

MARKET ANALYSIS OF SOUTHERN CHINA

Why Finnair failed in Guangzhou and what should be learned

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Prologue

In the year 1903 Orville and Wilbur Wright made the first flight in the history of mankind. Since then industry has commercialized and expanded so much that flying is an everyday traveling method all over the world. Despite the fact, that more and more companies have entered the business, it has proved to be one of the hardest industries to be successful in. Lots of investors have lost their money after investing in the industry and some people speculate that in the end of the decade whole industry will be replaced by other methods of travel such as bullet trains or replacing personal meetings in business with virtual meetings in the internet.

“If there had been a capitalist down there, the guy would have shot down Wilbur. One small step for mankind and one huge step for capitalism.”

- Warren Buffet

Warren Buffet was not the first nor is the last investor who found out the hard way that airline industry a hard field to succeed in.

While the air industry has been struggling to become profitable for its investors, the markets in China have been booming for the last 10 years and it has become an interesting investment target for many foreign companies. The economy has been growing with a speed which has never been seen before anywhere else in the world.

However western companies who wish to expand their business to China usually face many unforeseen difficulties in the form of cultural and political clashes.

Operating in a difficult industry in a growing yet a little bit unstable country offers lots of potential. However as always in business: High income equals high risk. This analysis tries to explain which factors

should be considered before entering the growing market of Southern China and which factors are crucial to be able to maintain successful business.

TIIVISTELMÄ

2008 asuessani Guangzhoussa, sain Finnairilta toimeksiannon tehdä markkina-analyysin Etelä Kiinan markkina-alueesta.

Finnair oli huomannut, että valtavasta talouskasvusta huolimatta, Guangzhoun reitti tuotti ongelmia huonon bisnesluokan myynnin takia. Vaikka matkustajamäärät olivat lievässä kasvussa, lensivät koneet kuitenkin ”epätasapainossa”. Turistiluokan täytyessä bisnesluokka jäi lähes tyhjilleen.

Tämän uskottiin johtuvan riittämättömästä markkinoinnista, puutteellisesta markkinaanalyysistä, sekä väärin valitusta strategista.

Finnair päätti yllättäen vetäytyä Guangzhoun markkinoilta, vedoten reitin tuottamattomuuteen. Viereinen Hong Kongin linja jatkoi sitä vastoin hyviä tuloksiaan.

Tämä analyysi käsittelee Guangdongin markkinoita ja syitä siihen, miksi siellä alunperin epäonnistuttiin. Johtuiko epäonnistuminen väärin valitusta strategiasta, vaiko siitä, että Guangzhou alueena on väärä kohde Finnairille.

Vertailukohteena käytetään Hong Kongin reittiä ja pyritään erottelemaan syitä, jotka tekevät näistä kahdesta reitistä hyvin erilaiset kohteet yritykselle.

Kyselyiden sekä haastatteluiden avulla pyritään luomaan kattava kuva Guangdongin alueen markkinoista, jotta pystytään luomaan kestävä toimintamalli lentoyhtiölle Guangzhoun reitille.

Avainsanat: Markkina-analyysi, lentoyhtiö, verkostoituminen, ”benchmark”-vertailu, kohderyhmä

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1. INTRODUCTION

The assignment

In 2008 while studying in Guangzhou I was offered a job internship for Finnair. Finnair had been operating in the area for couple of years and started to realize that they didn't fully understand that who is their primary market group and how to reach them. I was given an assignment to execute a market analysis in the area of Scandinavian companies who could potentially be using Finnair but at this point did not.

One of the most important factors was the Finnair's loyalty program FCP which on the paper would attract new corporate customers for Finnair.

After working with the assignment for 3 months Finnair suddenly decided to cancel the route to Guangzhou and by doing that my previous work and research was in vain.

For the latter part of my internship I had meetings with Finnair's current customers to explain the new situation and offered them options for the future. Selling the FCP was also no good because we didn't have a product anymore to support that.

After gathering over 100 pages of information of market which I did not want to throw away, I decided to make my thesis of the Guangdong market and try to find out what went wrong and should Finnair ever go back to Pearl River Delta.

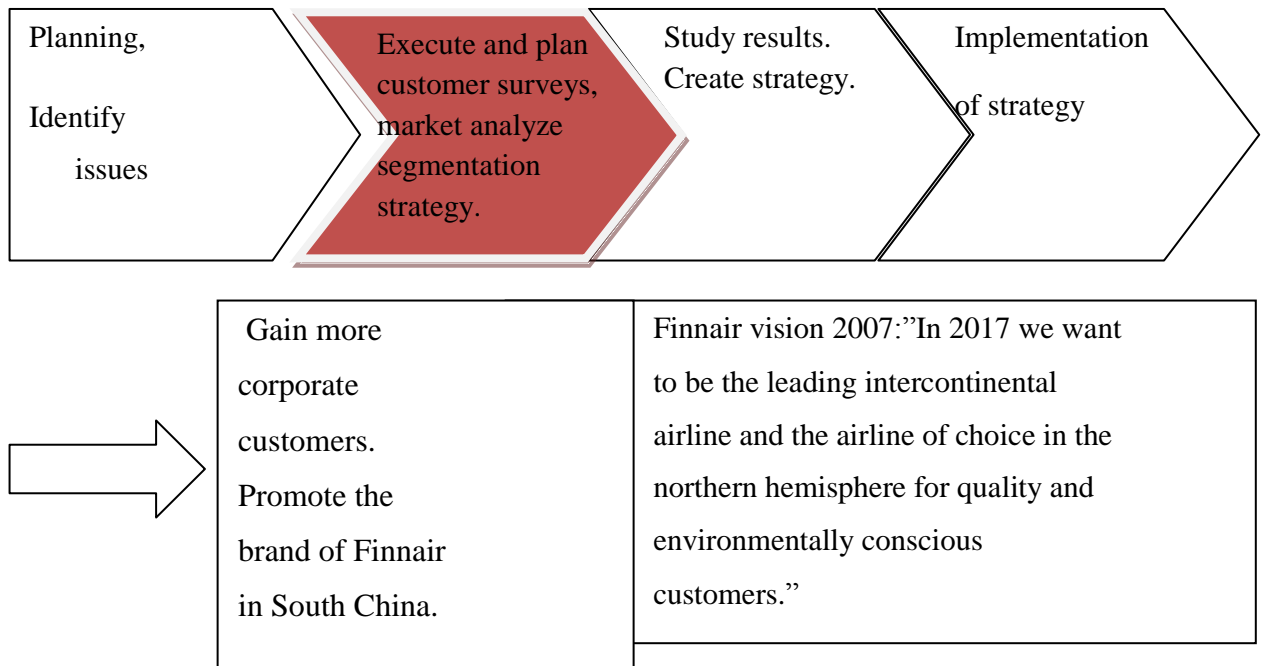


TABLE 1. This table shows the original strategy of Finnair for the Guangzhou and whole Asian market. Although Finnair had already entered the market it had poorly planned the strategy or analyzed the possible issues it would face in the new market area. On the second step the original strategy was discarded and the main issue was no more "How to gain more customers". The main issue built up in the form of question "why did Finnair fail?"

Theory and objectives

The objectives of this report are to provide a market analysis of Guangdong and compare it with Hong Kong's market. The main focus will be in the Guangdong and especially Guangzhou market as it has been only a little researched by western companies and it is the area's most important hub for air traffic. Although Shenzhen and especially Guangzhou are part of the Chinese special economic zones where business has been more open to the outside world for many years, it still is a difficult area for new western companies to enter.

The other market analysis is from a more mature market of Hong Kong. Unlike China, Hong Kong has not been closed to the outside world because of the British influence in the area. It has long been one of the world's busiest harbors and an important trading area between the west and the east.

Finnair has been operating in Hong Kong for seven years and this far the flight frequency has doubled from the original, meaning that this route has been able to find its customers.

By conducting market analysis for both of the areas it is possible to see which similarities and differences both areas have. The primary question which the markets analysis answers is: **“Is there a market for your products or services.”** Therefore for Hong Kong it is not necessary to provide detailed analysis. Main role for Hong Kong route is to find clear differences between the routes and to find out whether or not it is these differences which are crucial for an airliner to succeed with the route.

This report is scientific based study and focuses mainly on both qualitative and quantity factors of the target groups. These quantity factors are measured through surveys and qualitative opinions by interviews.

One of the main focuses relates on how do customers value most while choosing between different options. While Finnair has one unquestionable competence over other companies it is necessary to know if this is enough and how should it be promoted.

In the first 3 chapter this analysis focuses on Finnair, the flight industry in its entirety and the business in China to fully comprehend the situation.

Market analysis is restricted in the Guangzhou and Hong Kong area while Guangzhou being the most complete. Rest of the Guangdong area is restricted out mainly because of limitations of resourced but also because it's minor effect in the area and market.

Objective on the market analysis is to find out what went wrong with Finnair in the first place and what changes should be made in the market and marketing.

The studies focus on the southern part of China Yunnan, Guizhou, Guangxi, Hainan, Fujian and especially Guangdong because majority of the foreign companies are located there, the airfield locates there and the studies have been done there.

Project also gives a brief introduction to Chinese business culture as it differs greatly from western ways and to understand to difficulties which occur when western management culture meets Chinese philosophy.

The main goal is to have a market analysis of the Southern China which explains why Finnair found this market harder when compared to the rest of China. Supported by theory and empirical studies, this project gives suggestions which should be considered when dealing with this market.



PICTURE 1. Map of China showing all of the provinces. Finnair currently flies to Beijing, Hong Kong and Shanghai. This report focuses on Guangdong province market analysis where Finnair has been flying previously. Guangzhou route served primarily Guangdong area but also Guangxi and Yunnan.

Research methods

Because this report is scientific based, it is necessary to have enough information and data to be able to answer the questions of “how, what and why”. This data is collected by 3 different surveys: “Canton Fair survey, MBA survey and Hong Kong survey” and in 3 separate interviews with industry experts and core customers.

All 3 surveys have one main goal to find out if there are persons flying in the business class and if yes, how to reach them by marketing. What do they most value and how many of them are willing to pay extra to gain something extra on their trips.

Canton fair survey was conducted during 2008 Canton Fair for one week. Focus group was in Chinese companies and their employees to find out, what kind of traveling habits they have, and more importantly what they value most during long distance flights. Survey had 185 responses and out of that 104 were taken into final results. 81 of responds were disqualified because of nationality or distant hometown which made their responds invalid and would have altered the final results significantly.

MBA survey was conducted after the result of Canton Fair survey gave results of only low middle class or lower class employees. As all of the MBA students have already working experience and they can afford the education in Chinese University it is most likely, that responds would be more accurately from Finnair's focus group. MBA survey was executed by emailing 150 MBA students from 1st and 2nd classes. It was responded by 122 students.

The third survey studied what kind of impact the level of income has in the consumption behavior. It was answered by 53 persons.

Qualitative results are provided by 3 different interviews. First interview with Finnair's General Manager of Southern China Rebekka Mikkola-Rouvinen helped to point out the right questions which should be answered to find the solution. With her help it was also possible to create necessary network to reach proper market groups.

Second interview was with Lufthansa's General Manager of Southern China. Having a dinner with him provided me a fruitful conversation about air line industry and the Chinese market from a little bit different point of view.

With the third interview I had a conversation with Finnair's main partners from European consulates and Chambers. They gave ideas from their point of view about the market and how the recession was influencing the investments from Europe to China.

Strategic planning tools

Because the market being analyzed is big in the size of area and population, some of the basic strategic planning tools have been used to help better understand the area and its difficulties and possibilities.

SWOT analysis being one of the most common strategic planning tools used in companies. While being simple it is also really powerful tool to quickly understand the market and its strengths, weaknesses, opportunities and threats. This tool is usually the first one to start with as it points out where the main helpful and harmful factors lay.

SWOT ANALYSIS



PICTURE 2. Picture of SWOT analysis, it gives a simple look for company's strengths, weaknesses, opportunities and threats. By using this tool it is possible to plan a business strategy. (http://en.wikipedia.org/wiki/File:SWOT_en.svg)

Second tool which was used to analysis the market is Balanced score card also know as BSC. This tool was used to have convenient look at the main goals from two different perspectives: economical and customers' point of view.

It is important to keep in mind that these tools are only to simplify the market in overall to make it easier to comprehend.

By using these tools and having a conversation with an expert it was possible to understand which questions are needed in the first survey. After the first survey those questions were developed even further to find answers for the biggest issues.

2. BACKGROUND

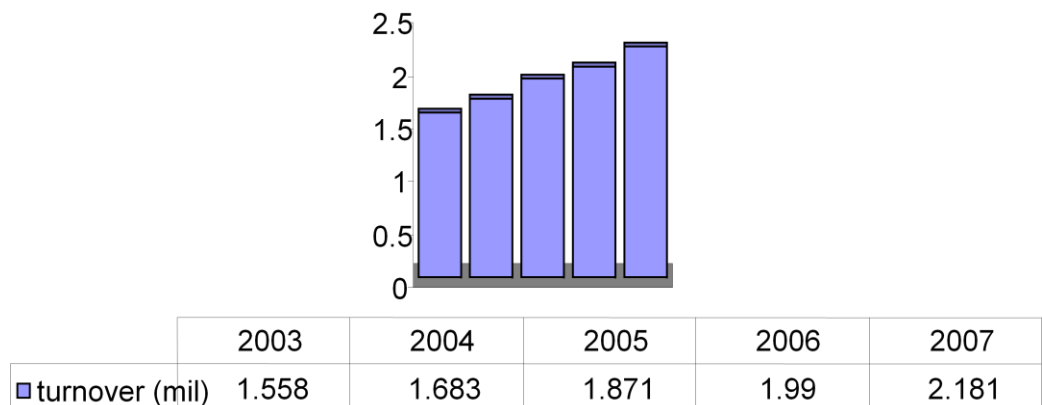
Finnair

Finnair is one of the oldest aviation companies in the world. It started to operate in the year 1927. Since then it has had steady growth in the European market and today it flies to more than 40 cities in Europe. Last ten years Finnair has balanced its foothold in the northern Europe market which shows in a good financial growth and has enabled Finnair to invest in its fleet operating in Europe and Asia. New Embraer planes already fly in the European sky and some of the new airbuses planned to operate in the long-haul fleet have also been received. The new plane investments for the long-haul flights are welcomed as the main passengers' growth come from the fast developing the Asian market where the last year growth was over 30%. This was better than other European companies had in 2007. Finnair's success factors are safety, Finnishness, creativity and freshness.

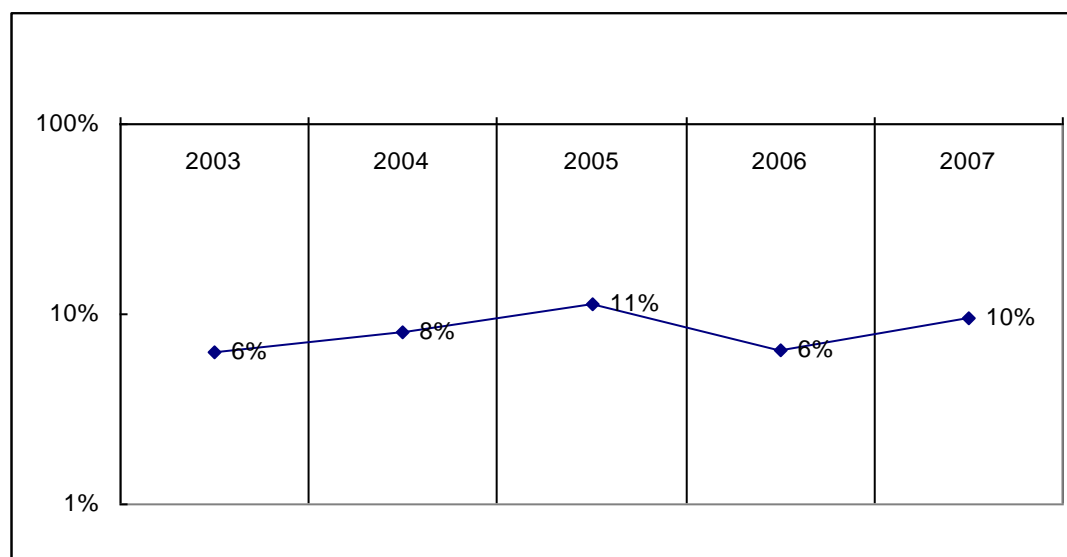
In the early 20th century Finnair announced its vision "The best in northern skies, European excellence". In 2007 this vision was met and Finland has become one of the best known brands around Baltic Sea. Finland being in a natural position between Europe-Asia travels, it was clear that, the new vision would be set to reach the Asian market and make the brand known as being the most convenient way traveling between Europe and Asia.

In October 2007 Finnair published its ten year long term vision. "The company's objective is to offer customers the fastest flight connections in intercontinental traffic in the northern hemisphere. At the same time Finnair aims to provide Finns with diverse connections to destinations all over the world. Finnair wishes to be the airline of choice for quality and environmental consciousness air travelers. Finnair also aims to be attractive investment for shareholders."-Finnair vision 2007.

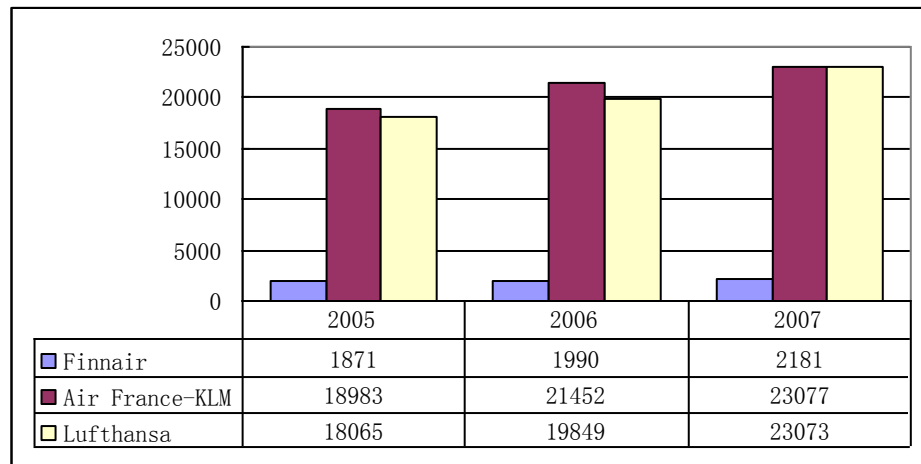
The Asian market is expanding with new destinations (Seoul, Korea) and with more frequent flights to old destinations (Mumbai, India). Although Guangzhou has increased its flights from two to four a week it still lacks of loyal regular customers. Also there is only a little information who the customers are and why they choose to be customers for Finnair. From all the Asian destinations this is one of the hardest to gain a steady footstep as this lacks the favor of Scandinavian tourists or European businessmen who keep destinations like Bangkok, Delhi and Shanghai busy year after another.



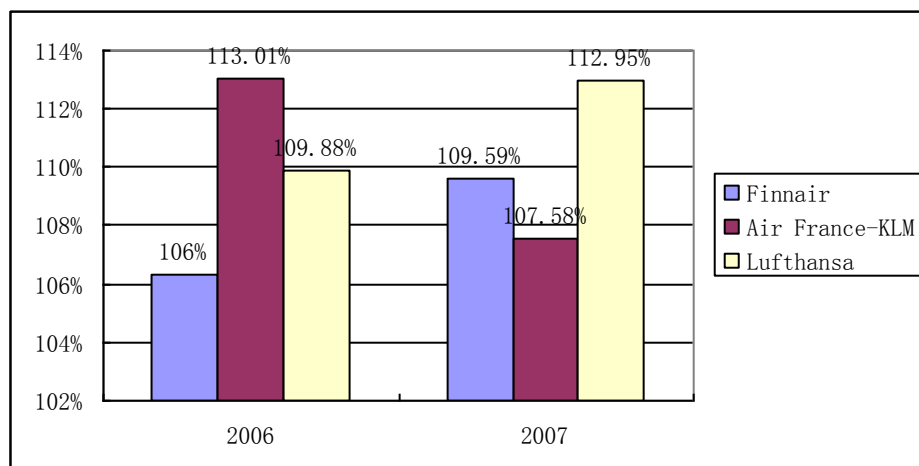
GRAPH 1. Finnair's turnover 2003-2007 (Finnair annual report 2007)



GRAPH 2. Finnair's turn over's growth% during 2003-2007 (Finnair annual report 2007)



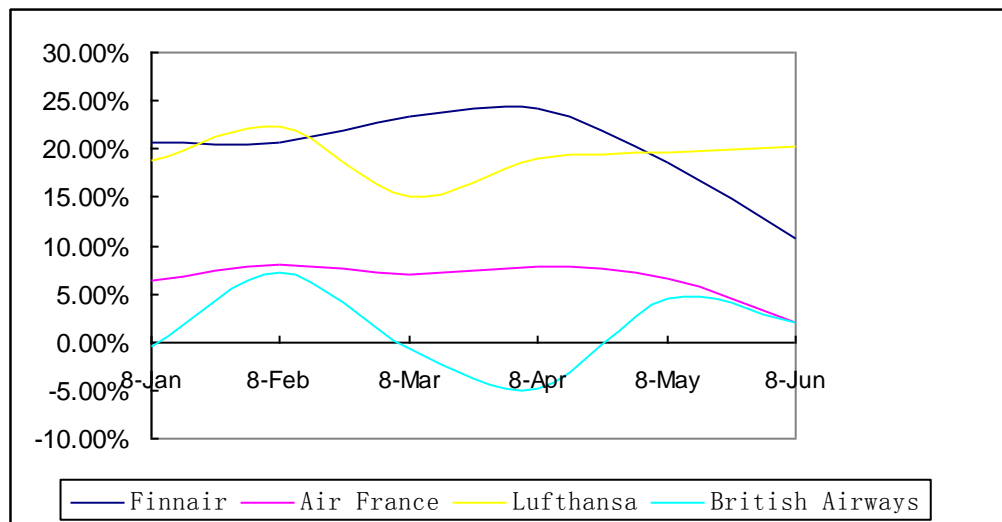
GRAPH 3. Graph comparing revenues between three major European companies which are operating in Guangzhou. Graph is showing size difference between the companies. (Finnair annual report 2007, Air France-KLM annual report 2007, Lufthansa annual report 2007)



GRAPH 4. This graph shows how many percentage companies have grown from 2006 to 2007.

Although Lufthansa's total growth is the biggest because of its good growth in Europe and its merge with a Swiss company Swiss Air, Finnair's growth in Asia was still bigger than Lufthansa's where Finnair achieved growth of 30% and Lufthansa 16%.

Although Finnair has been able to obtain better growth than many other airlines, 2008 still showed a significant slowdown in passenger numbers. The following chart compares Finnair with other European airlines operating between Euro-Asia.



GRAPH 5. Graph is showing 4 major companies flying from Europe to China in the first 6 months of 2008 how their revenue has developed from the last year.

British Airways being the only company which doesn't fly to Guangzhou has been taken into comparison to show how every major company is struggling in the Asian market.

As Finnair is being the smallest of the group it is easy to see how the Chinese market affects its sales. In 2008 the new visa regulations in April and the earthquake in May turned Finnair's growth on a down slope because Chinese government froze every government officials' passports claiming that their support was needed in the homeland. This was also because China didn't want any of the officials run away abroad with funds meant for the rebuilding program.

Also Air France and British Airways definitely suffered from these occasions while Lufthansa managed to obtain growth with their aggressive marketing strategy. The graph clearly shows how vital the Chinese market is for Finnair because of Finnair's new strategy being transportation between Europe and Asia.

China is a difficult market also because of its government policy where government officials are able to ban Chinese from traveling and restricting Chinese visas for foreigners suffocating demand effectively.

On top of these problems, the slowing world economy, which is shown in the graph, affected British Airways' growth from early in the year ending in a catastrophic half year result in the summer of 2008.

China after Economic Reform

In the recent years China's economic growth has been the fastest in the world with an yearly average of 10.6%. Many western companies find China as an interesting opportunity as the huge population offers almost unlimited growth possibilities. Also the cheap labor force has encouraged many companies to move their production facilities to China creating new job opportunities for Chinese population and by doing that giving China more buying power in the global market.

Strong economic growth doesn't come without side effects and the inflation in China is also huge. As the prices raise rapidly it creates pressure to raise the salaries too. Already last year the average raise in food prices was 15%. Still the economic growth doesn't show signs of decreasing and last year the GDP rose more than ever before.

When talking about China it is a good thing to keep in mind that it is country which has area bigger than the whole Europe and where over 1.5 billion people live. Almost every province has its own distinguished culture, infrastructure and people. The difference is clear even if not talking about the ethnic minorities inside China. The Chinese from the north are different from the Chinese from the south.

China had been closed from the rest of the world for centuries. The political and economical reform has changed this over the time. In 1978 China launched its "One step ahead" policy. This regional experiment was put in a process in Guangdong and Fujian provinces to establish the first four special economic zones in Shenzhen, Zhuhai, Shantou and Xiamen and later in the 1984 another 14 different coastal cities. These cities enjoyed special institutional and political environment and more authority was

given to the local units. As the experiment proved to be a success and these special zones quickly started to develop economically, the rest of the China followed little by little. This however created new problems.

As in every country “Wherever there is great property, there is great inequality” (Smith Adam, *The Wealth of Nation*, 1776) so it is in China which is facing a huge problem of inequality between rich and poor. The coastal cities given the head start to do international business started to develop while the western part of the China remained undeveloped. Even today the split is clear. Coastal area, the east and south of China are prosperous while the west and north areas are living in poverty. In China the difference between poor and rich is higher than in any of the western countries. Some provinces live in extreme poverty and with minimum wages while other provinces enjoy tremendous growth in incomes.

Because of the poorer areas, China is still considered to be a development country. Because the eastern parts are catching up with the western world living standards, many peasants would like to move to cities in hope of a better life. To keep a control that all the people don't move to the wealthier provinces and leave countryside unpopulated, the Chinese people aren't allowed to have a residence permit in another province unless they are highly educated or have attended the military. People are still allowed to stay and work in different provinces but while doing that they lack with some benefits which the locals with the living permits get. For example the people who want to travel abroad have to get a visa. If they are not from Guangdong province they have to get the visa from their home province which could be far away.

Guangdong province, also known as Canton, is the only Chinese province where local people usually prefer to speak Cantonese over Mandarin which is the official language of China. Guangzhou and Shenzhen are being the major cities in the Guangdong area. It is impossible to say how many people there actually live. People living in the area with living in permit (Hukou) are in a numbers of 10 million in both cities. But as hundreds of thousands of illegal immigrants and other people without the residents permit also live in these cities the actual number might reach 15 million inhabitants in both cities.

Hong Kong being a close city to Guangdong province gives the area special nature. The influence can't be unnoticed as there are 43,256 Hong Kong invested enterprises in Guangdong area. This is 64, 77% of all foreign enterprises in Guangdong.

Guanxi

To understand about Chinese market and its differences with the western market it is really important to have understanding about guanxi. What it is and what does it mean literally. As guanxi is something which isn't involved in western business culture it is often misunderstood or completely forgotten when entering the Chinese market. To have a good guanxi means life or death when doing business in China. Without it, it is likely that business will not succeed.

Guanxi roughly translated means face. As described in Journal of small business management by Anderson Alistair R and Li Jin Hai, It means: "Your personal network you create. If you know the right persons everything can happen really fast and easy. On contrary if you don't know the right persons or you are not in good guanxi with them it might be impossible to complete certain tasks." Because of the guanxi it is not uncommon that many people include pictures of them shaking hands or sitting on a couch with some known person in China. By this they want to show that they have created a guanxi with some famous person.

For the western companies this is difficult because the western people are not let inside to guanxi as easily as the Chinese are. One way to overcome this obstacle is to hire Chinese people who work in the Chinese offices. If they already have a good guanxi the company will save a lot of time establishing a network in China. By hiring a local might also create some problems, as from the Scandinavian point of view Chinese people can often be considered lazy and irresponsible because of their different working culture which is not as fast paced as in Northern Europe people are used to have. That is why many Nordic companies often have mixture of Chinese and Western managers and workers to achieve the benefits from both sides.

If western people want to obtain his or her own guanxi he or she has to be ready to spend some time on it. When doing business western people have to be prepared to spend lots of time in meetings where nothing is achieved in the means of business. For Chinese it is more about talk, food and drinking. After you have made friends with them you can start to talk about business. From western point of view this might seem

irritating and time consuming and that is why already established guanxi will help the company over this issue easily.

The risk with guanxi from a company's point of view is that it is personal. If the person with the guanxi leaves the company it is more than probable that also the customers will leave with this person. This makes business in China a far more personal matter and knowing the right persons who knows the right persons becomes more important than might be first expected.

Finnair has solved the problem of guanxi by sending in Finnish managers who have been living their entire life in China and therefore have had time to get to know people and more over have had time to learn to speak fluent Chinese which is crucial if westerns want to become part of guanxi. Under the Finnish managers there are several client managers whose responsibility is to co-operation with corporate clients, regular clients and ticket sales.

Westerns that speak fluent Chinese and know people are actually better than Chinese because they distinguish from the crowd and are easily remembered. That is why expatriates with many years of "China" experience are highly valued by many European companies.

3. MARKET ANALYSIS

What is a market analysis

The marketing analysis process can be broken into six steps:

“

1. Defining the problem
2. Analysis of the situation
3. Obtaining data that is specific to the problem
4. Analysis and interpreting the data
5. Fostering ideas and problem solving
6. Designing a plan”

A complete market analysis should answer the following questions as stated in “How to Conduct a Market analysis”:

“

1. What defined market am I trying to search?
2. What specific companies are servicing this market?
 - a. Are they successful?
 - b. Are there other companies servicing this market with a similar product?
 - c. What is their market share?
3. Is the market saturated or wide open? If so, why?
4. What is the size of the market?
 - a. Is it a growing market?
 - b. Is the industry stable, volatile, growing or trendy?
5. How can I reach this market?
 - a. How do my competitors reach the market?
6. What are the business models of my competitors?
7. What do customers expect from this type of product or service?
8. What core competencies must the product or service have?
9. What are customers willing to pay for this type of product or service?
10. What is my competitive advantage?”

The following chapters will try to answer all questions above as thoroughly as possible. Answering these questions is necessary to point out the main problems of the market area. Next

(http://www.va-interactive.com/inbusiness/editorial/sales/ibt/market_analysis.html)

Finnair in China

Finnair has been flying to China for 20 years now. It started its business by flying to Beijing once a week in 1988. Later flights to Shanghai and Hong Kong followed and

two years ago it welcomed the new destination of Guangzhou. At the beginning Finnair flew to Guangzhou twice a week but after its popularity it increased flights to four times a week. Finnair however faced some issues in Guangzhou which are new compared to Beijing and Shanghai because of a different kind of market. The first problem is that while in Beijing and Shanghai big Finnish companies like Nokia are filling the planes daily, in Guangzhou most of the European companies have employed Chinese employees who don't have to travel abroad.

However while the Chinese market keeps growing with high pace it creates an opportunity to find new markets in the Pearl River area. The second problem is that not so many Chinese are actually aware of Finnair.

Finnair's main competitive against other aviation companies is the geometrical fact that the world is round. Therefore Finland is the closest European country to China and Helsinki-Vantaa airport in Finland the nearest airport. Also Helsinki-Vantaa airport is small and convenient enough, to make the transactions faster than other airports with Asian connection. This enables that Finnair is the fastest link between Europe and Asia.

The problem is that how to make the potential customers realize this and where to find them. Guangzhou is a diverse city where live a lots of wealthy people because of their flourishing business but also lots of peasants who have moved to the city in the recent years hoping to find a better life. Television advertisement reaches majority of the people but being so expensive many airlines have realized that it is not the most effective way to reach the potential customers.

In Guangzhou Finnair has to share the competitive market not only with its competing aviation companies but also with other airports. Hong Kong airport is close and easy to reach from Guangzhou. Not only it is modern, it actually offers better daily connections to Europe than Guangzhou airport.

From the charts (attachment a) we can see, that Hong Kong airport offers the same service of flying directly from Southern China to Europe with better distribution. While from Guangzhou the planes leave 4 times a week in Hong Kong there leaves a flight by Finnair every day. This added with the Finnair's connection flight to the rest of the Europe gives Hong Kong airport clearly better distribution than in the Guangzhou

airport (80% more possibilities. Hong Kong flights with different possibility connection flights 235 weekly, Guangzhou 130. $235/130 = 80.77\%$).

Finnair isn't the only company which provides better distribution in Hong Kong than in Guangzhou. Also the Star Alliance and British Airways offer daily flights from Hong Kong airport. Hong Kong airport being new and having many luxury shops and services is attractive option for many Southern China passengers.

At this point only Lufthansa and Air France-KLM from European companies are flying from Guangzhou to Europe. Finnair has a clear geographical advantage over these companies as Helsinki is on route of the fastest way to Europe. Because of this, only Paris and Frankfurt are faster to reach by these two other companies. On the other hand we have to keep in mind that Lufthansa and Air France-KLM are big companies and their reputation in China is better known than Finnair's.

Air France-KLM and Lufthansa still lack the competence which Finnair has; fastness. And while they provide faster flight time from Guangzhou to Paris or Frankfurt, Finnair is able to provide faster time schedule to all other European cities.

The competition of the Asian markets is pretty even between the three companies and because the economic growth is fierce it has enabled steady growth for all parties until the last year. That is why the other air companies don't pose a significant threat for Finnair's core competence. Main issue is that the other air companies are able to create new partners from the local companies (2007 Lufthansa, Air China and Shanghai Airlines published their partnership) and by those means make the market harder to enter for Finnair and increase its own distribution possibilities.

Expert's interview Finnair

Finnair had been in Guangzhou for 2 years and after the first they hired Rebekka Mikkola-Rouvinen for the position of General Manager of Southern China. Her experience of Chinese culture, language and business politics made her as a valuable asset in the area. She had already been working in China with Chinese for many years and therefore had formed a large network, *guanxi*. Because of her fluent Chinese she was considered as a celebrity into a certain level and this made it easy to arrange meetings with companies around the city.

I was lucky enough to be able to follow her footsteps from meetings to chamber evenings and learned many important aspects which should be taken into consideration when building up the market analysis.

“People should always remember that time is money. This is the basic idea behind Finnair’s business plan in Asia. People doing business are busy and don’t have time to sit in the airplane or in the airports waiting to reach their destiny. They need to reach their destination fast and when they arrive they are well rested for the new working day on a different country or continent.

It became quickly clear that the main issue in the market was reaching the customers. Who are they, from which countries and how to make Finnair’s product more wanted in their eyes than competitors?

Northern Europe, Eastern Europe and Italians have been the focus group this far. It should be interesting to find out if we are missing somebody from there. Chinese companies are hard to reach but we are doing our best.”

What can be clearly seen in the message Finnair is giving in advertisement is that by travelling quickly and comfortably passengers are able to enjoy their business trip or holiday from the first day on. If you arrive on your destination late and tired you will have to spend your first day in the hotel sleeping. Hotels can easily cost you over 150 Euros per night even more. Also the hourly rate for company managers can be extremely high for having free time doing nothing in the airport.

“What Helsinki (Finnair headquarters) should realize is that business and especially advertisement has to be different from Europe. Nothing is gained immediately but with time and patience. This can be money consuming but for the future point of view China is too important to be left out.”



PICTURE 3. From Finnair's commercial showing a Chinese panda travelling to Europe and having a good night sleep in the business class so he can enjoy his trip from the first day on. In the later surveys the character of panda was one of the best known topics for Finnair.

"Nobody wants to spend over 1000 Euros of his own money for flying ticket. Business class is business class because it is almost always company's money paying for the ticket."

This makes it clear that main focus for marketing has to be focused to the companies and the embassies in the area.

Finnair Swot analysis in Southern China

It is important to study the ways to compete against the lack of distribution and other issues which Finnair has when compared to the other companies. By a proper market analysis it is possible to segment the market into those parts which are reachable and focus on them. The following SWOT-analysis will give a brief look of Finnair's advantages and disadvantages. This makes it easier to find out what could and what

should be done to manage in the business. Although some of the aspects are valid worldwide for Finnair, this analysis focuses on Guangdong area's business.

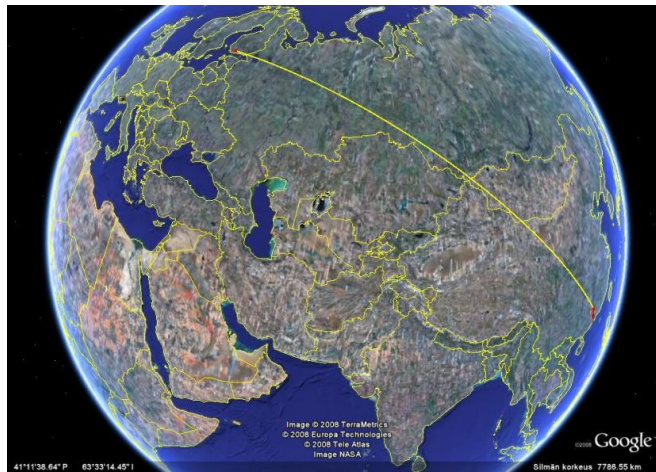
<p>Strengths</p> <ul style="list-style-type: none"> ● The fastest flight between most of Europe and Southern-China ● Price ● Finnish reputation ● Chinese speaking staff ● Good distribution in Europe ● Environment friendly 	<p>Weaknesses</p> <ul style="list-style-type: none"> ● Extremely sensitive industry for economical changes ● Older planes than competitors in Asian traffic ● Finnair not known ● Finland often considered to be far away from Asia ● Small domestic market ● Finnair not able to face price competition
<p>Opportunities</p> <ul style="list-style-type: none"> ● Economic boost in Asia, especially in China creates more customers ● Increase the awareness of Finland and “the world is not flat” thinking ● Customer research helps find new “hidden” customers ● New effective loyalty program ● China becoming more attractive tourist attraction 	<p>Threats</p> <ul style="list-style-type: none"> ● Local and other foreign companies entering the European-Asian market ● Helsinki-Vantaa airport getting too small, failures at baggage handling and departure times increase ● Increase of transportation between Guangzhou and Hong Kong airport ● Increasing fuel prices ● Economic slowdown ● The Yuan is undervalued in many other OECD countries, it is overvalued in terms of local purchasing power, making travel to Europe an expensive, if desired

TABLE 2. SWOT analysis of Finnair in the Southern Chinese market

Strenghts

The fastest flight: Finnair can't educate people enough to make them understand that flying through Finland is actually the fastest way to reach Europe. While even many Finnish people aren't aware of this we can't assume that many of the Chinese people know that. Fastness is the main competence and strength of Finnair. From Guangzhou Finnair is the fastest connection to 33 different cities in the Europe.

By using Google earth it is easy to demonstrate this fact. From Guangzhou Baiyun airport to Helsinki-Vantaa airport the distance is approximately 7700 kilometers while from Guangzhou Baiyun airport to Frankfurt international airport the distance is over 9000 kilometers.





PICTURE 4. Picture from Google maps shows that Helsinki lies 1300km closer to Guangzhou than Frankfurt which makes this an unquestionable advantage for Finnair. (Google maps)

Price: People who know about Finnair consider it to be a reasonably cheap choice to fly to Europe. “One Europe one price” ideology offers any European the same price whenever in Europe they want to fly and that is one of the main points which attracts customers in China.

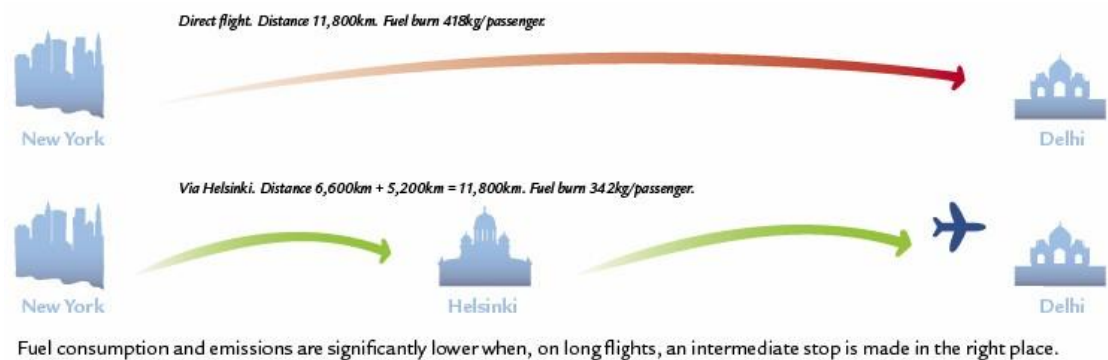
Finnish reputation: Finland has always been thought of as being safe, clean and trustworthy. The current world situation has elevated these values to be appreciated even more and Finland as a brand is receiving more and more value. Finnair’s one of the success factors is Finnishness: “Finnishness means reliability, sense of responsibility, punctuality, courtesy and professionalism.”

Chinese speaking staff: Chinese people aren’t too familiar with foreign languages and while most of them haven’t traveled a lot before, they value the fact that every Finnair flight has part of the crew members Chinese. Also at the Helsinki-Vantaa airport has Chinese staff helping the passenger. Also all of the signs are in Finnish, English, Chinese and Japanese helping the passengers.

Good distribution: Finnair has managed to create a good distribution for many European cities. From Helsinki-Vantaa airport it offers a fast transfer to over 40 cities in Europe.

Environmental friendly: In Europe, Finnair currently flies with the youngest fleet of all the major companies. The new and smaller Embraer planes used in the European traffics consume less fuel than the bigger planes and are therefore part of Finnair's environmental friendly program.

Also for the Asian flights the shortest way is through Finland. Shorter way is obviously faster and therefore less fuel is needed. Also because of the transaction happening in Helsinki the planes don't have to leave from Asia with as much fuel as the other companies. By this way fuel isn't used for carrying fuel which weights a lot and has to be used later. In a nutshell: Lighter planes need less fuel.



PICTURE 5. Showing how connecting flights are actually more nature friendly option. (Finnair annual report 2007, page 30)

Weaknesses

Sensitive industry: While the recession affected some companies only a little it did huge damage in the airline industry. Industry was not prepared for such a rapid change in demand and when everybody had upgraded and increased their fleets just a couple of years ago to meet the demand, they suddenly had to start cut out routes and leave some of the planes in the fields to fill the flying planes.

For Finnair this economic slowdown is a catastrophe because they took a big risk by investing into new planes in the 2005. As a relatively small company they can't afford to have more than one bad year in a row without receiving support from their owners.

Planes in Asia: While in Europe Finnair flies with very new planes, in Asia this is different. The old MD-11 planes will be replaced by the new airbuses eventually. But for Guangzhou the change for the new planes will probably not happen in the near future. New competitors on the other hand are bringing new planes to the Asian market and in the 2008 the Emirates Flight Company started to fly to Guangzhou with brand new planes competing in the same market segment.

Poor knowledge of Finland and brand: Being Finnish gives many advantages but it also creates disadvantages. Finland and its companies are usually not so well known in the world. That is the case also with Finnair. Although being fourth largest aviation company operating between Europe and Asia it is still less known than its bigger competitors. Many people don't have any beliefs or experience about Finland or Finnair. Especially in Guangzhou where Finnair has flown only for 2 years there is still a lot to do to make the brand known for the public.

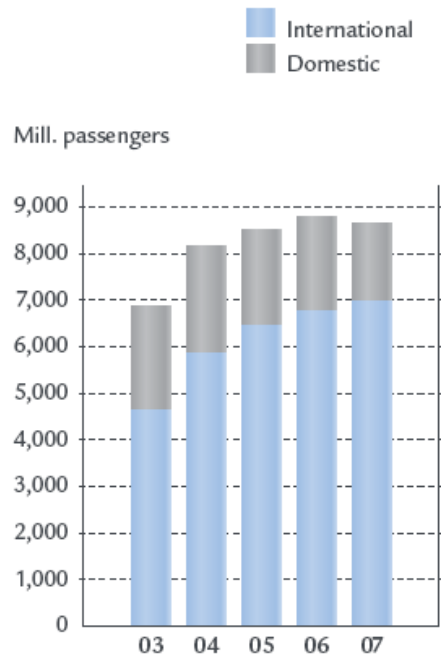
False assumption of distance: Looking at a flat map makes a false assumption that Finland is one of the farthest corners you can go from southern Asia. Unfortunately many people seems to have forgotten that the world is not flat or otherwise aren't able to think round. People often have feeling that going to Finland first is just an extra journey from them. This gives the passengers a fall assumption of being a distant destination for a connection flight.

Finland being country of 5, 5 million people doesn't offer large domestic market for companies. This forces Finnish companies to seek growth abroad and operate as a foreign company against local companies. Also international investments are always a financial and operational risk for a company because a lot of money has to be invested and differences between different market areas can be huge and unexpected.

One of the reasons why Finnair's passenger load factor is lower than other West European flight companies is the small local market. Lufthansa and Air France can easily sell their product to Germans and French because they get a direct flight to China which is a lot easier to customers when they don't have to change a plane.

The following chart shows that as the number of international passengers have increased the domestic passengers have decreased even more to make the total number of passengers fewer than in 2006.

Number of passengers



GRAPH 6. Graph showing how the international passengers are increasing in numbers every year. (Finnair Annual report 2007)

Not capable in price competition: Because the labor is expensive in Finland, it has always been difficult for Finnish companies to face low price competition. During the economic crisis in the world many customers are even more price sensitive than before and they prefer to choose the cheapest option even though it means lower overall quality.

Opportunities

Chinese market: China having an economic boost of annual 11% raise of GDP creates great opportunities for both local and international companies. Not only have people more opportunities spend money and travel Europe they also create business which requires international activity. This economic growth hasn't come unnoticed and many companies, Finnair included, are investing heavily for the Asian market. In 10 years Finnair plans to more than double its passenger count.

Even now when Finland and Finnair are relatively unknown in China the business is growing. Finnish products are highly respected when recognized and increasing this knowledge will give the market for Finnish products an extra boost. Also when the passengers realize that through Finland is actually the fastest way to Europe they will be given another reason to choose Finnair as their company.

Better brand knowledge: Finnair has been operating in Guangzhou only a little time as the market is new and now previous information was available about the companies working in Guangdong province and doing business on regular basis in Europe.

China attracting more tourists: China as a tourist attraction is not as popular in the Europe as Thailand or the Canary Islands. Although China is one of the biggest tourist destinations in the world it has been able to attract mostly Asian tourists. Europe and The states have yet not found it.

Finnish tourists are able make certain routes profitable for Finnair even if the routes don't have business class travelers a lot. For example Bangkok which is a long distance flight having the same difficulties with petrol prices as Guangzhou route is extremely popular and to meet the demand Finnair flies twice a day there. In high season Finnair also provides charter flights to Phuket. Guangzhou route focuses solely on business travelers forgetting that China can also provide places for tourists who would like to come to China year after another as it is in Thailand.

Threats

Competition: Economics boost creates its own downsides too. When the market is appealing the more competitors want to take part of it.

Asia to Euro travel has been dominated by European companies while Chinese companies have lacked the resources or skills to compete in the international markets. This could however change when Chinese companies acquire more assets and experience. Also other major European companies might find interest in Guangdong area.

Limits of Helsinki-Vantaa: Helsinki-Vantaa airport has previously had very good reputation of being reliable and accurate. Unfortunately the increased traffic shows also in the number of mistakes and in the 2007 flights were more often late than ever before. Also the baggage handling is facing its limits.

Terminal extension will be ready in 2009 and is intended to serve the Asian traffic relieving the pressure the terminal is now facing.

Proximity of Hong Kong: Hong Kong is fast and easily reachable from Guangzhou. Direct train from Guangzhou east railway station, ferry and shuttle busses which operate between some major hotel chains in Guangzhou and Hong Kong airport makes Hong Kong airport a considerable choice for the customers in Guangzhou. Hong Kong airport enjoys a good reputation and especially western people are happy to know that all staff there speaks good English while for Guangzhou and all of China the English speaking employees are a rarity.

Already easy to access Hong Kong can pose even greater threat if the traffic to Hong Kong is even more increased. Shuttle busses from the most important hotels depart every hour to and from Hong Kong airport and trains leave frequently. In best case you can reach the Hong Kong airport in 2 hours.

Other major city in Guangdong province Shenzhen is in the border of Hong Kong and that will make it hard to compete of customers from Shenzhen because the city is closer to Hong Kong than Guangzhou.

Effects of the fuel price: The last years the fuel prices have been rising to their new records making the business harder for every flight company. In the 2007 the fuel prices took 20% of the revenues and in the 2008 already almost 30%. This makes it impossible to compete with price as the prices are already forcing the flight companies to raise their prices to compensate fuel costs. However this is a problem which every company has to deal with and as explained before Finnair has the advantage that it can fly with lighter planes and therefore spending less fuel. It could be expected that the fuel prices hit equally hard if not even more hard the competitors.

The problem with the rising fuel price is that do the customers understand why the ticket prices are rising and even if they do are they willing to pay the higher price.

Economic slowdown: China's economic growth in the last years has been miraculous. However the government is fighting to slow it down as the inflation is also getting too high. The growth can't go on forever and some experts are already talking about the "China bubble". In 2008 Finnair had increased the available capacity more than the demand had been increasing leaving empty seats in planes.

Also the figures which Chinese government gives for its economic growth can be questioned. The official figure for annual GDP growth is over 10%. However the poorer provinces which are majority in China have GDP growth fewer than 3%. This would mean that the wealthy provinces such as Guangdong area are growing with almost 20% annually.

Undervaluation of Yuan: The Yuan is regarded undervalued in the OECD countries. It is overvalued in the terms of local purchasing power making oversea travels, especially to Europe, an expensive option.

FCP and FCA

Finnair has launched two loyalty programs in Guangzhou: Finnair Corporate Program (FCP) and Finnair Corporate Agreement (FCA). While FCA is mainly for bigger companies and the terms are negotiable separately for each company the FCP is easier to access and for every company.

Unfortunately FCP hasn't been as successful as it was expected to be. In Beijing and Shanghai similar programs have been launched and there they have been successful. In Guangzhou the market is different and more price sensitive and it shows in this case.

New loyalty program "FCP plus" has been launched recently and the data received from that will help creating the loyalty program which will activate the Guangzhou customers.

As many customers choose their flight company by its reward system, it is crucial for any flight company to have a successful bonus system which their customers find useful. Bonus system should also have a good distribution that is one of the reasons why Finnair is part of the One World Alliance. Alliance gives Finnair bigger opportunity to cover the world market area.

Even if the previous programs did not meet the demands they are still one of the best ways to create an attention to regular passengers.

Expert's interview Lufthansa

To understand more about the flying industry I interviewed Nico S. Beilharz Lufthansa general manager of Southern China. Lufthansa has been the benchmark company for other airlines in the area as it has been one of the only companies working in the industry which has been able to sustain their revenue on the same level as last year. Compared to Finnair Lufthansa is a massive airliner and therefore able to take bigger risks than Finnair or any other smaller company.

“The market has changed rapidly. It (the market) always has been volatile but for the past two years the industry has proven to be extremely difficult. The credit crunch has really hit us hard because even for those companies which are not affected by that are afraid to spend too much money. Instead of flying it is becoming a trend that meetings are held on the internet. This saves money and time for other companies but is definitely not good for us.

On the other hand we can also see this time as a possibility. Those companies which are not on steady ground before hard times will most likely drop out of the field leaving others their space of the market. This is why Lufthansa will invest in Guangzhou and other areas which are difficult now but have some huge potential in the future. As a big company we can afford a few slim years as far as we are able to make zero result. The market is there and although the economy is dropping now it will be back up in the next five years. The only thing we can do now is to research the market more, wait and bear these times.

Spending money on marketing to the right focus groups, researching for new segments is money consuming but it is investment for the future. As I would like to see it China will lead the world out of the recession and in the next 15 to 25 years will be the leading economy in the world. Then it is too late to enter the market because everybody else is there too. We have to stay here now and create the network so that also in the future our

customers will remember us. Chinese people are loyal to people who have been with them for a long time.”

My only concern is that if the stock holders are able to understand this and have enough patience to wait for a year or two. The western culture is so different from Asia. Everything should be there available right now. For what I like about Asian culture especially with Chinese and Japanese is that they understand that good times come with patience. I don't think that we in the Europe will never fully understand that.”

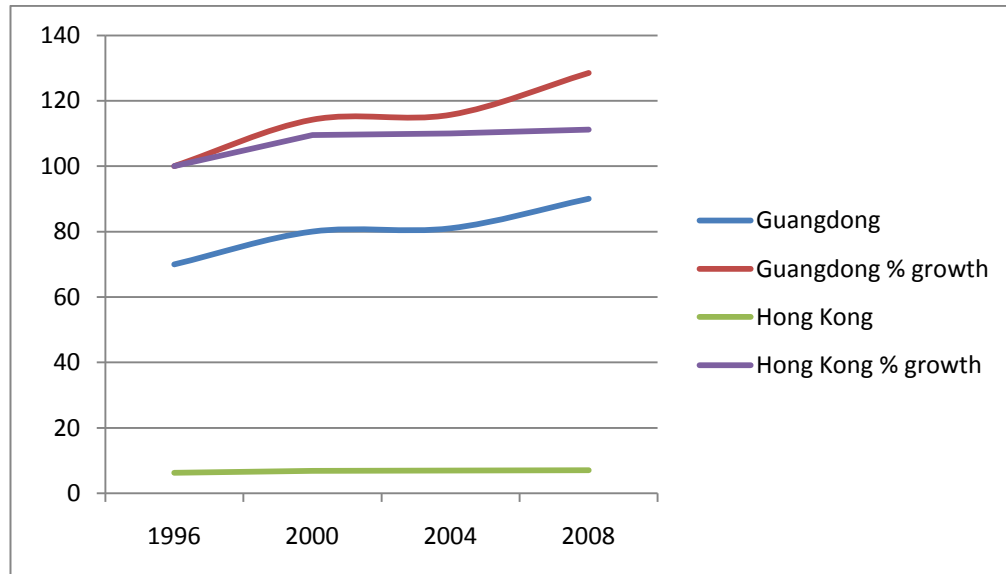
As a big company Lufthansa can have different kind of strategy than Finnair. They have enough economical buffers to sustain hard times. This leaves them much more options when deciding between future choices. However two months after our interview Lufthansa also decided to drop the flight frequency to Guangzhou from five times a week to two times a week because their utilization rate had dropped dramatically.

Hong Kong and Guangdong as market segments

Market segmentation is a group of people or organizations in a certain area, sharing characteristics to cause them have similar needs. Segmentations can be used in different variables and the most common ones are: Geographic, demographic and psychographic.

In this particular case geographic segmentations can be left with a little notice as they are almost identical with the two different markets. Both of the areas are located in the eastern southern part of China, they both have high density of people and also the climate is the same.

Below graph is a quick comparison of Guangdong and Hong Kong areas' population to show how huge difference there is between the numbers of potential customers in the areas. While Hong Kong is one of the largest metropolitans in the world with over 7 million habitants it is no match for the population of Guangdong area of over 80 million inhabitants.



GRAPH 7. Graph is showing the importance of Guangdong area in size of potential customers. (<http://www.gov.hk/en/about/abouthk/factsheets/docs/population.pdf>, <http://www.unescap.org/esid/psis/population/database/chinadata/guangdong.htm>, <http://en.wikipedia.org/wiki/Guangdong>)

The factors which are more important in this case are the demographic and psychographic variables.

Demographic variables can be divided into:

1. Age
2. Gender
3. Family size
4. **Education**
5. **Income**
6. **Occupation**
7. Socioeconomic status
8. Religion
9. Nationality
10. Language

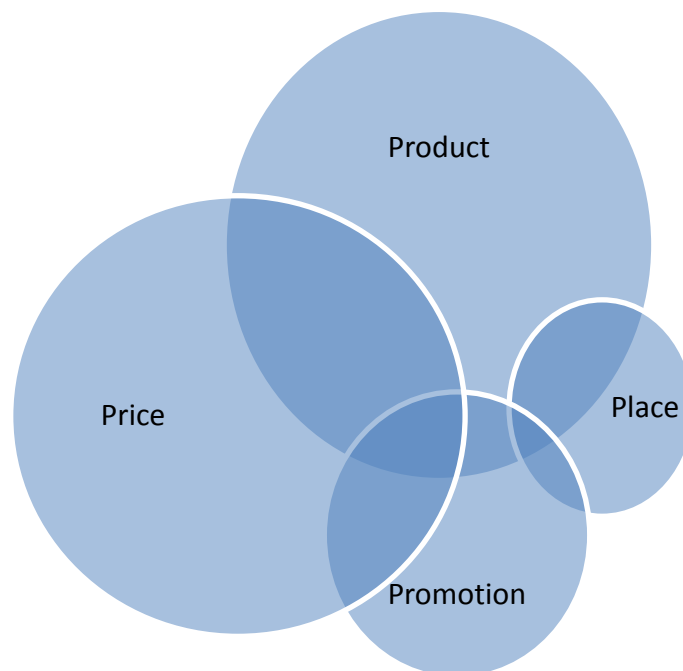
Above bolded are the variables which differs the most in the two markets and should therefore be taken into closer observation. Below is the chart from the other variables, showing that they are relatively close to each others. While the average age in Guangdong was in 2007 still below Hong Kong it is rising rapidly and aging population

will be one of the most severe issues for the Chinese government to deal in the near future.

	Guangdong	Hong Kong
Age	37,1	41,7
Family size	4,42	5,3
Religion	atheist/buddhist/christians	buddhist/taoism/atheist
Nationality	Chinese	Chinese/Filipino
Language	cantonese/mandarin	cantonese/english/mandarin

GRAPH 8. Graph showing briefly some of the demographic differences between the two regions. (<http://www.unescap.org/esid/psis/population/database/chinadata/guangdong.htm>, <http://en.wikipedia.org/wiki/Guangdong>)

Surveys followed in the later part of the report will focus more on the three most interesting factors.



PICTURE 6. Picture gives an idea of example of Kotler's 4Ps which could be conducted for Finnair as a tool to simplify target areas in Southern China.

Kotler's 4Ps gives a simple tool to view the basic ways to compete in the market. Being a model it gives a simplistic picture of the market. The model is created so it offers a rough picture what is the most important way to compete.

Solely based on surveys one could say that competing with the price would attract most customers as many of them choose their company based on price. However the fuel prices force the industry to raise prices rather than trying to compete with it.

As the prices go up the customers have to be attracted by other means. The product is the most important way of competing. It is important to observe what is the product served and how is it served. The new aircraft fleet is replacing the old MD-11: s. this only doesn't offer the customers a better environment but also saves fuel as the new Airbuses are less fuel consuming. By replacing the old fleet Finnair is able to save 12 000 kg of fuel each day.

The new fleet and Chinese flight hostesses offer the Chinese customers a valuable product. If the customer is happy with the product he is more likely to use the same product again. Studies show that companies working in a mature environment the old customers become more important than the new customers and they also spend more.

One of the main problems with Guangzhou customers when compared to Hong Kong customers is that they don't fly in the business class leaving the plane "unbalanced" meaning that while the economy class is flying full the business class is usually empty.

It is mainly because of high fuel prices which makes Guangzhou a difficult place. Big planes have to be used because of the long distance and the distance and bigger planes consume a lot of fuel.

Flying from Helsinki to Guangzhou is one of the longest routes Finnair has. Fuel consuming route makes it hard to be profitable. The most profitable flights Finnair has are long inside Europe flights which don't require a lot of fuel. Also in short routes it is easier to adjust the capacity management as the long routes can also be flown with smaller planes which have shorter flight distances. For example the new Embraer planes which are small and less fuel consuming can be effectively used in European routes where passenger volumes wouldn't fill the larger planes.

Balanced score card (BSC) Southern China

Balanced scorecard also known as BSC was first introduced in 1992 by Robert S. Kaplan. It is a performance management tool which does not only focus on financial outcome, like previous tools used to do. Instead it focuses also on operational,

marketing and development inputs. This gives a wider look on company's situation and therefore is able to give more detailed forecast on company's long term business.

	Economy	Customers
Strategic goal	<ul style="list-style-type: none"> ✓ Profitability ✓ Increased sales ✓ Increased market share 	<ul style="list-style-type: none"> ✓ Identify potential customers ✓ More business class customers
Success factors	<ul style="list-style-type: none"> ✓ Best route ✓ Pricing ✓ Capacity management 	<ul style="list-style-type: none"> ✓ Successful brand image ✓ Market analysis
Projects	<ul style="list-style-type: none"> ✓ Fleet upgrading ✓ Protection from fuel price ✓ Adjusting optimal flight frequency 	<ul style="list-style-type: none"> ✓ Marketing campaign ✓ Attending chamber events ✓ Sponsoring events ✓ Better educated staff

TABLE 3. Balanced score card is a tool which gives user a brief look of different aspects for success in two or more point of views.

Use of balanced score card clarifies the success factors which have been found out through the surveys and interviews this factors are needed to reach not only the goals which Finnair announced last year but also the ones which are crucial for Finnair's success in Guangzhou.

Profitability being the first and clearest goal is the reason why any company does business. If on a long term this goal isn't met there is no reason for company to continue its operation the same way it has been doing business before. In immature markets,

which Guangzhou is, it is normal for the companies that their product is not profitable. This is the problem also between Guangzhou-Helsinki flights. The change this situation the sales have to increase and more over the business class sales which have been poor.

Success factors to make the route profitable and increasing the sales is promoting that the route is the best via Europe Asia. Also the pricing has to be optimized balancing between the customer needs and fuel prices. More importantly capacity management becomes crucial. As Helsinki-Guangzhou route is one of the longest flights it is also one of the most fuel consuming. If half empty flights are flown they are non profitable for the company.

When the route Guangzhou to Helsinki started in 2005 the amount of sales wasn't that good as it was expected to be. People preferred to fly from Hong Kong airport or with other airliners like Cathay Pacific which they were already familiar with. The most effective way to increase sales was to obtain company lists of companies operating in Guangdong area and contact them one by one. Taking part in the chamber events and fares to be seen and heard. The strategy proved to be effective and Finnair quickly gained new customers for the route and the flight frequency was increased. The problem was that the rising fuel prices over passed the increase in the passenger flow.

Third strategic goal was set to increase the market share. Finnair came to market after big companies like Air France, Lufthansa and Cathay Pacific so it Finnair entered the market as a challenger. In three years Finnair has been able to have fast growth rate and increased its market share. Finnair having a geographical advantage over its competitors it is able to give customers faster connection to Europe than others.

Every successful route has many regular business customers. Because Guangzhou doesn't have these it is important to be able to find them and make them travel in business class frequently. Because of the marketing segment in Guangdong this is a difficult task to achieve but with the current flight capacity and strategy it is necessary to be able to find these.

Finnair's brand image is one of the success factors in the market. To get most out of it Finnair has to be able to increase the brand awareness. Finnair has also been doing market analysis for the past three years and by doing this it has gained more publicity and created networks around the province. Like in any market and especially in China

these factors are important for the business and usually gaining these companies need time and money.

To gain brand awareness Finnair has to launch marketing campaigns and especially attend Chamber and Consulate meetings as these events have potential customers.

Finnair's crew has received complaints from the customers that their customer service skills are not on the bar with other airlines. Especially Singapore airlines and Thai airways have received lots of thanks from the customers. Having regular training with the customers and listening to their feedback Finnair is able to create extra value to the customers in terms of customer service.

Canton fair survey

The issues the survey results raised were that although we tried to select companies which operate in Guangdong province, only 33% of them preferred to fly from Guangzhou.

China is extraordinary country because of the fact that it is common to give western people and companies Chinese names and usually the original name is unknown for the Chinese. That is why it was no surprise that the name Finnair was unknown to the majority. The poll was divided so that from the other half was asked about the knowledge of Finnair without the Chinese name or Finnair logo. From the other half was asked about the knowledge of 芬兰航空 (Finland airlines) with the Finnair logo. Without the Chinese name only 12% recognized Finnair. With the Chinese name and the logo the result was 19%.

As expected above the Chinese name is important in the Chinese market. However Finnair is known by less than 20% of people and that leaves a lot to improve. Main reason why Finnair is little known could be the fact that most of the customer's order their ticket through a travel agency.

Results show that in many cases the person who is actually going to the airplane doesn't do any decision or choices about the company. This points out that China is a very service oriented country where lots of the tasks are done by assistants and middle hands.

This is very different from European market where the middle stairs are likely to be cut out if they don't seem to give enough extra value. These figures would encourage Finnair to increase co-operation with the travel agencies as it is them who decide the company. Also when asked if the employees ask for a certain company the result was clear that they don't care about what company they are flying with.

The survey on the other hand proves that the potential market is big because 74% of the companies who answered have business in Europe. Without a big surprise the most commonly mentioned countries where Germany and France appearing in over half of the answers.

When asked about the reason why a customer would choose a certain company it was obvious that customers appreciate the schedule of the flights 32% and the price 35%. Loyalty program seems to interest only 8% of the customers. This could be a straight consequence of the travel agencies and assistants being a middle man when buying a ticket. When the customer and provider don't meet in the reservation situation even a good loyalty program creates little attention.

After the results of the first survey it seems clear that although the potential market is huge the best way to reach the customer is to direct the promotion to the travel agencies and other middle men who are responsible of buying the ticket. However Canton Fair being an export and import fair and it doesn't offer a complete picture of the market more over as the poll size is relatively small being less than 100 it doesn't give very accurate information.

From the results we can still make an assumption that Finnair being a new company in Guangdong area is still unknown and promotion the brand through advertising and partners is needed to be known by more potential customers.

Survey reveals two main points in the Guangdong market. First of all Finnair is yet relatively unknown brand in China although it is the fourth largest company flying between Europe and China. This result could encourage Finnair to market more in Guangdong area to make the brand known. Also because 芬兰航空 literally means "Finland airlines" many people associate Finnair as a transport between China and Finland, while it should be associated as the fastest connection between China and the whole Europe.

The second thing which the survey shows is that most of the customers order the tickets through a travel agency. 63% of the customers use this channel when ordering tickets. This result suggests that even better co-operation with the travel agencies will create more sales.

The main question however is why most of the customers prefer travel agencies rather than ordering tickets straight from Finnair. The product is basically the same. The only minor difference is that if any problems occur the customer has to deal it with the travel agency from where he or she bought the ticket and not with Finnair who is responsible for the flights. Some travel agencies are unwilling to deal with their customers after the ticket has been sold creating more risk for the customer. The distribution is also the same. Tickets can be bought straight from the office, by calling or through the internet. Here the knowledge of Finnair's brand comes in to a question.

Whereas some of the travel agencies have been working in Guangzhou many years and are known already by the customers, the Finnair brand is new and unknown. This makes it harder for the customers to find Finnair in the first place.

One big reason why customers prefer travel agencies is the price. As travel agencies are facing serious competition in the industry they have to try to differentiate their product from the others. Some agencies compete by improving the customer service while most find it easier to compete with price.

Therefore many agencies sell the tickets cheaper than the price would be by buying straight from Finnair. On customer point of view he or she is paying less but taking a bigger risk. As there are large number of agencies the quality can't always be guaranteed. This yet doesn't indicate that most Chinese could be considered as risk takers as most of the travel agencies provide good service for the customers.

In Guangdong the customers are exceptionally price sensitive. Finnair's loyalty program FCP didn't receive intended popularity as it offers discounts for only the most expensive classes. Even after the discount it is cheaper to fly in some other class. In the survey we asked what do the customers most value. The options were price, comfort, schedule of the flights, loyalty program or other. Price and schedule of the flights were clearly the most popular answers when 36% valued the price and 32% the schedule of the flights.

This creates a difficult problem for competing. The fuel prices have been rising the whole 20th century forcing the air companies to consider about raising the ticket prices. This makes it hard to compete with price and create sufficient growth which satisfies shareholders. Already in 2007 the fuel costs were over 20% of Finnair's turnover. In the first quarter of 2008 the fuel prices have risen even more.

Finland is considered to be one of the most expensive countries in the world. The name of Finnair clearly indicates to Finland and therefore it is also thought to be expensive. When asked from people, what they would guess the price for Finnair tickets would be, they often said that it is very expensive or above average.

However for an air company promoting itself being a cheap choice has its risks in a long haul flights. Flight industry history shows that budget airlines are successful in short distances like national flights but for over 5 hours flights the business becomes non profitable. Lotus airlines tried this concept between Hong Kong and London but faced bankruptcy under a year.

Although customers are not willing to pay much they still prefer the better service and hot meals in long distance flights. Also long flights consume a lot of fuel and with little profit it would require that every flight is completely full to create any profit at all. Also the price is always a reference for the customers. Low price indicates that the level of service will probably be average maybe below it. High price on the other hand gives the customers a reason to expect better quality and service.

For the customers who demand the best possible service and quality they are also willing to pay for what they get. Unlike its competitors Finnair lacks completely the first class leaving the business class and economy class for the only options. In some routes this could be a disadvantage but as Guangzhou flights have difficulties to fill the business class seats it is likely that first class wouldn't have much demand in Guangzhou.

See attachment C for the price classes.

The other reason for the customers was the flight schedule. 32% of the people said that flight schedule is what they value the most when choosing an airline. As we have been previously studying Hong Kong airport is the biggest competitor because of better flight schedules. Survey shows that 28% of the customers prefer to fly from Hong Kong rather

than Guangzhou. As the prices vary depending of the season it is impossible to say that Hong Kong is more expensive or cheaper than Guangzhou. At the summer time when it is the high season for Hong Kong the ticket prices are more expensive but in the winter the situation is different.

Canton fair survey shows that Chinese people value money. However calculating how price sensitive they are is not possible as the rising fuel prices force the ticket prices go up but at the same time as Chinese economy is growing and China is opening to the world the number of passengers has been rising also rapidly till year 2008.

Loyalty program didn't receive great support with only 8% mentioning it. As many of the interviewees responded, they might fly to Europe only couple of times in a year. This is one of the reasons why a good loyalty program comes far behind price, flight schedule and comfort. However as loyalty programs function is to support the core competencies rather than being one of them. From the survey we can see that fewer than 10% are flying frequently to Europe. This indicates that the more flights the more important role the loyalty program has.

To have wider perspective for the situation another survey is needed. The second survey is made among the MBA students as many of them work in companies which potentially have business in Europe. Furthermore MBA students have better education and background info than many small or medium sized company owners. This is because China in the 80s faced capacity problems in their prisons. No company was willing to hire ex criminals and therefore the government helped them get back in their feet and gave enough money to establish their own company. Although the new better educated generation is taking place even now some of the companies are lead by an ex prisoner without any education. Interviewing MBA students helps to know if educated people have better knowledge about Finnair brand.

The MBA interview will focus on the brand knowledge and what they most value about air traveling. Usually more wealthy people are not as price sensitive as less wealthy. Also as Finnair's main competitive against other companies is speed, it is interesting to know if customers value price over speed.

This time the focus is also to study the habits of the interviewees. How do they spend their free time, around what media and have they been to Europe or are they planning to go there.

Complete survey attachment D

MBA survey

MBA survey was done in one of the biggest Universities in China Sun Yat Sen University. It was given mostly to MBA students and some undergraduate students. The basic idea of the survey was to see whether or not education gives different kind of results.

It was mostly expected that brand knowledge and price sensitivity would be different with people who are well educated and have probably a better job than non educated people. However the MBA survey gave same kind of results as the Canton Fair survey except for the brand knowledge.

Over 60% recognized Finnair which was amazingly different result from the Canton Fair survey. However it is always possible that the responders knew about the nationality of survey creator and were therefore able to figure out where Finnair is from although responders were tried to pick out so they wouldn't have been previously influenced. Instead of brand knowledge the result shows that it is easy to influence people and increase their brand knowledge.

The interesting result which came out of the second survey was that France was clearly the most wanted place to go and 1 out of 4 mentioned it. The second most popular place was Italy with 15% of popularity.

The second survey tried to reveal also something about the target segments time spending habits. After the internet became available for everybody it has gained huge popularity also in China. Among the MBA students this was also shown clearly and the average time a person spent online was almost 3 and half hours compared to watching TV which was under 1 and a half hours.

Surprisingly the importance of price didn't change at all and 35% (36% Canton Fair survey) of respondents said that it is the most important value when choosing the air company. The results indicate that people mostly concern what they get not how they get it. Although safety is something which the people are concerned when flying it can hardly be used as a marketing strategy as every flying company already has a safety level which surpasses every other transportation method. Flying accidents occur far more rarely than car or boat accidents in the world.

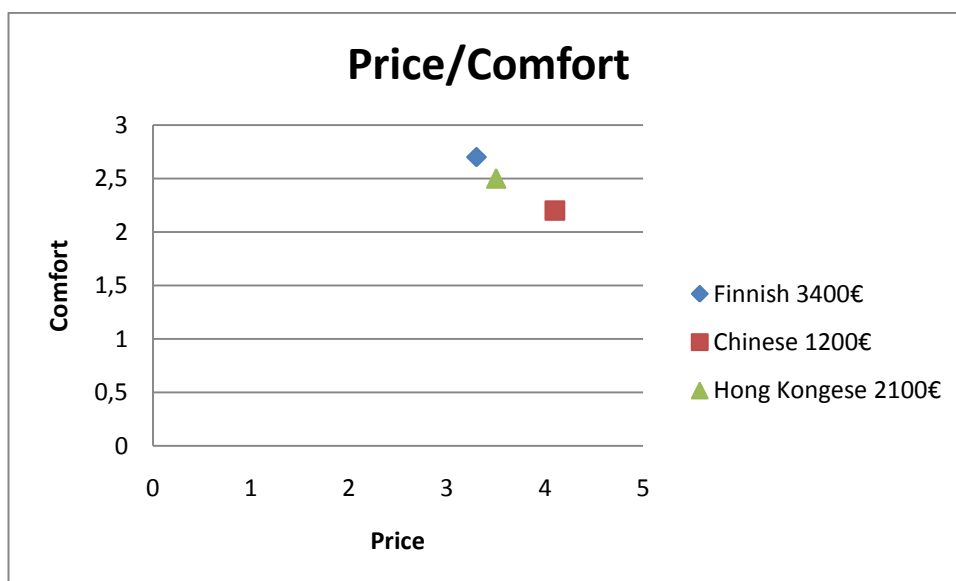
Hong Kong survey

Because the earlier surveys focused on customer values and needs the third one focuses more on consumer's confidence in their own household economics in an area where business is still booming even after the economic slowdown.

Hong Kong survey asked 20 Hong Kong residents and 20 Chinese residents about how they value price and comfort from one to five when choosing a flight ticket. Also five Finnish residents took part of the survey as a parallel subject. All of the 25 persons had many demographic similarities. They were all 25 to 35 years old. They all had university level education. And they all had been travelling abroad because of work and leisure.

After these demographic similarities it was important to find out their differences.

Finnish target group had an average net income 3400 Euros per month, Chinese 1200 Euros*, Hong Kong Chinese 2100 Euros*



GRAPH 9. Survey results showing average income and how comfort is valued compared to price.

What is interesting in the results is the proximity of in Hong Kong living Chinese compared to Finnish. Although the difference in income is huge it seems by this survey results that people in Hong Kong are willing to pay almost as much as Finnish people are. This could be because of the cultural fact that in Hong Kong business life it is important to keep face. It would be an insult for a manager to have to fly in the lower priced class.

*12 200CNY = 1200 Euros on 25.5.2009, 24 200 HKD = 2100 Euros 25.5.2009
(<http://www.taloussanomat.fi/laskurit/valuutta/>)

As for the Chinese persons people are used to save money because the social security system is poor and usually people who have work support the children and elderly in the family. Saving is a virtue is not just a saying in China it is family's own private social security system to have enough money to feed everybody. Saving seen as a virtue not as an ungenerous habit might easily affect also how the companies are working in the area. Chinese people don't mind traveling a little bit more uncomfortably if it means more money for the company.

This kind of thinking is however slowly changing. Chinese social security system is still far away from Scandinavian standards but there has been a lot of improvement in the last couple of years. Richest areas such as Shanghai have already adapted the western

mentalities in many areas and old traditions are vanishing. In Shanghai the business class is selling very well even with only a little marketing.

Survey conclusions

One of the biggest questions: “Who are the persons flying in business classes”, was successfully narrowed down in these 3 surveys.

The first survey gave a clear indication that higher education

Previous surveys show what every day passengers would most likely prefer when choosing between different travelling options. However in Guangdong area most of the companies are based in the development industry area which means that over 90% of the employees never have needs to travel abroad because of their work. The rest 10% are upper class management and in most cases non-Chinese.

This 10% is the key factor whose decisions are crucial for the airlines. To have more accurate opinions from this group of people I had an interview with 3 persons whose backgrounds were in Finnair’s core market area.

Customer’s interviews

Company management and foreign diplomats are in most cases those people who fly frequently and therefore prefer business class over economy class.

I had interviews from 3 different consulates or chambers from Finnair’s core market areas on the summer of 2008 which was time when most of the experts were talking about credit crunch but the big masses did not yet fully understand the impact it would have in their economy.

Ambra Mundula from China-Italy Chamber of Commerce, Ziva He from Royal Norwegian Consulate General of Norway and Patrik Löffström from Consulate General of Sweden all shared their opinions about how they see the new market.

All people were working for consulates and they shared the same idea that they still had not seen recession affecting their business or flying schedules. However they agreed

that as for consulates the effect couldn't yet be seen because of the nature of their business is not yield aiming. As operations are funded by state taxes it will take some time how it will affect daily life of consulates.

Even though the recession has not hit the consulates yet they had have reports from other companies that they would be leaving out next year's attendance for expos and events. While spring 2008 had the biggest participation in both Canton Fair and International travel fair in the history of their existence, it could be already seen in the fall 2008 Canton fair that participants were decreased.

One of the interesting ideas came from Mr Löffström: "I think Finnair shouldn't forget their customer loyalty programs. Even if Finnair cancels their flight to Guangzhou, it would still be a preferable choice for me. It is the bonus points which I am looking after. Maybe the problem is that every company has some kind of loyalty program so it is hard to distinguish from the others. I have always been flying with Finnair and I have your card. Therefore Finnair will be my choice also in the future even if I need to have a little extra trouble."

Ziva He agreed that she hadn't noticed that the consulate would not be having its yearly training weeks in Norway as it has been doing in the past 5 years. She also said that even if she didn't have her flight tickets yet her company would most likely be Finnair because she had always been flying with Finnair before and she had good connections with them. She did however admit that ones the news about Finnair cancelling the route was out, Lufthansa had approached them with their own customer loyalty program. This shows how important it is to have good relations with the companies and to offer them a loyalty program they appreciate.

Ambra Mundula from China-Italy Chamber of Commerce had noted that many of the smaller companies which used to depend of the help of their offices networks and databases had fell silent in the past three months. "Italians and Chinese are usually entrepreneurial persons but currently there is a feeling in the market that everybody is waiting for something to happen. Commodities don't move the same way they used to. I believe that for China this will become as a huge issue because they depend on the foreign trade."

“In Guangzhou there are relatively many private entrepreneurs. I think that these persons are not ideal customers for Finnair because they have invested their own money in their business and every cost is from their own money. It is a different situation for a manager who works for Nokia. It is Nokia who pays his trips. This is why Guangzhou is a problem for many airlines.”

4. CONCLUSIONS

Reasons for failure

It is obvious that the importance of China is huge and it will only grow in the next ten years. Finnair had big ambitions about the markets in China and especially with those areas which are not yet highly developed but are getting there soon. Pearl River delta area in Guangdong province is one of the most promising areas in China as it has been quickly developing and has the fastest GDP growth in China after Shanghai area. However there are three reasons why Finnair failed there in the first place.

Big investments before recession

As a relatively small company for an airliner Finnair doesn't have enough financial buffers to bear a bad year or a two as it is in Lufthansa's case. Because the nature of the business demands for big investments it is important to have steady and predictable cash flow year after another.

Finnair had big plans on 2005 and they announced to become the largest hub between Europe and Asia. For this strategy they invested into new Airbus planes which are fuel saving and modern compared to MD 11 planes. The first Airbuses have already been received and they are flying to Shanghai and Hong Kong but before the whole fleet could be received troubles started to merge.

Firstly the fuel prices rose to all time high in the spring of 2008. This made long distance flights more expensive for the companies and they were forced to raise the ticket prices which scared the customers away. At this point first impacts of credit

crunch were already taking place and consumers were growing to be more price sensitive in Europe and the USA.

As this was not worse enough a catastrophic earthquake killing thousands of Chinese resulted in Chinese government officials stopping travels to abroad while this group had used to be one of the main customer segments for Finnair.

This all resulted that Finnair had slid down the slope far before the recession truly hit the markets in the third quarter of 2008 and it couldn't handle another bad half.

Finnair suspected that the next 5 years would be a time of growth but instead of that faced the biggest recession in global economy since the 1930s.

Inefficient market analysis

Even before the rising in oil price, earthquake and global recession Finnair had been struggling in Guangdong because of its special kind of industrial structure. China's economic growth had largely based on production outsourcing from foreign companies.

This resulted in a very uneven structure of industry in the country. While Hong Kong, Beijing and especially Shanghai managed to develop financial centers on their own, large part of the country was depended on outside funding, Guangdong area being the most successful of these. For example Guangzhou develops over 45% of all the sofas in the world, the research and development and especially management branches are located in somewhere else in China or abroad.

This is a problem especially in the airline industry, because although Guangzhou has many people who have made fortunes by running a factory, they rarely need to travel abroad because of their work.

Another problem with the structure is the high percentage of private entrepreneurs operating in Guangzhou. Because Guangzhou produces a lot of commodities it offers many private persons an ideal business for a small logistics

Finnair entered the market with identical strategy with Hong Kong and Shanghai which as market areas are completely different. Because of the different market structure the strategy among the loyalty programs failed.

Structure in Guangzhou is however changing rapidly. Because most of the cash flow has been running to China in the past few years this has shifted the power of management to China. When it used to be that foreign companies bought supplies, labor and other companies from China it has changed. It is now China buying from abroad and the management locating in China. This change does not happen over a night but the trend is clear. Especially the eastern coastal part of China is getting rich while western parts of the country lag behind.



PICTURE. Left hand side showing Guangzhou thirty years ago. Right hand side Guangzhou today. The change in China has been and still is extremely fast.

(<http://149.130.13.143/China/FullView.cfm?ViewID=60&IMthisIndex=16&Location=Guangzhou>, <http://www.visitourchina.com/images/city/guangzhou.jpg>)

Recommendation for solution

Unlike Lufthansa, Finnair can't afford to stay in a market which does not create capital. However as it is necessary to stay in the area for future business Finnair has an option to use.

SAS which is also a midsized airline company has already implemented this strategy. SAS has a route from Copenhagen to Bangkok which they are already making use of in the Guangdong area. By marketing and creating an attractive corporate customer

program they have managed to establish a marketing niche in the area. Even if the idea of flying first even further from Europe to Bangkok and then back again does not tempting, SAS has still managed to find regular business class customers in the same core customers Finnair has.

Finnair already has successful routes to Beijing and Shanghai which it could easily implement in use for Guangdong province. At this stage Shanghai hub has been serving provinces of Guangxi, Hunan, Jiangxi and Anhui successfully because these provinces have big companies like Nokia operating there. Because Finnair is too small to provide service in Guangdong by itself it is recommended that it allies with some local airliner such as China Southern Airlines or Shenzhen airlines. This would also serve the local airlines benefits as they don't have flight to Europe.

Eventually the structure of the industry will favor Finnair and it is possible to return to the market. As the market is extremely unbalanced it is hard to say if it requires five or ten years to fully recover. What Finnair has done correctly is that they kept their license to fly to Guangzhou 5 times a week. This license also costs some money for the company but by keeping it now they ensure that also in the future they are able to come back.

The customer loyalty program has to be developed even more. The surveys showed that the Chinese customers value the price above other factors. Because the planes are already flying only 85% full it would be a considerable option to offer every fifth flight for half price or even less. This kind of marketing shows the customers that their loyalty is rewarded. It also gives a message of a cheap price which would most likely be well received around the public.

Finnair is struggling in all of its market areas and this makes it hard to assort funding for Finnair to come back to Guangzhou with its own fleet at this point. Networking with a local airliner and specializing in a certain market segments with tailored marketing and loyalty program are affordable solutions to be part of the growing market and creating ground for a new start.

Reliability of the research

This report had three different surveys to increase to reliability. All together these surveys had around 280 responds which is a relatively small number when compared to the population of the area studied. The persons chosen to the surveys were tried to be carefully selected so they would be as close to the target group as possible. This also had a downside because it involved personal contact which gave away survey makers occupation, nationality etc. All of this information might have easily affected in the answers which were made.

Information I received from Finnair was scarce. Probably because of their situation they were not too happy to give much information for a school project even though the paper was also assigned by Finnair. Lack of information made the start difficult because of foreign country and because of a new industry for me.

I received a lot of help from Rebekka Mikkola-Rouvinen and with her help I received a lot of information and statistics I would have never gotten without her.

Also Nico S. Beilharz from Lufthansa helped me to understand the market in Guangzhou although for an understandable reason he did not want to talk much about Lufthansa's strategy.

If the survey poll could have been multiplied and spread better across the city, the validity of the results would be much higher. However lack of resources prevented this and even this sized poll took almost a month of one person to analyze.

5. ATTACHMENTS

Attachment A)

Guangzhou and Hong Kong flight schedules (30.8.2008
before Guangzhou route was cancelled)

GUANGZHOU	MO	TU	WE	THU	FRI	SA	SU
Amsterdam		x			X	x	x
Barcelona		x			X	x	x
Berlin		x			X		x
Billund		x			x		x
Brussels		x			x	x	x
Bucharest		x					x
Budapest		x			x		x
Copenhagen		x			x	x	x
Dusseldorf		x			x		
Frankfurt		x			x	x	x
Gdansk						x	
Geneve		x			x	x	x
Gothenburg		x			x	x	x
Hamburg		x			x		x
Helsinki		x			x	x	x
Kiev					x		x
Lisbon						x	
Ljubljana							x
London		x			x	x	x
Madrid		x			x	x	x
Manchester		x			x	x	x
Milan		x			x	x	x
Moscow		x			x	x	x
Munich		x			x		x
Oslo		x			x	x	x
Paris		x			x	x	x
Pisa		x*					
Prague		x			x	x	x
Riga		x			x		
Rome		x			x	x	x
St Petersburg		x					x
Stockholm		x			x	x	x

Stuttgart		x			x		x
Tallinn		x			x	x	x
Tampere		x			x		x
Turku		x			x	x	x
Vienna		x			x	x	x
Vilnius		x			x	x	x
Warsaw		x			x		x
Zurich		x			x	x	x

HONG KONG	MO	TU	WE	THU	FRI	SA	SU
Amsterdam	x	x	X	x	x	X	X
Barcelona	x	x	X	x	x	X	X
Berlin	x	x	X	x	x		X
Billund	X	x	X	x	x		X
Brussels	X	x	X	x	x	X	X
Bucharest		x					X
Budapest		x	X	x	x		X
Copenhagen	x	x	X	x	x	x	X
Dusseldorf	X	x	X	x	x		
Frankfurt	X	x	x	x	x	x	X
Gdansk						X	
Geneve	x	x	x	x	x	X	X
Gothenburg	x	x	x	X	x	X	X
Hamburg	x	X	x	x	x		X
Helsinki	x	X	x	x	x	x	X
Kiev	x		x		x		X
Lisbon	x			x		X	
Ljubljana	x						X
London	x	x	x	x	x	X	X
Madrid	x	x	x	x	x	X	X
Manchester	x	x	x	x	x	X	X
Milan	x	x	x	x	x	X	X
Moscow	x	x	x	x	x	X	X
Munich	x	x	x	x	x		X
Oslo	x	x	x	x	x	x	X
Paris	X	x	x	x	x	x	X
Pisa		x*					
Prague	X	x	x	x	x	X	X

Riga	X	x	X	x	x		
Rome	X	x	x	x	x	X	X
St Petersburg		x	x	x			X
Stockholm	x	x	x	x	x	X	X
Stuttgart	x	x	x	x	x		x
Tallinn	x	x	x	x	x	X	x
Tampere	x	x	x	x	x		x
Turku	x	x	x	x	x	X	x
Vienna	x	x	x	x	x	X	x
Vilnius	x	x	x	x	x	X	x
Warsaw	x	x	x	x	x		x
Zurich	x	x	x	x	x	X	x

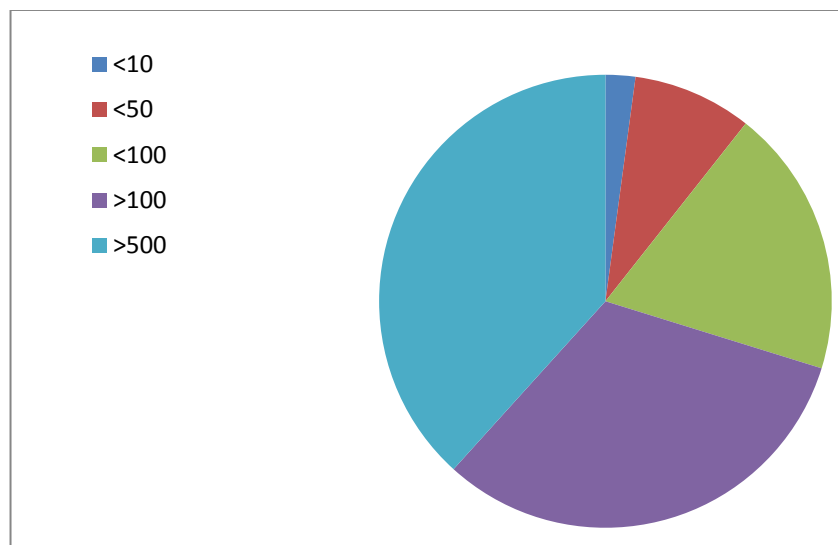
Attachment B)

Canton Fair questionnaire

1. What city is your company based in?

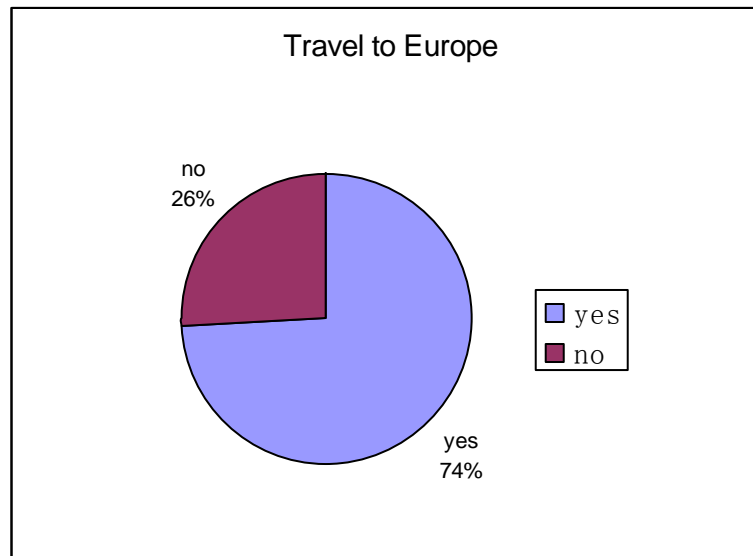
a) Guangzhou 30, b) Guangdong province 63, c) Other 7

2. How many employees are working in your company?



3. In how many provinces of China is your company presented? Which ones?

4. Does people of your company travel to Europe?

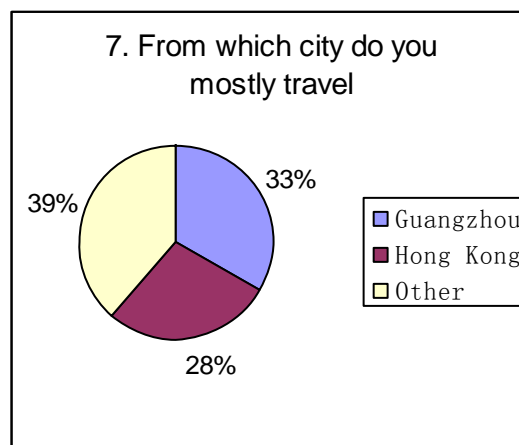


5. If yes, how many of them and how often?

6. To which European cities do they mainly travel?

7. From which Chinese city do they mainly travel?

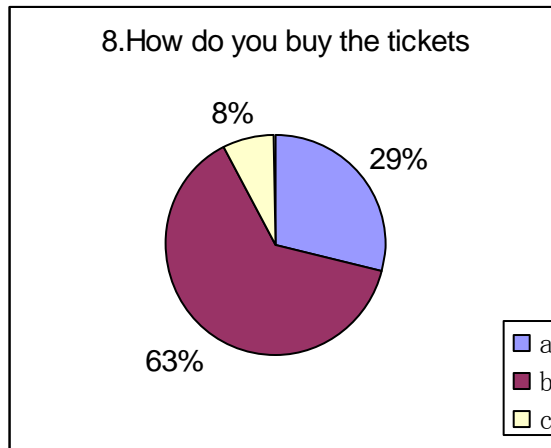
a) Guangzhou, b) Hong Kong, c) Other



8. How do you buy the tickets?

a) Directly from an air company, b) Via travel agency, c)

Other



9. Who buys them?

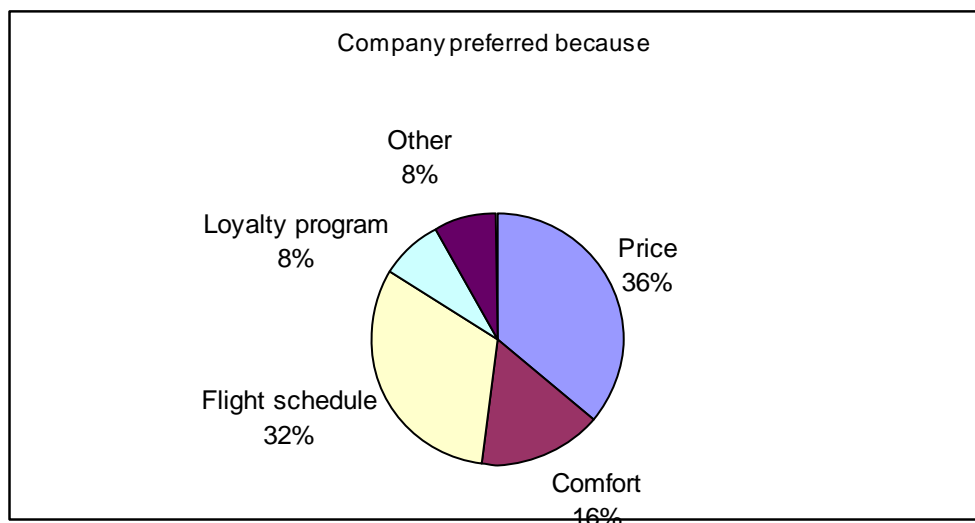
A) Your employees directly 40, b) Their assistant 51, c) other 13

10. Do your employees usually ask for a specific company?
Which one?

Yes 8, No 65

11. What do you value the most?

A) Price, b) Comfort, c) Schedule of the flight, d) loyalty program, e) other

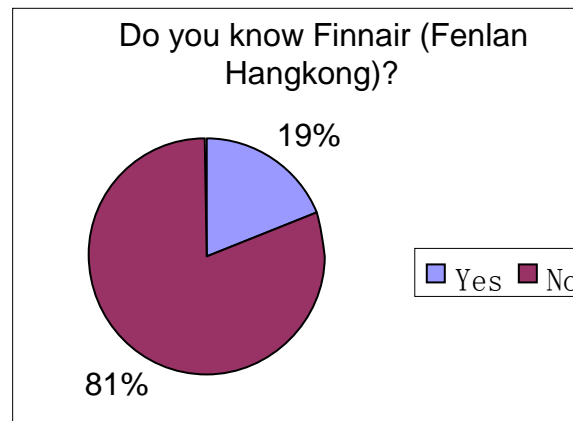
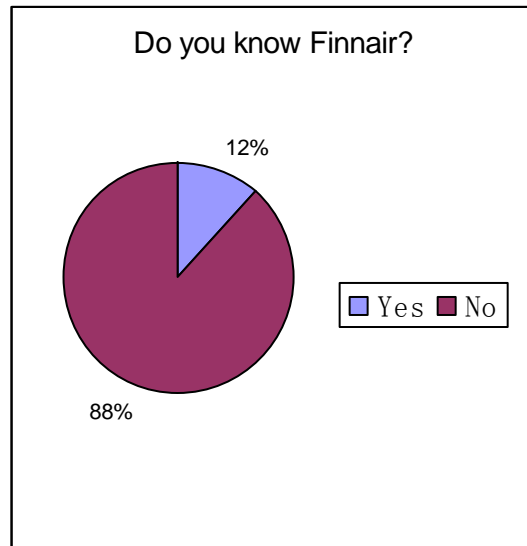


12. What do you expect from a loyalty program?

a) Upgrading to business class 19, b) Free flights 8, c) Money back 8, d) Hotel discounts 30, e) other 15

13 a. Do you know Finnair? /

b. Do you know 芬兰航空?



Attachment C)

Class	Business	Business	Business	Economy	Economy	Economy
	J	D	I	Y	H	M
Price CKY						
1-4person	38700	27380	21900	14510	13400	11919
5-9person	37630	26310	20850	14190	13090	11590

Economy	Economy	Economy	Economy	Student
T	L	S	O	S
10600	9800	8600	6600	8400
10290	9490	8290	x	x

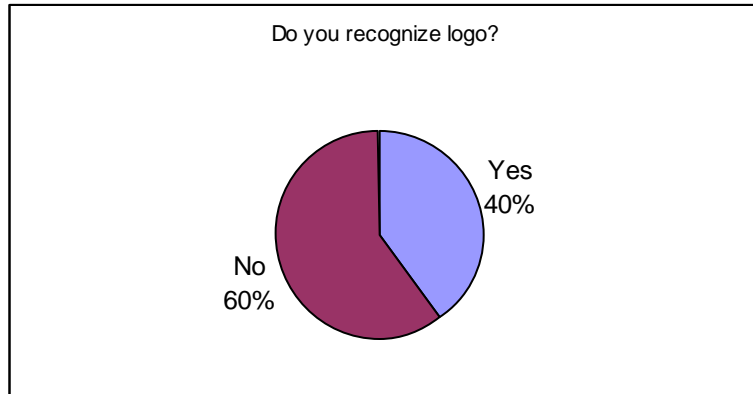
Attachment D)

Survey for MBA students in 中山大学

1. Where are you from? (Country, province)



2. Do you recognize this logo ?



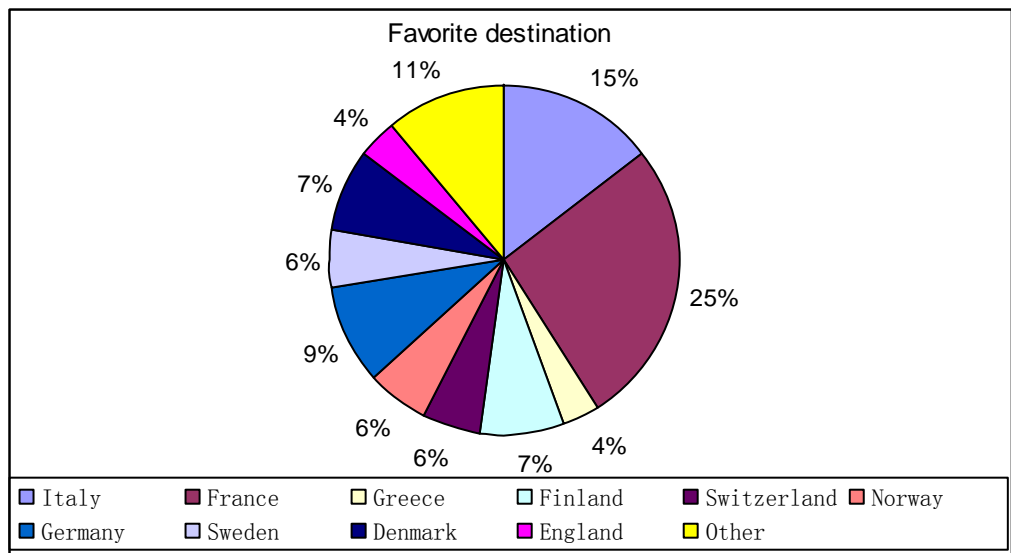
3. Have you ever traveled to Europe?

Yes 19, No 103

4. If yes how did you order your tickets?

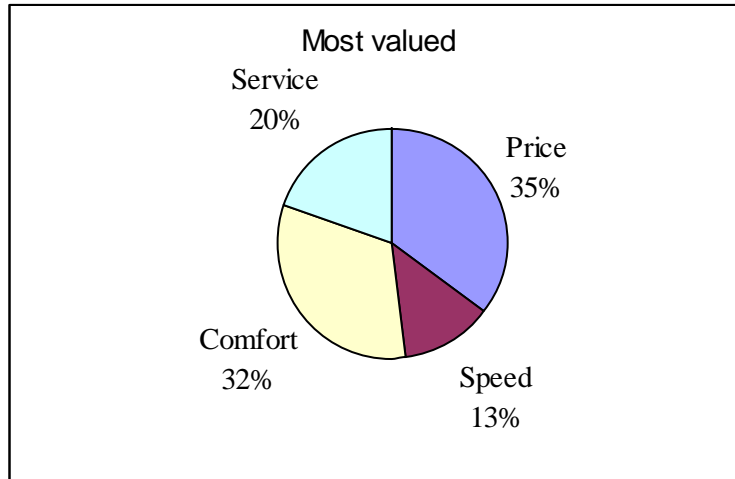
5. Are you planning to go to Europe?

6. If yes, where?



7. Put the followings in the order you value the most when traveling long distances.

- Price
- Comfort
- Speed
- Quality of service



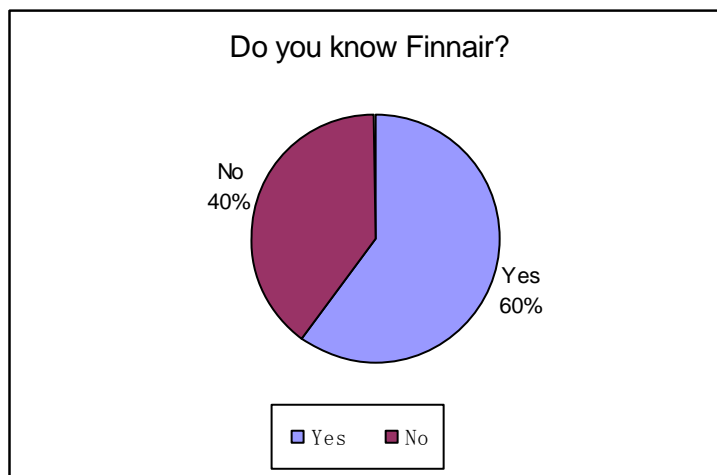
8. How much do you watch television daily?

Average 1, 35 hours

9. How much time do you spend on the internet daily?

Average 3, 48 hours

10. 你知道不知道芬兰航空? (Do you know Finnair?)



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Mikkola-Rouvinen Rebekka, Manager of Southern China, Finnair, interview Guangzhou 15.7

Mikkola-Rouvinen Rebekka, Manager of Southern China, Finnair, interview Guangzhou 20.8

Nico S. Beilharz, Manager of Southern China, Lufthansa, interview Guangzhou 30.7

Patrik Löfström, Consular Officer, Consulate General of Sweden, interview Guangzhou 3.8

Ziva He, Client attendant, Royal Norwegian Consulate General Guangzhou, interview Guangzhou 3.8