. The External Threats consists on all negative influence in the business environment, which could prevent on reaching the objective, such as areas of vulnerability compared with competitors, poor economic situation, consumer's preference toward foreign offerings, changes in legislation or lack of IPR protection laws



and barriers to foreign operations. (Website of the Professional Academy 2016; South-East Asia IPR SME Helpdesk & Kelvin Chia Partnership b 2016, 3.)

In Rahman's study, Australian companies' management described the criteria they used in their assessment for the potential market's business environment and their own competencies. The macro factors of the business environment included details such as the *political freedom and stability, level of corruption, economic aspects, rate of inflation and growth of Gross National Product, import statistics, tariffs for foreign businesses, population size and age distribution, literacy rate, size of middle class, religious practises, psychic and geographical proximity, legal system and level of IPR protection*, as well as *technical and administrative perspectives*. The micro factors of the industry included details such as the *size of the market, local production and trade, per capita consumption and proportion of income spent, consumption habits, acceptance towards foreign brands, estimated demand, availability of potential partners and distribution system and the intensity of competition*. (Rahman 2003, 123- 124, 126, 130.) The company's own competencies were estimated through factors such as the *synergy with existing markets, marketing skills, international orientation, competitive advantages, competitive position in domestic market, management's overall feel, and the ability to achieve market share* (Rahman 2003, 130).

## 4.2 PESTLE

The PESTLE- framework is used to analyse the different external factors that form the opportunities and threats in the business environment. The external factors comprise on features that might have effect to the business environment in short- and long-term. To recognise and respond to unmet needs and trends in the market is recommended to identify and analyse the costs, business practises, governmental policies, industry structure, demographics and possible buyers' behavioural patterns. (Kotler & Keller 2012, 31–32, 96; Peiris, Akoorie & Sinha 2012, 295; Paley 2006, 58; Hedin, Hirvensalo & Vaarnas 2011, 154; Rahman 2003, 120.) The factors that are used to form a thorough analysis of the business environment are the Political, the Economic, the Social, the Technological, the Legal and the Environmental, on which initials form the

abbreviation “PESTLE” (Issa, Chang & Issa 2010, 75; Website of the Professional Academy 2016).

### ***Political Factors***

The political factors portray the governmental actions and decisions, which can affect the business environment for example through taxation, laws, regulations, international agreements or levies. The political factors should be analysed carefully, by taking current and upcoming changes in rules and regulations in to consideration. Through careful preparation for these changes, the impact of the political risks can be minimised. (Website of the PESTLE Analysis 2012; Hollensen 2014, 237, 275, 213-214, 218; Issa, Chang & Issa 2010, 75.)

The World Bank Group publishes *the Ease of Doing Business* reports, which rank economies based on their governmental regulatory on business environment. In 2015 report, Singapore was ranked as globally the easiest place to do business in on the basis of overall estimation of the time, procedures and costs a business faces. Singapore received high scores especially in the factors of political stability and efficiency of the system, as well as in the government and their practises. (World Bank 2016, 6-8.) The Heritage Foundation’s *Index of Economic Freedom* rates nations according to their rule of law, government size, regulatory efficiency and market openness, by grading them in 10 different components from the scale of 0 to 100. Singapore received 88 out of 100, ranking as 2<sup>nd</sup> best globally. In the *Trade freedom indicator*, the barriers and costs for trade are considered with giving the maximum score of 100 to an open market. Singapore was considered very open market with 90 out of 100. (Website of the Heritage Foundation 2016.)

The performance of the current government is measured through World Bank’s *Worldwide Governance Indicators*. These indicators are on the basis of a study conducted in 215 countries during 1996-2014. (Website of the Worldwide Governance Indicators 2016; Kaufmann, Mastruzzi & Kraav 2010, 4.) First one is the *Voice and Accountability*, which indicates the measures of resident’s power to select the government representatives, have the freedom of expression, the freedom of association and free media. Singapore received 43 out of maximum 100 in this category, which was lower than the average of 54 for East Asia & Pacific region. Singapore has high scores of

93.3 out of 100 on the *Political stability and absence of violence/terrorism* that defines the possibility of government being moved from power by unconstitutional or violent means. The indicator of *Government effectiveness* measures the quality and degree of independence of public and civil services from political pressures, the quality of formulation and implementation of policies and government's commitment. Singapore receives full 100 out of maximum 100. The *Rule of Law* indicator focuses on the quality of contract enforcement, property rights, the police, the courts and possibility of crime and violence occurring in the country. It also demonstrates the public's perception and trust in the rules of society. Stating that the country has safe surrounding, Singapore receives 95.19 out of 100. (Website of the Worldwide Governance Indicators 2016; Kaufmann, Mastruzzi & Kraav 2010, 4; Country Analysis Report: Singapore 2016, 34-35.)

From a business point of view the governmental actions and policies in Singapore have been throughout highly favourable for businesses. The political stability is not likely to face any major changes in the near future. The political power is centred on the People's Action Party (PAP). They have had the majority of seats in the parliament since 1959 that has allowed the party to conduct long-term planning on politics. Business have been able to benefit from governmental policies focused on competitive advantages, infrastructural investments, human resource development and R&D. Most likely there will not be changes in open-trade policies as the country's small size makes it possible for the government to intervene in high, effective and manageable manner, and be able to adapt quickly to changes in global economy. (Website of the Parliament of Singapore 2011; Country Analysis Report: Singapore 2016, 15-16; Website of the CIA World Factbook 2016; Toh & Tan 1998, 35.)

Relating the current and upcoming changes in politics, Singapore has low probability to disruptions on export transactions. The level of political risk in both short- and long-term were at level 1 –low (Website of the Global Economy 2014-2017). The only political risk to occur relates to freedom of speech, expression and media, as well as the ability of Singaporeans to select government representatives. Though having the PAP hold majority of seats has brought high political stability, the party has been most recently being accused of limiting political and freedom of speech, through censorship for local media and lawsuits against the opposition. The limitations have caused some

protests on the matter although not in a large scale. (Country Analysis Report: Singapore 2016, 16; Website of the Worldwide Governance Indicators 2016.)

Singapore is an active member in Association of South East Asia Nations (ASEAN) and has recently improved their relationships also with the border neighbour Malaysia. Beside the ASEAN countries, Singapore has established several trade relationships globally. They currently have FTAs with the EU and the ASEAN, and valid bilateral free trade agreements with Turkey, China, India, Japan, South Korea, New Zealand, Panama, Peru, Australia, Costa Rica, Jordan and the US. A number of new FTAs are under negotiation, including with Canada, Mexico and Pakistan. The trade relationship with China has especially been seen to grown better and currently 95 per cent of exports from Singapore to China are tariff-free. (Website of the Government UK 2015; Website of the ASEAN 2016; Website of the IE Singapore 2016.) The established trade relationship between Singapore and the EU, the trade relationship has been said to be strong and stable (EU-Singapore Trade & Investment 2015 Edition 2015, 4-5).

The government's perception towards corruption can be used to measure the market's development and surroundings for business operations (Gaston-Breton & Martín Martín 2011, 275; Malcotsis & Ricken 2012, 55-56). The last indicator of the Governance Indicators is the *Control of Corruption*, where Singapore has 97.12 out of 100. The overall score for the region was 56, in this indicator measuring the level of public power's decision-making and actions done for personal gain. (Website of the Worldwide Governance Indicators 2016; Kaufmann, Mastruzzi & Kraav 2010, 4; Country Analysis Report: Singapore 2016, 35.)

### ***Economic Factors***

The Economic Factors of the market are estimated through observing the key figures, which are used to scope the development of the market. As there might be significant differences between economies, the market development delineates the level of consumer necessities' quality, demand, and development to embrace certain type of offering currently or in the future. The looked key figures, which are *Gross Domestic Product (GDP)*, *GDP on purchasing power parity (PPP)*, *inflation rate*, *income level*, *monetary or fiscal policies and unemployment rates*, as well as the *general level of foreign trade*. The key figures of Singapore can be seen in Table 1 below. (Website of PESTLE

Analysis 2012; Malcottsis & Ricken 2012, 55-56; Gaston-Breton & Martín Martín 2011, 271, 275; Hollensen 2014, 219, 222-223.)

Table 1. Key figures of Singapore (Website of the CIA World Factbook 2016; Website of the Department of Statistics Singapore 2016; Website of the Numbeo 2009-2016)

|  | 2015        | % CHANGE | World Comparison |
|--|-------------|----------|------------------|
| <b>GDP PPP (billion US\$)</b>            | \$ 472.6    | 2        | 42nd             |
| <b>GDP Per Capita (US\$)</b>             | \$ 85 400   | 0.8      | 6th              |
| <b>Inflation rate change</b>             | -0.5        | 1.0      | 32nd             |
| <b>Unemployment rate</b>                 | 2.1         | -1.9     | 12th             |
| <b>Avg. mth disposable salary (US\$)</b> | \$ 2 893.48 | -        | 6th              |

Singapore was estimated in 2015 to have the 42<sup>nd</sup> highest GDP PPP. In comparison to Asian countries, Hong Kong was ranked as the 45<sup>th</sup> with \$415.9 bn. The ranking indicates that Singaporeans enjoy a relatively high standard of living and purchasing power. In the estimated real growth of GDP for 2015, Singapore was predicted to have 2 per growth rate of their economy and productivity with being the 137<sup>th</sup> highest globally. In comparison, Hong Kong had a slightly higher growth rate with 2.40 per cent and ranked as the 124<sup>th</sup> out of 225 economies. In the estimated GDP divided with the population, Singapore is in the top 10 of 229 economies with their ranking as the 6<sup>th</sup> and is the second best in Asia after Macau. (Website of the CIA World Factbook 2016.) The inflation rate in Singapore, according to Trading Economics was -0.20 in 2016 (Website of the Trading Economics 2016). The estimated change for the inflation rate in 2015 was -0.5 per cent with 1 per cent drop from 2014, placing Singapore as the 32<sup>nd</sup> globally. The minor changes in the inflation rate show that the price level and value of the Singaporean dollar have stayed in a fairly stable level, with low effect on consumer's purchasing power. (Website of the CIA's World Factbook 2015; Website of the Heritage Foundation 2016.)

Singapore has the highest average monthly disposable salary in Asia. In global rankings, Singapore was the 6<sup>th</sup> out of 122 economies. (Website of the Numbeo 2009-2017.) Although the ranking as the 32<sup>nd</sup> most unequal country in the GINI index exposes that this income is unequally divided and limits the high purchasing power to only certain group in a society. Singapore had a GINI index of 46.4 out of 100 in 2012,

measuring the inequality among households' disposable income within a country (Website of the CIA World Factbook 2016). The economy also has very low unemployment rate 2.1 per cent from total labour force with -1.9 per cent change (Website of the Department of Statistics Singapore 2016). The CIA's World Factbook estimated for 2015 Singapore to have the 12<sup>th</sup> lowest unemployment rate out of 208 economies (Website of the CIA World Factbook 2016). Although the country has high average income and low unemployment, Singapore was ranked by Numbeo to be the 10<sup>th</sup> most expensive place to live out of 121 countries, and the 2<sup>nd</sup> most expensive country in Asia after Japan. Numbeo compares the overall Cost of Living in 121 countries, by comparing their price level with the city of New York. (Website of the Numbeo 2009-2017.)

Alongside with Hong Kong, Singapore is an important trade-hub for goods and services in Asia region where only the intra-region exports account 60 per cent of all exports. As the trade and FDIs are highly centralised within the region, the largest economies China and Japan have an impact on the ongoing economic growth trends. As a trade-dependent country, Singapore is vastly exposed to occurring market fluctuations and even one per cent decline in China can cut the growth by one per cent. (World Bank Group 2016, 74, 77.) Although the country is vulnerable to changes, in recent years the GDP growth rate has been modest and Singapore has covered the modest growth of their economy through signing several FTAs, exports and FDIs, being member of ASEAN and investing in emerging markets in Asia. Especially several FTAs have enabled Singaporean business to have wider trade possibilities. (Bin Yahya 2008, 2-7; World Economic Forum 2015, 15; Website of the Euromonitor International 2016-2017.) The greatest trading partners for the overall trade of Singapore in 2015 were China, Malaysia, the EU, the US, Indonesia, Hong Kong, Taiwan, Japan, South Korea and Thailand (European Commission 2017, 8). The total amount of exports exceeded to €301.28 billion and imports to €260.24 billion (Website of the Singstat 2016).

The economy of Singapore is highly driven by their service sector, which stands 75.45 per cent share of their GDP. When looking at industry indicators in HoReCa sector, the Wholesale & Retail trade and Accommodation & Food outlets accounted 15.6% and 2.1% per cent of the total service sector. (Website of the CIA World Factbook

2016; Website of the Singstat 2016.) In more precisely on the Food & Beverage Services, the total sales to 2017 were estimated to be €594.36 million with a 4.8 per cent decline from 2016. In this sector the restaurants, food caterers and other eating places, such as cafés, faced a downturn in their turnovers while the sales of fast food outlets grew from 2016. (Singstat a 2017, 2, 5.)

Singaporeans have several choices on HoReCa sector, especially in places where to dine out and as a consequence of their limited market size the sector is highly competed. The local consumers have also become more considerate on their purchases as both disposable income and property prices have been decreasing. The government of Singapore supports residents' house ownership and therefore most Singaporeans own their apartments or houses. (Website of the Euromonitor International 2016-2017.) The consumers are seeking the best prices for everyday items, often online which have contributed to growth in the online business sector, but also might have decreased the sums average consumers is willing to spend in HoReCa sector (Website of the Euromonitor International 2015). Thus tourism is important for HoReCa. As the tourism sector has also been declining, it has had an impact on the HoReCa sector. Consequently, the government of Singapore decided to place increased efforts for promoting and enhancing the country's international reputation to respond to the declines of the tourism sector. (Website of the Singapore Tourism Board 2016; Website of the Singstat 2016; Salmoiraghi & Follador 2016.) In the total Singapore had 16.4 million international visitor arrivals in 2016 and received tourist earnings worth €14.07 billion, most from Indonesia, China and India (Singstat a 2017, 2; Website of the Singstat 2016). In 2015 increasing amounts of tourist from Japan and the United Kingdom spent their holidays or business events in Singapore, as also visitor rates from Taiwan and South Korea were uplifted from previous years. The closer ties with China and India also paid to the economy's tourism as more visitors from China and India arrived. (Website of the Singapore Tourism Board 2016; Website of the Singstat 2016.)

### ***The Socio-economic Factors and Cultural values***

The factors of Socio-economic portrait the demographics of the market such as population density, median age and literacy rate, which are used to define the typical consumers and their characteristics. The demographics of Singapore can be seen in Table 2 below. As the emphasis should not be only placed on the demographic features, the

business environment assessment should include the psychographic features, such as cultural values, status and lifestyles to understand the market adaptation requirements. (Kotler & Keller 2012, 97-99; Paley 2006, 61-65, 67; Sousa & Lages 2011, 209-210, 215; Rahman 2003, 123; Website of PESTLE Analysis 2012.) The cultural differences might affect consumer behaviours, thus the national values need to be defined by using methods such as Hofstede's cultural dimension to analyse the scope of differences affecting the business operations (Kotler & Keller 2012, 624; 629).

Table 2. The demographics of the population of Singapore (Singstat b 2015, v; Website of the Singstat 2016; Website of the World Bank 2016)

|   | 2015    | 2014    | 2010    |
|---|---------|---------|---------|
| <b>Total Population ('000)</b>            | 5,535.0 | 5,469.7 | 5,076.7 |
| <b>Permanent Residents ('000)</b>         | 3,902.7 | 3,870.7 | 3,771.7 |
| <b>Population Density (Per sq. km)</b>    | 7,697   | 7,615   | 7,146   |
| <b>Population Growth (annual %)</b>       | 1.186 % | 1.298 % | 1.772   |
| <b>Sex Ratio (Males per 1000 females)</b> | 965     | 967     | 974     |
| <b>Median Age (years)</b>                 | 39.6    | 39.3    | 37.4    |
| <b>Literacy Rate</b>                      | 96.8    | 96.7    | 95.9    |

Singapore has one of the smallest populations in Asia, nonetheless down to the island's limited land area Singaporeans lived the 3<sup>rd</sup> densest out of 242 countries in 2015. The population of East Asia and Pacific region is expected to grow annually with an average rate of 0.67. Singapore as well as other developed nations is battling with low birth rate and high median age. Singapore receives a slightly higher growth rate although their birth rate 9.8 per 1000 people is lower than the average of the region of 13.92. (Website of the Index Mundi 2014; Website of the CIA World Factbook 2016; Website of the World Bank 2016.) The majority of the population of 3.0977 million are over 20 years old with the median age of 39.6 years, hence Singapore will face challenges in the future for maintaining the efficient level of labour force. Consequently, the government has tried to attract significant amount of foreign expats and immigrants as permanent residents, and currently counting 1 632 300 in 2015 to recover the protracted population growth. (Website of the Singstat 2017, Brooks & Wee 2014, 5.)



Singaporeans have on average a very good standard of living, knowledge and long and healthy life, as can be seen from the Human Development Index of 0.925 out of maximum 0.949 (Website of the Global Economy 2014-2017). According to the UN, the World Bank and the World Health Organisation's study, Singapore is categorised as the world's healthiest country with an overall grade of 89.45 per cent out of maximum 100. The health score is based on mortality rates. (Brixey-Williams 2015.) The level of literacy and education are used to estimate the sophistication of the users (Kotler & Keller 2012, 99; Website of the PESTLE Analysis 2012). Singapore has a high level of literacy with a person aged 15 and above can read and write (Website of the CIA's World Factbook 2014; Country Analysis Report: Singapore 2016, 49). Singapore has the best higher education and training in the world, with ranking the highest in the Global Competitiveness Report (World Economic Forum 2015, 15).

The more specifics of the target group are the main languages used, ethnicity and religion (Kotler & Keller 2012, 99; Website of the PESTLE Analysis 2012). The multicultural country has three major ethnic groups, Chinese 74.2 per cent, Indian 9.2 per cent and Malay 13.3 per cent, as well as a minority groups covering 3.3 per cent of the population. Singapore has four official languages, where English remains to be the official teaching and working language ensuring the racial integrity. The official languages are on the basis of ethnicity, for Chinese Mandarin, Malays Malay and Indians Tamil. In 2015, 36.9 per cent of households used English as their main language, as a consequence of inter-ethnic marriages and foreign talent in the country. Mandarin is also widely spoken with 36.3 per cent, as several employees from Malaysia and China have immigrated to Singapore and strengthening the use of Mandarin. Malay is spoken by 11.9 per cent and Tamil by 3.2 per cent. (Statistics Singapore b 2015, v; Brooks & Wee 2014, 77-79; Website of the CIA World Factbook 2016.) The main religions are Buddhist, Muslims, Taoist, Catholic, Hindu, other Christian and Atheist (Website of the CIA World Factbook 2016).

As the cultural differences might have a great impact on the consumer behaviour, the cultural matters should not be underestimated. The *psychic proximity*, familiar cultural characteristics as in the country of origin, shows the level of shared values and preferences. (Sousa & Lages 2011, 203; Gaston-Breton & Martín Martín 2011, 272; Rahman 2003, 123.) Singapore has always been a trading post, first for the Srivijaya kingdom,

then to the British Empire and after 1965 as their own independent nation. Unlike the other British Crown colonies in Asia, Singapore was mostly unpopulated in 1819 when the British discovered the island as their trading post. Therefore the infrastructure, architecture, institutions and social policies of Singapore have been strongly influenced by the British and the Anglo-India. The trade port offered through-passage for items from different parts of the world and attracted especially Straits Chinese, Indian, Malay and later Chinese from a range provinces of China to look for work opportunities. (Tarulevicz 2013, 11-12, 16.) The history as a trading port has impacted the culture of Singapore with bringing distinctive features from the British, Chinese, Indians and Malays. The wide use of the English language and features from different cultures has made the culture of Singapore to be considered easily adaptable to foreign companies. (Website of the Hawksford Singapore 2008-2016; Hampden-Turner 2009, 8). Also when looking at the overall globalisation index of 88.68 out of 100, Singapore can be considered highly globalised (Website of the Global Economy 2014-2017).

Although Singapore can be considered highly globalised, among Singaporeans also lies conservative Asian values and identity (Brooks & Wee 2014, 137). These learnt core beliefs and values at a national level are reflected in Hofstede's Cultural Dimensions. The dimensions describe the characteristics of certain cultures by scoping *power distance, masculinity versus femininity, uncertainty avoidance and individualism versus collectivism*. (Hollensen 2014, 257-258.) Singapore has a high *Power Distance* on the basis of their scores of 74 out of 100. In such countries, the decision-making is centralised to managers, and a controlled, formal attitude and indirect communication is part of the corporate culture. In a business perspective, companies should always contact the senior management potential customers for business negotiations, as subordinates have low ability to take initiative and effect on their manager's opinions. In the *Uncertainty avoidance* Singapore receives very low score of 8, demonstrating their attitude towards unknown is relaxed facing the future as it occurs. Singaporeans are required to follow rules as facilitated by their high power distance although the formal rules are not vital for them. (Hollensen 2014, 257-258; Website of the Hofstede Centre 2015.)

Singapore is a collectivistic society by having 20 scores in the *Individualism versus collectivism* dimension. In a collectivistic society, the group's interest is above one's

own motives with “we” being more important than “I”. The communications in collectivistic society tend to be indirect and open conflicts are avoided, in order to give *mianzi* “face” and maintain the harmony. This indicates why “yes” is not necessarily always used for agreeing, but rather to be polite. (Kotler, Keller, Ang, Leong & Tan 2012, 191; Hollensen 2014, 257-258; Website of the Hofstede Centre 2015.) Sometimes the collectivistic orientation shows also on Asian customers’ sensitivity to prices. The weight is placed on relationships rather than material, which highlights the importance of social acknowledgement and status. Especially in gifts the higher price can be overlooked to show the meaningfulness of the relationship between the giver and the receiver of the gift. (Kotler, Keller, Ang, Leong & Tan 2012, 497-498.) In the dimension regarding *Masculinity versus femininity*, Singapore has 48 scores indicating the cultural values to have characteristics from both masculine and feminine. The feminine values are sympathy, solidarity and courage, as well as the focus on the quality of life and modesty on personal relationships. There again the masculine values such as achievement and performance can also be seen in the core value of meritocracy, where emphasis is placed on education and status. (Hollensen 2014, 257-258; Website of the Hofstede Centre 2015; Yiannouka 2015.)

### ***Technological Factors***

The technological readiness focuses on the environment’s ability to implement new technologies. The strong emphasis on innovations and IPR protection from the government can be seen to improve the overall business practises. (Hollensen 2014, 90; Website of PESTLE Analysis 2012; Kotler & Keller 2012, 103.) Features that can demonstrate the buyer’s sophistication within the market are the gross domestic expenditure on research and development (R&D) and the level of internet access (Gaston-Breton & Martín Martín 2011, 275). In 2014 gross expenditure on R&D as a percentage of GDP in Singapore was 2.2 per cent while the average for East Asia & Pacific region was 2.6 (Website of the World Bank 2016).

Although the R&D expenditure per cent was lower than the average in Singapore, the country can be said to have intensive R&D abilities. Singapore has robust possibilities to innovate and in creating innovations the country is among the best performers globally. The human capital & research, infrastructure, business sophistication and institutions all support innovation in-put and efforts on R&D. As a result of government

support, universities in Singapore have been able to catch up with their research capabilities even some of the most advanced European Universities. (Cornell University, INSEAD & WIPO 2016, 26, xxv, Poh 2016, 134-136.) Around 82 per cent of population in Singapore use internet (Website of the CIA 2016). In cases of advanced use of technologies in the market, the governmental procedures and information can be provided online, without requiring personal visit to authority offices. (Hollensen 2014, 90; Kotler, Keller, Ang, Leong & Tan 2012, 794.) Most of the government procedures in Singapore can be handled online, such as applying registration for trademarks and patents (IPOS 2016, 24).

The Global Innovation Index (GII) ranks 128 economies on the basis of their performance in indicators such as *human capital development and research, development funding, university performance* and *international dimensions of patent applications* (Banerjee 2016, ix). Singapore received overall scores 59.2 out of maximum 100 and was ranked as the 6<sup>th</sup> best performer. The GII report highlights some of the indicators on the basis of pointing out the special strengths or weaknesses of the economy. In the case of Singapore, the strengths for the economy are the 1<sup>st</sup> place in Innovation input sub-index with 72.9 points, the 1<sup>st</sup> place in Institutions with scores of 94.9, the 2<sup>nd</sup> place in Human capital & research with 67.1 scores, the 1<sup>st</sup> in Infrastructure with 69.1 scores and the Business sophistication ranked the 1<sup>st</sup> with 62.1 scores. The weaknesses for Singapore among others are on the extraction of innovation in-put and out-put, especially in local SMEs. (Cornell University, INSEAD & WIPO 2016, 278, 20, 26.)

Around 99 per cent of Singapore based companies are SMEs with locals counting 82 per cent of all SMEs (Website of the Singapore Department of Statistics 2016). The R&D capabilities are mostly exploited by the MNCs, while the local SMEs have placed only minor efforts for investing or benefiting from the research base (Poh 2016, 137). The situation is likely to change in the future, as the government has placed greater emphasis on SMEs by introducing support systems, incentives and infrastructure to commencing companies, and assisting manufacturing companies to license their methods to others (Poh 2016, 138; Website of the SPRING Singapore 2013). One of the spurs to local SMEs are the Productivity and Innovation Credit (PIC), where they can receive tax deductions, allowances or government loan guarantee on the basis

of their efforts for acquiring or registering or in-licensing IPR (Country Analysis Report: Singapore 2016, 20). The many efforts of the government have been seen to increase SMEs awareness on technology utilisation, and the use of new technologies are now seen as a way to improve their competitiveness. In past ten years, also the start-up scene in Singapore is also developing and has more than doubled, as younger generation get more easily engaged to start-up activities. (Poh 2016, 138.)

Regarding the overall familiarity of licensing, Singapore and the EU are practising trade on the basis of royalties for the use of IP. The imports from Singapore to the EU exceeded to €460 million in 2014, while the exports to Singapore were worth €2.3 million, accounting 15 per cent of all exports. (EU-Singapore Trade & Investment 2015 Edition 2015, 24.)

### ***Legal Factors***

The legal factors of the business environment are investigated by looking at the economic freedom, level of taxation and protection of intellectual property. The legislation and governmental actions protect the society against unjust business behaviour and companies against inequitable competition. These actions might include regulations in the industry, the competition and the environment. The regulatory bodies and their processes regarding the privacy issues and identity can be crucial to master while operating a certain market. (Website of PESTLE Analysis 2012; Kotler & Keller 2012, 106.) The legal system in Singapore is founded on English common law and consists on the constitution, legislation, subsidiary legislation and judge-made law (Website of the Ministry of Law Singapore 2017). The trade policies are rather liberal as there are no tariffs for most of the imported goods and no taxes for exports and international services. The foreign companies operating in Singapore have a low general taxation level of 17 per cent. Also several tax treaties are introduced to prevent foreign companies being double-taxed. The common tax for royalties is 10 per cent. (Country Analysis Report: Singapore 2016, 53-54.)

In the Index of Economic Freedom private property protection including both intellectual and material property, Singapore has 90 per cent out of maximum 100 respectively. The average for Asia-Pacific region is 38.2 per cent in property rights, Singapore receives score high above the average of the region. (Website of the Heritage

Foundation 2016.) The IPR related legal framework in Singapore is considered conclusive and one of the most advanced in Asia (South-East Asia IPR SME Helpdesk 2016, 2). The court system is usually in the favour of commercial actions and has strict interpretation on IPR violations, which are forced by specialised IP courts. As Singapore desires to be a centre for IPR in Southeast Asia, it has non-tolerant attitude towards any kind of counterfeiting. (Yew, Yong, Cheong & Tey 2010, 525; EPO 2011, 10; Website of the Ministry of Law Singapore 2017; De Tullio 2017.)

Patents are protected under the Patent Act and trademarks by both under the Trade Marks Act (Cap 332, 2005) and common law. Any cases where the violator can be assumed to have known or to should have known to violate the patent, or two trademarks can be mistaken by the public, the incidents can be considered as the violation of IPR. In case of counterfeiting a trademark, the dishonest use of the trademark, producing or retaining products that violate the trademark or selling or importing the punishment can be up to S\$ 1 million nearly automatically to the owner of the trademark. A fine can be set up to S\$ 100 000 and or 5 years imprisonment, depending on the amounts of violate products. (Website of the SingaporeLaw.sg 2015.) The IPR owner has several methods to handle in case of violations of their rights, through civil enforcement, criminal enforcement, written complaint to customs or with different private conciliation methods. (De Tullio 2017)

### ***Environmental Factors***

In this factor, the focus will be on analysing the effect of environmental issues to the market area and to the consumer behaviour. Governments can through initiative actions set environmental regulations and laws, which apply to all companies operating in a market or be obliged to refer the international agreements such as Kyoto Protocol, the UN Framework Convention on Climate Change (UNFCCC) and the Paris Agreement, which are legally binding in all ratified countries including Singapore. The consumers' personal values towards the environment can influence on the demand, through favouring environmentally friendly offerings from companies that use environmentally friendly practises. The pressures of legislation, climatic conditions and consumers demand effect on corporate environmentalism, when the companies need to be aware of the changes and adjust their operations accordingly. (Website of PESTLE Analysis 2012; Kotler & Keller 2012, 103; Website of the NCCS 2014.)

Overall, the environment issues in Singapore have been taken well into consideration, as can be seen also from the country's ranking as the 14<sup>th</sup> globally in EPI. The Environmental Performance Index (EPI) measures the protection of human health from environmental hazards, the protection of the ecosystem and the resource management at a national level. The index ranks 180 economies on a scale of 0 to 100, 100 being the highest score. (Website of the EPI 2016.) Singapore is especially defenceless on the outcomes of climate change for their geographical location and land size. The country faces challenges especially on the increased sea level, the climate's risen mean temperature and on the shortages of natural freshwater resources. Singapore is dependent on imported food and water supplies, as more than 90 per cent of the supplies come from outside of their borders and regarding this factor changes occurring globally have a direct impact on them. The country's limited size particularly places pressure on the ability to use renewable energy and waste disposal. (Website of the NCCS 2014; Website of the CIA World Factbook 2016; Country Analysis Report: Singapore 2016, 57-58.)

Singapore generated 7,514,500 tonnes of waste with a 60 per cent recycling rate in 2014. One of the major concerns remains to be the organic waste, which in hot and humid climate quickly festers and tempts disease-carrying vectors including mosquitos. The recycling rate in Singapore has had a yearly upturn and to continue their progress, the government has set a target of increasing the recycling rate to 70 per cent by the year 2030, with the efforts of improving the infrastructure to attain an easier recycling process for the residents. (Website of the NEA 2015; Website of the Ministry of the Environment and Water Resources 2016; Country Analysis Report: Singapore 2016, 58.) The National Environment Agency (NEA) has taken actions to raise consumer's awareness for over-packaging and recycling. The NEA has awarded companies who engage in decreasing packaging waste and encourage more companies to join these actions with a public packaging benchmarking database. (Website of the Euromonitor 2016.)

### 4.3 The Porter Diamond

Michael Porter introduced the Diamond Model in the late 1980's, in the "Competitive Advantage of Nation", after conducting a four-year study of nations and their main industries. The main purpose in his study was on the factors that make certain industries successful and able to innovate while locating in a certain nation. (Porter 1990, 73-77, 83-84; Hollensen 2014, 101.) The diamond comprises from four features; Factor Conditions, Demand Conditions and Related and Supporting Industries and Firm Strategy, Structure and Rivalry (Porter 1990, 76, 83-84).

#### ***Factor Conditions***

The feature of Factor Conditions comprises on the access to necessities required for production such as skilled labour, natural resources, infrastructure, capital and specific area of research. Conditions are the ground which the industry is established on and is significant for the industry's success. As in most cases where the local natural resources have granted affordable raw materials, the industry usually exploit these without enhancing their operations. On converse the economies that are deficient for local resources are pushed to innovate and develop their industries to match the competition. The economy might have some field where they are superior and further enhanced the related environment. For an example exporting the offerings globally or having extraordinary talent with specific know-how. (Porter 1990, 76-79; Hollensen 2014, 103.)

Singapore is one of most competitive markets in the world. In 2016, Singapore was ranked globally as the 2<sup>nd</sup> most competitive economy. The overall competitiveness of an economy is measured in the Global Competitiveness Index, where 138 economies are ranked in comparison. The ranking is divided into 12 pillars on the basis of Basic requirements, Efficiency enhancers and Innovation and sophistication factors. The *Basic requirement* pillar of Global Competitiveness Index reflects the access to necessities as well as the ground for local industries. Singapore was ranked as the 2<sup>nd</sup> on their Institutions, Infrastructure, Health and primary education, and the 11<sup>th</sup> on the *Macroeconomic Environment*. (World Economic Forum 2016, 318.) High rankings in the basic requirements as well as the several FTAs globally enable Singaporean companies to be globally competitive, have good access to highly educated labour force



and extend their operations outside their domestic market. In addition, the sophisticated IPR legislation guarantees that companies can register their brand names and inventions and take measures if someone violates their rights (Salmoiraghi & Follador 2016).

At an industry level, Singapore is considered an extremely competed market for food & beverages as retailers hold strong power on which products are sold in their stores (Salmoiraghi & Follador 2016; Kong 2012, 10-11). While the price-sensitive customers favour more affordable Asian products instead of foreign brands, the large group of western expatriates and high income levels have enabled the demand from private labels to premium and luxury priced goods. The food & beverage will need to place significant amount of effort to segmenting, educating customers and marketing in order to achieve distinctiveness. The product needs to offer better convenience, price, packaging and quality than the existing products if willing to be sold in retail stores. The marketing and distribution costs for new brands are extremely high and getting to retail chains is challenging. (Kong 2012, 1, 10-11, 13; Orissa International & Swiss Business Hub ASEAN 2013, 58.)

Unlike the neighbouring countries Malaysia and Indonesia, Singapore does not have enough suitable agricultural land or high-altitude climate for tea cultivation, therefore local tea brands are dependent on imports. Tea plants grow only in particular climate, soil and altitude to grow, which can be found in few geographical locations. (Chang 2015, 2-3.) The suggestive details regarding the origins of the tea imported to Singapore and the final destinations of tea exported from Singapore in 2013, were observed through data from the Observatory of Economic Complexity (Website of the OEC 2013). The top origin of tea imports and destination of tea exports for Singapore in 2013 can be found on Figure 2 and Figure 3 below.

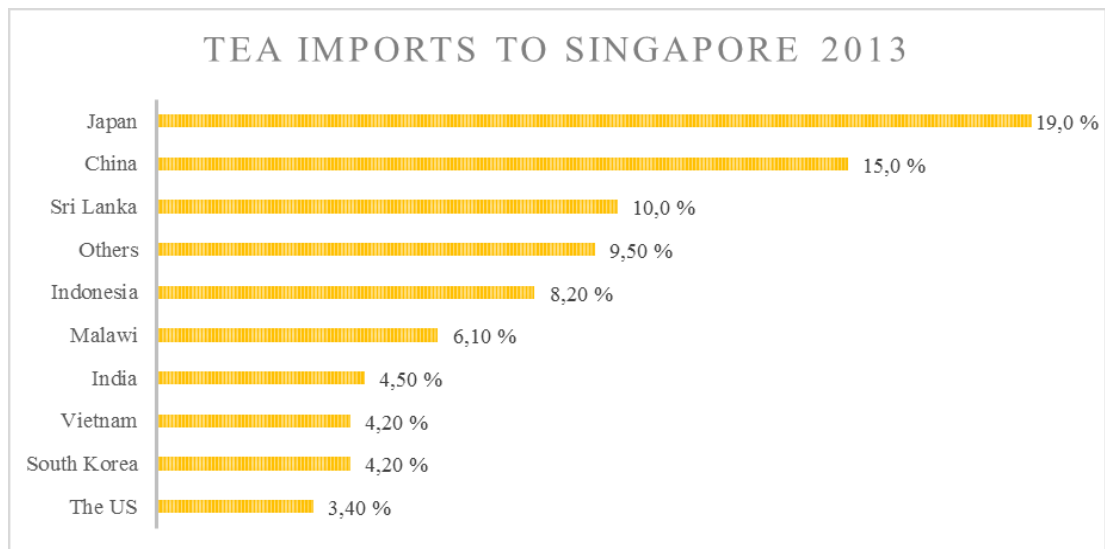


Figure 2. Origin Countries of Tea Imports to Singapore in 2013 (Website of the OEC 2013)

In 2013 most tea imports to Singapore originated from Japan, China, Sri Lanka, Indonesia, Malawi, India, Vietnam, South Korea and The US. Various smaller locations accounted 42 per cent of all imports. (Website of the OEC 2013.) The profiles of these countries as tea producers scatter from high- and premium-quality to lower CTC (Crush-Tear-Curl) quality tea (Keating & Long 2015, 35-37, 39).

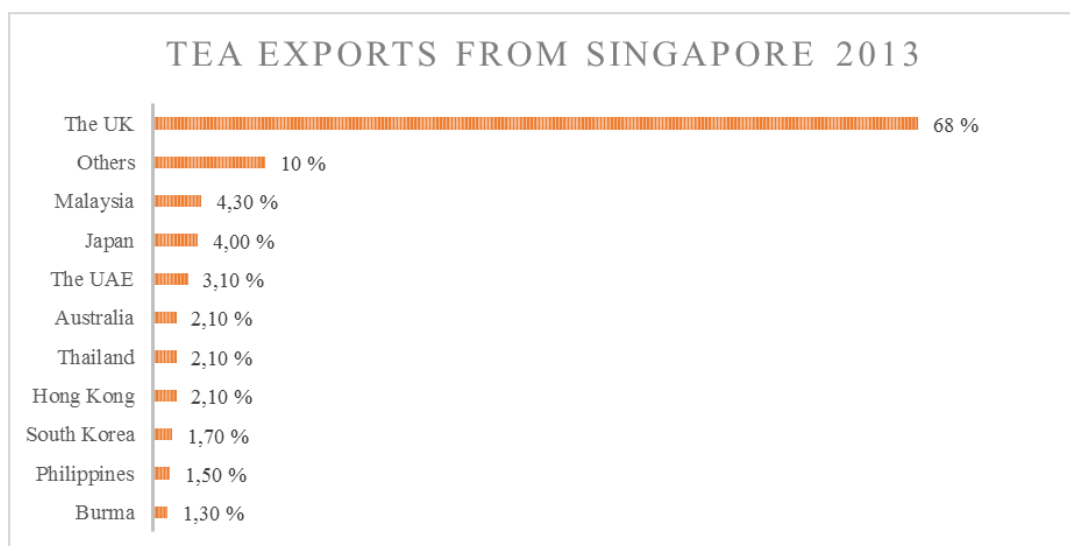


Figure 3. Destination Countries of Tea Exports from Singapore in 2013 (Website of the OEC 2013)

The destination for major tea exports was the UK with 68 per cent of total imports. Beside the UK, most of tea trade exported from Singapore were at Asia-Pacific region. (Website of the OEC 2013.) Tea usually goes through a refining process in the origin

country, but for example in the biggest tea producers such as Indonesia and Sri Lanka mostly export raw tea in bulks, which is then value-added through blending and packing in export countries who then re-export products to other markets (Ribka 2016; LBO 2015; Keating & Long 2015, 34-35). Singapore has high percent on re-exports, 47 per cent out of all exports are re-exports (Orissa International & Swiss Business Hub ASEAN 2013, 7). This could mean that also some sum of tea products is refined in Singapore. The large amounts of food & beverage imports are strictly controlled by Singapore government authority, The Agri-Food & Veterinary Authority of Singapore (AVA) that makes sure of the imports' quality and safety before these enter any markets (Salmoiraghi & Follador 2016).

### ***Demand Conditions***

The Demand Conditions feature focuses on the demand within industry's domestic market. The market size and growth, as well as the sophistication of buyers in their domestic market thrive companies to succeed globally. In cases where there is a large domestic market, the companies can have established multiple ways to benefit from the economies of scale and knowledge on certain technology or offering. Companies, whose business involves on providing their offering for sophisticated and demanding buyers in their domestic market, tend to recognise the coming trends and buyer needs faster than competitors. Especially industry's strong presence and rivalry's set pressure to innovate teaches the buyers towards advanced needs and high standard expectations toward offerings. This is beneficial for the companies against their foreign rivals, as their standards can be relatively high in comparison with buyer expectations in foreign markets. The opportunities for offerings abroad can be extended if the home-market has a famous image on the products from certain industry, as the essential design of the offering mirrors the needs of the home-market. (Hollensen 2014, 103-104; Porter 1990, 76, 79-80.)

Singapore was ranked as the 19<sup>th</sup> in the *Innovation* and the 9<sup>th</sup> in *Business Sophistication* pillar, in particular the *Market size* 37<sup>th</sup>, the *Local Competition* 20<sup>th</sup>, *Exports* 3<sup>rd</sup> and the *Goods Market Efficiency* 1<sup>st</sup>. (World Economic Forum 2016, 318-319.) The consumers in Singapore have good access to several products and brands compete fiercely on customers as the market only has limited growth opportunities. The size of Singapore's tea market was rather difficult to estimate as most of the calculations are

usually chargeable. Hence the suggestive estimation of market size was calculated by looking the margin of tea imports and exports. The amounts of tea imports and exports were look from FAOStat database and are on the basis of information the government reports to the database, therefore might not entirely reflect the real situation. The estimated market size's development from 1990 to 2013 can be seen in the Figure 4 below (Website of FAOStat 2015). As a suggestive comparison for a similar economy, the development for Hong Kong's tea market was concluded.

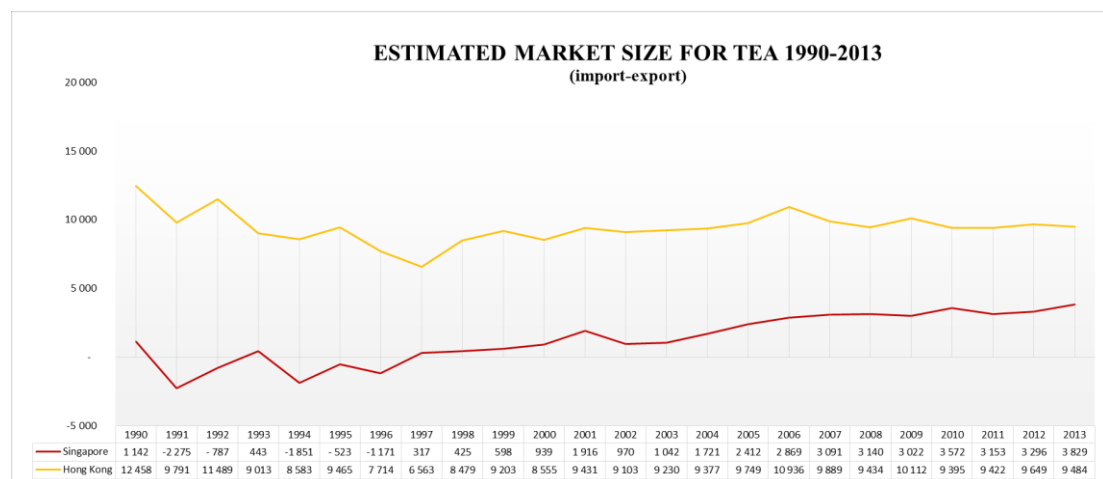


Figure 4. Estimated Market Size for Tea in Singapore and Hong Kong during 1990-2013 (Website of FAOStat 2015).

The tea market in Hong Kong has stayed on rather stable level, while the domestic consumption in Singapore has nearly annually increased. Singapore still has significantly smaller market than Hong Kong with 3829 tonnes and 9484 tonnes although the location of Hong Kong next to the world's largest tea exporter China might skew statistics. In 2015, Singapore was said to aim to develop their tea market among others and were expecting larger annual growth (Leclair 2015). The estimation of total market was conducted by dividing the assumed average consumption with the population (Hollensen 2014, 8-9). In the Figure 5 below is demonstrated the per capita consumption of tea in Singapore and Hong Kong from 1990 to 2013. The data for population is taken from FAOStat and is for total population including both sexes.

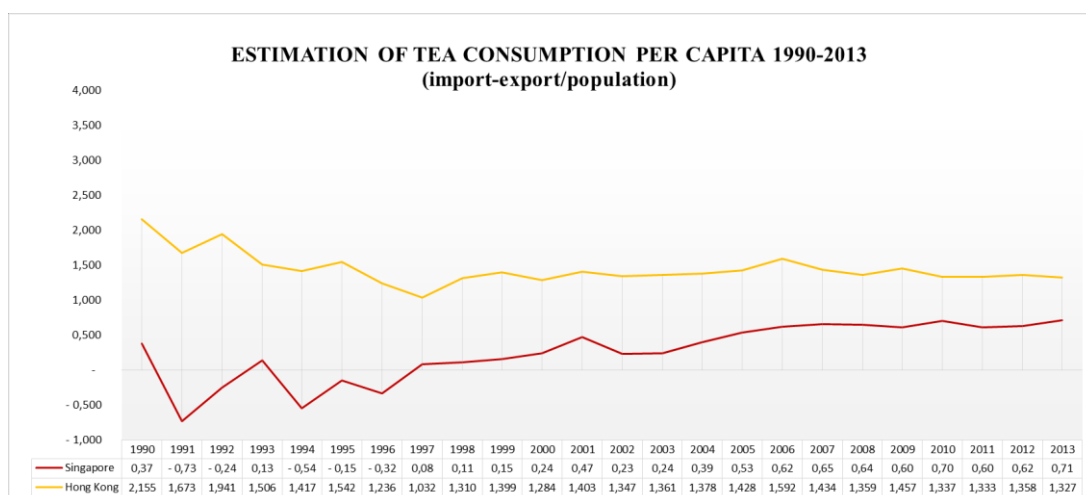


Figure 5. Estimated Tea Consumption Per Capita in Singapore and Hong Kong during 1990-2013 (Website of FAOStat 2015).

On the average consumption level Singaporeans consumed 0.71 pounds of tea per person, when converted to kg equal to 322g. Hongkongers had double as much with 1.327 pounds, equal to 602g per person. The tea consumption in Singapore can be considered rather low when comparing to the world's biggest tea drinking country, Turkey with 3.175 kg per person in 2014 (Ferdman 2014). When looking at the demand for tea packed in tea bags, the entire Asian markets worth is estimated \$1,379.6584 million covering 36.19 per cent of the global tea bag markets. Singapore is the 12<sup>th</sup> biggest market for tea packed in tea bags in Asia with 1.103 per cent share, which is slightly less than in Hong Kong with 1.233 per cent. The share of Asian tea bag markets for Singapore is expected to decrease gradually although their share of global markets is expected to rise to 0.410 per cent in 2021. In the city ranking, Singapore was considered as the 43<sup>rd</sup> most important city for tea bagged in tea bags. (Parker 2015, 10, 71, 98.) The market potential for tea packed in tea bags can be seen in the Table 3 below.

Table 3. Market Potential for Tea Packed in Tea Bags in Singapore (Parker 2015, 98)

| Singapore                      | 2016             |
|--------------------------------|------------------|
| <b>Latent Demand US \$ mln</b> | \$15.2125        |
| <b>Share of region/global</b>  | 1.103 %          |
| <b>Share of Globe</b>          | 0.399%           |
| <b>World Rank</b>              | 43 <sup>rd</sup> |

The market's potential and size are globally on rather modest level. When looking at other hot drinks such as coffee and cocoa, the sales for tea by volume were 1 918.5 tonnes in 2012, while for coffee 11 329.9 tonnes and other drinks 10 396.3 tonnes. Tea sales by total volume were seen to grow 1.9 per cent between 2011-2012, which was also modest comparing to coffee 3.2 per cent and other hot drinks 3.4. (Orissa International & Swiss Business Hub ASEAN 2013, 44.) According to these figures, Singapore has a strong coffee culture, where most Singaporeans prefer coffee and other hot drinks over tea making the circumstances for tea brands even more competed (Kong 2011, 31, 50).

While currently coffee and other drinks are more popular, Singapore has strong roots on tea drinking and trading. As Singapore is one of the few Asian countries where tea is not cultivated, the demand for tea is not driven by the availability of tea, unlike in China, Japan and India where tea drinking has been developed through centuries of both cultivation and cultural appreciation. The tea drinking culture was mostly influenced by the British, and Chinese and Indian immigrants who brought their own style of serving tea to Singapore. (Website of the Arteastiq 2017; Mel 2011; Chew 2013.) The sophistication regarding tea is on a quite average level, as most popular preferences are basic types of blends such as English breakfast from multinational brands such as Lipton and Twinings (Lim 2017; the Business Times Singapore 2017; Kong 2011, 31).

There are several trends that are now supporting the risen demand for speciality teas. New local tea brands have been established in Singapore by people from different backgrounds, who have travelled and learnt elsewhere to appreciate tea. (Lim 2017; Lin 2015; Lee 2013). The trend of choosing healthier options on food & beverage have made some consumers to switch from coffee or soft drinks to tea which has increased the consumption (The Business Times Singapore 2017). The hype on tea has been seen to elevate also as several global tea brands such as Australian T2, Japanese Lupicia and Australian Tea Masters have joined Singapore's tea scene (Quek 2017; Lim 2017). The Australian Tea Masters provide several courses and education to food & beverage professionals, which can be used to improve their service level and competitiveness. Eventually this hoped to reflect to consumers demand on better quality tea. (Website of the Australian Tea Masters 2018; Quek 2017.) Few restaurants have already started

embrace tea by pairing traditional teas with food, which has also making tea even more popular (Liang & Koh 2015; Website of the Australian Tea Masters 2018).

### ***Related and Supporting Industries***

The feature of Related and Supporting Industries focuses on the presence of globally competitive industries and suppliers within the domestic market. The location that has several globally competitive industries and suppliers enhances the opportunities for co-operation and sharing technological expertise to provide cost-efficient and high-end service to end-users. Competitive advantage of the nation is at its best when many local industries' related and supporting industries compete against each other globally, and on converse as its worst if these industries are merely reliant on domestic industry, as the exchange of technical knowledge and information fasten the likeliness of innovation and improvement occurring. (Porter 1990, 76, 80-81; Hollensen 2014, 104.)

The presence of a local supplier and related industries could be looked through the rankings in the factors of *Local Supplier Quantity* 58<sup>th</sup>, *Local Supplier Quality* 26<sup>th</sup>, *State of Cluster Development* 12<sup>th</sup> and *Production Process Sophistication* 17<sup>th</sup> (World Economic Forum 2016, 319). In Singapore perhaps due to small size there are not large amount of suppliers although the local suppliers' quality is good. As the economy of Singapore is concentrated mostly on the service sector there is not much intensity regarding packaging manufactures, especially on the ones that use bio-degradable material. Several manufacturers have their distribution office in Singapore, while their factories locate elsewhere. Although the effort of Singapore's government towards R&D and recycling is shown for Singapore packaging industry as new biodegradable materials, such as composite films, which are created in Singapore's Universities and by local companies (Channel NewsAsia 2016; Chang 2016). However the extensive HoReCa sector is considered globally competitive, and could be seen to support the tea industry. Singaporeans value gourmet and speciality foods, as well as top class service. The tourists are seen to provide important cash flow for local food & beverage and hospitality sector. Singapore is also a base for the world's best international airline, Singapore Airlines that has hold the title for 22 years in the row (Avakian 2017).

### ***Firm strategy, structure and rivalry***

The feature of Firm Strategy, Structure and Rivalry focuses on the surroundings where the companies are found and where they have learned their skills to compete. The Firm Strategy consists in the ways how a company and organisation are managed in relation to existing national and industry's management styles. Strategies comprise on goals the company wishes to meet and are enhanced according to the domestic rivalry. The structure of the industry is affected by the emphasis of the government lays on the industry support, for example through focus on educating specialised labour force for the use of the industry. (Porter 1990, 76, 80-83; Hollensen 2014, 104-105.) At a general level, Singapore was ranked the 2<sup>nd</sup> on the *Labour Market Efficiency*, the 14<sup>th</sup> on the *Availability of the latest technologies*, the 14<sup>th</sup> on *Firm-level technology absorption*, the 1<sup>st</sup> on the *Higher Education & Training*, the 5<sup>th</sup> on *Local availability of specialised training services*, the 6<sup>th</sup> on *Country Capacity to Retain Talent* and the 4<sup>th</sup> *Country Capacity to Attract Talent* (World Economic Forum 2016, 319).

Singaporean tea industry operates on a small domestic market with good abilities to locate talented labour force and high-income customers, hence the market is also extremely competed. Market leaders in tea are multinationals Unilever and Twinings, who have the ability to use significant sums to marketing their brands and to development of new products. As competition is fierce, the retail operators have high power in negotiations and they usually wish to work with brands who provide marketing, financial and long-term assistance on selling brand's products (Orissa International & Swiss Business Hub ASEAN 2013, 5). Therefore most of the shelf space is given to multinationals in local retail market (Website of Euromonitor International 2016). In the highly competed domestic market, the pressure for having distinctive brand is strong, which pushes brands to innovate.



## 5 METHODOLOGY

### 5.1 Research Methods

The research can be characterised as *case study*, since the objective is to produce data and analysis for the use of a specific company and in specific situation. The company and the situation will delimit the content of this research to involve only aspects that are necessary to answer the research questions. The methods of case study are observation, interview and the gathered documents; each of these components is used in this research. (Hirsjärvi, Remes & Sajavaara 2010, 134-135; 204-205; Kananen 2015, 89; 99.) The references for case company description are taken from the company website, press-releases and unpublished sources, such as company's memos, the statements of the management team and announcements, which are left unnamed due to protecting the anonymity of the Company X.

The chosen methodology for the research is *qualitative*, due to the flexible approach it offers for conducting research. The data collection is conducted through having primary data as a form of the CX's management interviews, which are combined with the secondary data such as books, articles, websites and other published information. Several secondary data references were available for this research, which were screened critically before referred to. The internet is used as a main source of information enabling the access to extended amounts of electronic literature, statistics, articles and recent news, which were required to gather data for the theoretical part. The use of secondary data was mostly based on the availability of data. (Hirsjärvi, Remes & Sajavaara 2010, 134-138; 204-205; Kananen 2015, 89; 99.)

### 5.2 Interview

*Theme interview* is conducted in order to evaluate the CX's internal competencies and the team's point of view for the assessment of foreign markets. The semi-structured interview is the chosen method for primary data gathering, for its' flexibility and suitability for qualitative research. Comparing with surveys, in interviews the interviewer has the possibility to communicate directly with the interviewee. Ideally, these actions

can enable more reasoned and profound answers when additional questions or clarifications for given answers can be asked. Also the interviewee can be motivated throughout the interview situation. The interviewer has an advantage of being present when the answers are given as all aspects that might have an effect on the reliability can be noted and the course of conversation can be changed if necessary. (Hirsjärvi, Remes & Sajavaara 2010, 204-205, 224; Hirsjärvi & Hurme 2008, 14; 35-36; Kaartinen 2013)

The interviewees for this study are chosen for their roles of responsibility in the CX and based on their previous experience on licensing, IPR and international processes. The confidentiality is respected in by referring to interviewees as “Interviewee 1”, “Interviewee 2” and “Interviewee 3” or with their titles. (Hirsjärvi & Hurme 2008, 20.) In total three interviews are conducted, on which two are personal communications and one online communication conducted through Skype. The semi-structured interview is used in these interviews so that each of the interviewees can feel free to express their opinions on licensing, company’s competence and motivations for Asian markets. As a base for interviews are the beforehand send questions and themes on licensing, the CX’s operations and Singapore. If the interviewee has no previous knowledge on Singaporean markets, they can tell on their expectations or uncertainties of Asian markets in general. As they can speak freely, some parts of the answers are modified to remove the names and products mentioned in the original situations. The questions send beforehand can be slightly changed to suit the interviewee’s personal experience and responsibilities better. Also the answers that are included in this research are abbreviated to present only the information that the researcher has found to be relevant to the topic. The layout for interviews can be found in Appendix 1.

The first interview took place on the 5<sup>th</sup> of August 2016 during 1 pm to 3 pm and was conducted as a personal communication. Chosen location for the interview was a hotel café in Helsinki. The surroundings were calm and the interview was without any disruptions. The Interviewee 1 is the CX’s Legal & IPR Advisor (LL.M, Trained by Bench), who has an extensive experience on tasks related to international IPR protection management. The covered interview topics in this interview focused mostly on the legal perspective of the CX’s operations, as well as licensing and IPR in general, where the interviewee widely introduced insights on the matters. He had worked with

Singaporeans in his career therefore was able to share his perceptions and expectations on the market, rather than Asia in general.

The second interview was set on the 9<sup>th</sup> of August 2016 and was conducted as personal communication in private home. This enabled peaceful environment for the interview with one tea break. The Interviewee 2 is the CX's CEO and has a previous experience as an entrepreneur and inventor. In this interview, the focus was on the matters of company's reputation and the development of the packaging innovation. As he had no specific knowledge or experience on Singapore, the questions were changed to consider Asia in general.

The final interview of the CX's management team member was conducted through Skype on the 10<sup>th</sup> of August 2016 at 2 pm to 3.30 pm. The internet connection was throughout the interview without any complications or interruptions. The interviewee 3 is the CX's Chief Operating Officer (M.Sc. (Tech.) of Industrial Engineering and Management) with a previous background in international projects and production launches. The COO's responsibilities include managing the daily operations and communicating with the production partners, which where the topics mostly covered in the interview. As she had knowledge and experience on Singaporean markets, Asia in general was disclosed from the interview.

All of the interviews were recorded, transcribed and summarised to suit the research theme. During the interview situations the layout of the questions was represented and followed with the interviewer taking notes at the same time to avoid the loss of recordings. After the interviews, the interviewer went through the notes and add details from the recordings. The narratives of the interviews were then compared with each other by gathering the mutual key factors and summarised to Research Findings and Analysis –chapter. (Hirsjärvi & Hurme 2008, 20.)

The theoretical part supports the structure and themes discussed on the interview, when benchmarking with other case studies are used to reinforce the analysis. The theoretical and empirical part will be combined by using *abductive reasoning*. The final results of the research is hard to predict and throughout the process new perspectives might

evolve on the CX's competence and how to combine theories to the research problems. (Hirsjärvi, Remes & Sajavaara 2010, 134-138; 204-205; Kananen 2015, 89; 99.)

### 5.3 Validity and Reliability

The limitations to this research are the nature of the CX's business operations, the tea industry and targeted customer group of the tea brands selling their branded tea in tea bags. As conducting reliable results and following the theories, the company's own competencies such as inner strengths and weaknesses needed to be evaluated to analyse the effectuation of the outer opportunities and threats to company's performance (Kumar, Stam & Joachimsthaler 1993, 33).

Throughout this research, the clarity and *validity* of the data is accomplished by following the general guidelines for scientific research, firstly focusing on describing, then explaining and finally the interpreting of how compatible the findings are to set problems. To meet the required level of honesty, thoroughness and accuracy in the chosen methods, the secondary data will be chosen from reliable sources and referred according to the directions of Satakunta University of Applied Sciences. (Hirsjärvi, Remes & Sajavaara 2010, 23-24, 309.)

*Creditability* will be measured by comparing the findings with the actuality and recent studies. *Objectiveness* is achieved by approaching the issues with neutral and open mind, minimising the effect of personal attitudes to collected data and findings. In order to improve the *transferability* of the research, the detailed descriptions of the surroundings, assumptions and starting-points of each stage of empirical research will be included. The given detailed descriptions assist the *dependability*; affirm that the findings and conclusion are not dependent on the researcher. (Kananen 2015, 353, 344.)

## 6 RESEARCH FINDINGS AND ANALYSIS

### 6.1 SWOT-analysis of the CX

The management team of the CX were first asked questions related to licensing in general, such as the assets and downfalls and how licensing influenced on their daily operations, before covering their opinions for the SWOT-analysis. As most of their answers about licensing were eligible for the analysis, these were included under the same heading. The management team members were likeminded in several topics although they also gave partly diverse answers to the CX's internal strengths and weaknesses, and to external opportunities and threats. The main points of the SWOT-analysis are gathered into Figure 2 below.

|                 | <b>STRENGTHS</b>  | <b>WEAKNESSES</b>   |
|-----------------|---|---|
| <b>INTERNAL</b> | <ul style="list-style-type: none"> <li>• Team's versatile know-how</li> <li>• Favourable relationships with patent office and law firm</li> <li>• Small team, flexible and fast decision-making</li> <li>• Light structure of costs</li> <li>• Several private shareholders participating to daily operations</li> </ul>  | <ul style="list-style-type: none"> <li>• Lack of financial and human resources</li> <li>• Unstructured team work, insufficient communication</li> <li>• Lacking cultural knowledge, language skills and information on markets</li> <li>• Licensing unfamiliar to most potential customers</li> <li>• Lacking the production facility and dependency on manufacturing associates</li> </ul>   |
| <b>EXTERNAL</b> | <ul style="list-style-type: none"> <li>• Licensing in general, less vulnerable to changes in different markets</li> <li>• Able to focus resources on core competence</li> <li>• Associates and licensees               <ul style="list-style-type: none"> <li>• Development of the innovation</li> <li>• Support against infringement &amp; IPR protection</li> <li>• Existing networks and distribution</li> </ul> </li> <li>• Trend of increased awareness of environmental issues and recycling</li> </ul> | <ul style="list-style-type: none"> <li>• Monitoring and reacting on IP violations with limited resources</li> <li>• Not finding suitable partners, production delays</li> <li>• Partners violating an agreement, harm to the CX's reputation</li> <li>• Complexity of licensing agreements, loss of opportunities</li> <li>• Indirect competition and substitutes</li> <li>• Changes in legislation regarding biomaterials</li> </ul> |

Figure 6. Breakdown of the CX's SWOT-analysis (The Interviewee 1, personal communication 05.08.2016; The Interviewee 2, personal communication 09.08.2016; The Interviewee 3, online communication 10.08.2016).

The CX has a small team that can react quickly to anticipated events and make fast decisions. All team members, excluding the CEO, work through their own enterprises

and receive compensation on company shares. This way the CX can benefit from experts with versatile know-how and their significant personal networks with reasonably light costs. Only costs for the CX comprised on occasional costs from administration, networking and maintaining the IP portfolio. The light and flexible cost structure was also seen to lessen their vulnerability to delayed revenue generation and enabled them to remain operational longer. (The Interviewee 2, personal communication 09.08.2016; The Interviewee 1, personal communication 05.08.2016; The Interviewee 3, online communication 10.08.2016.) The CEO saw a strength also on active private shareholders who shared their thoughts, ideas and time for daily operations this way extending the small team's resources. The Legal & IPR Advisor noted that the established favourable relationship with a trustworthy patent office and competent law firm was important for them as now they can trust their licensed IPR to be properly taken care of.

The CX is at the beginning of the packaging innovation's commercialisation, hence most of their equity is tied to patent and trademark registration fees. These fees are mandatory to ensure the protection and exclusive ownership, but also limited their usable financial resources to a minimum. All the interviewees saw weakness on the aspect of time and commitment the current team members could give to the company. This had placed pressure on their team working and communication skills, when they need to do the most with their limited time and resources. The interviewees considered their inadequate cultural knowledge, language skills and information on the tea markets to weaken their decision-making on international operations. Weakness regarding licensing as a business model was discovered when they met potential customers in Africa and Asia. Most of them had never even considered of licensing or been familiar on how to proceed. As the CX does not manufacture their packaging innovation themselves, they are dependent on reliable manufacturing associates. Finding a suitable associate was considered time-consuming and challenging although vital for having a production facility.

Licensing as a business model was considered enabling wide-ranging opportunities for the CX globally. As the licensee decides the content, appearance, target group and the markets where the end-product is sold, the CX is less vulnerable to market changes and failures on cultural adaptations. An opportunity was seen on their ability to focus

resources on strengthening their IP portfolio with new innovations, when operations are transferred to local companies. The CX's associates mostly comprise on packaging manufacturers, material suppliers and organisations involved in R&D. They were seen especially important for the packaging innovation's further development and assisting on customer acquisition from their existing global networks. The Legal & IPR Advisor and the CEO thought that especially packaging manufacturers with an extensive customer base could work on a commission basis by offering the invention to their customers. The Legal & IPR Advisor added that well established relationship with an associate could also assist financially on upholding the IP portfolio and asserting against infringement, as in the licensing agreement these obligations can be transferred to a licensee. An opportunity related to current trends and changes in behaviour could be in the increased awareness of environmental issues and the importance of recycling. The CEO thought that these trends could be especially beneficial for a compostable packaging innovation and its commercialisation.

The management team noted that violations against their patents and trademarks to be their greatest threat on international environment. Especially monitoring markets and reacting will be challenging with their limited resources. One of the threats is not finding competent associates or partners who have suitable know-how, extensive distribution networks, resources to assist on monitoring for IP violations and follow international standards on corporate responsibility. Particularly, the manufacturing associates should as well be willing to place enough priority for producing and delivering the packaging innovation, otherwise causing delays for the CX's entire operations, as mentioned by the CEO and the COO. Associates' actions such as the use of child labour or delivering faulty packages to the CX's customers, thus causing a reputation lost for the CX. One of the threats was also in the complexity of licensing agreements. As licensing is relatively new to both their customers and associates, they had faced issues of how to communicate effectively and thought about the poor communication to even had decreased their business opportunities. The management team thought that the threat from competitors was mostly from possible substitutes and indirect competition, such as loose-, Ready-to-Drink (RTD) and low-end teas, as well as other hot drinks. One of the threats was related to changes in legislation of biodegradable materials, for example for the use of corn or other starch-based materials, as pointed out by the CEO.

## 6.2 Market Assessment Criteria

The management team was also interviewed on their selection criteria for current markets, factors they considered critical for new markets as well as on the expectations they had for Singapore or Asian markets in general.

The CX had limited demand for tea products in their small domestic market, which led them to look for opportunities abroad instead of strengthening their role in their domestic market first. When the foreign markets were selected, the CEO mentioned that they did not have definite criteria. They considered that due to their company's small size and flexible business model could quickly adapt to any occurring changes in the markets. The markets where they have currently applied for patent and trademark registration were selected on the basis of high purchasing parity, the consumption of tea bagged in tea bags, amount of tea trade and the intensity of packaging manufacturers. The limited financial resources also forced them to prioritise the chosen markets, therefore some of the potential smaller markets were excluded and instead concentrated on markets where tea plantations and refining locate as from these locations tea is usually exported to other markets.

### *Perceptions of Business Environment in Singapore*

The COO and the Legal & IPR Advisor had both done business with Singaporean companies earlier on their careers. The COO had also visited in Singapore numerous times as a tourist. The CEO did not have any earlier experience of Singapore. The Legal & IPR Advisor and the COO described Singapore to be a centre for trade in Asia with a highly business-oriented, international and open business environment. In the COO's opinion, Singapore has stable political environment, continuous economic growth, multicultural population, high technological level and sophisticated legislation. The Legal & IPR Advisor thought that especially the limited market size, geographical location and political stability were regarded as reasons for the country's success and trade-driven economy.

Both the COO and the Legal & IPR Advisor mentioned that the British heritage can still be seen in Singapore, assumable even on the tea drinking culture. Especially doing business with the Singaporeans were said to be easy as both of the interviewees had



not faced any great cultural differences, unlike in other major global cities such as in Dubai, Beijing or Shanghai. The COO describes the culture to be an “international culture” as there are so many nationalities, which makes the environment easy to operate in. The technological level was seen sophisticated enough to embrace the CX’s packaging innovation. The COO mentioned; “I believe licensing could be quite familiar to them or at least they could be more open for new ways of doing business.” The legal system was believed by both interviewees to be favourable for foreign business actions. They considered Singapore sophisticated regarding the awareness on environmental issues and related legislation. The COO mentioned that the sizeable urban area and high population density have set the scene for Singapore to lead the way for others on recycling and compostability matters. In her opinion, this could be one of the opportunities for the CX’s packaging innovation. The Legal & IPR Advisor also considered the awareness on environmental matters in the market to be an asset for the CX. The COO noted that regarding all aspects, Singapore is definitely a market worth consideration for the CX’s operations.

#### ***Potential Licensees in Singapore***

All of the management team member’s agreed that the best opportunity for them in Singapore would be a licensee with a presence in their domestic market as well as exporting products to other Asian markets. This licensee could be a local or international tea brand, a tea house or a commercial café chain that has tea packed in tea bags and headquarters in Singapore. In the COO’s opinion Singaporean tea brands supplying to intensive HoReCa (Hotels, Restaurants and Cafes) sector would be the most potential licensees. The Legal & IPR Advisor considered a packaging company with connections to tea markets in China, Japan, Indonesia and the US, or having tea brands as their customers could be a potential licensee.

#### ***Future Expectations and Objectives for Singapore***

The Legal & IPR Advisor thought that the CX should find a significant partner for markets in China, Japan, Indonesia and the US within a reasonable time. A possible partner or right person for these markets might be found in Singapore. The COO held important to simultaneously look for potential licensees in a global scale, rather than cling to any specific market. She would focus on looking for licensees at developed markets that have consumers with high purchasing power, as this was also the opinion

of their Indian agent. The COO considered that Singapore could be worth a look for eligible customer segments, which could assist on expanding their operations to other Asian markets. The CEO did not have any expectations of the Singaporean market although he was concerned on the general level of IPR protection in Asia. He thought that currently their main focus will be in European markets and after Europe, he saw most opportunities in the US and Canadian markets. He considered that there were several opportunities globally although their limited resources limit on where to operate.

### 6.2.1 The CX's Own Competence

Earlier in Chapter 4.1, Rahman's study revealed factors which the Australian companies had used to estimate their own competencies on operating in a certain foreign market. These factors were compared by the researcher with the SWOT-analysis, the expectations and objectives mentioned during the interview. The relations between Rahman's pointed factors are made clearer by scoring from 0-5 with 5 being "excellent competence" and 0 "no competence". The summary of the CX's competencies is visualised in Figure 3 below.

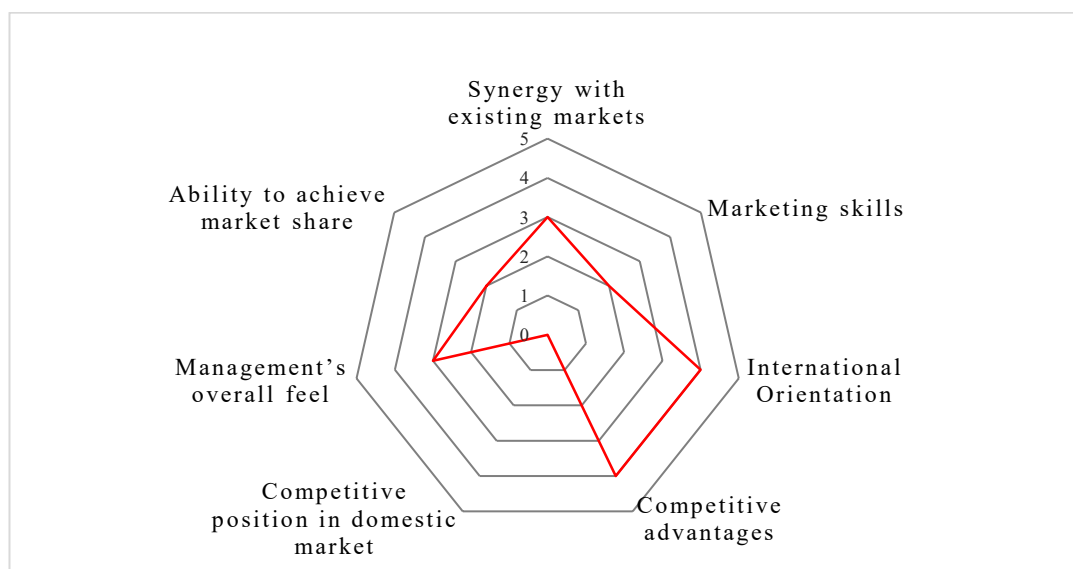


Figure 7. Evaluation Score of the CX's Own Competencies to Operate in Foreign Markets, on the Basis of Rahman's Study (Rahman 2003, 130)

In the factor of *synergy with existing markets*, the CX has linkages beside their domestic market in Europe also to India, Sri Lanka and Kenya through locally situated agents. The agents were considered being in a key role for solving any problems appearing in their assigned markets, such as the protection of IPR and monitoring local partners. The mentioned poor communication between team members might also reflect in communication with the agents. Due to psychic proximity communication with two agents from Europe were considered easier than with their Indian agent, where also cultural differences and language barriers need to be considered. The CX did not have any established norms for communication, such as regular reporting, neither any goals the agent needs to meet. The CX's competence regarding synergy with existing market is scored 3 out of 5.

The factor of *marketing skills* is scored 2 out of 5. The CX has this far outsourced all their marketing activities to advertising agencies. They currently have the ability to uphold their materials and represent themselves in English although they do not have any marketing professionals in their team. The licensed packaging innovation itself does not need adaptations to suit different markets' needs. Although on communicating with potential customers on licensing, they might require the services of local marketing experts and financial resources. The communication is one of the weaknesses for the CX, and as mentioned by the COO it could effect on customer acquisition. In the factor of *international orientation*, the CX's has chosen a global business model and the packaging innovation is suitable for most markets. Therefore they are receiving 4 out of 5 on this factor. The CX's team has some experience on international trade, and since the beginning the company's operations have focused outside their domestic market. However, as the COO noted they lack enough cultural knowledge, language skills and information on markets. All of the interviewees also noted that future markets need to be developed enough for them to do business in with their limited resources.

The CX's *competitive advantages* are their packaging innovation's adaptable nature, it can be included in any existing tea product and through licensing as part of licensee's supply chain. The compostable packaging innovation was also considered unique and responding to a growing demand for environmental friendliness. Compared with their competitors, the team's decision-making was considered flexible and able to fast react

to changes. Also licensing as a business model was noted less vulnerable to market changes and having no limitations where to operate. In this factor they score 4 out of 5. Regarding the *competitive position in domestic market* factor, the CX receives 0 out of 5 as they have no presence in their domestic market.

In the factor of *management's overall feel*, the CX receives 3 out of 5 as they were not likeminded which markets to target their efforts to. In the *ability to achieve market share*, the CX receives 2 out of 5 as they have not established any specific market objectives. Their limited human and financial resources demarcate the markets they can operate in. Due to limited resources, they will need a powerful partner to assist them on operating as well as on protecting their IPR.

### 6.2.2 Benchmarking

Benchmarking is done to give a perspective on how other companies with licensing actions operate and on which foreign markets they operate on. The comparison was conducted by looking at MarketLine's company profiles in companies with licensing actions as part of their operations. MarketLine's reports were chosen to achieve better comparability by using company profiles in a uniform report structure. The list of reference for these reports can be found in Appendix 2.

In total 34 companies were found representing different industries and sizes. As many of these companies' business models were not comparable with the CX, another screening was carried out. On the basis of their business actions, 15 companies were chosen. The researcher categorised that most of these companies operated in Technology & Software, and others in Lifestyle & Entertainment, Fashion & Retail, Food & Beverage, Gaming, and Mobile services industry. The majority of companies were based in the US, then in Sweden and remaining equally in Australia, Canada, Germany, Hong Kong, Singapore and the UK. Although benchmarked companies operated in different industries they had similar patterns in their licensing related operations. A breakdown of these operations can be seen in table 3 below.

Table 4. Breakdown of Licensing Related Operations in 15 Benchmarked companies (MarketLine Company Profile a-o 2015-2016)

| <b>LICENSING<br/>RELATED<br/>OPERATIONS</b> | Operations                                |  |                                 |                              |                             |
|---|---|--|---------------------------------|------------------------------|-----------------------------|
|   | Involved in development of their offering | through subsidiaries, partners or joint ventures | Provided other related services | Acquired IP from third-party | More than 1 brand or patent |
|   | 11  | 8  | 9                               | 7                            | 7                           |

The majority of benchmarked companies were involved in their own offerings manufacturing and licensing, as well as half of them had some operations through subsidiaries, partnerships or joint ventures. Over half of the companies provided additional services such as consulting, management, training and support services, which related and supported their licensed IP in take-off. For example, in a gaming company, they had different segments of service for different customers to gain additional revenue, such as providing marketing services for both non-player and player customers (MarketLine Company Profile j 2016). Quite many of benchmarked companies had acquired IP from third-parties to reinforce their existing IP portfolios on certain product line, to provide improved customer-experience or to achieve better competitive advantage. One of the benchmarked companies had used cross-licensing with a known brand to introduce their products to consumers in a new market. Afterwards they launched similar products with their own brand. (Yowie Group 2016, 8.) Due to acquisitions or in-house development 7 companies had more than 1 brand or patent in their portfolio. Some of the companies they had wanted to minimise the impact of delays in revenue generation by having several patents with different stages of commercialisation. Hence when licensing agreement negotiations with one offering delay, the others might reach markets faster and provide cash flow.

### ***Benchmarking on Market Selection Criteria***

The market selection of benchmarked companies was conducted by investigating companies' foreign actions and comparing these to Rahman's criteria for macro environment. The purpose is to figure out which of the criteria would be the most relevant to a licensing company. The received findings are not unambiguous and can only show the unconfirmed generalisations of these companies' market entry criteria. Also the industry related factors and type of operations are not taken into consideration. A

breakdown of benchmarked companies' foreign operations can be seen in Table 4 below.

Table 5. Breakdown of Foreign Operations in 15 Benchmarked companies (Market-Line Company Profile a-o 2015-2016)

| <b>FOREIGN<br/>OPERATIONS</b> | Presence in     | Only domestic | Presence in | Presence in 5 or |
|-------------------------------|-----------------|---------------|-------------|------------------|
|                               | domestic market | market        | 1-2 markets | more markets     |
|                               | 15              | 3             | 8           | 4                |

The benchmarked companies had operations in Europe, North America and Asia Pacific. All companies had presence in their domestic market and three of them only in their domestic market, which were excluded. The majority of the companies had chosen to focus on their domestic market and few foreign markets beside it. The foreign markets varied and in total 20 different markets were included in the comparison analysis. The chosen markets were Australia, Bangladesh, Belgium, Canada, China, Denmark, France, Germany, Hong Kong, Indonesia, Japan, Malaysia, Netherlands, Philippines, Singapore, Sweden, Thailand, New Zealand, the UK and the US. From these markets, the US was the common market for foreign operations.

The North American based companies operated either only in their domestic market or had 1-2 foreign markets beside, perhaps due to their large domestic markets. The European companies had slightly more active markets, mostly in Europe but also in North-America and Asia. In Asia Pacific, the companies had the largest variety of operational markets globally. Regarding the geographical proximity from the sampled 12 companies, European and Asia Pacific companies had most operations with their neighbouring countries. On the psychic proximity the North American and European based had operations mostly in Western countries, while the Asia Pacific companies with other Asian markets. Most of the chosen foreign markets were among the top 5 export partners with the companies' domestic market.

In the comparison analysis chosen 20 markets were investigated on the basis of Rahman's criteria for macro environment. The rankings from the Global Economy's indicators were used to categorise the markets' performance in a global scale. The markets'

rankings in each indicator were divided into “above the global average”, “global average” and “below the average”. If the majority of markets had received ranking above the global average, the certain factor was hypothetically considered having importance for the market selection. The importance was determined by the proportion of countries with ranking “above the average” to total number of countries. The average proportion was 72 per cent and all above (72 - 100 per cent) were considered as “significant”. “Some significance” was given to 65-72 per cent and “No significance” to factors where the amount of “above the average” was less than 65 per cent. The variety of the ratio was in a minimum of 20 per cent and maximum 100 per cent. Summary for the comparison analysis can be seen in table 6 below.

Table 6. 20 Investigated Foreign Markets in Comparison with Rahman's Macro Criteria (Website of the Global Economy 2014-2017)

|  | Ranking<br>Above<br>Global<br>Average | Ranking<br>Global<br>Average | Ranking<br>Below<br>Global<br>Average | ND       | %           | Importance        |
|--|---------------------------------------|------------------------------|---------------------------------------|----------|-------------|-------------------|
| Political Stability  | 14                                    | -                            | 6                                     | -        | 70 %        | Some significance |
| Political Risk, (Long)*  | -                                     | -                            | 20                                    | -        | 100 %       | Significant       |
| Political Risk, (Short)*                                       | 1                                     | 2                            | 17                                    | -        | 85 %        | Significant       |
| Corruption   | 15                                    | -                            | 5                                     | -        | 75 %        | Significant       |
| Trade Freedom  | 17                                    | 1                            | 2                                     | -        | 85 %        | Significant       |
| Trade Openness   | 7                                     | -                            | 13                                    | -        | 35 %        | No significance   |
| Growth Rate of GDP   | 7                                     | -                            | 13                                    | -        | 35 %        | No significance   |
| Inflation Rate*  | 1                                     | -                            | 19                                    | -        | 95 %        | Significant       |
| Unemployment Rate  | 19                                    | -                            | 1                                     | -        | 95 %        | Significant       |
| Trade Balance % GDP  | 19                                    | -                            | 1                                     | -        | 95 %        | Significant       |
| GDP per Capita (\$)  | 14                                    | -                            | 6                                     | -        | 70 %        | Some significance |
| GDP per Capita, PPP  | 15                                    | -                            | 5                                     | -        | 75 %        | Significant       |
| Economic Freedom   | 18                                    | -                            | 2                                     | -        | 90 %        | Significant       |
| Competitiveness  | 18                                    | 1                            | 1                                     | -        | 90 %        | Significant       |
| % World's Imports  | 17                                    | -                            | 3                                     | -        | 85 %        | Significant       |
| Size of Market % World<br>GDP                                  | 12                                    | 1                            | 7                                     | -        | 60 %        | No significance   |
| Per Capita Consumption<br>% GDP                                | 4                                     | -                            | 14                                    | 2        | 20 %        | No significance   |
| Overall Globalization  | 17                                    | -                            | 2                                     | 1        | 85 %        | Significant       |
| Human Development  | 17                                    | -                            | 3                                     | -        | 85 %        | Significant       |
| % Urban Population   | 15                                    | -                            | 5                                     | -        | 75 %        | Significant       |
| Avg. Income Annually   | 14                                    | -                            | 6                                     | -        | 70 %        | Some significance |
| % World Population   | 10                                    | -                            | 10                                    | -        | 50 %        | No significance   |
| Literacy rate  | 19                                    | -                            | 1                                     | -        | 95 %        | Significance      |
| Innovation index   | 16                                    | -                            | 4                                     | -        | 80 %        | Significant       |
| R&D Expd. % GDP  | 13                                    | -                            | 2                                     | 5        | 65 %        | Some significance |
| IPR Protection Level   | 15                                    | -                            | 5                                     | -        | 75 %        | Significant       |
| <b>Average</b>   | <b>12,88</b>                          | <b>1,25</b>                  | <b>6,653</b>                          | <b>5</b> | <b>72 %</b> |                   |
| * below average = low<br>Variety min. 20%<br>Variety max. 100% |                                       |                              |                                       |          |             |                   |

Regarding political factors, the compared markets had most commonalities in political risk long- and short-term, and trade freedom. In the majority of countries, the political risk for export transactions was considered low and environment relatively free for trading. In transparency and corruption most countries were ranked above the global average although companies also had operations in five countries, which ranked below the average. The political stability could be considered having some significance for



licensing operations. Economic factors appeared to have most significance to market selection. In most countries, the inflation, the unemployment and trade balance per cent of GDP were on a healthy level. On the basis of high rankings in the GDP per capita PPP, the economic freedom, the overall competitiveness and the per cent of global imports, it seems that markets where licensing actions might occur are relatively free and competitive economies with high purchasing power parity. As the per cent of global imports demonstrate countries have good access to foreign products, which are sold in their own market or re-exported elsewhere. The indicator of GDP per capita in constant dollars might have some importance to market selection, but more importance seems to be placed on consumers' purchasing power. As with the trade openness, the growth rate of GDP, the market's size per cent of world GDP and the per capita consumption per cent of GDP seem to be less important indicators in this sample.

On the socio-economic factors, significance appears in the indicators for the overall globalisation, the human development index, the per cent of urban population and the literacy rate. The overall globalisation index was used to reflect the acceptance towards foreign brands, where most countries were globalised than the average. The human development index showed that in most countries the gross national income per capita, life expectancy at birth, mean and expected years of schooling were also above the global average. Consumers in these countries had more probability to live in urban areas than country, be part of middle class as earned more than the global average, and be able to read. The amount of population appeared to be less relevant, as there was equal amount of markets ranking above and below the global average. Regarding the average income annually, some significance could be placed on ranking in this indicator. On the technological and legal factors, high rankings in the innovation index and the level of IPR protection showed most relevancy to licensing companies' market selection. It could be assumed that markets with ability to host innovation and with an adequate level of IPR protection to be the ones which the most likely attract licensing companies. The indicator of R&D expenditure per cent of GDP prevalence was difficult to estimate due to lack of data, but might have some importance.

### 6.2.3 Criteria for the CX

On the basis of the interviews and benchmarking, certain market selection criteria was formed for the CX. The most emphasis for the future markets was on the accessibility and profitability, as the CX has limited resources on both personnel and finance. The market needs to be developed enough to embrace the CX's packaging innovation, with an adequate level of IPR protection and familiarity of licensing as a business model. The ready tea product where the CX's packaging innovation is utilised has a higher price, hence the consumers in the market need to have higher purchasing parity. Most opportunities for the CX can be found in markets where the consumption of tea bagged in tea bags is great, large amounts of tea is traded, suitable packaging manufacturers can be found and the market has established trade relationships with China, Japan, Indonesia and the US. In Figure 4 below are presented the macro criteria related to business environment, micro criteria to industry related, and additional criteria found on benchmarking.

| MACRO CRITERIA   | MICRO CRITERIA   | BENCHMARKING  |
|--|--|---|
| <ul style="list-style-type: none"> <li>• Trade relationship with China, Japan, Indonesia and the US</li> <li>• Economic aspects, developed market</li> <li>• High purchasing parity</li> <li>• Licensing familiar</li> <li>• Level of IPR protection</li> <li>• Environmental awareness</li> </ul> | <ul style="list-style-type: none"> <li>• Consumption of tea bagged in tea bags</li> <li>• Amount of tea trade</li> <li>• Location of tea plantations &amp; refining</li> <li>• Intensity of packaging manufacturers</li> </ul> | <ul style="list-style-type: none"> <li>• Established trade relationships with country of origin</li> <li>• Low political risk in long- and short-term</li> <li>• Non-tolerant attitude of corruption</li> <li>• Trade freedom</li> <li>• Healthy level on inflation rate, unemployment rate and trade balance % of GDP</li> <li>• Economic Freedom</li> <li>• Overall Competitiveness</li> <li>• % of World's imports</li> <li>• Overall Globalisation</li> <li>• Human development and literacy rate</li> <li>• Per cent of urban population</li> <li>• Innovation index</li> <li>• R&amp;D expenditure per cent of GDP</li> </ul> |

Figure 8. Breakdown of the Market Selection Criteria for the CX.

### 6.3 Market Opportunities and Threats

In the theoretical chapter “Assessment of Business Environment” the two-stage approach to market selection was presented. The approach included macro- and micro factors of the market, which are compared with the company’s own competencies and market assessment criteria. In this chapter, the opportunities and threats in the business environment of Singapore will be analysed through PESTLE and the tea industry through Porter Diamond.

#### 6.3.1 Business Environment of Singapore

Singapore has an outstanding performance in global rankings on their political stability and freedom, which are mostly a consequence of having the same political party in power and the government’s willingness to attract foreign businesses. The country has low political risk in both long- and short-term and high perception towards respecting the laws and enforcement of contracts. Trade with foreign businesses is relatively liberal and access to the market has been made easier through decreasing the costs and procedures required. Based on the non-tolerant attitude of corruption, Singapore can be considered having a developed market and surroundings. From a licensing perspective, these might be beneficial as the ability to trust local partners and manage the relationship from a distance is then higher. Regarding the market selection criteria of occurring “political risks in long- and short-term”, “non-tolerant attitude towards corruption” and “trade freedom”, the political factors in Singapore comply with set criteria. Singapore has several established trade relationships globally, hence the possibility of finding partners or at least global export opportunities in Singapore can be considered quite high. The trade partnerships with China, Japan, Indonesia, the US and the EU also comply with the CX’s criteria of “established trade relationship with country of origin” and “trade relationship with China, Japan, Indonesia and the US”.

Singapore is one of the wealthiest and most developed markets globally. The country is important trade-hub in Asia and has 2.29 per cent share of the world’s imports with the average being 0.56. As a trade-hub also trading with Singapore is considered rather liberal and internationally oriented. In the economic freedom, Singapore received 89

out of maximum 100. (Website of the Global Economy 2016.) Although the market of Singapore is one of the smallest and depended on trade, the limited size and protracted growth of their own economy has been covered through multiple FDIs. In the overall competitiveness, Singapore had above average score of 5.71 (Website of the Global Economy 2016). Regarding the criteria “per cent of world imports”, “economic freedom” and “overall competitiveness” Singapore can be considered as a potential market for the CX. Also the market development, level of consumer necessities’ quality and demand can be considered high enough to embrace the CX’s licensing innovation. The residents’ relatively high average monthly disposable income indicates high purchasing power although income is unequally divided. The consumers are getting more price-sensitive, but the level still complies with the CX’s “high purchasing parity” criteria. The level of “inflation rate” and “unemployment rate” are healthy with matching the CX’s criteria. The “trade balance per cent of GDP” for Singapore was 25.88 with being significantly higher than the average of -6.69 (Website of the Global Economy 2016). The size of the HoReCa sector was sizeable enough to foster possibilities for the packaging innovation’s take off. Regarding the overall economic aspects, Singapore is a highly developed market and complies with all of the CX’s economic criteria.

The typical consumer in Singapore is 39 years old and has a high standard of living with access to the best quality health care, sanitation, safe water supply and preventive medicine. She or he speaks English and Mandarin on the basis of the amount of speakers, represents Chinese ethnicity and by religion is Buddhist or Taoist. Although, the history of Singapore as a trade port and the multi-ethnic population have effected on local culture to be easily approachable with low market adaptation requirements. Also the British heritage and large traits of Singaporeans doing business with Europeans makes the psychic proximity relatively great. The “human development” and “literacy rate” are high with 52 per cent of all Singaporeans have post-secondary qualifications, therefore the typical consumer can be considered highly sophisticated and educated (Statistics Singapore b 2015, IV). The typical consumer lives densely in an urban area and uses imported foreign products, as Singapore has high scores in both “per cent of urban population” and “overall globalisation”. She or he is sensible for prices although purchases valuable gifts to show the meaningfulness of the relationships she or he has with the receiver. On the criteria of “human development” and “overall globalisation”,

Singaporeans are sophisticated enough to know how to use the CX's packaging innovation and willing to use foreign products. Also the "per cent of urban population" complies with the set criteria.

The government of Singapore has placed strong emphasis on innovations and IPR protection. Singapore has been nominated among the best performers globally on their innovation in-put and has resources to innovate. On the basis of the "R&D expenditure per cent of GDP" and level of internet access Singaporean buyers can be considered sophisticated enough to embrace the CX's packaging innovation. Regarding licensing as a business model, in Singapore mostly the multinational MNCs was the ones which utilise licensing in their business actions. The EU and Singapore have already established on-going trade and royalties for the use of intellectual property, leading to a conclusion that licensing is familiar to Singaporeans at least for MNCs. Although as the government has placed major efforts for improving local SMEs licensing practises, in the future they might be more willing to improve their competitive position in the local market by licensing foreign innovations. The criteria of "licensing familiar", the "R&D expenditure per cent of GDP" and "Innovation index" comply currently in some level.

The legal and court systems of Singapore are considered just and usually in favour of businesses (Country Analysis Report: Singapore 2016, 53). The CEO was concerned on the general level of IPR protection in Asia and it is also one of the CX's criteria. While the registration and protection of IPR is still developing in most parts of Asia, Singapore was considered having the best protection of the region. The IPR protection is forced by Patent Act, Trade Marks Act and Common law and the owner has ability to handle cases of violation through several methods. The "level of IPR protection" is at a level where licensing actions can be practised, and complies with the CX criteria.

As the government of Singapore is placing greater effort towards recycling and especially managing the organic waste, this will eventually become part of the everyday life for Singaporeans. The several promotions are set at industries to reduce packaging and waste, pushing the local producers towards favouring environmentally friendlier methods. Through these actions, the level of "environmental awareness" complies with the CX criteria.

### 6.3.2 The Porter Diamond on Local Tea Brands

This Porter Diamond analysis will scope through micro factors, such as market size, demand, level of competition and firm strategies to estimate whether the tea industry complies with set micro criteria. As market reports for tea industry are non-accessible for the use of this research, the analysis will be made from the basis of information gathered from local tea brands websites, social media and articles on Singaporean tea industry. 23 Singaporean located tea brands were investigated and compared for their domestic and international operations, strategies and offerings to conduct a generalised overall picture on Singaporean tea market. The list of reference for the comparison can be found on Appendix 3. The operations for these tea brands is visualised in Figure 9 below.

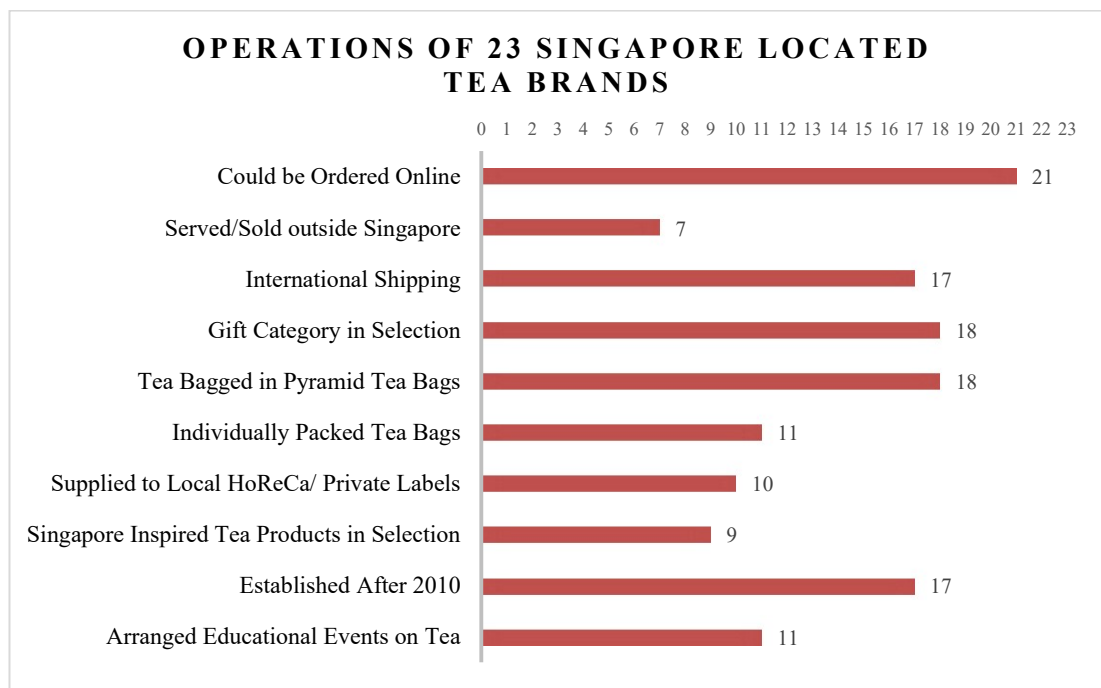


Figure 9. Operations of 23 Singapore Located Tea Brands (Appendix 3)

In overall level companies established in Singapore have excellent ground and good access to necessities for their business operations. Singaporean tea brands operate in a highly competitive environment, where new products are hard to get to retail and marketing efforts are costly. The investigated tea brands had their products sold locally on diverse retail channels, with brand presence varying from 3 to 48 different department stores, shops or airports. The local brands were also being served in selected cafes,

restaurants, and in their own tea shops or salons. The consumers' increasingly hectic lifestyle and several FTAs might have offered opportunities to extend operations outside retail. As mentioned in the economic factors, the local consumers were shopping more everyday items online. This was seen also on the tea brands, where only two out of 23 did not have their own online shop. The busy lifestyle shows also on the sales statistics, TWG mentioned to receive 66 per cent of their sales from retail and 34 per cent from wholesale, also supporting that Singaporeans consume most tea in home or elsewhere than cafés and restaurants (TWGTea1837 2012).

Only six out of 23 did not have any record of actions outside their domestic market. The market coverage globally was extensive with different locations across Europe, Middle East, Asia and North America, with most retail locations were in China, Japan, Brunei, Taiwan and Malaysia. The foreign actions varied from offering international shipping in their online stores to having their own local stores in foreign markets. At least two of the biggest tea brands mentioned that their end-products are made in Singapore, where they have their blending, packing and warehouse facilities (Website of the Gryphon Tea Company 2018; Escobedo 2017). The strict quality and safety standards, which embody the "made in Singapore" brand, were said to be one of the competitive advantages to Singaporean products in global markets (Ava Vision 2015). The tea brands sourced tea from various locations, which was said to be possible as there is no tea cultivation in Singapore. Hence Singapore does not compete with producing countries on tea trade, and allows Singapore based companies to source tea without export duty. The geographical location of Singapore beside major tea producers was also considered to be able brands to source fresher and more fragrant tea than for example their European counterparts. (CNN Travel 2009; Yasuda 2012.)

Regarding the CX's criteria of "location of tea plantations & refining" although Singapore does not have tea plantations, they are surrounded by countries where tea is cultivated and have good connections to other Asian tea producers. As two of the biggest tea brands have their blending and packing facilities in Singapore, it could be possible that the relevant tea refining for the CX occurs in Singapore. The most local tea brands had presence in Singapore, as well as in other Asian markets that would comply with the ideal partner's qualities mentioned during the interviews.

Singapore received high rankings in global comparison related to business sophistication, exports and goods market efficiency. Leading to a conclusion that Singaporean consumers are sophisticated, the methods of doing business are sophisticated and consumers have good access to exported products. The market itself is rather small on size, and therefore highly competed. Most of compared tea brands had segmented their teas to premium and luxury categories, offering high quality teas with a variety of different blends and types (Lin 2015; Quek 2016; Website of the 1872 Clipper Tea Co. 2018).

The local brands have learned to operate in a highly competitive environment, where most of the goods are exported. Therefore the competitive landscape to not only include competing with other local brands but also with multinational brands. The competition and presence of multinational brands have taught buyers to expect advanced products and to have higher standard expectations. The high income level, expatriates and tourist thrive the demand to be highly sophisticated and demanding. Brands need to come up with new products and adapt to trends faster in their competition for customers, which create a good ground for Singaporean companies' ability to succeed globally. Beside the current rates of the size of market and per capita consumption, the trends and intensity of competition have created demand for new tea innovations, which have motivated consumers to prefer tea over other beverages.

In the social factors, the mention on collectivistic cultures' effort placing to relationships, can be shown also in tea brands. The category of "gifts" was repeatedly shown in tea brand's websites. The variations in the Gift category varied from customised blends to customised tags and packaging, while some had special gift packaging including selected flavours. One of the most mentioned was gifts for wedding guests and as corporate gifts (Lim 2016; Lin 2015; Lee 2013). One of the local tea brand owners Inez Lim mentioned in Business Times Singapore's interview that Singaporeans are rather conservative what comes to their own daily consumption, but buy special tea products for gifts (Loi 2017).

The hectic lifestyle and the consumers' preference towards higher quality on food & beverage, have placed efforts to both the ingredients and packaging, which supports consuming the products in a hurry (Website of the Euromonitor 2016). On tea, this



shows in the availability of tea bagged in tea bags, which were promoted to be suitable for busy individuals. Most of tea brands had pyramid tea bags, on which 11 with individual packaging. The local tea brands could be seen to have brought diversity to tea market also regarding prices. While the market leaders can be considered low-end teas, TWG has a price range from \$4.50 to \$4500 for 50 grams depending on the quality of the leaves, demonstrating the price spectrum for local tea brands' selections (Tan 2009).

The local tea culture is a blend of different influences and keeps varying as new global tea brands and local operators arrive to market. When looking at the criteria of size of market, estimated demand and per capita consumption, the local tea market is globally rather small and modest. Also the CX's criteria regarding "amount of tea trade" is modest. The proportion of income spent on tea was difficult to estimate although due to different consumer groups and high income levels the market can accommodate tea products with large price range. This would enable also the utilisation of the CX's packaging innovation. The hectic lifestyle has led the consumption habits to support the use of tea bags, as it can be prepared quickly. Therefore regarding the CX's criteria of "consumption of tea bagged in tea bags", the market size for tea bag products is rather modest although apparent as nearly all of the compared tea brands had tea bags in their selections.

The related and supporting industries in this case are the food & beverage industry that due to strong competition are quite close to the tea brands, leaving possibilities for cooperation. From compared tea brands, 10 mentioned to supply their tea for HoReCa sector and created customised tea blends for local companies' private labels. TWG teas were mentioned to be served in luxury hotels' afternoon tea, as well as in Singapore Airlines' business class (Lui 2016; Tan 2009; Martin Roll 2017). The 1872 Clipper Tea Co. creates private labels beside hotels, also to tourist attractions such as Singapore Botanic Gardens and Gardens by the Bay (Website of the 1872 Clipper Tea Co. 2018). In fact, 9 of the tea brands had Singapore inspired products, possibly targeted as souvenirs for tourists or to create locals' interest towards tea. Tourists were seen as an opportunity to introduce and sell their products to visitors from other Asian countries, with at the same time creating demand outside their domestic market (Goh 2017). Some of the tea brands already considered to have loyal international customer

who returned to them for the premium quality and service (Ee 2014; Liang & Koh 2015).

Regarding of availability of potential partners, the compared tea brands worked closely together with the local HoReCa sector. Several of tea brands had supplied or created private blends for the hotels and cafes. Some of the tea brands can be said to comply with the CX's perceptions and criteria of a potential partner. Within the packaging industry there are only few operators with biodegradable products. Therefore Singapore does not comply with the CX's criteria of "intensity of packaging manufacturers". Singapore is a base for many international packaging companies' distribution offices, which might be interested on manufacturing the packaging in their manufacturing locations outside Singapore.

The surroundings for companies in Singapore oblige them to have a good chance of finding talented and highly educated workforce. The companies also availability to latest technologies and ability to absorption of these technologies in their business. As coffee and other hot drinks dominate the entire hot drink sector, perhaps due to low demand only 6 local tea brands out of compared 23 were established before 2010. The oldest companies were established in 1918, 1925 and 1906 and concentrated mostly on trading traditional Chinese teas. The local tea scene started developing around 2006-2007, when currently global operators Gryphon Tea Company and TWG were established. Gryphon offers high quality Asia-inspired blends and has won globally significant British-based Great Taste award 28 times for their teas (Lin 2015; Quek 2016).

TWG opened their own tea salon in 2008, where customers can taste and learn from different varieties of tea. Depression was starting to effect local consumers although the brand managed to establish themselves as "affordable luxury". Currently, they have operations in 40 different countries with annual sales of \$90 million and are among few foreign brands to have established tea salons in traditional tea countries such as China and Japan. The brand is also the only tea brand to have their own section in London's Harrods. Their strategy was to place efforts on quality of tea leaves, selection, packaging, staff, salon location and most of all in overall customer experience. The staff members go through extensive training in Singapore to ensure they can serve

tea from over 800 teas, on which some are of rarest quality and cannot be get from anywhere else. The brand concentrates on tiniest details to ensure the luxury image, starting from presenting teas like wines, selling them in packaging that reflects the latest trends of fashion world, serving them in old style tea salons with best locations and pairing these teas with foods made by world famous gourmet chefs. (Pik Yin 2013; Escobedo 2017; Lwee-Ramsay 2013; TWGTea1837 2012; Yun 2014; Forbes Middle East 2014; Waterman 2015; Olivares-Co 2013; Yasuda 2012.)

After the success of TWG and Gryphon, the demand for speciality tea has been slowly rising and several new brands have been established to assist educating Singaporean consumers for better tea appreciation. 11 out of 23 brands mentioned to arrange tea tastings, workshops and other educational events. The awareness the local tea brands have been able to create among consumers, has also become evident in market leaders' selections and HoReCa sector's menus, as consumers are getting more interested on different tea varieties (Website of Euromonitor International 2016; Koh 2017; Quek 2017). Recently Gryphon introduced new brand Monogram, where customers can make their own blends to answer to sophisticated customers' needs better, also aiming to luxury feel (Ah Yoke 2016). Another local brand, the 1872 Clipper Tea Co. has their own retail store where tea is served with latest technology Steampunk machine brewer, showing the emphasis on innovation (Lim 2016). Brands are also placing efforts to packaging design to compete better in retail (Website of the 1872 Clipper Tea Co. 2018; Martin Roll 2017; Yun 2014). TWG can be said to set new standard to management style of local tea industry, where effort are placed to branding, innovation, quality, luxury, global operations, educating consumers and partnering with local HoReCa. This has been proved to be successful as several local tea brands have taken branding, innovation and specialty teas as their strategy.

The local companies have developed several ways to compete, such as offering food services, extend services to private labels and customisation. Three of the compared tea brands had won the Great Taste –award, which shows the ability of local brands to succeed at international level on product innovation and competitiveness (Quek 2016). The high income levels enable the brands to sell premium goods and the competitive domestic market supports high differentiation and branding. The rivalry in domestic market is mirrored on the willingness to place more effort on branding than other tea

brands in less competed markets, which also shows in TWG where they wanted to keep their own marketing and brand management to ensure better brand communication (Escobedo 2017; Martin Roll 2017).

The government supports the development of local tea brands through FTAs for better export opportunities and having high standards for food safety that ensures good image for “Made-in-Singapore” brand. The incentives and efforts recently added to enhance the start-up scene also aids emerging of new brands, as highly educated labour force can be more encouraged on starting their own tea businesses. Also the ease of doing business and ability for foreigners to start business in Singapore assist the competition on foreign talents part, for example from 2 from 3 founders of TWG are not originally Singaporeans. Government offices such as Singapore Tourism Board has cooperated with local tea brands to create special Singapore-inspired blends (Lin 2015).

#### 6.4 Licensing Opportunities

The business environment of Singapore can be considered attractive for the CX regarding criteria of low political risk in long- and short-term, non-tolerant attitude of corruption, established trade relationships with China, Japan, Indonesia, the US and the EU, economic aspects, trade freedom, overall globalisation, human development, per cent of urban population, geographical & psychic proximity, high purchasing parity, level of IPR protection and environmental awareness. On the criteria for licensing familiar, innovation index and R&D expenditure per cent of GDP, the attractiveness is modest. Therefore the business environment in most terms complies with the CX’s criteria.

On the licensing opportunities, especially the several FTAs and non-tolerant attitude towards corruption aid of finding suitable trustworthy partners with excellent possibilities to export their products globally. Singapore has established trade relationships with the EU, where in particular the trading of royalties can be seen as an opportunity for the CX. The high-income levels enable the opportunity to sell products with premium price, as well as the overall sophistication of buyers show great potential for

consumers to learn how to use the packaging innovation. Although some of the consumers are more price-sensitive and conservative on their purchases, the large expat community and tourists can be seen to cover the potential demand for the tea product utilising the packaging innovation. Especially the tourists from traditional tea markets can be seen as potential opportunities on testing the product in Singapore, and perhaps later when returning their home ordering these products online. In general the increased popularity of online shopping might be considered as opportunity for the CX, as most of the local tea brands had their own online stores where tea product with packaging innovation could perhaps be tested in small quantities and receive direct feedback from customers. Singapore is also one of the first to suffer from impacts of global warming, and the emphasis especially to organic waste's management could raise demand for compostable packaging innovation.

The overall level of awareness of licensing as part of business operations is increasing, and the government is allowing incentives and allowances for acquired or registered IPR to promote local SMEs to licensing activities. These actions could be an opportunity for the CX to acquire local licensees, which could receive compensation for licensing the packaging innovation. The ease of online registration, strength of local IPR legislation and taxation for royalties also eases the licensing actions in Singapore. The ability to be endorsed in IPOS patent database as "licensor", might bring opportunities among locals. The patent law enables a licensee with sole right to have same rights as the owner of IPR on cases of infringements, which could aid on monitoring the use of the CX's IPR.

On the micro criteria consumption of tea bagged in tea bags and amount of tea trade can be considered modestly attractive for the CX as the consumption rates are expected to rise from the current state. As in Singapore there are no tea plantations and only few packaging manufacturers, the country does not entirely comply with the criteria for the location of tea plantations & refining, and the intensity of packaging manufacturers. However due to lacking tea plantations, the local brands thought they had better ability to source and sell tea globally, which they blend and pack in Singapore.

The opportunities regarding tea industry in Singapore are mostly on the relatively young tea industry, where latest trends are widely absorbed. In the coffee and other

hot drink dominated market, also the consumers are more willing to embrace new tea innovations compared to traditional tea cultures where tea is part of heritage. The local tea brands are used to innovate and compete fiercely to receive market share, with methods of placing emphasis to tea quality, branding, differentiated packaging design and educating customers. The tea brands have quite extensive trade channels they can benefit from, which would also lead the opportunities regarding licensees' distribution assisting on achieving improved market coverage in other Asian markets. These actions would be an opportunity to teach consumers to use the packaging innovation, and perhaps aid on creating desirable product for exports.

Another opportunity lies on the tourist from traditional tea countries, who could be introduced to speciality tea product utilising the packaging innovation through local HoReCa's private labels or as Singapore inspired product. As many of the local brands supplied for HoReCa sector, including airlines there exists opportunities for differentiated packaging design. Also due to local consumer's busier lifestyle, nearly all brands sold special tea also in pyramid tea bags providing opportunities for use of the packaging innovation. Although the busier lifestyle has correspondingly increased the sales of RTD teas, and as consumers are more price-sensitive their preference for cheaper teas on private consumption could minimise the opportunities. Despite the price-sensitivity, the demand for differentiated and special product in the gift segment is evident and might offer opportunities for the CX. Especially in the holiday season, representing holiday themed tea product with the packaging innovation might bring awareness and create demand also after holidays.

There are several potential licensing opportunities in Singapore's business environment and tea industry. However, when comparing these to the CX's own competences, it appears that aiming for these opportunities would require extensive investments on the CX's behalf. The CX's current synergy with existing markets is based on local agents who take care of the market nearly independently, which would lead the requirement for local agents also in Singapore. In Singapore's case the cultural differences and language barriers should not cause difficulties for communication, and as many western companies have their Asian headquarters in Singapore might be possible to find an agent or representative with European background. Although the CX should improve their communication and expectations for agents, as these will not only clarify

the CX's motives but might also be a ground-breaker for many representative companies when they choose which brands they are willing to represent in Singapore. The CX's lack of marketing skills might also be a challenge in Singapore, as the level of branding is high and brands could expect both financial and marketing assistance as well as long-term commitment when promoting new tea product. As the CX has limited financial and human resources they might not be able to commit and support brands on these promotional activities, despite that the licensed packaging innovation itself is easily adaptable to different market needs. Some marketing skills might be required also on explaining licensing to potential licensees, although the local SMEs are becoming aware of these activities.

In the international orientation, both the COO and Legal & IPR Advisor have done business with Singaporeans earlier and have basic understanding of the market. This covers the otherwise mentioned lacking of cultural knowledge, language skills and market information, hence Singapore's market can be considered developed enough for the CX to do business in with their limited resources. Also regarding competitive advantages, the enhanced usability and trend of environmentally friendliness improve the compostable packaging innovations position against others similar types of packaging. The management's overall feel regarding operations in Singapore was rather positive, the COO especially though that Singapore's business environment in all levels would be suitable for the CX's operations.

However, as the CX did not have any clear objectives for their future markets it might affect to their ability to achieve market share in Singapore's highly competed market. Entering into Singapore market requires investments for networks and agent to represent and monitor the licensees' use of IPR. Also the registration of IPR is necessary as several goods for other Asian markets flow through Singapore. The cost of entering the market would be around 1000€ for IPR registrations with additional requirements of finding agent, which would require sending the CX's management team members to negotiate with the terms. Although the costs are not globally high, when compared to the level of tea consumption and market size, the financial rate of return is rather low. To receive efficient amount of royalties on the sales of final product, the volumes of sales need to be high enough to cover the costs of registration and agent's commission. The amount of sales will be quite challenging to be achieved in Singapore's small

domestic market. However, wide export opportunities and customised private label products might aid at achieving better rate of return. The challenges the CX faces with their limited resources, poor structures of team work and communication as well as lacking of production facility, does not support their entry to new markets.

## 7 RECOMMENDATIONS FOR THE COMPANY X

As the CX's business model was considered quite unique and the company itself had not established their position in any markets at the time of this research took place, one of the aims of this research was to point out recommendations relating future international operations. In the Chapter 3 was suggested that licensing companies should establish realistic and consistent goals in long-term for their operations. The CX did not have uniform goals for their operations, and is advisable that the management team sets common objectives to help them on achieving these goals. The IPR registration costs can be rather high, where also the established goals will aid on evaluation of potential markets where registrations will take place. In future, whether the CX decides to start operations in Singapore, advisable would be to seek assistance from local attorney or IPR specialised agent and register and regularise their tradename, visual logo and patents prior entering market. In Singapore, as great amount of brand names are in English language there is no force at translating the CX's brand. Although if the company wishes to operate in China, they require Chinese brand name, which could be registered also to Singapore.

The CX can do the registration through EUIPO themselves or oblige the local agent to take care of the registration for them. As although it is possible to protect IPR without registration, it requires usually extensive effort for branding to reach required goodwill among Singaporeans. Singapore as well as many other Southeast Asian market also uses the first-to-file system, where anyone who first have register will own rights to use the IPR. This complies also to social media identities, local domain names and other online identities. The local authority IPOS has database in English where to check the availability of trademarks and patents before registration process. After the registration, the CX is advised to always use ® and patent number to let others aware



that all unauthorised use will be considered punishable, as well as keep all records of IPR process related dates and research in of dispute.

Regarding the potential partners in Southeast Asia, it is advisable in all cases sign confidentiality or non-disclosure agreements, including other parties' employees and interest groups. In Singapore, trade secrets are protected by law, but requires the use of "confidential" or "trade secret" to apply. Before entering into licensing agreement, the CX is recommended to perform intensive due diligence on other parties, and not to expose all IPR related information before the agreement is signed. Recommendable is also to remember that in cultures with high power distance the decision-making is centralised to managers and the subordinates have low ability to take initiative and effect to their managers' opinions, therefore all negotiations should be arranged with higher level managers to come into a mutual understanding of the agreement. Recommendable is also the look for agent with management networks, as these aid better coming into licensing agreements.

On the basis of the SWOT -analysis, the CX should place emphasis on improving their communication and team work skills in order to achieve best use of their limited human resources. Outside their own team, also communication with agents on regular basis might aid on reaching objectives and keep agents motivated to represent the brand actively. As good agents in target markets can compensate on lack of personal networks and ability to monitor markets, they should be properly trained in order to find suitable partners for the CX. One of the challenges the CX is advisable to solve as soon as possible, was the lack of production facility and the reflecting production delays. In several countries the trademark registration expires if it has not been used in a given time after the registration, which would make the investments for registration purposeless. As the CX had low competencies regarding marketing activities, and faced challenges on how to communicate effectively with potential licensees, they could seek advice from local marketing professionals who could adapt their marketing material towards more fitting and understandable in certain markets' target group.

In benchmarking, several of the companies with licensing actions provided additional services to help the customer in the use of licensed IPR. They also acquired third party IPR to reinforce their portfolios. These were not only seen as bringing additional value

to customers and improving their competitive advantage, but also to generate revenue to cover the delays of royalty payments. The CX could consider on widening their business actions to include services assisting potential customers on take-off of the tea product, which could increase the customers' willingness to license. All of the benchmarked companies had operations in their domestic markets and in the CX's case even some minor operations in their domestic market could strengthen their position in other potential markets. Starting some operations in their domestic market would be possible to conduct with their limited resources and language skills. Beside the domestic market, benchmarked companies had operations in only few other markets, which could be advisable strategy for the CX as well at least at the beginning of their operations. Several of the benchmarked companies operated through subsidiaries, partnerships and alliances, which supported their actions by adding resources and finances. It would be advisable for the CX to enter into partnership with a company that takes care of their IPR, licensing, marketing and representing of the brand in foreign markets.

As in the CX's priority is to find suitable and trustworthy partners that share their values on international corporate responsibility standards, the highest proximity could be found in other European countries or at least those would be easier for the CX to monitor. The trade is also rather centralised and free within the region, and could be more beneficial starting point for the CX. After reinforcing their role in the EU, Singapore could be seen potential country for entering into ASEAN markets. The learning curve experienced in the EU could aid on the CX's actions in similar intra-trade centred area. Singapore can be considered important secondary market, where the end product would be sold, but more significant regarding their location as local trade-hub where goods flow to other markets in Asia. It could be possible that if the CX's IPR would be protected through registration in Singapore, the trade of IPR violating products could be stopped when these items enter Singapore, even though it might not be the items final destination. The CX would be advisable to consult local attorney or IPR specialised agent to discuss on different scenarios and best ways to prepare for infringements.

## 8 CONCLUSION

The purpose of this thesis was to assess licensing opportunities in Singaporean tea market. As the CX was on the beginning of commercialising their licensed packaging innovation, their processes were still developing especially on the market selection part. One of the main objectives was to give recommendations for the case company regarding licensing in Asian market, assessment of these markets, as well as how does their own competencies respond to market's opportunities. In the theoretical part, generalised advises for licensing actions in Southeast Asia highlighted the importance of forming a long-term IP strategy, as a way to foresee and avoid infringements.

The business environment of Singapore supported licensing action and offered opportunities on multiple FTAs, developed protection of IPR, as well as the recent efforts of government to increase the recycling rate and boosting local companies to license or acquire innovations. On the tea industry, local brands' efforts for differentiation and absorb latest trends, as well as supply to HoReCa sector offered possible opportunities where the packaging innovation would be utilised. Singapore responded to most of the set criteria, which was established on the basis of Rahman's study, the management's interviews and benchmarked companies. However, when the opportunities were compared to the CX's competencies and resources, Singapore was not considered realistic market for them currently. The CX's priority markets need to include both manufacturing and selling of the packaging innovation, in order to optimise the required registration fees.

The research topic turned out more challenging than first expected and although different parts were modified several times, the final outcome of the research was still quite extensive. The CX's unique business model and relatively new operations forced to use beside the management's perspectives also benchmarking and supporting Rahman's study, as the management was not entirely sure whether their strategy would be the right one. Licensing actions vary from one company to another and theories regarding licensing actions were quite limited. Both theoretical and empirical part comprise on the pieces of suitable information the researcher has assessed to comply with the CX's business model, hence demarcating of gathered data was the most challenging part of this research. This research was conducted for the CX and according to

their needs, hence focus was on licensing perspective of Singapore and local tea industry. Although the findings can give insights on the business environment of Singapore and tea industry for everybody. The CX can use the findings from this research to develop their operations and to compare findings with other countries policies regarding IPR protection. The researcher would suggest the CX to contact legal advisor to have deeper insights on the legal aspects of licensing in Singapore. Further research could be done on the licensing companies' market selection with larger sample and using quantitative methods.

Most parts of thesis were conducted in 2016, when the researcher spent spring semester intensively working with the thesis. Although while processing the theoretical part both the supervisor and the research thought that the focus was lost, hence the original timetable did not hold. In the summer the researcher started working for a start-up company, which affected to ability to commit on thesis writing. Challenges in both personal and work-life in 2017 delayed the completion of this thesis significantly. At 2018, job-seeking took partly time from thesis writing. The delays caused challenges especially on the gathered data's topicality and the researcher's own motivation. Breaks in writing process also made catching up more time consuming and frustrating. Overall, the thesis as a learning process taught first of all information retrieval, problem-solving and improved the researcher's understanding of different tools that can be used in market assessment, as well as knowledge of licensing business in general.

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**INTERVIEW LAYOUT (Kananen 2015, 155)**

**1. Execution of the Interview**

- Interviewer
- Location and time
- Duration
- Interviewee and his/her status in the Case Company X

**2. Interview themes**

- Licensing
  - How does licensing as a business model effect to the daily operations of the company?
  - What would be the assets and downfalls of licensing in the international environment?
- International competencies
  - What do you think are the inner strengths the company has in international business?
  - What do you think are the inner weaknesses the company has in international business?
  - What do you think are the external opportunities the company has in international business?
  - What do you think are the external threats the company has in international business?
- Market Selection Criteria for Singapore
  - How have the current markets been selected?
  - Who could be the customers/ competitors in the market?
  - What kind of opportunities/ threats could the market have for the company?
  - What factors could be especially critical to consider on the market selection?
  - What objectives does the company have on Singaporean/Asian markets?



## APPENDIX 2

### LIST OF REFERENCES FOR BENCHMARKED COMPANIES

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