

# BUSINESS IDEA INTO REALITY

Case: Start-up company of gala dresses

LAHTI UNIVERSITY OF APPLIED  
SCIENCES  
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Hue Vo

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## ABSTRACT

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This study deals with turning a business idea into reality. The goal is to provide an indicative initial business plan for the start-up company X, whose founder is the author of the thesis herself. This thesis attempts to theoretically test whether the proposed business idea is feasible enough to be further carried out in terms of the market, finance resources and potential profitability. The outcome of the thesis, an initial business plan, is written on the basis of Hoffren's business planning guide.

Generally in the garment and textile industry and the gala dress sector particularly, the start-up company is intended to operate as a supplier for retailers through B2B personal selling, and a distributor for end users through B2C e-commerce concept. Identified target customer groups of the business are located in Finland, but the business expansion into international markets is the future goal of the company. Because gala dresses are purchased and imported from suppliers in Vietnam, this thesis also discusses essential benefits and weaknesses of global sourcing, with a focus on Vietnam's garment and textile industry export sector.

The method used in this study is qualitative, conducted by several interviews with entrepreneurs in the gala dress sector and discussions on the Internet forums. In the theoretical framework, literature related to the field of study is collected from journal and newspaper articles, textbooks and other theses. Regarding the research method of reasoning, deductive approach is chosen to theoretically assess and evaluate the business idea. Starting first from generally accepted facts and theories of launching a business in Finland and business planning, the research then proceeds to the more specific: the preliminary business plan.

The study results indicate that the proposed business idea of importing gala dresses from Vietnam and selling them in Finland is viable enough to be accomplished. There is a sufficient market demand for the dresses, plenty of potential target customer groups, effective marketing tools to reach them and strong competitive edges to handle competition in the market. Besides, there exist various finance allowances for the start-up company to apply. Based on the optimistic business profitability calculation, a request for the female entrepreneur loan from Finnvera appears very positive. As a result, moving the business idea onto the next stage is justified.

Keywords: business planning, starting a business, business idea, gala dress

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Case: Perustettavan yrityksen juh lamekot

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## TIIVISTELMÄ

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Tämä tutkimus käsittelee uuden liikeidean alustavan suunnittelun toimenpiteitä. Työn tarkoitus on valmistella suuntaa-antava liiketoimintasuunnitelma perustettavalle yritykselle X, jonka perustajana toimii opinnäytetyön tekijä, sekä selvittää onko liikeidean suunnitelman vieminen markkinoiden, rahoituksen ja potentiaalisen tuloksellisuuden kannalta seuraavalle tasolle, eli varsinaiseen liiketoimintasuunnitelmaan, kannattavaa. Tutkimuksen teema, ideasta kasvuyritykseksi, ohjaa liiketoimintamallin muodostamista pohjautuen Hoffrenin liiketoiminnan aloituksen työpohjaan.

Yritys X:n on tarkoitus toimia vaate- ja tekstiiliteollisuuden toimittajana jälleenmyyjille ja jälleenmyyjänä lopputuotteen käyttäjille hyödyntäen verkkokauppakonseptia. Liiketoiminnan tunnistetut potentiaaliset kohdemarkkinat sijaitsevat Suomessa, mutta tulevaisuuden tavoitteena on brändin kehityksen myötä laajentua myös kansainvälisille markkinoille. Yritys X hankkii tuotteensa Vietnamista, joten opinnäytetyö tutkii myös globaalin hankinnan hyötyjä ja haittoja painottuen Vietnamin vaate- ja tekstiiliteollisuuden vientisektoriin.

Opinnäytetyö on deduktiivinen tapaustutkimus, jossa hyödynnetään laadullista tutkimusmenetelmää. Valittu tutkimusmenetelmä perustellaan teoreettisen aineiston laajuudella, jossa tarkentuvalla tiedonkeruulla päädytään tutkimukselle sopivaan viitekehukseen. Työn empiirinen tutkimusosa viitekehukseen pohjautuen muodostuu haastatteluista alan yrittäjien, yrityselämän osaajien ja ammattilaisten kanssa, sekä suuntaa-antaviin keskusteluihin kohdemarkkinoiden keskuudessa. Tutkimuksessa on haastatteluiden, sekä muun tiedonkeruun pohjalta vedetty johtopäätöksiä liiketoiminnan kannattavuuteen, kysyntään ja rahoitukseen liittyen.

Tutkimustulosten perusteella kysyntää kohdemarkkinoilla oikeilla markkinointi- ja myyntiaktiviteeteilla löytyy sekä yritysmyyntiin, että kuluttajien osalta, jos Yritys X saavuttaa tavoitellut hintaan, laatuun, palveluun ja konseptiin perustuvat kilpailuedut. Rahoituksen järjestämiseksi on vaihtoehtoja, joten tarvittavan rahoituksen saaminen, erityisesti Finnveran naisyrittäjälainan, onnistuu ennustetun optimistisen kannattavuuslaskelman perusteella. Yrityksellä on mahdollisuudet differoita markkinoilla kilpailuettujen, kustannustehokkaan konseptin, sekä houkuttelevan yritysimagon vuoksi. Liikeidean vieminen, myös alhaisten riskien perusteella, eteenpäin on perusteltua.

Avainsanat: liiketoimintasuunnittelu, yrityksen perustaminen, liikeidea, juh lamekko

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## GLOSSARY

B2B	Business-to-business: trade transactions between businesses, such as a manufacturer and a wholesaler, between a wholesaler and a distributor, or between a distributor and a retailer
B2C	Business-to-customer: activities of business serving end consumers with products and/or services
DAC	Development Assistance Committee
FDI	Foreign Direct Investment
FI	Foreign Investment
GDP	Gross Domestic Product
GNI	Gross National Income
R&D	Research and Development
SMEs	Small and Medium Enterprises
TyEL	Insurance for an employee
VITAS	Vietnam Textile and Garment Association
WTO	World Trade Organisation
YEL	Insurance for an entrepreneur



# 1 INTRODUCTION

## 1.1 Background

Business is an interaction of trading in goods and money. It involves at least two people benefiting from each other by trading. The purpose is to provide both parties with value: profit for a seller and satisfaction for a buyer's need. However, the hardest part of starting a business is most likely coming up with a good business idea (Biz Foundry 2010). It could be a new invention or an original solution to an everyday problem (Biz Foundry 2010). In the business of making money, an idea should be a viable business proposition.

During her last trip to Vietnam in 2008, the author had an opportunity to become acquainted with Vietnamese business culture and environment. With a population exceeding 88 million, there exists supply for nearly all products and services (CIA The World Factbook 2010a) in Vietnam. Markets vary from high class shopping centres, superstores to bustling open market, boutiques, and galleries to street stalls. Clothing, among the top shopping targets, varies greatly from tourist shirts, shorts, shoes, slippers, dresses and handbags. Especially, gala dresses are half the price compared to dresses sold in Finland. Moreover, design of those dresses produced in Vietnam fit well with Western fashion. Consequently, the author invented a business idea of purchasing inexpensive gala dresses from Vietnam, and selling them at lower prices than other competitors in Finland.

The reason for such business idea is firstly low price levels of garments in general and gala dresses in particular in Vietnam. Purchasing dresses from there and selling them at competitive prices in Finland would certainly yield profit. As Vietnam is one of the world's top ten garment exporters, its potential as sourcing market to Finland appears optimistic (Vietnam Business News 2010a). Secondly, gala dresses sold in Finland are extremely expensive for one-occasion-use. Besides, supply of these goods is rather limited in Finland, whereas Vietnamese suppliers offer an abundance of dissimilar costumes. Clearly, there exists a gap in the Finnish market and the author plans to enter the market hence.

Whatever business idea is selected, it has to be analysed, evaluated, tested and then implemented based on the collected information about the business. Otherwise, that idea would merely remain an idea. A business plan is therefore a must. It enables testing the viability of a business idea. It is not only a crucial component of the finance raising process, but also a document mapping out the course of a company over a certain time period (Kisner 2010) . However, before the actual writing of a business plan, there are several issues to consider. For example, the preparation process includes the external and internal environment assessment, customer and demand analysis, market and competition research etc. A proper planning for business is an essential base for success. Planning is free of charge, launching is not (Finnvera 2001, 24).

## 1.2 Thesis objective and research questions

The objective of this thesis, in theory, is to test and analyse the potential profitability and success of the planned business idea of gala dresses in the light of current market situation in Finland. One approach to theoretically determine whether this business idea is feasible enough to be carried out further, is building an initial business plan. With the intention of achieving this goal, the following detailed research questions were identified to support the objective of the thesis.

1. Is there a market demand for gala dresses designed, produced and imported from Vietnam in Finland?
2. What are the target customer groups of these gala dresses in Finland?
3. How should marketing be performed to reach the target customers?
4. Where and how much finance is required for starting such business?
5. What is the profit potential of such business in Finland?

### 1.3 Research methods and data collection

The research methodology part in this thesis describes the procedure of the researcher's academic study. The figure below demonstrates the author's steps to tackle the research problem.

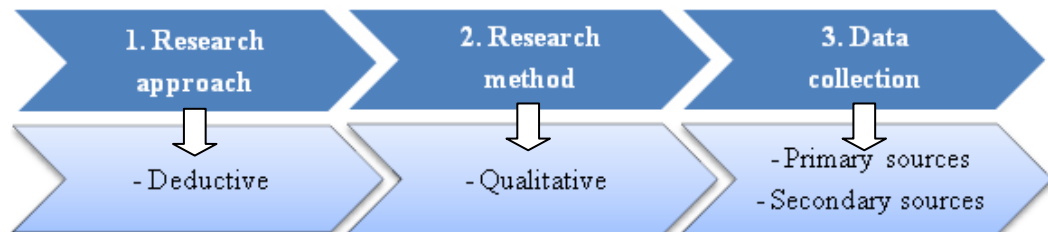


FIGURE 1. Research methodology.

#### **Research approach:**

In research, the three methods of reasoning are referred to the deductive, inductive and combined approaches. Deductive approach works from the more general to the more specific while inductive reasoning starts from specific observations to broader generalisations. (Burney 2008.) The combined use of both approaches includes building and testing of theories (Saunders, Lewis & Thornhill 2009,127).

Within the context of this study and the nature of the research problem, deductive research approach is regarded as the most suitable for this thesis. Starting first from generally accepted facts and theories of starting a business in Finland and business planning, the research then moves to a desk research and empirical study. This will provide background knowledge to the subject, from whom the author proceeds to the more specific: the initial business plan.

#### **Research method:**

The next problem is to determine a range of methods applied to gather data: qualitative, quantitative or mixed method. Qualitative research involves interviews to produce data in the form of words, pictures or objects. Quantitative research, on the contrary, involves questionnaires to generate accurate numerical data. The

combination use of these both is referred to mixed method where several different data collection and analysis techniques are used. (Saunders et al. 2009, 151-153.) Since this study requires mainly interviews and desk research to answer the research questions, qualitative approach is chosen to be the research method.

### **Data collection:**

The third part is collecting the information within the research method chosen. When conducting a study, it is recommended to use various sources in order to gain a fuller understanding of the context and a solid foundation to make the right decisions (Yin 2003, 97). Therefore, this study gathers information from both primary and secondary sources. In the empirical part, primary sources gathered by the researcher are collected from the Internet discussion forums and interviews with Mr. Mikko Nurminen, Business Developer of Lahti Business Incubator Centre, Ms. Mia, Managing Director of Unelmapuvut, Ms. Krista Mäkelä, Business Consultant of Enterprise Agency in Lahti, and Mr. Dung Tran, Managing Director of Zazabella. Other published sources, such as journal and newspaper articles, textbooks and other theses, are regarded as secondary data in this study and used in the theoretical part.

### 1.4 Scope and limitations

As this study concentrates on testing theoretically the business idea in a form of an initial business plan, only relevant subjects related to the profitability and success of the business are considered: competence, product, market, customers, competitors, risks, marketing, and financial plans. This follows Hoffren's business plan pattern. A broader and more detailed business plan covering product development, production and personnel plan should be built if outside experts and financiers are used for evaluating the business.

In this study, only the main product range "ready-to-wear female gala dresses" is studied. Such dresses are used in ceremonial occasions such as Prom dances, graduation celebrations, weddings, fancy-dress parties and any other special

events which require a ceremonial dress. Thus, the most important target groups are to be identified in this research. Furthermore, Vietnam is selected to be a starting point for sourcing gala dresses to Finland because of the products' fairly low price level in Vietnam. Moreover, the author's personal contacts to Vietnam will facilitate seeking potential suppliers. This study includes no research on the capability of sourcing of other Asian markets, such as China, India or Thailand, nor discusses it details of the sourcing and purchasing process. It is assumed that there are gala dresses at certain price levels in Vietnam, and the goal is to test whether these dresses can be profitably sold in Finland. Additionally, the business idea of selling gala dresses is considered only within the Finnish environment. Therefore, there is no research on potential market demand for the product in other Scandinavian market, for example, as the focus is placed solely on the Finnish market.

### 1.5 Thesis structure

This thesis is divided into two main parts: the theoretical framework including Chapter 2 & 3 as well as 4, and the empirical part with Chapter 5. Chapter 2 gives a general overview of the entrepreneurial environment in Finland. In Chapter 3, theories of turning business ideas into reality and stages of business planning are introduced, from which the key models such as Hoffren's are combined to develop a suitable framework in the empirical part. In Chapter 4, benefits and weaknesses of global sourcing are first discussed and then the global and textile export sector of Vietnam is reviewed.

The empirical part starts from Chapter 5, where the viability of the business idea is tested through an initial business plan. The first, second, third, fourth and last research questions are responded in this chapter as it deals with market demand analysis, finance plan, business profit potential and marketing strategy. Chapter 6 discusses about findings and answers the main research objective whether or not to enter the Finnish market with gala dresses imported from Vietnam. Finally, Chapter 7 concludes the study with the key aspects of the whole thesis.

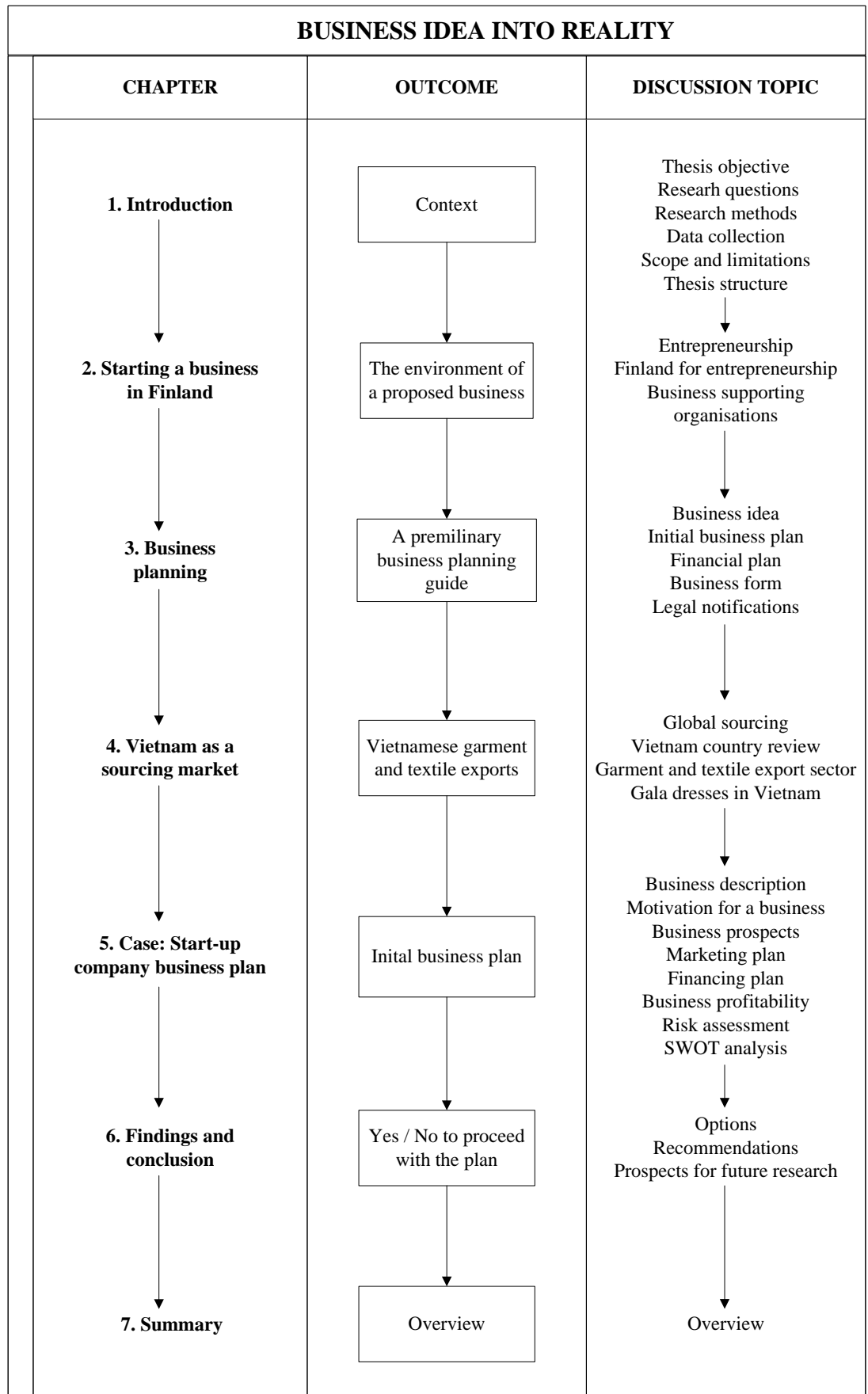


FIGURE 2. Thesis structure.

## 2 STARTING A BUSINESS IN FINLAND

Finland is considered a modern, competitive transparent economy with high communication technology sectors. Still, an unemployment rate of 7.4% in October 2010 remains relatively high due to inflexibilities in job creation (Statistics Finland 2010a). However, the economy of the country is estimated to be 73.8% free (Heritage Foundation, 2010), ranking 17<sup>th</sup> freest economy in the world. Freedom from corruption, financial, monetary and business freedom are main characteristics of a business-friendly environment. Minimal regulations encourage private enterprise while a transparent rule of law prevents poverty. Moreover, foreign investments can easily enjoy outstanding market access as business operations are not controlled by government bureaucracy.

All entrepreneurs launching their business in Finland are greatly welcomed by the majority of authorities in charge of this process to be done, starting from the employment to tax office, and financing agency. For instance, first-time entrepreneurs may receive financial aid called “start-up grant” for the livelihood up to 18 months. Plus, banks in Finland are cooperative in business transactions and provide multi services for running businesses. Nordea, Sampo, Osuuspankki, OKO and Aktia are reliable banks with good reputation.

The aim of this chapter is to introduce an overview of Finnish entrepreneurial environment. Firstly, the concept of entrepreneurship is studied. Secondly, the latest development of entrepreneurial activity in Finland is briefly reviewed. Lastly, a discussion of various public and private business supporting organisations concludes the chapter.

## 2.1 Basis and objective of entrepreneurship

During the initial phase of entrepreneurship, the most vital factors influencing the business planning success are the business idea, whose future action is built around and the entrepreneur, who ought to implement the idea to a sufficient extent and profitably (Finnvera 2001, 20).

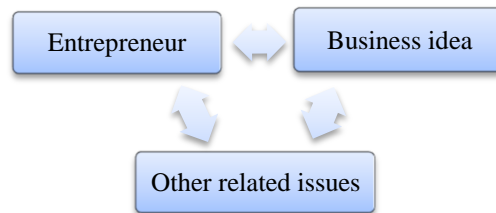


FIGURE 3. Business planning cycle.

Entrepreneurship requires a great deal of effort and commitment. The first issues to be considered are knowledge, ability and experience needed for establishing a business. Knowledge of marketing, production and finance is obligatory. Market and competitor awareness should be sufficient as well. The second concern is personal capacity; launching a company involves a high energy level, a desire for responsibility and a preference for moderate risks. Next come prediction and evaluation of potential obstacles in the business. When problems arise, toughness, resistance to pressure and confidence in one's own ability to succeed are tested. However, a careful planning would help avoid pitfalls. (Finnvera 2001, 20-21.)

Then, the company's objectives must be clearly clarified already in the beginning. Later on, they play as a guide in decision making concerning the business size, market position and time management just to name a few. In addition, financial thinking ability is indispensable: how much money is needed in the initial phase of business and is the financing available from potential sources? Finally, when the business grows, the entrepreneur must utilise leadership and organisational skills to run the company. Hence, perseverance and development create a stable basis for building the future. Diligence brings results. (Finnvera 2001, 20-21.)



## 2.2 Finland as an entrepreneurial environment

As Figure 4 below indicates, the current global economic downturn has caused a decline in the number of enterprises, personnel and particularly in turnover in 2009. This is the first decrease in the quantity of enterprises and turnover over the 2000s. There exist totally 266,000 enterprises in Finland, excluding agriculture, forestry and fishing ventures (The Ministry of Employment and Economy 2010). One third of them (over 80,000) are female entrepreneurs, which is a high proportion in Europe (Yrittäjänaiset 2008). 99.7% of Finnish enterprises are micro, small and medium-sized (SMEs) employing under 250 people. Essentially, SMEs play a significant role in maintaining Finnish employment and the economy as 13% of Finland's export revenue originates from SMEs. (Suomen Yrittäjät 2008.)

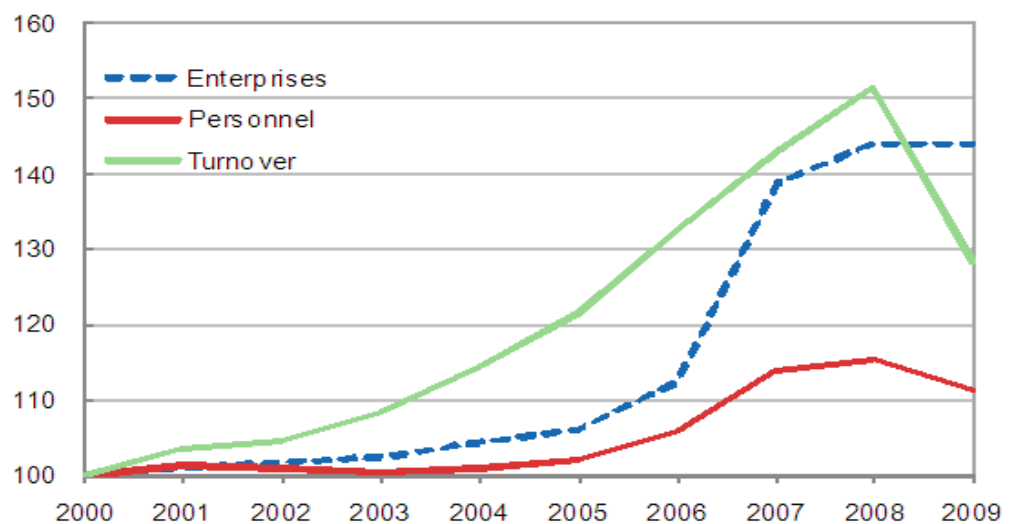


FIGURE 4. Development of the number of enterprises, personnel and turnover 2000 – 2009 in Finland (Statistics Finland 2009b).

Although entrepreneurship is highly respected in Finland, the country's total entrepreneurial activity ratio, which is 5.9%, is still lower than the EU (6.4%) and World average (10.6%) (Global Entrepreneurship Monitor 2009). Stenholm et al. (2008) reveal that amongst the Nordic countries, Finnish companies have the lowest growth intentions and seldom bring innovative products to the market. Pursuing high growth requires taking higher risks. The willingness to take risk is somewhat low in Finland. Thus, the fear of business failure is an important barrier that deters starting a business in Finland (Ministry of Trade and Industry 2003).

### **Business-friendly environment - Ease of doing business**

In Finland, the business environment is dynamic, straightforward and competent. Minimal red tape and non-existent corruption smooth the progress of doing business in Finland. Furthermore, the country's sophisticated infrastructure, skilled workforce and competitive operating costs are strong features constructing a first-class business environment in the world.

### **Starting a business is easy, fast and inexpensive**

Finland is ranked 32 of 183 economies in starting a business as it involves only three procedures, lasts 14 days, and costs 1.1% GNI per capita:

TABLE 1. Starting a business (The World Bank 2010).

<i>Procedure</i>	<i>Time to complete</i>	<i>Associated costs</i>
1. Deposit the paid-in share capital in a bank; pay the registration fee	1 day	no charge
2. Submit a single start up notification form to the NBPR (National Board of Patents and Registration) and the Tax Administration	13	€350
3. File at a private insurer for pension insurance, accident insurance, and medical insurance of employees	1	no charge

### **A competitive economy**

In terms of the economic and social performance, Finland took the best spot in 2008 and 2009 among 14 other European countries (The European Growth and Jobs Monitor 2008). The country's economy has performed well during 2000-2009 with constant GDP growth above 3% in a low inflation environment with growing employment (CIA The World Factbook 2010b). Still, the real growth rate is expected to be -8.1% in 2010, as a consequence of the worldwide economic recession (CIA The World Factbook 2010b). The single currency in Finland -the Euro- is an increasingly attractive for investors compared with its rivals – not only the US dollar, but also the UK pound. Besides, the European economy generally and the Finnish economy specifically is less burdened by debt than the United Kingdom or the United States. (BBC News 2008.)

**Leader in innovation**

The World Economic Forum ranked Finland as one of the world's top countries in innovation, being on the 7<sup>th</sup> place in 2010. This Innovation index measures countries' quality of research institutions, university and industry research collaboration, company spending on R&D, availability of engineers and scientists, utility patents and intellectual property protection. (The World Economic Forum 2010.)

**The best education structure in the world**

Finland is globally known for its high education system (Coughlan, 2004). Based on Statistics Europe, 40% of the workforce in Finland has graduated from a university-level institution or achieved a doctor's degree (OECD 2006, 10).

**Sustainable environment**

According to the Environmental Sustainability Index 2005 (ESI), Finland is positioned first in protecting the environment with good air quality and clean water, high level of science and technology, and competence of environmental control (Tekes 2005).

**Trading with Finnish companies**

Finnish scientists, engineers and companies are predecessors in several fields of innovation and technology. Highly educated scientists have advanced expertise in biotechnology and diagnostics, forestry, chemical and metal industries, environmental technology, functional foods, information and communication technology as well as software and electronics. (Tekes 2005.)

**Legal system in Finland**

The Finnish business environment is highly favourable to foreign direct investment (FDI). There exist no common regulatory limitations related to acquisitions. Quite the reverse, shares and assets in Finnish companies can be attained by foreign entities without the need for approval from Finnish authorities. Foreign-owned corporations can take advantage of government investment incentives and admission to the most up-to-date research from the Finnish universities and the private sector. (Tekes 2005.)

### 2.3 Business supporting organisations

The Finnish first-class business environment is supported by several government agencies which ensure public funding and services for entrepreneurial ventures. The nine most important organisations are Finnish Industry Investment, Finnish Innovation Fund, Finnish Funding Agency for Technology and Innovation, Finnvera, Finpro, Finnpartnership, Employment and Economic Development Centres, Enterprise Agency and Foundation for Finnish Inventions. Entrepreneurship is also encouraged by private agencies that provide their capital for a business start-up such as Business Angels and Business Incubators. All these agencies have distinct functions in the market, thus balancing and complementing each other.

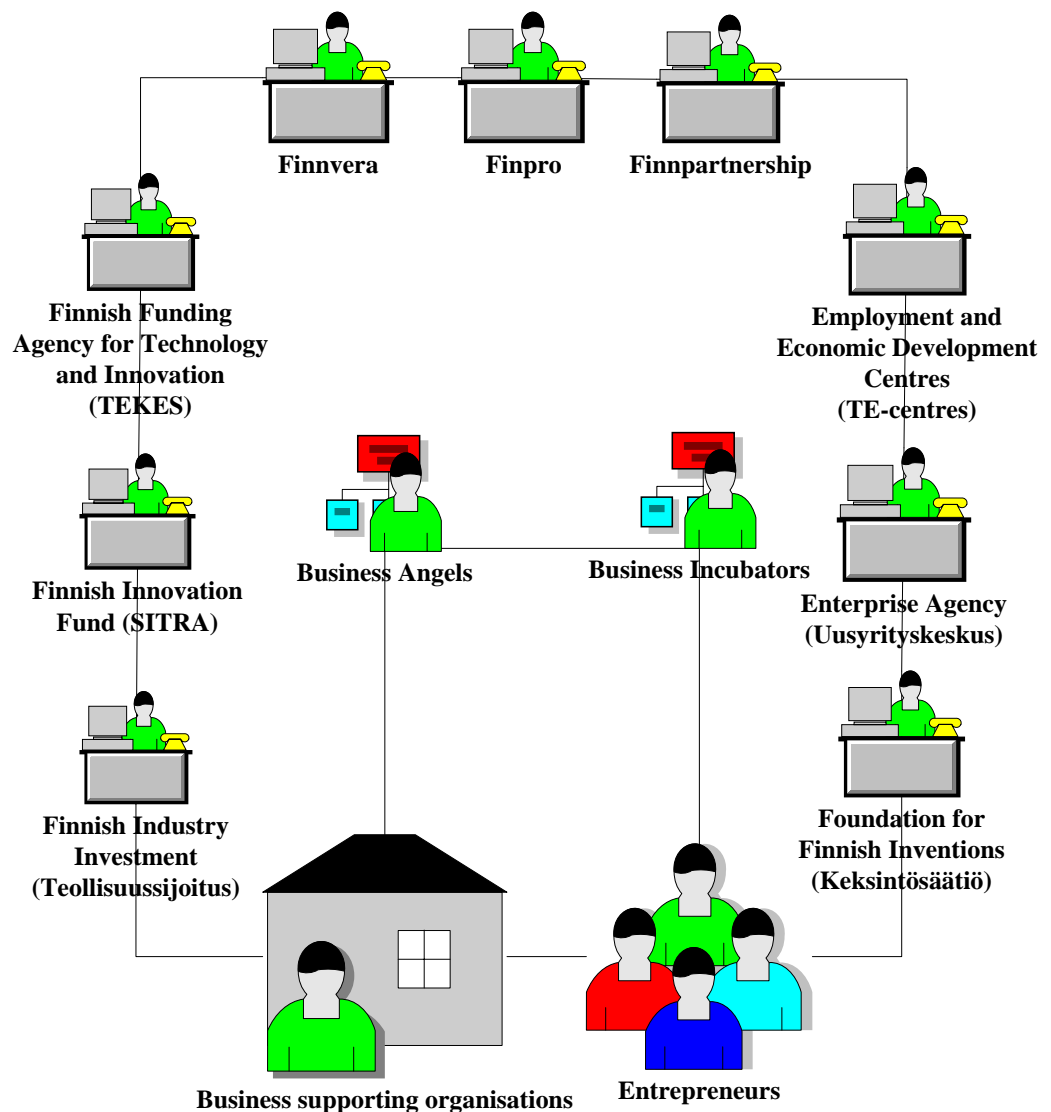


FIGURE 5. Business supporting cycle in Finland.

### 2.3.1 Public agencies

#### **Finnish Industry Investment (Teollisuussijoitus)**

Being a government-owned investment company, Finnish Industry Investment (FII) specialises in financing of funds investments and direct investments in all industries, especially biofield and medical technology. Co-investing with business angels and venture capitalists, FII aims to boost investment activity in seed, start-up and early stage companies. Since 2004, when a successful seed financing programme was launched, FII has made investments in nearly 100 early stage growth businesses (FII 2007). Various companies have developed favourably and effectively entered foreign markets (FII 2007). FII also invests in private equity funds focusing on late growth stage companies such as sector and corporate restructurings, spin-offs, major industrial investments, and venture capital funds (FII 2007).

#### **Finnish Innovation Fund (SITRA)**

Another public financing agency is SITRA, the Finnish Innovation Fund whose activities contains corporate funding and investments in venture capital funds. Lately, SITRA has reduced its role as an early phase venture capital investor, but still maintained a key part in matching business angels and entrepreneurs. It has a network of 450 business angels since 2001 (Kalske 2006). Its PreSeed investment readiness scheme provides entrepreneurs with two services: Intro and Diili.

Intro is a service of matching entrepreneurs in need of funding with business angels seeking investment opportunities. It is a marketplace for early stage investments. Entrepreneurs are required to submit business plans and financial information to SITRA for evaluating the quality of the investment opportunities. If prospects appear optimistic, an entrepreneur presents his investment proposal to investors at one of the five annual Intro forums. (Kalske 2006.)

The second service, Diili, aims at matching companies with marketing professionals. Companies lacking sales and marketing abilities can recruit management workforce from the list of sales executives registered in SITRA's network. These business professionals must be rewarded with an equity stake in a venture. Overall, the objective here is to speed up the investment process. (Kalske 2006.)

**Finnish Funding Agency for Technology and Innovation (TEKES)**

TEKES is a major publicly funded expert organisation for financing research, development and innovation in Finland. Funding is intended for innovative projects that create the greatest benefits for the economy and society in the long-term. In 2008, it had 500 million of funds available for research and development, of which 60% was channelled to innovative companies and 40% to research schemes at universities (Tekes 2008). TEKES gains no financial profit from its activities, nor demand any intellectual proprietary rights. It is highly technology focused but however, places a low emphasis on understanding the challenges of commercialisation. Funding is applied electronically.

**Finnvera**

Finnvera is a specialised financing company, owned by the State of Finland. It supplies entrepreneurs with loans, guarantees, venture capital investments and export credit guarantees in almost every sector except for farming and forestry. In 2009, Finnvera granted financing to 3,457 newly established enterprises (Finnvera 2009). Several products of Finnvera are tailor-made for the needs of entrepreneurs. These are namely the investment and working capital loan, the internationalisation loan, the development loan, loans for women entrepreneurs, the microloan, the environmental and entrepreneur loan as well as micro-enterprise guarantee (Finnvera 2010a).

Finnvera's subsidiary Aloitusrahassto Vera Oy (Avera) concentrates on seed funding for innovative start-up companies. The amount of funding varies from EUR 250,000 to EUR 300,000, but not more than EUR 500,000 (Finnvera 2010b).

**Finpro**

Founded by Finnish companies, Finpro is a global expert network supporting the internationalisation of Finnish companies. The purpose of this association is to promote the growth and competitiveness of especially small and middle growth Finnish companies through internationalisation. The support Finpro offers helps companies to reduce the risks involved in penetrating foreign markets as well as accelerating the internationalisation process (Finpro 2010).

**Finnpartnership**

Finnish companies interested in cooperation opportunities in developing countries are advised to rely on Finnpartnership. Without any charge, it provides advisory services for business activities of Finnish companies in developing countries and financial support in the planning, development and implementation stages of a project. The organisation's operations are limited to the developing countries listed by OECD's Development Assistance Committee (DAC). Vietnam is included on the list. (Finnpartnership 2010.)

**Employment and Economic Development Centres (TE-centres)**

The Employment and Economic Development Centres assist entrepreneurs to prepare internationalisation and export plans. The financial aid TE-centres grant is meant for project implementation. Start-up aids for the first business establishment and entrepreneur training courses are essential benefits offered by TE-centres (TE-centres 2010).

**Enterprise Agency (Uusyrittyskeskus)**

Enterprise Agency is a network of experts supporting start-up entrepreneurs in evaluating business plans, profit calculations, funding opportunities, licences and insurances as well as preparing statements for Finnvera and Employment Centres. Their consultant services are totally free-of-charge. On account of their assistance, over 8,000 new companies were established in 2008, of which 1,000 originate from Lahti (Mäkelä 2010).

**Foundation for Finnish Inventions (Keksintösäätiö)**

When developing invention proposals within Finland and worldwide, private persons and start-ups can apply for assistance and funding from the Foundation for Finnish Inventions. This organisation provides subsidies and loans for the commercialisation of innovation besides patenting, testing of the technical performance and product development. (FFI 2010.)

### 2.3.2 Private agencies

#### **Business Angels (Suomen Bisnesenkeli ry & Business Angels Finland Oy)**

Business Angels are affluent capital investors, which mainly invest in growing companies in exchange for convertible debt or ownership equity. Typically, the investments vary between EUR 10,000 and EUR 150,000 and last from two to four years. Apart from capital investments, Business Angels also share their know-how with their target companies as cooperative partners, corporate sponsorships or board of directors. They help entrepreneurs create contacts and networks for further collaboration. The association of Business Angels consists of:

- private capital investors
- individuals interested in private capital investments
- the region's large companies
- business support organisations
- growth companies seeking further funding

#### **Business incubators**

Business incubators have a task of cultivating young companies from a pre-incubation stage to a start-up and then to an actual development phase, when they are mature enough to solely operate their business. To a large extent, the business idea must be evaluated as innovative proposal with growth potential before the contract is being signed by the Business Incubator. The incubation period normally lasts three years, unless companies are completely prepared for solo management. (Nurminen 2010.)

Similar to services provided by Enterprise Agency, the Business Incubators allocate its expertise, experience, network, office premises and services including computer and software, fax machines and telephones. Not all these services are free, but still their charges are much lower than the market prices. (Nurminen.) Clients of this agency certainly receive funds from TEKES and TE-centres for their innovative business ideas. An example of a private business incubator is Technopolis Ventures. Other regional incubators such as Tuli, Dyna and Lahti Business Incubators are well-known too but they are public organisations.



### 3 MAIN STAGES IN ESTABLISHING A BUSINESS

This chapter explains principal stages in establishing a business in Finland. A good business idea is the basis for a preliminary business plan for evaluating the profitability and possibility of business success. Other matters to be considered include the financial plan, the company form, declarations to the authorities and insurances. These will be discussed in accordance with the figure below.

#### STAGES IN ESTABLISHING A BUSINESS

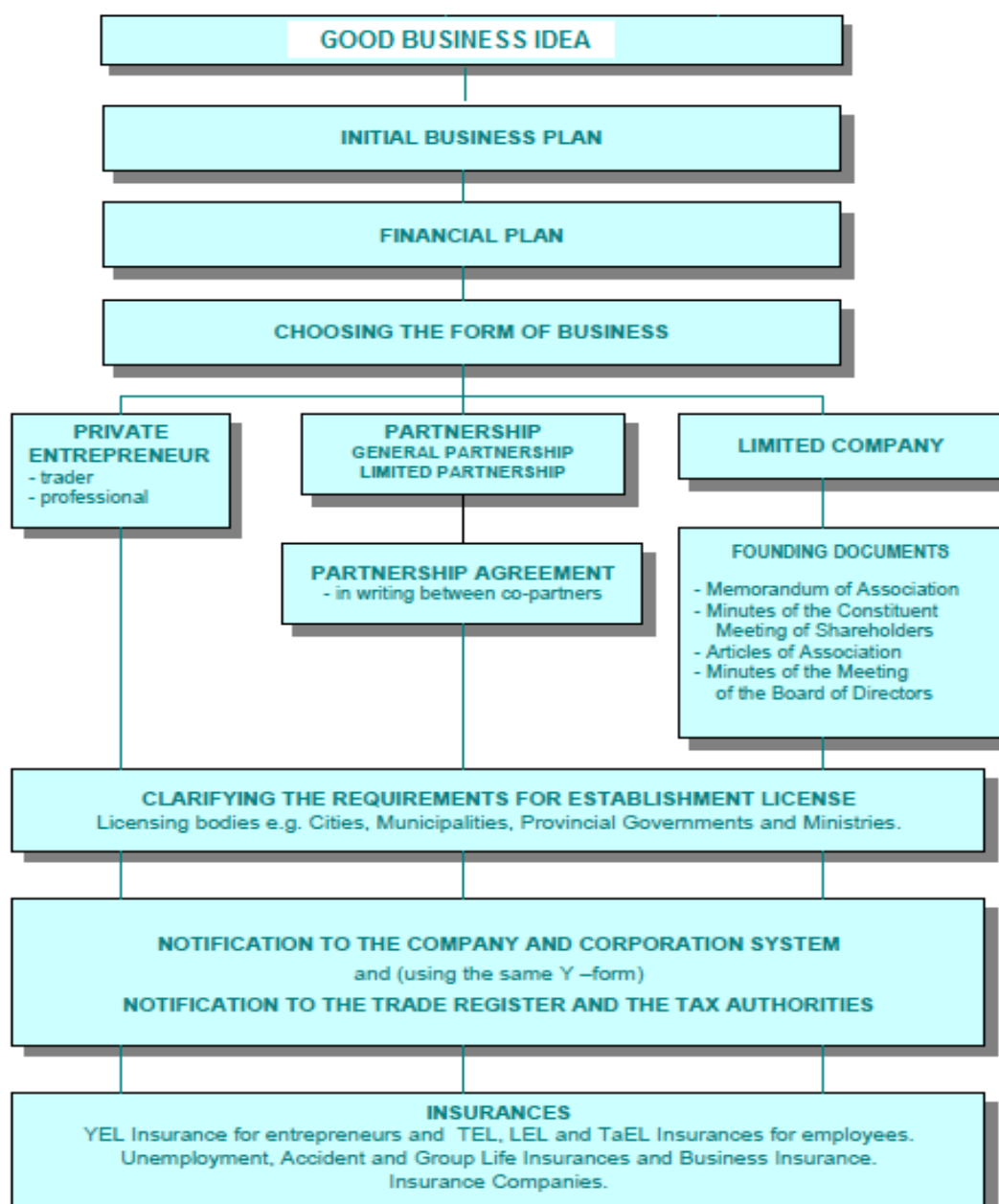


FIGURE 6. Stages in establishing a business in Finland (modified from Uusyrittyskeskus 2004).

### 3.1 Business idea

This part examines the starting point for the business establishment: the business idea itself. At this point, reasons for the prosperity of the business idea are meant to be clarified. McKinsey (2000, 37) suggests that setting apart from competition succeeds only if the business idea

- fulfils a customer need, and hence offers a solution to a particular problem.
- is innovative.
- is unique.
- contains a clear target.
- is profitable in long run.

With the help of the figure below, a convincing business idea can be formulated.

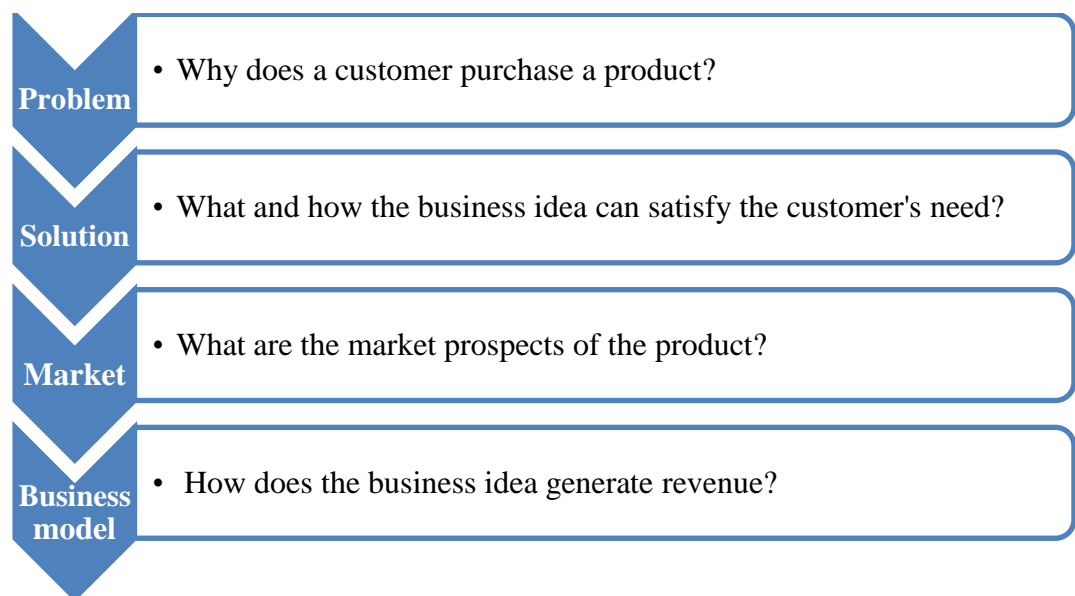


FIGURE 7. Building a business idea (modified from McKinsey 2000, 34).

Customers make a purchasing decision based on the perceived benefits of the product or service offered by all suppliers. They buy the product to satisfy their need or solve a problem. Therefore, a good business idea should clearly indicate which need it satisfies and in what form (product, service or business model).

(McKinsey 2000, 32-33.)

The benefit of the product offered to a customer is shaped by its features compared to other alternatives in the market. Because the success of business idea highly relies on the customer benefit, it should be expressed in terms of numbers if possible. For example, a sales argument “Our new software saves a customer 25% of time and 20% of cost” speaks directly to the customer and states the benefit (McKinsey 2000, 33). The customer chooses the product that generates the greatest benefit for him/her.

The business idea has a real financial value only when customers purchase the product or service. Thus, it is necessary to evaluate the market demand and to specify the target groups. These topics will be discussed in the next sections.

### 3.2 Initial business plan

Business planning is creating a guide for a business to look ahead, to distribute resources and capabilities, to concentrate on key issues, and to prepare for opportunities and threats (Finnvera 2001, 4-5). Within the scope of a start-up business, a simple initial business plan is the first step to be completed prior to establishing a business. It takes account of vision, keys to success, market analysis and break-even analysis to name but a few. Such plan is useful for deciding whether or not to proceed with a plan. There is a great variety of business plan models available but a plan can be modified in line with the company’s purpose.

With the intention of testing and analysing the potential profitability and success of the planned business idea, the initial business plan should focus on core areas that have an impact on the company’s success: market demand, target customers, competition, marketing plan and strategy, vision, risk assessment, and SWOT analysis. Each topic will be further discussed correspondingly.

### 3.2.1 Operational environment analysis

As the previous section discusses about testing a business idea in the early stage of entrepreneurship, the subsequent section deals with environment outside the business. Usual incentives for launching a new business are normally founded from the environment outside the business: demand, customers, and competition in the market. These three market-based reasons are respectively discussed as follows.

#### **Demand:**

Growing market demand is a usual driving force for starting a business because such budding market allows new entrepreneurs to enter more easily as there are enough customers “to be shared”. There must be demand for a given product or service in the market for a business to carry on. For that reason, evaluating a realistic position of market demand is a good way for businesses to decide what, how and for whom to sell the products or services. Failure to project market demand correctly can cause inventory shortage or excess stock that generates no profit.

Yet, consumer tastes, trends and purchasing habits are challenging and time-consuming to change. Besides, there always exists competition in sector by sector. Also, demand in the market is greatly shaped by pricing. This in turn, has a great influence on the business profitability and customers’ attention. (Finnvera 2001, 20-21.) How much is a customer willing to pay for the product? What do they expect from the product quality at a given price? That is a challenge for entrepreneurship to create demand by fulfilling customer needs and to generate profit by keeping customers satisfied.

It is important to understand why customers want to purchase the product or service, and thereby emphasize features and benefits of the product or service for the market and the final consumers. Benefits are the real motivation that persuades consumers to buy (Carter 2009). Though, this can only be done by first defining a target customer group, which is a basis for the market.

## Target group and customer segmentation

Knowing and focusing on the target group for the product or service enables the entrepreneur to speak straightforwardly to the core desires of customers. Still, there are different individuals in that target group that have dissimilar purchasing habits and tastes. Someone is satisfied with a watch worth twenty Euros in a supermarket while another purchases only a brand new watch from a luxury boutique. This disparity has to be discovered and paid attention to when advertising and marketing products or services. One method of determining such difference is customer segmentation (Calhoun, Davey & Wohlfarth 2010).

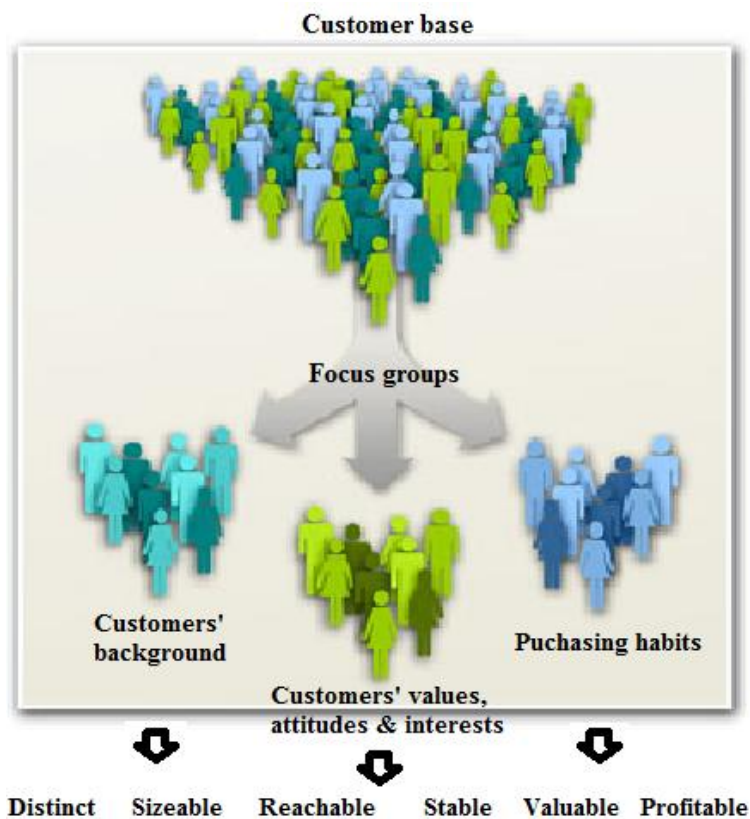


FIGURE 8. Customer segmentation (modified from Mind of Marketing 2010).

Customer segmentation is a practice of identifying groups of individuals, who have parallel desires and expectations from the whole target customer base. The division is based on customers' background: age, gender, income, education, and residence. Another segmentation ground may be customers' values, attitudes and interests. Likewise, purchasing habits may play as a basis; the customer can be a

constant or occasional consumer, a major or a minor shopper. Since fulfilling all customer groups' needs is impossible, only relevant focus groups are chosen to be served with appropriate marketing. This will guarantee that the company's resources are spent where they can produce the peak sales number (Carter 2009.)

As the market provides an abundance of substitutes, it is essential to be efficient in presenting the best version of the product or service in front of the customers presumably to need it and purchase it. These specific groups, however, firstly must be distinct and large enough for marketing and selling to. Secondly, they have to be reachable and stable but this might be difficult because customers change over time, and so segmentation should be re-performed. Lastly, once these groups have been reached, they need to act on the product they receive by buying. Though, not all groups buy, therefore there is no need to reach them at all. (Peruzzi 2010.)

#### **Customer purchase transaction:**

When selling products to consumers, it is also valuable to recognise people and factors affecting a purchasing decision. For instance, some customers are more interested in price while others are more concerned with quality and brand name. Thus, by understanding a purchase transaction and identifying influential factors of members of the target market, selecting sales channels to reach target customers would be more effortless too. All this is precious knowledge for marketing timing. (Finnvera 2001, 60-61.)

#### **Competition:**

In addition to market demand and customers, competitors and competitive situation have a remarkable role in business success. All potential competitors in the market should be taken into consideration and benchmarked in terms of product range, price, quality, brand, customer satisfaction, etc. Based on this information, a competitive advantage can be built to set apart from competitors and to provide a unique position in the market superior to them. A competitive advantage, clearly, not only creates value for customers, but also has to be complex for competitors to duplicate (Zimmerer 2005, 69).

The key to overcome competitors is not simply building a competitive advantage alone but it has to be sustainable in the long run. The superiority over competitors should be openly indicated to the target customers. For instance, the product can be overpowering in comparison with other similar products. Another competitive edge can be a lower price but this requires improved cost effectiveness. A broader and more effective reseller network is one more strong point. Building and maintaining sound relationships with customers is an alternative approach to manage in competition because customers are as important to the business as the price and quality. Creating a network of loyal customers can be done through incentives and rewards. Also, the brand image has a notable influence on customers' purchasing decision; they buy products based on the image associated such as power, sophistication, wealth or connection with other users of the brand. (Hoffren 2002, 13.)

A different line of reasoning for beginning a business is a competitive force in the market. Bargaining power of the supplier and the purchaser, threat of new competitors as well as substitutes, and rivalry among existing companies are factors affecting the competitive standing in an industry (Harvard Business Review 2008). Therefore, the lower barriers to the market entry, the softer the competition is. Still, competition is a positive thing – it demonstrates there is a market for a business idea. The key is doing better, faster and differently than other competitors (Harvard Business Review, 2008).

### 3.2.2 Marketing strategy

Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individuals' and companies' goals (Harvard Business Press 2010, 4-5). In order to smoothly carry out this process, it is of essence to create a marketing strategy that answers the question: why should your customers buy your product or service and not your competitors? The strategy will shortly form the heart of the marketing plan for a particular product. (Harvard Business Press 2010, 38). In developing a marketing strategy for a product, the main goal is to discover or create the product's competitive advantage and to ensure that the offering does

meet the customer's expectations, needs and desires. To accomplish these two goals, it is vital to have knowledge of the target market's size and its demographic characteristics as well as the primary benefit of the proposed product in the target customers' minds. On top, other relevant topics worth considering are: (Harvard Business Press 2010, 39.)

- Sales target, market share and profits for the first years of operating
- Pricing, distribution strategy and marketing budget for the first year

There exist various approaches to defining a marketing strategy. For instance, differentiating is a tool of distinguishing the company's offering from competitors' products or services in ways that are beneficial for consumers. Another approach, positioning and branding mean determining the central benefit of the product and communicating it to the target purchasers. Still, this study only focuses on the marketing mix approach because it is the most widely used in marketing plan. Differentiation and positioning will be no further discussed.

### Marketing mix, "the four Ps"



FIGURE 9. The Marketing Mix (modified from Armstrong et al 2010, 81).



The marketing mix, otherwise known as “the four Ps” looks into product, price, place and promotion, as portrayed in Figure 9. Business managers use this model to create a good combination of product features at the right price, through right distribution channels with an appealing promotion (Zimmerer et al 2010, 204).

“Product” in the figure above indicates the product or service that satisfies the need of a customer. Products travel through numerous stages of development. In the beginning, they are introduced to the market (introduction); they are accepted by customers (growth); they are wanted by more and more people until the peak (maturity and competition); and then after a long period they begin to face downturn in the market (decline). “Price”, which is a key factor in the decision to purchase, affects both sales volume and profits. On the other hand, instead of trying to beat larger competitors in a price war, many small businesses focus on nonprice competition by giving free trial offers, free delivery and money-back guarantees. “Place” means channel, distribution or intermediary through which products or services are transferred from the manufacturer to the end user. “Promotion” involves activities that communicate the values of the product and convince target customers to purchase. (Zimmerer et al 2005, 204-207.)

### 3.2.3 Vision

A start-up company has to pinpoint its goals and vision for the proposed business. Vision is a structured overview of the company at a given time period in the future. While vision does not advise how to get there, it does set the direction for business planning. A vision description should not be only verbally done but at least partly in a numerical form as well. Vision, therefore, plays a role of the inspiration and the framework for the company’s strategic planning. Every firm must have a clear vision; otherwise the business would operate for nothing. To conclude, a very well created vision must: (Hoffren 2002, 19).

- be realistic and credible
- require a commitment from the personnel
- be the “end product” of planning

### 3.2.4 Risk assessment

The nature of risk is regarded in relation to the achievement of the corporate strategy, value and mission. As Hopkin (2002) states, risk can be defined as “a circumstance, action, situation or event (CASE) with the ability to impact the key dependencies that support the key processes of an organisation.” Risks originate from uncertainty in financial markets, legal liabilities, project failures, credit risks, accidents, natural causes or disasters. Effective risk management therefore enables businesses to reach their objectives by recognising the obstacles to achievement.

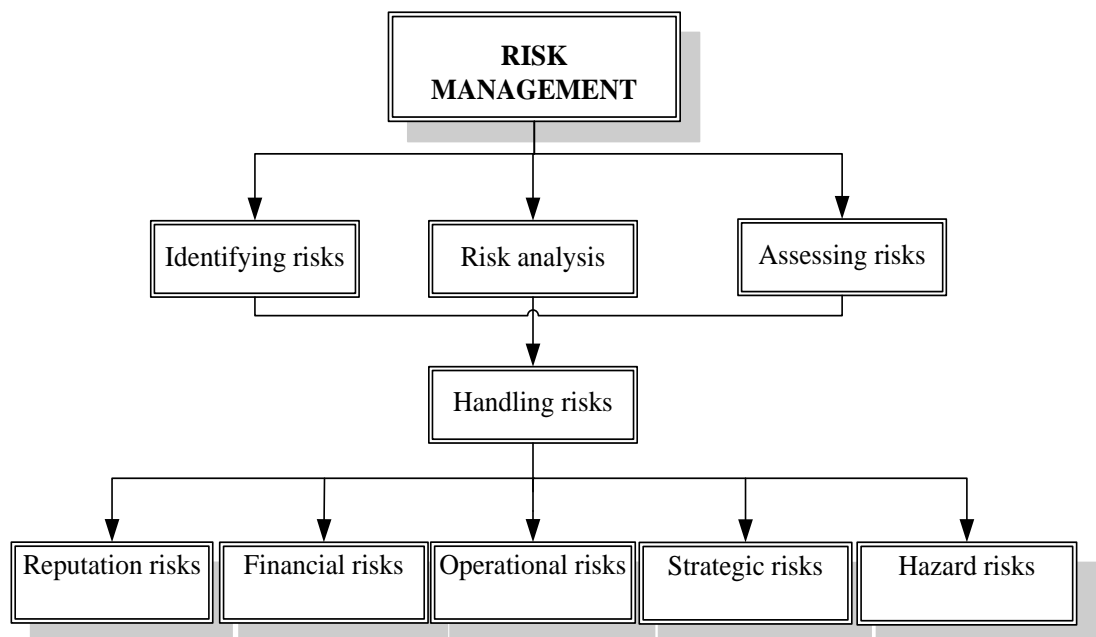


FIGURE 10. Risk analysis (modified from Mustonen 2008).

Risk management focuses on predictive way of recognising, analysing and managing the threats associated with its operations. A company has to find solutions for its five major risks which are threatening its short-term and long-term operations: reputation, financial, operation, business strategy, and hazard risks (Hopkin 2002). However, the volume and complexities of risks influencing an enterprise are constantly increasing; changes in information technologies, the outbreak of globalisation and the increased competition bring the company’s executives difficulties to supervise the continually growing complex portfolio of risks.

### 3.2.5 SWOT analysis

Lastly, it is of essence to outline a summary of the business project by scanning the internal and external environment. There exist multiple opportunities in the marketplace of which the company can exploit its resources and capabilities. Through SWOT analysis, it is simple to assess environment prospects relative to the strengths and weaknesses of the company's resources. The goal is not merely to match the company's strengths to opportunities, but to reduce weaknesses linked to threats too (Armstrong & Kotler 2010, 82-84.)

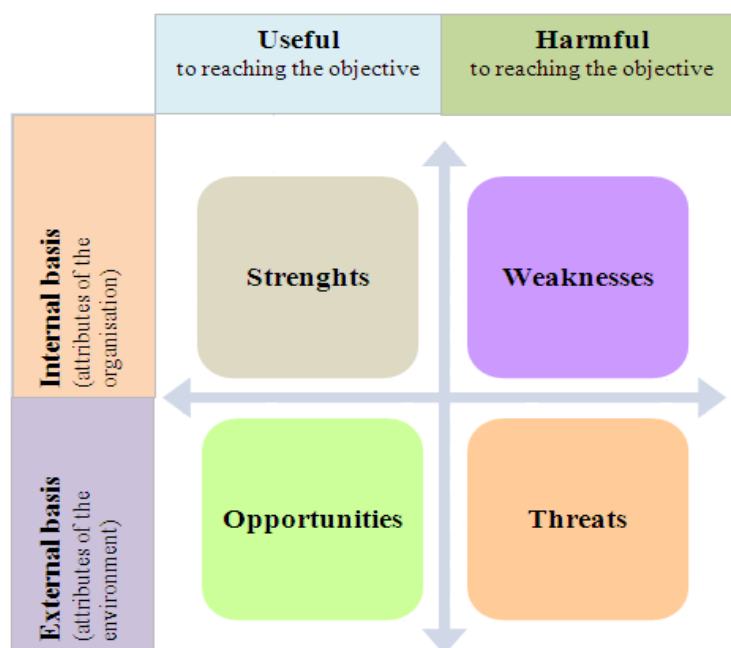


FIGURE 11. SWOT analysis (modified from Business Teacher 2010).

Strengths in Figure 11 refer to internal strong points that facilitate the company to serve its customers, to compete with its challengers and to achieve its objectives. They are distinctive capabilities which offer the company a comparative advantage in the market. On the other hand, weaknesses signify internal limitations in resources and capabilities in relation to competitors that may interfere with the company's performance. Another issue determining how the company can grow within the marketplace is opportunities. These are external factors outside the company that can be exploited to its advantages. In contrast, there are also threats in the external environment that should be taken into account as they may cause challenges to the company's performance. (Armstrong et al. 2010, 82-83.)

### 3.3 Financial considerations

A good business idea may or may not be a good investment opportunity which is presented by a product or service that has a competitive advantage and satisfies a definite customer need. Whether such an investment opportunity actually exists, relies on the level of profitability that can be achieved and the size of investment necessitated to capture the opportunity. Accordingly, this section deals with basic financial tools clarifying whether or not the business idea is viable. As venture capitalist Eugene Kleiner states, “An idea may sound great in your own mind, but when you put down the details and numbers, it may fall apart.” (Kubr, Marchesi, Ilar & Kienhuis 1998, 28).

#### 3.3.1 Financial structure

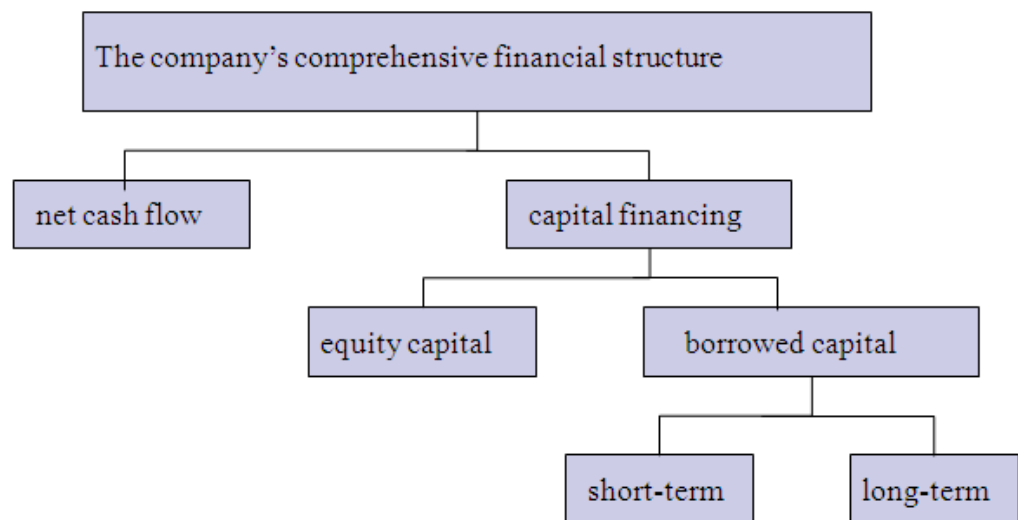


FIGURE 12. Financial structure (Mustonen 2008).

#### **Net cash flow:**

Net cash flow means the sum of incoming and outgoing cash flows over a given time period of a business. It indicates how much cash is generated from a company's products or services. In a financial statement, the cash flow statement is used for analysing the company's liquidity.

### Equity capital:

As shown by Figure 12 above, equity and borrowed capital form the basic formula of the financial need for launching business. Equity capital is typically collected from the owner's own earnings, family and friends. This capital is intended for the investment-related costs that must be paid before starting a business: land, buildings, premises, facilities, and devices. These investments should be overestimated because they often exceed the budget. Thus, to minimise expenditures, second-hand facilities and devices are worth considering. (Hoffren 2002, 22.)

Similarly, working capital should be overestimated for the reason that real expenses tend to go beyond planned costs. Working capital represents the amount of day-by-day operating liquidity available for business. That is to say, it measures a company's efficiency and its short-term financial health. Working capital is calculated by deducting current liabilities (accounts payable) from current assets (accounts receivable, cash and inventory): (Nordea 2010.)

$$\text{Current assets} - \text{Current liabilities} = \text{Working capital}$$

Positive working capital implies that the company is capable of paying off its maturing short-term debt and upcoming operational outlays. Negative working capital, contrariwise, signifies that the company currently is incapable of meeting its short-term liabilities with its current assets. (Nordea 2010.) Working capital flow within the company is described as follows.

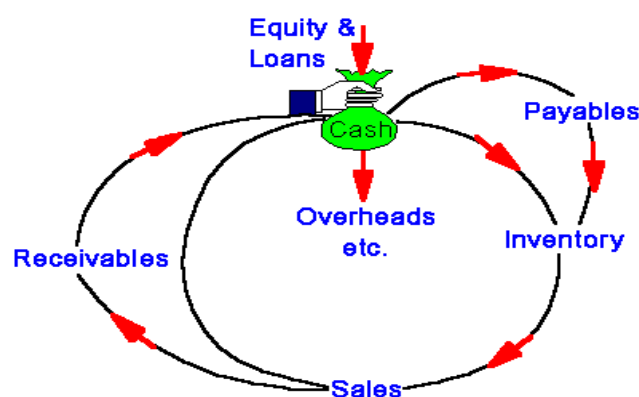


FIGURE 13. Working capital cycle (PlanWare 2009).

Working capital ratios are worth observing and analysing. It reveals how much capital is tied up in business operations relative to the extent of turnover. For textile and garment retail, it is 26%. The next table shows some indicative working capital ratios in different industries in Finland (Hoffren 2002, according to average means of a certain banking group's clientele, 23).

<b>Toimiala = Industry</b>	<b>Käyttöpääoma-%/Liikevaihto = Working capital-%/Turnover</b>	
Hotelli- ja majoitustoiminta	= Hotel and accommodation	0 %
Elintarvikkeiden vähittäiskauppa	= Grocery retail	0 %
Huoltamotoiminta	= Maintain service	4 %
Leipomotuotteiden valmistus	= Bakery product production	5 %
Teurastus ja lihanjalostus	= Slaughter and meat processing	7 %
Putkiasennustyöt	= Pipe installation service	8 %
Sähköasennustyöt	= Electrical installation service	10 %
Talonrakennustyöt	= Construction service	11 %
Yleisvähittäiskauppa	= General retail	11 %
Autojen vähittäiskauppa	= Automobile retail	11 %
Metallituotteiden valmistus	= Metal product production	14 %
Rauta-, kone- ja maataloustarvikkeiden vähittäiskauppa	= Iron, machine and agricultural retail	14 %
Sähkötekniisten tuotteiden valmistus	= Electrical engineering production	17 %
Koneiden valmistus	= Machine production	18 %
Kalusteiden valmistus	= Equipment production	20 %
Muovituotteiden valmistus	= Plastic product production	21 %
Veneiden valmistus ja korjaus	= Craft production and repair	25 %
<b>Tekstiilien ja vaatteiden vähittäiskauppa</b>	<b>= Textile and garment retail</b>	<b>26 %</b>
Sahaus ja höyläys	= Sawing service	30 %
Vaatteiden valmistus	= Textile and garment production	34 %

FIGURE 14. Working capital ratios in different industries in Finland (modified from Hoffren 2002, 23).

### **Borrowed capital:**

Because the internal funding of the first year usually cannot cover all business operations, more liabilities has to be obtained from other public funding organisations. In the following Table 2, main public financial support agencies available in Finland are presented.

TABLE 2. Public funding organisations in Finland 2010.

<b>Funding organisation</b>	<b>Loan/Subsidy</b>	<b>Purpose</b>	<b>Amount</b>	<b>Time period</b>
<b>Employment and Economic Development Centre</b>	start-up subsidy	supporting a founder's income	€550 – 716 /month	18 mths
<b>ELY-centre</b>	business development subsidy	supporting investments, development activities and salary expenditures	max. 50% of all costs	24 mths
	operational environment development subsidy	supporting projects improving operational environment	max. 80% of all cost	-
	wage subsidy	supporting the 1 <sup>st</sup> employee's wage costs of a sole entrepreneur's	30% of a recruited employee's wage	first 12 mths
			15% of a recruited employee's wage	followed 12 mths
<b>Finnvera</b>	entrepreneur loan	personal loan for launching a business	max. €100,000 + 20% self-financing	-
	small loan	loan for especially a small company	max. €35,000	-
	female entrepreneur loan	loan for a female leading company	max €35,000	-
	development loan	loan for R&D, production and marketing projects of large companies	max. 75% of all costs or €400,000	-
	Finnvera assurance	assurance for a companies' all financing needs	max 80% credit	-
	small assurance	assurance to help a company for a loan request from banks	max. 60% credit or €85,000	-
<b>TEKES</b>	loan	loan for R&D and innovation projects	-	-
<b>SITRA</b>	loan	loan for business development through software	-	-

Source: Finnvera, Pohjois-Karjalan Uusyrityskeskus, Tekes, Sitra, Suomen Yrittäjät

### 3.3.2 Business profitability

The aim of business is fulfilling society's desires, needs and wants by selling goods or services that yield profit for the seller to continue and expand his/her business. Profit is regarded as the reward for providing great value to customers. The profit flow within a company is described in Figure 15. The viability of business is estimated by calculating the contribution margin, the gross margin target and then combining both into the profit and loss statement.

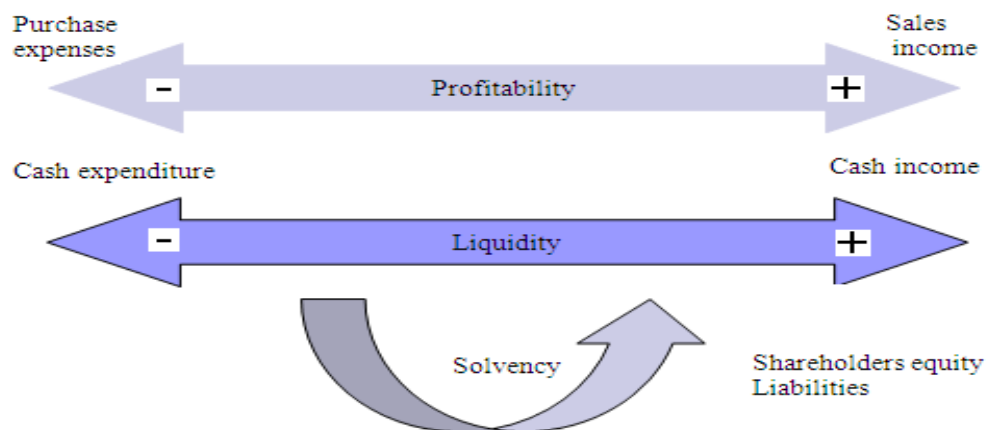


FIGURE 15. Business profitability flow (Mustonen 2008).

#### I-phase: Contribution margin need

Contribution margin signifies the marginal profit per unit sale, calculated simply as the product's price minus its total variable costs. It shows how much money is needed to cover the fixed costs and profit of the business.

$$\text{Sales revenue} - \text{Variable costs} = \text{Contribution margin}$$

#### II-phase: Gross margin target

The minimum gross margin value reveals how much sales are needed in order to make no loss. This is stage is called a "break-even point" at which every sold product creates money for the company in the amount of contribution to cover fixed costs (Zimmerer 2005, 350). In general, no profit is expected to be earned



during the first year of business. Therefore, it is expressed at “+/-0” in the upcoming figure. Safety margin shows how much sales can fall before reaching the break-even point.

Profit target 0  
 + depreciation  
 + interest  
 + fixed costs  
 -----  
**Gross Margin Target**

$\text{Fixed costs} / \text{Contribution margin} = \text{Break-even point}$

$\text{Sales revenue} - \text{Break-even point} = \text{Safety margin}$

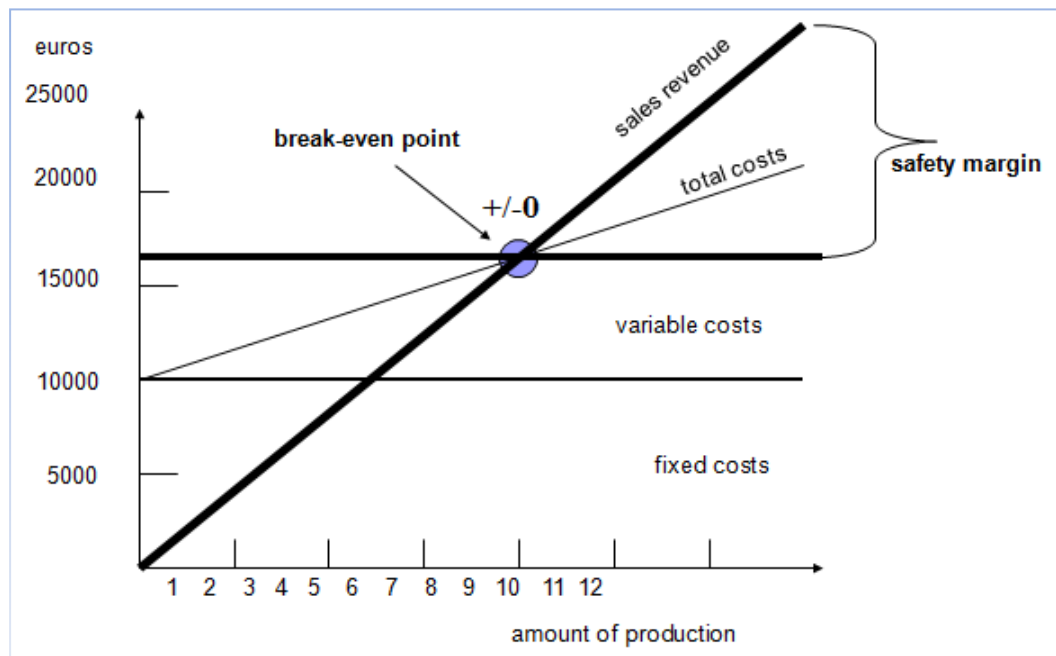


FIGURE 16. Break-even and safety margin analysis (modified from Mustonen 2008).

### III-phase: Profit and loss statement

Having estimated the contribution margin and the gross margin target, the profit and loss statement will then be compiled by integrating these two parts. Such statement reveals total sales revenues, expenses, and the net profit or loss over the fiscal year of the business. To calculate net profit or loss, all expenses are deducted from the overall gross turnover (Zimmerer 2005, 325-326). This statement will be later used in Chapter 4 to estimate the profitability of the business.

### 3.4 Choosing the business form

An entrepreneur starts up a business as a private entrepreneur, a general partnership, limited partnership, or a private limited company. The choice of company depends on several matters: the extent of the business activity, the size of personnel and capital required, the risk exposure, the profit distribution, etc. Charges linked to registering a new business form vary from EUR 75 to EUR 350 (Uusyrityskeskus 2010, 15).

- private entrepreneur EUR 75
- general & limited partnership EUR 180
- limited company EUR 350

#### **Private entrepreneur; professional worker, trader**

In a one-man business, where one person makes all decisions and is solely liable for the business, is referred to a private entrepreneur. This type of business form requires no huge capital and the start-up process is quick and simple. As soon as the trade register notice has been delivered, the business operations can begin. Concerning the profit earned, it will be taxed as capital income to one part, and the remaining as earned income. Up to a maximum of EUR 8,500 can be earned tax-free but anything beyond such amount requires paying VAT at 23%, retroactively for the whole year. (Uusyrityskeskus 2010, 15.)

#### **Partnership; general partnership and limited partnership**

Unlike the private entrepreneurship, a general partnership entails more than one entrepreneur to carry on the same kind of business. A limited partnership is formed by both general and silent partners, at least one of each. A silent partner brings capital to the company in return for an interest but does not normally work within the company. The general partners are representatives and hence are responsible for all liabilities of the company. The gained profit, which is partly taxed as capital income and partly as earned income, is shared between co-partners. New active and silent business partners into the company are accepted as long as such changes are approved by all co-partners. Eventually, the partnership can be converted into a limited company. (Uusyrityskeskus 2010, 16.)

**Private limited company**

A limited company is a form of business with at least two founders. The minimum share capital is EUR 2,500 but other valuable property besides money can be used at the subscription of shares in the company (Uusyrityskeskus 2010, 16). The share capital is divided in shares which the shareholders subscribe, pay and possess (Uusyrityskeskus 2010, 16). These shares allow the owner voting right at the meeting of shareholders. In spite of this, an ownership of 51% makes final decisions on the activities of the company. The Managing Director of the board is responsible for the practical administration. The operation of a private limited company is risky because at the same time it has to protect the shareholder's private property and be responsible for the company's liabilities. The profit is distributed among the shareholders as salary or dividend in proportion to one's rate of share holding. (Uusyrityskeskus 2010, 16.)

### 3.5 Notification to other compulsory legal documents

Last phase of setting up a business in Finland is delivering necessary licences, declarations to several administrative authorities and fees payable. These documents will be shortly discussed as follows.

**License**

A permit for certain types of trade is required prior to starting a business in Finland. In such cases, the trader is obliged to apply for a permit and to report a granted trade license to the Trade Register notification. Permits for business activities are granted by the local authorities, the region governments and the ministries. For instance, serving and selling of alcoholic beverages, trade with fuel and explosives are granted by the region government. (Uusyrityskeskus 2010,18.)

**Trade register**

Once trade license has been permitted (if there is one), the start-up notification shall be sent to the National Board of Patents, Tax Administration, TE-centre, or local register office. The company receives a Business ID, which will be visible on the letter and invoice documents (Uusyrityskeskus 2010, 19.)

## **Taxation**

Legally responsible for tax is everybody, who participates in a business selling goods and services or hiring something. There are three types of tax rates in Finland: income tax rate up to 51%, corporate income tax at a proportional rate of 26%, and VAT rate up to 23%.

The national income tax rates in 2010 for the earned income are progressive up to 30%. An additional municipal income tax varying between 16.5% and 21% is also added, totalling 51%. The corporate income tax rate equals 26% of the taxable income. Dividends up to EUR 90,000 per private individual shareholder per year are exempt from tax. If the trade is liable to value-added tax (VAT), a notification to the Tax Administration ought to be delivered before starting up the business activity. The general VAT rate is 23%. A lower rate is applied to foodstuff (13%), and to medicines, books, cultural events, passenger transportation, hotel accommodation and other services (9%). Exports outside the European Union are zero rated. (Uusyrityskeskus 2010, 20-21.)

## **Statutory insurances**

There exist voluntary and mandatory pension and unemployment cover for entrepreneurs. Insurance for accidents, unemployment and group life are voluntary. Necessary insurances include YEL and TyEL, pension insurances for employers and their employees. YEL premium is purchased by the employer himself while TyEL premium is deducted from the employee's gross salary and paid to the regional tax office monthly. The YEL insurance contribution for the year 2010 is 21.2%, whereas 21.8% is applied to TyEL. However, a first-time entrepreneur is allowed a discount of 25% on the contribution during the first 48 months. (Uusyrityskeskus 2010, 24-25.)

## 4 VIETNAM AS SOURCING MARKET

In this chapter of thesis, Vietnam's potential as sourcing market for gala dresses to Finland is studied and evaluated. At first, factors strongly influencing companies to outsource their purchase or production activities are identified. After that, the author proceeds to presenting a brief country overview of Vietnam. Main focus is put towards the country's garment and textile export sector, particularly to Finland. The chapter concludes in example pictures of gala dresses that could be imported from Vietnam to Finland for further selling.

### 4.1 Global sourcing in the garment and textile industry

The process of identifying, selecting and developing suppliers across the borders is defined as global sourcing. Within the garment and textile industry, sourcing is a common practice: choosing the suppliers from whom to purchase garments, searching for contractors to assemble the garments with design, or coordinating the production of garments in other countries. Recently, companies in developed countries often create the designs themselves, but the actual garment productions are done in developing countries. Afterwards, the finished garments are re-imported back to purchasers' countries for distributing. That is global sourcing. (Kerkhoff 2006, 32-33.)

Garment and textile companies source their products for a variety of motives. Yet, they also face quite a few drawbacks in overseas sourcing. Some of the common advantages and disadvantages are displayed in the next figure.

TABLE 3. Advantages and disadvantages of global sourcing (modified from Jackson & Shaw 2001, 120-121).

<i>Advantages</i>	<i>Disadvantages</i>
Cost reduction / Profit improvement	Quota
Cheap labour force	Delayed delivery / Inability to repeat fast
Low cost of inputs	Methods of transportation
Better reach in the global market	Returns and refunds
Great variety	Dedicated foreign sourcing offices
Exclusive styling	Increased management and inventory costs

The key driver for global sourcing, mostly in developing countries, is to reduce the cost of production and operations. By sourcing from low-cost-country suppliers, companies in developed countries can save from 10% to 35% of the total production cost (Balan 2009). Such savings allow lower retail prices for end consumers to generate higher sales for companies. If not, companies can raise their profits by maintaining the same price of products. Either way, these savings strengthens the financial position of the company. Likewise, the wages paid to employees in developing countries are considerably lower than the amount paid to employees in developed countries. In garment and textile industry, cheap labour cost is a huge driving factor for sourcing because the production involves labour intensive techniques such as hand embroidery, smocking and piping. Similarly, cost reduction of global sourcing is associated with lower cost of inputs, particularly in fabrics.

When companies identify, evaluate and negotiate with potential worldwide suppliers, they are approaching opportunities to expand globally (A&E Consulting 2010). Having diverse locations gives the outsourcing firm more flexibility to perform well even in the case of a catastrophe. Furthermore, sourcing from different countries exposes companies to more varieties of designs, materials and products which cannot be obtained in their countries (Jackson et al 2001, 114). Lastly, many of quality and brand-conscious customers nowadays are willing to pay higher prices for branded products with exclusive designs. Sourcing from specific countries for specific fabrics and designs would satisfy these niche customers (Cho & Khang 2000, 544).

Every sourcing decision entails companies to balance the tradeoffs of cost, performance quality and risk. When sourcing globally, non-price costs in logistics tend to heighten. Besides, there exist few trade restrictions that must be understood. Firstly, until 2005, many countries (Belarus, North Korea, Uzbekistan) were restricted to textile export quotas to the US and EU (Tombel 2009). Secondly, as a result of long distances, extra costs in transportation, management and inventory are linked to global sourcing (Jackson et al 2001, 122). Communication costs, foreign trips to suppliers, and samples deliver costs tend to rise. Long shipping lead time causes higher possibilities for delayed deliveries and incapability for suppliers to respond quickly. Thirdly, apart from ships, airfreight and railway

are inflexible and expensive (Jackson et al 2001, 123). Another difficulty of global sourcing is high charges of opening and running representative offices in a sourcing country. Last but not least, a problem of returns and refunds is large as it is not financially feasible to return faulty products. (Jackson et al 2001, 124.)

#### 4.2 Vietnam country overview



#### FACTS

- Full name: Socialist Republic of Vietnam
- Population: 89 million (UN, 2010)
- Capital: Hanoi
- Largest city: Ho Chi Minh City
- Area: 329,247 sq km (127,123 sq miles)
- Major language: Vietnamese
- Major religion: Buddhism
- Monetary unit: 1 dong = 100 xu
- Main exports: Petroleum, rice, coffee, clothing, fish
- GNI per capita: US \$1,010 (World Bank, 2009)

FIGURE 17. Vietnam (CIA World Fact Book 2010).

Vietnam is among the fastest-growing economies of Southeast Asia. It has a target of becoming a developed nation by 2020. After the unification of the country in 1976, Vietnam had struggled with its unstable economic condition. However, from the late 1980s, elements of market forces and private ventures were eventually presented, and in 2000 a stock exchange opened (BBC News 2010).

As Vietnam became more open to foreign investment (FI), the country's the demand of social development and economic growth has been increasing over past years. Positive impacts of FI on Vietnam's economy can be perceived in the improved economic and labour structure as well as the industrial production capacity. To September 2010, registered foreign investments projects in Vietnam are worth of EUR 9.22 billion, with the US being the main trading partner (Vietpartners 2010). After 12 years of negotiations, Vietnam finally joined WTO in 2007.

### 4.3 The Vietnamese garment and textile export sector

After crude oil, the garment and textile industry is the second largest exporting sector of Vietnam contributing to the overall economic development of the country (Vietnam Financial Review 2010). It was the only sector that was not dramatically affected by the global economic recession. Contrarily, this industry remained the biggest foreign currency earner, playing a noteworthy part in reducing the trade deficit of Vietnam in 2009 (Vietnam Financial Review 2010). Le Quoc An, chairman of the Vietnam Textile and Garment Association (VITAS) explains this by a considerable rise in trading activities with new markets as firms expanded their customer bases (Vietnam Business News 2010b). An overview of Vietnamese garment and textile exports over the last five years is given in Figure 18.

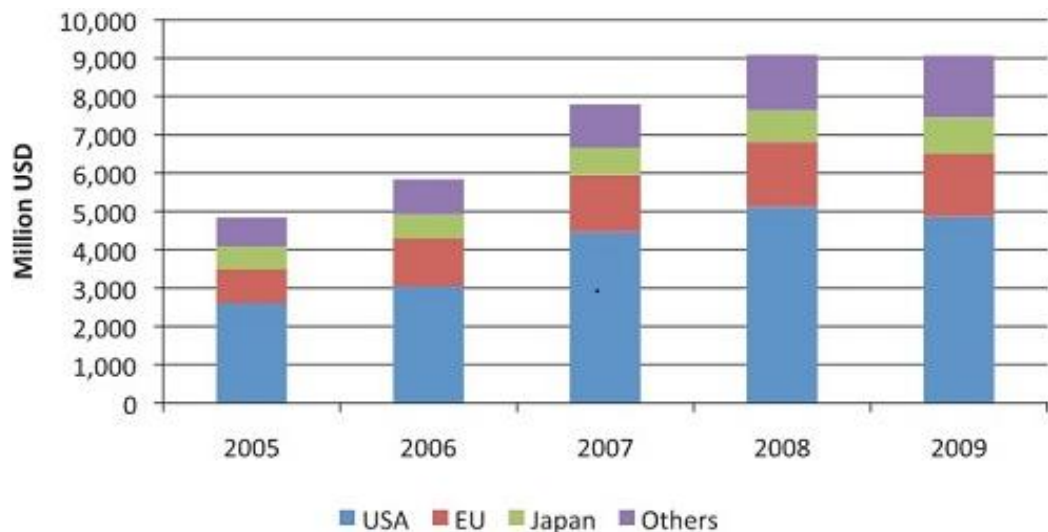


FIGURE 18. Industrial output of Vietnam's textile and garment industry (Vietnam Financial Review 2010).

Currently, Vietnam is one of the top ten garment and textile exporters in the world. Its garment and textile export turnover amounted to EUR 6.8 billion (9.07 billion USD) in 2009, a slight fall of 0.19% from the earlier year. The US was the biggest trading partner of Vietnam's garment and textile industry, representing 53.61% of the industry's overall export turnover. The EU and Japan are the second and third greatest purchasing countries, with 18.14% and 10.52% worth of export revenue respectively. (Vietnam Financial Review 2010.)



For Finnish market, Vietnam still remains as a minor clothing exporter. By September 2010, the import value from Vietnam accounted for only 0.2% shares of all Finnish imports (Finnish Board of Customs 2010). Figure 19 below demonstrates that there has been an increase since 2002. In clothing, garments for men or boys are dominating but accessories of plastics, bags, necklace, belts and bracelets has a large share of Vietnam's exports to Finland as well. Joining WTO in 2007 opened Vietnam to the free quotas system for garment exporting. Along with its rapid economic growth, Vietnam has eventually become a more attractive investment partner of Finland. Bilateral trade is anticipated to expand by 10% in 2010 and be USD 1 billion in the future (Duong & Do 2010).

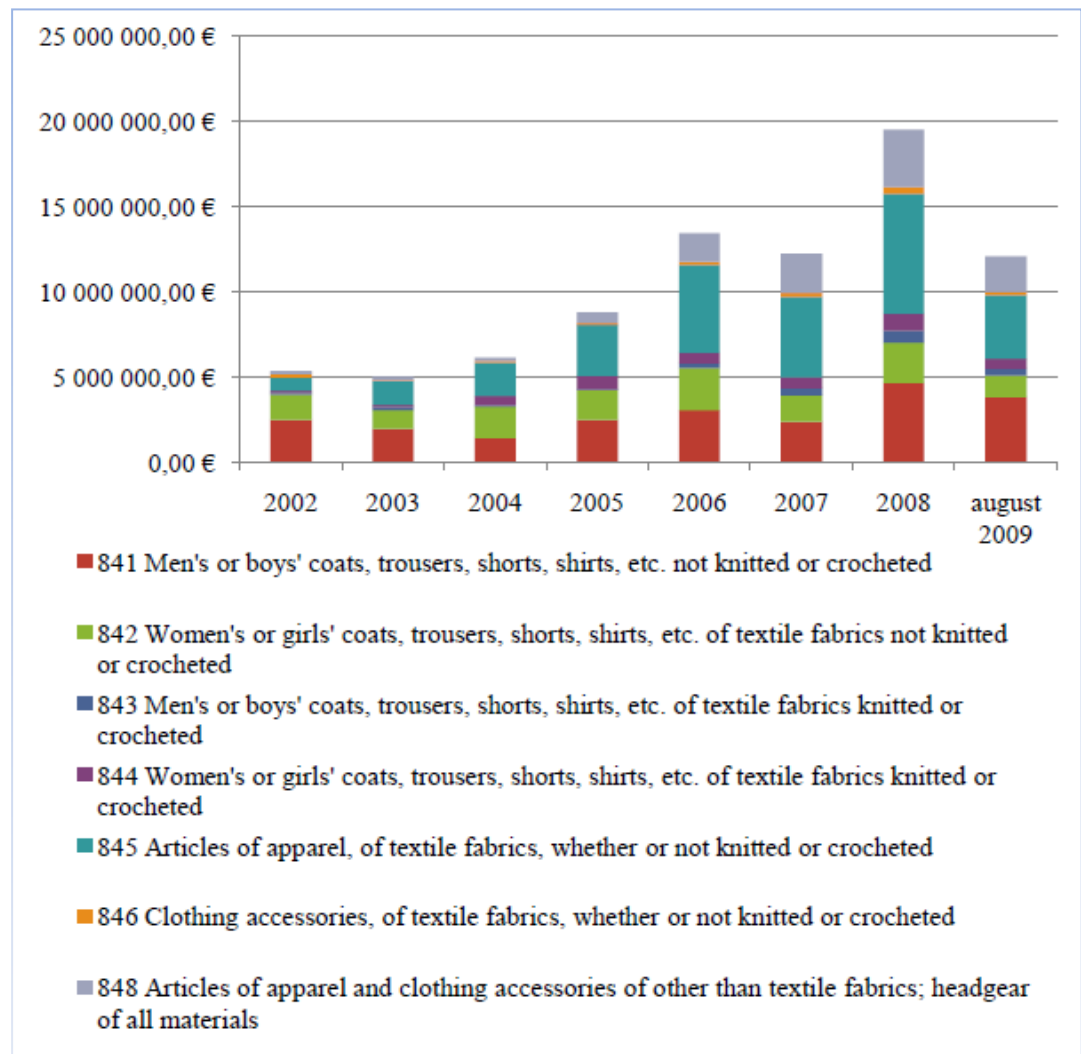


FIGURE 19. Imports of clothing from Vietnam to Finland 2002-August 2009 (SITC 84) (Finnish Board of Customs 2009).

#### 4.4 Gala dresses in Vietnam

Seeing that there are roughly 2,000 garment and textile enterprises in Vietnam, the supply of the product collection is fairly wide. In Table 4, an overview is presented of the companies division by locations and by product categories. Clearly, 70% of the companies locate in the South of Vietnam (close to Ho Chi Minh City) while the North contains only 10% and the rest 20% are established elsewhere in Vietnam ( Buisman & Wielenga 2008, 21).

TABLE 4. Number of garment and textile enterprises in Vietnam (modified from Buisman et al 2008, 22).

<i>By location</i>		<i>By product categories</i>	
Ho Chi Minh City	1090	Materials and spinning	96
Hanoi City	157	Woven	382
Dong Nai province	142	Non-woven	6
Binh Duong province	116	Garment	1446
Long An province	27	Accessories	35
Da Nang City and surroundings	55	Services	265
Others	364		

In terms of gala and evening dresses, Vietnam provides a plentiful choice of designs and models at a reasonable price level. Below are some design examples of the potential dresses that can be imported from Vietnam and sold in Finland. The prices shown are converted into Euros at the exchange rate of EUR 1 = VND 25,807 (Nordea 17.12.2010).

Gala dresses for Prom dances:



Purchase price: 30€  
Supplier: Amorado, Vietnam



Purchase price: 30€  
Supplier: Amorado, Vietnam



Purchase price: €40  
Supplier: Bao Kim, Vietnam



Purchase price: €35  
Supplier: Bao Kim, Vietnam

## 5 CASE: “START-UP” BUSINESS PLAN

This chapter introduces the initial business plan for the business idea of importing gala dresses from Vietnam and selling them in Finland. The case company is referred to “start-up company” due to confidentiality issues. In the following paragraphs, Hoffren’s pattern is applied to building a preliminary business plan for the start-up company as it is commonly used in Finland (Hoffren 2002).

### 5.1 Basic information and business description

First of all, the basic facts of the business and the founder are to be presented in the following manner:

TABLE 5. Basic information of the business.

Name	“Start-up company” gala dresses
Business form	Limited company
Industry	Garment and textile industry
Mission	To be the consumer’s first choice for gala dresses, delivering products of outstanding design and personalised service at a competitive cost through working better, faster and cheaper.
Business region	First, Lahti region, later the neighbour cities, and then the Helsinki metropolitan area.
Location	Lahti

TABLE 6. Basic information of the founder.

Name	Hue Vo
Education and experience	Bachelor of Business Administration 2011. Work experience in financial and accounting activities 2 years.
Financial resources	Own assets EUR █████
Motivation	First, desire to utilise learned knowledge from school and apply it in real business life as an entrepreneur. Second, aside from high prices for one-occasion-use, the supply range for gala dresses in Finland is somewhat limited: scarce designs and models. Third, sourcing gala dresses from Vietnam and selling them in Finland is clearly financially profitable.

Next, the business project can be described in a variety of ways. A practical method to illustrate the business is building a business idea model as follows:

TABLE 7. Business model.

<b>Product</b>	<b>Customer benefit</b>
<ul style="list-style-type: none"> <li>- Ready-to-wear ceremonial gala dresses for female consumers</li> </ul>	<ul style="list-style-type: none"> <li>- Retailers, rental firms, wedding service companies: a wide selection of new, fashionable, and unique gala dresses at competitive prices</li> <li>- End-users: new, fashionable and unique gala dresses at lower prices with shorter delivery time</li> </ul>
<b>Image</b>	<b>Target customer</b>
<ul style="list-style-type: none"> <li>- Fashionable</li> <li>- Unique</li> <li>- Reliable</li> <li>- Good, personalised customer service</li> </ul>	<ul style="list-style-type: none"> <li>- Retailers of costumes &amp; dresses</li> <li>- Costume &amp; dress rental firms</li> <li>- Wedding service firms</li> <li>- End users for occasions; Prom dances, weddings, and other special ceremonial events</li> <li>- Others</li> </ul>

<b>Action plan</b>	
Business values	“Simply, our dresses are beautiful and affordable”
Specialty	A close cooperation with the target customer groups.
Marketing communications	Advertising: local and school newspapers, brochures, the Internet, company and store visits. Personal selling: sociable and friendly customer service, individual product presentations. Sales promotion: free gifts and discount coupons. Public relations: the Internet (website, email, social media).
Pricing	€■■■ (VAT included): retailers, rental and wedding firms €■■■ (VAT included): end users, others
Production & logistics	Purchase by the company (later by an agent) from manufacturers, distributing companies or retailers in Vietnam, transportation done by outside companies (DHL, Transpoint, or Itella)
Finance & accounting	The main founder will handle salary, billing, and other accounting and payment activities. Audits will be handled by the Accounting company (Tilitoimisto).
Management	Active, incentive with development conversations.

### Resources for the start-up company

<u>Physical</u>	<u>Mental</u>	<u>Financial</u>
<ul style="list-style-type: none"> <li>- Own premises 40m2 for the web shop</li> <li>- 2x high-quality sewing machines</li> <li>- 1x Fujitsu laptop</li> </ul>	<ul style="list-style-type: none"> <li>- The main founder's education and work experience</li> <li>- The personnel commitment with the common goal</li> <li>- Ability and attitude</li> <li>- High motivation</li> </ul>	<ul style="list-style-type: none"> <li>- Assets: EUR █████</li> <li>- Debts: EUR █</li> <li>- Assurances: EUR █</li> <li>- Capital need for the business project: EUR █████</li> </ul>

The business of the start-up company is planned to be launched initially in Lahti region. This is due to the fact that besides Lahti itself, Lahti region comprises other eight suburban areas which have at least one high school in each district: Asikkala, Heinola, Hollola, Kärkölä, Nastola, Orimattial, Padasjoki and Sysmä. These together constitute a reasonable market area for selling gala dresses through local retailers, costume & dress rental firms, or directly over the Internet (web shop). Various marketing tools are utilised to create wider awareness of the dresses in Helsinki and other cities.

In Table 7, two dissimilar sales prices are given: EUR █████ for retailers, rental firms and wedding service companies, and EUR █████ for end users and others. Here, cost-plus pricing method is used to set the sales prices at the production costs, covering both costs of goods and fixed costs, plus a specific profit margin. A █████% profit margin is placed on trading with retailers, rental and wedding firms whereas █████% profit is added to the final sales prices for end users and others.

Regarding financial resources, the founder's own asset EUR █████ originates from the compulsory share capital EUR █████ plus EUR █████ of own equipment invested in the limited company. The total capital need for the business is set to be EUR █████ but this approximate amount is solely based on the cost estimation in the initial plan. The actual capital need could be lower or higher in a real life business.

## 5.2 Motivation for starting a business

The next section focuses on justifying the business establishment and the business idea by exploring opportunities the operational environment offer. Market factors are the first topic to be studied and followed by entrepreneur motivation. Lastly, reasons for the planned business idea conclude this section. By recognising the right reasons for starting a business, a failure can be prevented (Schaefer 2006).

### 5.2.1 Market motivation

#### **Market situation**

One of the most important driving forces for establishing a business of selling gala dresses imported from Vietnam to Finland is steady and growing market demand for the product in Finland. By September 2010, out of total 111,000 students in 430 Finnish high schools, 66,600 are girls (Finnish National Board of Education 2010). Each year, these high schools accept 34,000 new young students, of which 60% are females (Finnish National Board of Education 2010). In 2010, the number of female students in high schools of the Helsinki metropolitan area exceeds 9,200 while Lahti has around 1,000 and Joensuu about 800. Evidently, high schools make up a significant proportion of the customer base for gala dresses used at yearly organised Prom dances in high schools. Hence, as long as traditional Prom dances are still organised in high schools, there will be demand for gala dresses. The goal here is to provoke customers' interest in new, fashionable and unique gala dresses imported from Vietnam to Finland.

Similar to Prom dances, weddings are arranged throughout the year; more than 29,000 marriages were registered in 2009 in Finland (Statistics Finland 2010c). This sound encouraging for the start-up company as the market size for gala dresses appears more positive. Up to now, there are annually 22,000 opportunities for selling gala dresses for Prom dances, and 29,000 for wedding events. One common feature for all suppliers of gala dresses is high season in summer, essentially in August when nearly 5,000 weddings are arranged, being three times

higher than a usual silent season. Obviously, as long as such ceremonial events are organised, creating a need for gala dresses for bridesmaids, for instance, is achievable. Aside from this, several fancy-dress parties and different dancing events regularly take place all the year round. The task is thus to stimulate an interest in what is on offer and retain long enough to finish the presentation.

### Target group and customer segmentation

Following the points mentioned above, target customer groups are another business motivation. In view of the fact that fulfilling all customers' needs is unachievable, only relevant focus groups are chosen to be served with appropriate marketing. That is to say, they are retailers of costumes and dresses, costume and dress rental firms, wedding service firms, end users as well as others. The start-up company's assets are mostly spent on large national chains of gala dress stores such as Stockmann's Wedding Service who operates in nearly all cities in Finland.

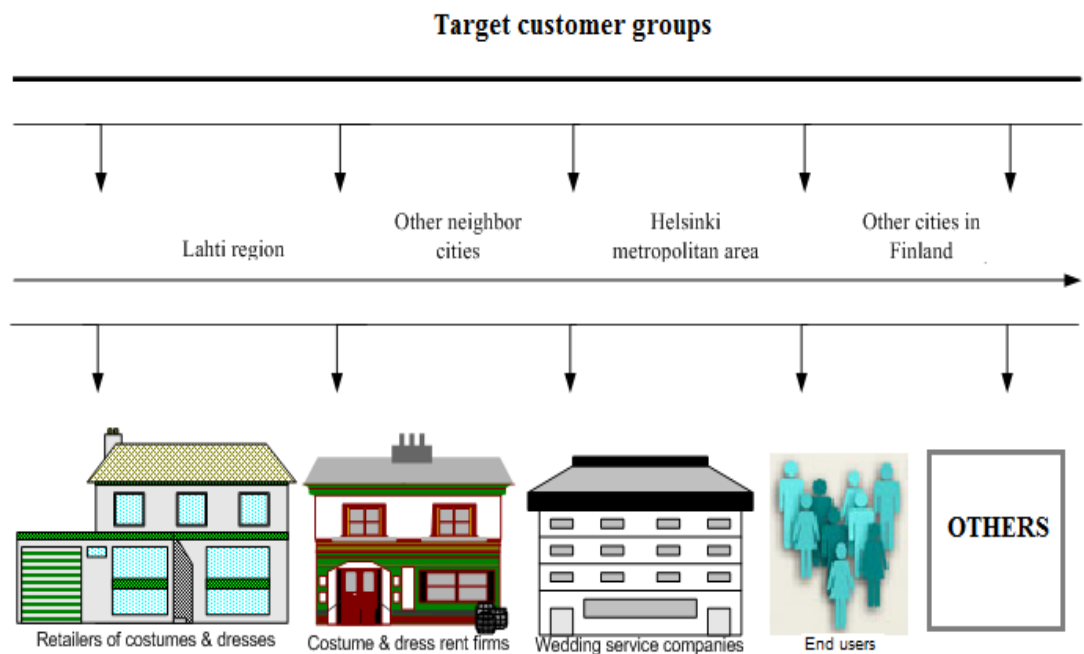


FIGURE 20. Target customer groups.



## Customer purchase transaction

The following tables reveal key aspects affecting a purchasing decision of the target customer groups.

TABLE 8. Target customers' purchase transactions.

Focus group	Retailers and rental firms of costumes and dresses
Needs	Gala dresses for their end users
Purchase transaction	Trade fairs, personal meetings, company/store visits
Decision makers	Store Manager, Purchaser, Production Manager
Effectors	Design, price, delivery time, brand name
Timing for marketing	All the year round, especially August – January, April - June
Sales period	All the year round, peak season December – February, June - August

Focus group	Wedding service companies
Needs	Gala dresses for their end users
Purchase transaction	Trade fairs, personal meetings, company/store visits
Decision makers	Large companies: Managing Director, Small private companies: owner
Effectors	Design, price, delivery time, brand name
Timing for marketing	All the year round, especially March - May
Sales period	All the year round, peak season June - August

Focus group	End users
Needs	Gala dresses for Prom dances, weddings and ceremonial events
Purchase transaction	Online shopping
Decision makers	End users themselves
Effectors	Price € [REDACTED], design, delivery time; preferably max. 4 wks
Timing for marketing	All the year round, especially August – January
Sales period	Peak season November - February

Large national chain of gala dresses stores focus on design, price and delivery time the most when making purchase decisions. These key people should be “chased” as they can offer opportunities for business growth and expansion. Thus, resources are used where they can generate the greatest number of sales. A careful email inquiry asking about a customer’s need is a good start. Attaching few photographs of gala dresses to the email will increase the likelihood to be remembered. If personal company/store visits are allowed, the most representative collection of gala dresses should be presented to key people in the company.

In presenting the best version of the dresses, it is of essence to highlight the greatest benefit they receive from the trading: a wide selection of new, fashionable, and unique gala dresses at competitive prices with a right delivery time. Regarding end users, the company’s strong competitive edges, price and design, should be visibly indicated. Marketing to this group must be started already in late summer as a preparation process for e.g. Prom dances, is time-consuming.

### Competitive edges



FIGURE 21. Competitive edges.

Another market incentive for this business idea is the start-up company’s special competitive edges: lower prices, new and fashionable designs, more effective sales, and better customer contacts. Lower prices always attract customers’ attention as they play a significant role in purchase decisions. In case of gala dresses aimed at end users (e.g. high school female students), lower prices will persuade them to buy because all they want is to look beautiful but at the minimum cost. For retailers, rental firms and wedding service companies, B2B selling of gala dresses to them at competitive prices will help them generate higher sales through lower retail prices for their end users. Also, sourcing from Vietnam will expose the customers to more varieties of dresses since designs currently sold in Finland are rather narrow, as several people have commented so on the Internet forums.

Effective sales network is also strength in the market: active B2B selling to retailers, rental and wedding service companies through personal company/store visits, presentations and sales letters. Creating prospects to communicate with the right people is a key start. Finally, personal customer service is the last tool to “steal clients from competitors”. Answer the phone, keep promises, listen to the customers, deal with complaints and request for feedbacks are rules for the success.

### **Competitive situation, competitors**

Last but not least, a competitive force in the market of gala dresses in Finland plays a large part in motivating. In this industry, threat of new competitors and rivalry among existing companies exist but the key is doing better, faster and differently. To some extent, the access to the sector threshold is high because gala dresses are quite challenging to sell; the dress has to perfectly fit the customer. Likewise, in the beginning, creating a customer base might be challenging as well. Therefore, in order to maximise sales volume quickly and safely, B2B strategy appears the most suitable. It is simpler and faster to sell the dresses to a large national chain of gala dress stores (retailers, rental firms or wedding service companies), who already have an existing customer base rather than starting from end users, one by one. Thanks to their existing clientele, selling to these large customers will create more opportunities to publicise and familiarise consumers with the brand name of the start-up company’s gala dresses. Eventually, the customer base will exist in other cities: Helsinki, Joensuu, Oulu or any other place where the chain companies have their business activities.

In the next Table 9, the most noteworthy competitors in the gala dress sector in Finland are presented. These competitors have the common feature which is considered a threat for the start-up company: the web shop. Zazabella, one of the biggest importers and merchants of bridal and ceremonial dresses in Finland, has both stores (in Turku and Espoo) and the web shop. Its turnover in 2009 reached EUR █████ with only four employees in the company. They started off with selling dresses through online auction (Huutonet) but eventually expanded their business by importing dresses from China (Tran 2010).

TABLE 9. Competitor analysis

	<b>The start-up company</b>	<b>Zazabella</b>	<b>Unelmapuvut</b>	<b>Juhlapuku Bella</b>	<b>Competition</b>
<b>Resource</b>	<i>What makes the company strong in this area?</i>	<i>What makes this competitor strong in this area?</i>	<i>What makes this competitor strong in this area?</i>	<i>What makes this competitor strong in this area?</i>	<i>How does the start-up company compare?</i>
<b>Product</b>	Gala dress	Over 1000 gala and evening dresses+ 90 designs, accessories	Only gala dresses and accessories for Prom dances	Over 140 gala dresses and 120 evening dresses, accessories	Very good: beautiful designs that fill well with Western style
<b>Price</b>	Retailers, rental & wedding firms: € End users: €	Prom dress: € Evening dress: €	€	Prom dress: € Evening dress: €	Lower: a significant competitive edge
<b>Sales channel</b>	Direct selling to retailers, rental and wedding service firms, the web shop for end users	Stores in Turku & Espoo, the web shop	Only the web shop	The web shop, but measuring and fitting possible at the seller's house	Wider and more effective sales network: B2B and B2C
<b>Delivery time</b>	Retailers, rental and wedding firms: 4-5 wk End users: 2-3 wk	4-5 wk	Stock: 4-6 wk Tailor-made: 6-12 wk	5-6 wk	Similar to others
<b>Customers</b>	Retailers, rental firms, wedding services, end users	End users	End users	End users	Larger customer base
<b>Media attention</b>	For now unknown	Better than most; positive	Good	Good	For now unknown
<b>Other</b>	End users through the web shop: rental possible	Tailor-made and rental possible	Tailor-made possible	Tailor-made possible	At first, tailor-made impossible

Among competitors, Zazabella's dresses are more high-priced, varying between EUR . Some discounts on the dresses drop the prices down to between EUR . Another competitor, Unelmapuvut, has sold over 300 dresses to 152 different high schools for the coming Prom dances 2011 at the prices EUR (Mia 2010). The general price level in gala dress sector is high, especially when selling to end users.

### 5.2.2 Entrepreneur motivation

Apart from market motives, personal inspiration of a business founder or founders is a considerable aspect too. In order to succeed in business, more than one founder is required. Therefore, in addition to the main founder herself, there will be at least one more employee who is highly committed and motivated to the business. This person, who already has a few years of experience in customer service, deals with customer orders and interaction. The main founder is responsible for the rest activities of the business. This founder group is ideal in the sense that it consists of individuals from the same family. Teamwork and communication is then effortless and straightforward. Other critical success factors linked to the founders are:

- education and working experience of the main founder
- the complementary expertise of the founder group
- easy communication between the founders

### 5.2.3 Business idea motivation

The start-up company's choice of the business idea is based on the author's observation in the sourcing country and her confidence in the business success. This idea is also theoretically tested through tentative market analysis conducted by desk research, interviews and the Internet discussion forums.

Before starting this thesis, the author has spent plenty of time on defining the product range and the target customers. The author ended up with only one type of dress: showy ceremonial gala dresses meant for merely special formal events because that sector still seems to have a space in the market. Given that Prom dances, weddings and other formal parties are arranged year-round, there always exists a need for new, beautiful and unique gala dresses. Moreover, a price level in the industry looks fine, especially when the dresses are directly sold to end users. On the other hand, trading with other large national chain of gala dress stores provides lower gross profit but without a B2B component, a very lucrative sale would

be wasted. This explains why the start-up company provides B2B options alongside the B2C offerings on the Internet.

Concerning the business form, limited company is selected. This is because sooner or later, the start-up company plans to obtain new shareholders to the firm. Moreover, dividends up to EUR 90,000 per individual shareholder per year are exempt from tax. The organisation of the company is built as simply as possible: active and incentive with development conversations. The company's salary, billing, and other accounting activities will be handled by the main founder herself.

### 5.3 Business vision

This section describes an overview of the start-up company in the future. The forthcoming business of the company gala dresses can be perceived as follow:

By 2014, the start-up company for gala dresses will be well-known not only in Lahti region, but also in other neighbour and further cities in Finland. Both trading partners and end consumer will find the sold gala dresses fashionable, reliable and valuable. The aim is to be the consumer's first choice for gala dresses, delivering products of outstanding and personalised service at a competitive cost.

Business vision in the numerical form could be presented in this manner:

TABLE 10. Vision in numbers.

	<i>1<sup>st</sup> financial year 2011</i>	<i>Year 2014</i>
Turnover (VAT excluded)	€ ████████	€ ████████
Personnel	1+1	1+2

Reasons:

- The growth target is moderate, 10%/year
- The planned volume in the industry is optimal
- Such planned volume allows for the hiring of an additional employee
- The profitability for the whole planned business size is high (realistic)

## 5.4 Marketing plan

The next topic to be discussed is a marketing strategy for the business idea. This follows the pattern of the marketing mix (4 P's), which has been studied earlier in Chapter 3.2.2: product, price, place, and promotion. Each topic will be respectively discussed.

### 5.4.1 Product

**Package** Due to lower costs, all packaging materials are purchased from companies specialised in packaging and printing services in Vietnam. Hence, all dresses imported from Vietnam are shipped and delivered to the target customer groups in representative packages and bags with the label name printed on (for the moment, the name is kept private). To add value to the product, free presents promoting sales and brand name are also packed in beautiful gift bags that barely cost anything in Vietnam.

**Brand** Products are branded by the name and the entire image features associated with the start-up company. The brand labels (logo) are attached to dresses produced and purchased in Vietnam before they are imported and delivered to the target customers in Finland.

#### Product item

Prestige gala dresses in different sizes, designs and materials.

#### Product line

Showy gala dresses for very ceremonial occasions because they function in a similar manner, are sold to the same customer groups and are marketed through the same types of brochures and outlets.

#### Product mix

At the beginning of the business, only gala dresses are sold to the target customer groups. Later, with the intention of expanding business, accessories designed to fit specific dresses and occasions will

enter into the product mix: jewellery, tiaras, hair ornaments, gloves, shoes, and scarves.

### Product life cycle

The product life cycle of the gala dresses has four stages:

1. **Introduction:** customers are interested in gala dresses introduced by the company because they are new and fashionable.
2. **Growth:** a boom period; a lot of customers are interested enough to buy the dresses because they find them new and unique. People go shopping for new clothes.
3. **Maturity:** a period of a slowdown in sales growth because customers are too familiar with the dresses; they do not find them new and unique anymore. New designs are brought onto the market by other competitors; negative impact on the start-up company's sales.
4. **Decline:** Since the life cycle of a gala dress is short (often one-time-use), new designs must be continuously introduced to the market to stimulate consumer interest. Designs from the last year are sold with a significant discount to get rid of the excess stock. When new designs enter the market, their new life cycle begins.

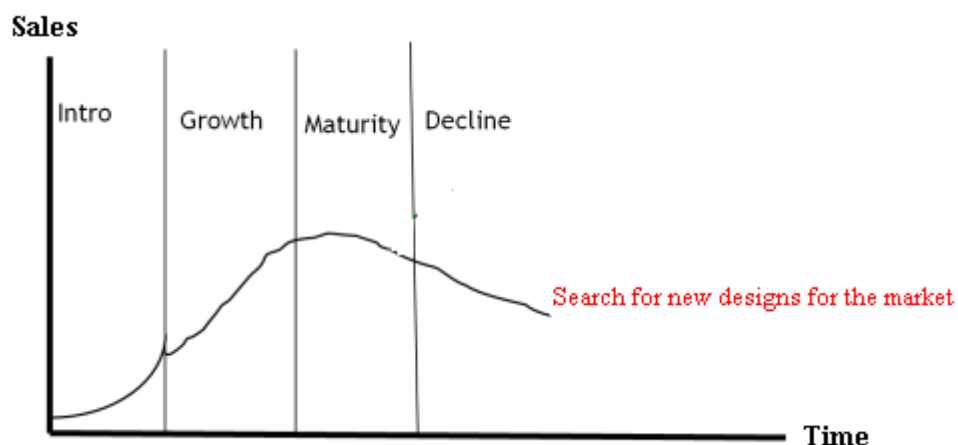


FIGURE 22. The life cycle of a gala dress.



### 5.4.2 Price

A little market testing conducted on the Internet discussion forums reveals that the maximum price consumers perceive as fair for a new gala dress is EUR [REDACTED]. For instance, most people are willing to pay EUR [REDACTED] for the gala dresses they would consider buying below (these dresses were bought from Vietnam in 2008):



In this initial business plan, cost- plus pricing method is used to set the price for a gala dress at the production cost, covering both cost of goods and fixed costs at the current volume, plus a certain profit margin. Production costs per one gala dress can be broken down as follows.

TABLE 11. Variable and fixed cost of an imported gala dress.

<i>Purchasing and variable cost/dress</i>	<i>Fixed cost/month/dress</i>	<i>Total production cost/dress</i>
+ dress	salaries, insurance, telephone, bookkeeping, office,, travelling, marketing, other	cost of good + fixed cost
+ packaging material		
+ transportation		
+ € [REDACTED]	€ [REDACTED]/month	€ [REDACTED] + € [REDACTED] = € [REDACTED]
+ € [REDACTED]	€ [REDACTED]/dress	
+ € [REDACTED]		

With the sales target of 60 gala dresses per month, fixed cost for one dress is ■ Euros, which is even higher than the dress itself. Variable cost for each dress is ■ Euros, meaning ■%. Since fixed cost do not change with the level of sales, higher profits can be gained by raising sales volume. By increasing monthly sales target by 10% (66 dresses), new fixed cost for one dress equals ■ Euros. By doubling sales volume (120 dresses), the cost falls by ■ Euros, being only ■ Euros per dress. Consequently, the start-up company should invest its resources and effort primarily on maximising sales volume.

TABLE 12. Contribution margin, break-even point, safety margin.

<i>Contribution margin need</i>	<i>Sales revenue – Variable costs</i> € ■ - € ■	= € ■ or ■%/year	= € ■ or ■%/month
<i>Break-even point</i>	<i>Fixed costs / Contribution m. %</i> € ■ / ■%	= € ■/year	= €5,117/month
<i>Safety margin</i>	<i>Sales revenue – Break-even point</i> € ■ - € ■	= € ■ or ■%/year	= € ■ or ■%/month

For retailers, rental firms and wedding service companies, the average taxable price of a gala dress is EUR ■, with a ■% gross profit margin for the start-up company. A higher price, EUR ■, is set for end users who buy directly from the company's web shop, with a ■% gross profit margin. These prices are high enough to cover costs and reasonable variations in sales volume. Further, such prices are still lower for end users than competitors' mentioned earlier. A more detailed pricing for each target customer group is shown below in Table 13.

TABLE 13. Pricing of gala dresses.

	<i>Sales price</i> €/pcs	<i>Sales without VAT</i> 23%	<i>Production costs €/pcs</i> (cost of goods + fixed costs)	<i>Profit margin</i> €/pcs (%)	<i>Sales target</i> €/month (pcs/month) (VAT incl.)
Retailers of costumes & dresses	■	■	■	■	■
Costume & dress rental firms	■	■	■	■	■
Wedding service companies	■	■	■	■	■
End users of ceremonial events	■	■	■	■	■

### 5.4.3 Place

On the topic of transferring gala dresses to the target customers, the figure below portrays the overview of the distribution process. Yet, this is described as a general level, as transportation and logistics are not within the scope of this study. At the early stages of business, gala dresses are purchased from distributing companies or retailers. Later, when the purchase volume increases, the dresses can be bought directly from manufacturers with lower prices. Concerning storage and delivery, products are kept in the founder's own warehouse and delivery to the customers is conducted by Itella's transportation service. Once customer orders are of high quantity, Itella's warehouse and delivery service can be reconsidered.

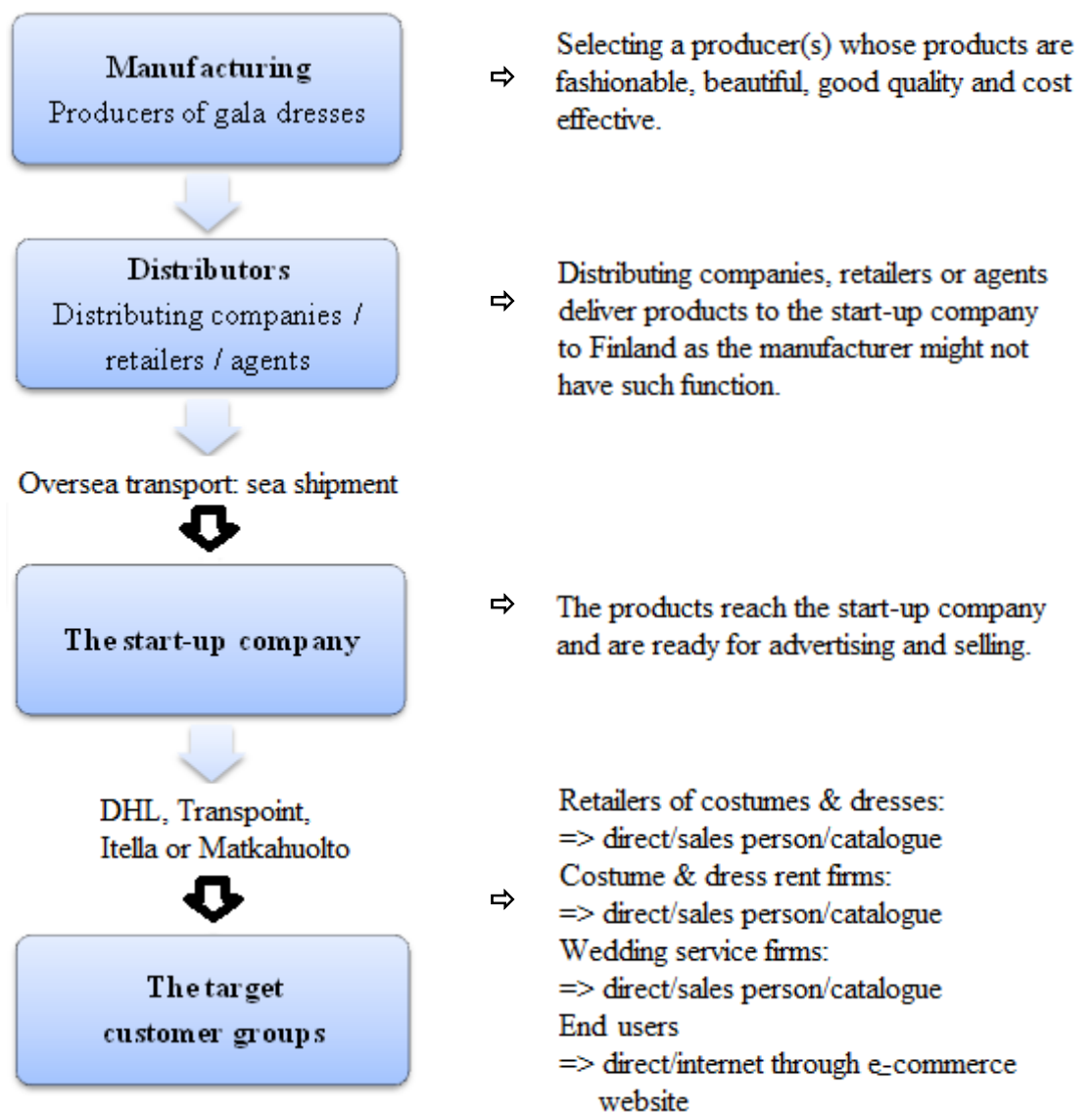


FIGURE 23. Distribution channels

#### 5.4.4 Promotion

The marketing mix's last P, promotion and its tools for introducing and convincing the target customers to purchase, are summarised in the subsequent table.

TABLE 14. Marketing communications mix.

COMMUNICA-TION TYPE	TARGET GROUP	GOALS	TOOLS
<b>ADVERTISING</b>	<ul style="list-style-type: none"> <li>➤ the target customer groups:</li> <li>- retailers of costumes &amp; dresses</li> <li>- costume &amp; dress rental firms</li> <li>- wedding service companies</li> <li>- end users for occasions: Prom dances, weddings and other special ceremonial events</li> </ul>	<ul style="list-style-type: none"> <li>➤ to provide introduction of gala dresses imported from Vietnam</li> <li>➤ to create demand for exotic designs of the imported gala dresses</li> <li>➤ to inspire the consumers and to bring them closer to the advertiser =&gt; sale efforts easier and simpler</li> </ul>	<ul style="list-style-type: none"> <li>➤ advertising through mass media: local and school newspapers, brochures, the Internet, social media</li> <li>➤ direct marketing through personal company/store visits</li> <li>➤ the website to provide latest news</li> </ul>
<b>PERSONAL SELLING</b>	<ul style="list-style-type: none"> <li>➤ retailers of costumes &amp; dress</li> <li>➤ costume &amp; dress rental firms</li> <li>➤ wedding service firms</li> </ul>	<ul style="list-style-type: none"> <li>➤ to find new customers</li> <li>➤ to receive information about the market for marketing planning process</li> <li>➤ to adjust the marketing effort to fit the need of each customer</li> </ul>	<ul style="list-style-type: none"> <li>➤ approaching customers, presentations about products' story and answering objections</li> <li>➤ face-to-face meetings, telephone conversations, video conferences</li> </ul>
<b>SALES PROMOTION</b>	<ul style="list-style-type: none"> <li>➤ the target customer groups</li> </ul>	<ul style="list-style-type: none"> <li>➤ to motivate customers to buy <b>now</b></li> <li>➤ to increase short-term sales and build long-term market share</li> <li>➤ to develop relationships</li> </ul>	<ul style="list-style-type: none"> <li>➤ arranging presentations</li> <li>➤ gifts that add value to the gala dresses, e.g. accessories in beautiful bags/boxes</li> <li>➤ discount coupons</li> </ul>
<b>PUBLIC RELATIONS</b>	<ul style="list-style-type: none"> <li>➤ interest groups</li> <li>➤ media</li> <li>➤ supporters</li> </ul>	<ul style="list-style-type: none"> <li>➤ to strengthen the company's image</li> <li>➤ to enhance the flow of information between the company and its public</li> </ul>	<ul style="list-style-type: none"> <li>➤ print media: school and local newspapers</li> <li>➤ catalogue: photos of the dresses</li> <li>➤ the Internet: website, email, social media</li> </ul>

Given that the profitability of this gala dress business is highly dependable on the total sales volume, the majority of resources are given to maximising sales. That leads to two options: B2B through personal selling and B2C through the Internet tools.

Because the volume of B2B trading is much higher than the volume of B2C transactions, a large percentage of the start-up company's dresses are targeted retailers, rental firms and wedding service companies who have nationwide business operations. When selling to these customers, it is necessary to arrange face-to-face meetings, telephone conversations or video conferences. Personal meetings and presentations, in particular, allow the seller to get acquainted with the choice and demands of the customers and to make suggestions accordingly to suppliers of gala dresses in Vietnam. From the customers' point of view, such interactions offer an opportunity to know about new dresses. As a result, personal selling is the best way to interact with the target customers and to close the sale.

B2C approach is applied to end users who preferably buy gala dresses from the Internet. To satisfy this group of customers, a web shop is established with an appealing outlook. Unlike Zazabella's "too much information on the same page" web outlook, the start-up company makes its web more read- and visual-friendly with a distinct structure; a step by step pattern where a visitor can view dresses by size, by price, by colour, or simply view all. On top, ordering process is made as simply as possible:

1. Fill in your size.
2. Choose a dress.
3. Complete a payment.
4. Wait the dress to be delivered within 3 weeks.
5. Try on and look beautiful!

Marketing tools for end users are performed through referrals, emails, newsletters, and social media such as Facebook, Twitter, Blogger, Myspace, etc. Distributing advertisements and brochures at schools is an efficient way to reach high school girls, for example. Also, mouth-to-mouth marketing can be very useful.

### 5.5 Financing the business

The financial form below surveys the costs for starting up the proposed business (need for money) and financing of the business operation (money sources). Further explanation of the calculations will be demonstrated under Chapter 5.6.

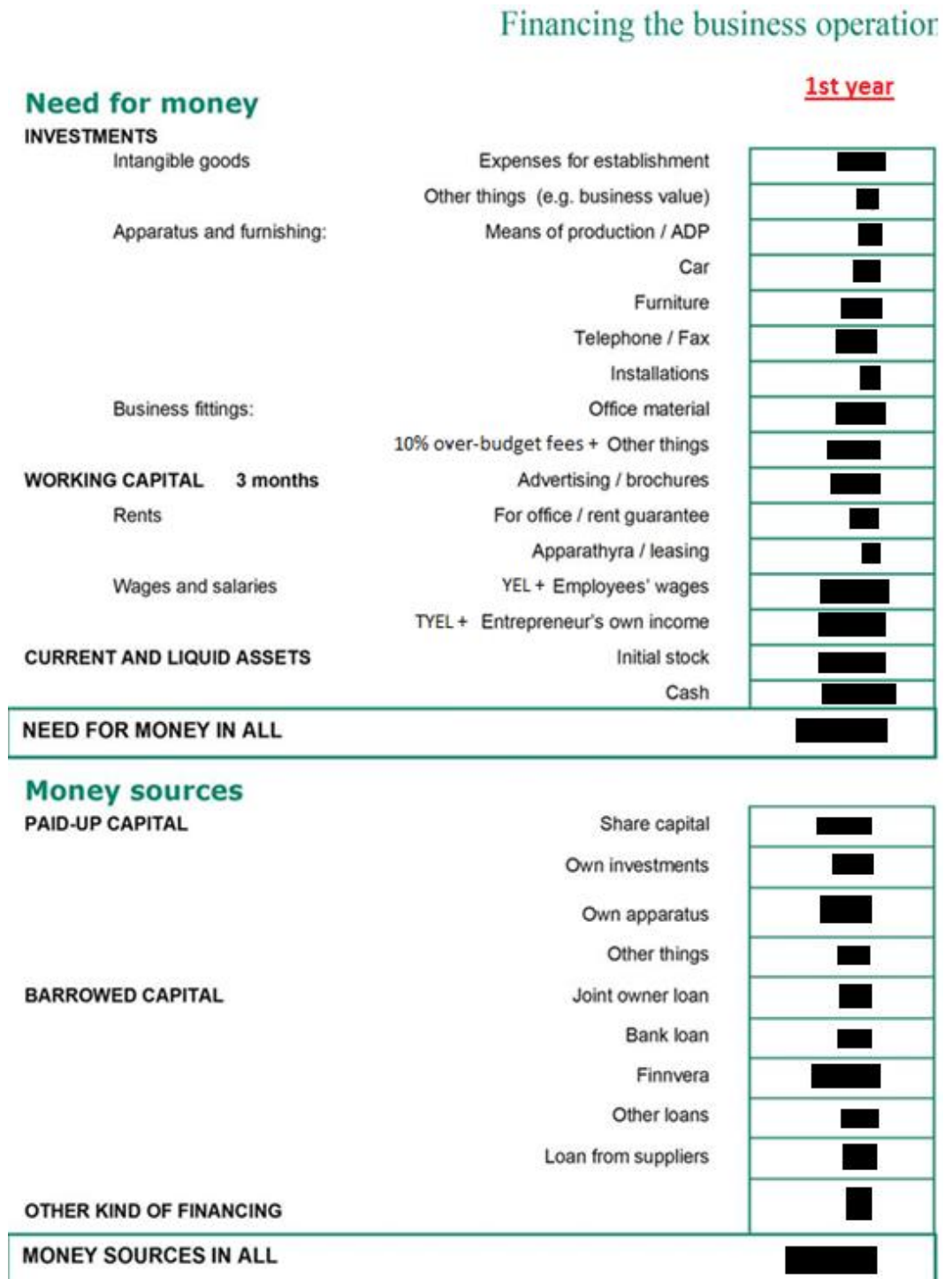


FIGURE 24. Financing the business operation.

5.6 Business profitability

The next calculation is of help in estimating the start-up company’s sales target for the first financial year.

### Calculating the profitability of the business

		<b>1st year</b>	
		per month	per year
<b>= TARGET PROFIT (net)</b>		██	██
+ Loan installments		██	██
<b>= INCOMES AFTER TAX</b>		██	██
+ Tax payments (state + local)		██	██
<b>= NEED FOR FINANCING (gross income)</b>		██	██
Euribor 12k + 1.0% = 3.0% + Interest on business loan		██	██
<b>A</b>	<b>= NEED FOR OPERATING PFOFIT</b>	██	██
- entrepreneur’s pension insurance (YEL)		██	██
- other insurances		██	██
Employer’s + employees’ salaries		██	██
- additional costs for salaries (about 40%)		██	██
- rents		██	██
- electricity / water supply		██	██
- telephone / telecopying		██	██
- bokkeeping		██	██
- office costs		██	██
- car / travelling expenses		██	██
- marketing		██	██
- training		██	██
- papers and magazines		██	██
- repairs		██	██
- other costs		██	██
<b>B</b>	<b>= FIXED COSTS IN ALL</b>	██	██
<b>A+B</b>	<b>= NEED FOR GROSS MARGIN</b>	██	██
+ Acquisitions (excluding VAT)		██	██
<b>= TURNOVER</b>		██	██
+ Value added tax (VAT23 %)		██	██
<b>= SELLS / INVOICING IN ALL</b>		██	██
		<b>untaxed</b>	<b>taxable</b>
Target for monthly invoicing (e.g. 11 months/year)		██	██
Target for daily invoicing (e.g. 5 days/week)		██	██
Target for hourly invoicing (e.g. 7 hours/day)		██	██

FIGURE 25. The profitability of the business.

The calculations in Figure 24 indicate that starting up the proposed business entails totally EUR [REDACTED] capital. Except for expenses for establishment and telephone/fax, other necessary investments calculated cover total costs of three months operation. This is because generally no income is earned for the first three months as billing takes place one month after the actual sale. "Other things" includes 10% of over-budget costs since real costs tend to exceed planned fees. Regarding salaries, employee's months wage is € [REDACTED] plus 40% additional costs while the employer earns € [REDACTED] per month, including 21.2% YEL. Three-month insurance (€ [REDACTED]) is added to the sum, totalling € [REDACTED]. Rent costs are marked as zero since the founder's own premises 40m2 is available. € [REDACTED] of cash is needed to pay off monthly random expenditures. Share capital € [REDACTED] should be invested on the company when establishing a limited company. Own apparatus means non-money investment such as sewing machines in this case. The rest of capital, € [REDACTED] is applied from Finnvera. The choice of loan would be a female entrepreneur loan as the requested amount is within the range of their capacity; € [REDACTED]. Another financial source is a start-up grant, €715/month but it is perceived as the entrepreneur's own income. Thus, it is excluded in the statement.

The profitability calculation in Figure 25 reveals that this business is actually profitable if the costs and sales target remain the same in real life. In the statement, the target profit is set as "0" for the first operating year, assuming that no profit is earned. Only loan interest is paid during the first year; the actual loan repayment will start in the second year. Travelling expenses are estimated to be € [REDACTED] each month because a lot of travelling for searching customers in different cities is needed. Marketing budget € [REDACTED] is spent on brochures, the web shop, the Internet advertising tools such as Google AdWords. Acquisitions consist of monthly costs of purchasing dresses from Vietnamese suppliers; 60 dresses at € [REDACTED] for each dress. The sales target; 60 dresses in a month is very realistic as other competitor's sales are much higher. Zazabella earns nearly € [REDACTED] for only gala dresses of Prom dances while Unelmapuvut gains at least € [REDACTED], with [REDACTED] dresses/month. All in all, calculations made above are rough estimations. Real life situation could be different as many things can change over time: purchase prices, sales prices, fixed costs, and transport costs. This is only an initial business plan.



## 5.7 Risk assessment

Potential risks associated with the planned business are the main emphasis in this section. Five categorised risks are evaluated: reputation, finance, operation, strategy and hazard.

### **Reputation risk**

- This is a valuable asset; a positive standing is a valid advantage for an investor and a strong cause for a customer to choose a product of the start-up company over other alternatives in the market. However, the negative image of the company could be affected by a failure at delivery time or quality standard.

### **Financial risk**

- Exchange rate included inflation in the event of a falling euro. Because of the growing dependence on imports, general inflation within the economy might pore over into all goods and services as wages would try to track the increased cost of living. Such inflation could cause the risk of eroding margins.
- Shock-induced inflation and economic slowdown in the event of an oil shock or a pandemic. Such events have led to double-digit inflation and ultimately have initiated double-digit interest rates and a recession in the past.

### **Operational risk**

- Shipping: due to long distances, transport may face difficulties in terms of delivery time, condition and safety.
- Quality control: it is challenging to ensure the product quality from Finland; therefore, regular visits to the suppliers to check on quality are necessary.
- Computer system malfunctions. Especially, in the Internet sales, dependence on the computer systems may give rise to a catastrophic risk affecting operations if the system malfunction occurs.

### **Strategic risk**

- Customer demand, brand and price could be negatively affected by other existing and new competitors. Likewise, cooperation network (e.g. suppliers) could collapse if the partners faced bankruptcy or any financial downturn.

## Hazard risk

- Externally driven causes such as snow, earthquake, water hazard, fire and explosion have a great influence on transportation. Therefore, a strong, extensive insurance should be purchased to cover these risks. The amount of fire or explosion incidents could be minimised by controlling safety regulations.
- Internally driven hazard risk such as employee injury. However, this should not be a great issue as the social insurance for each employee will be bought.

## 5.8 SWOT analysis

To conclude this initial business plan, SWOT analysis displays a summary of the business idea in the light of current market situation in Finland as follows.

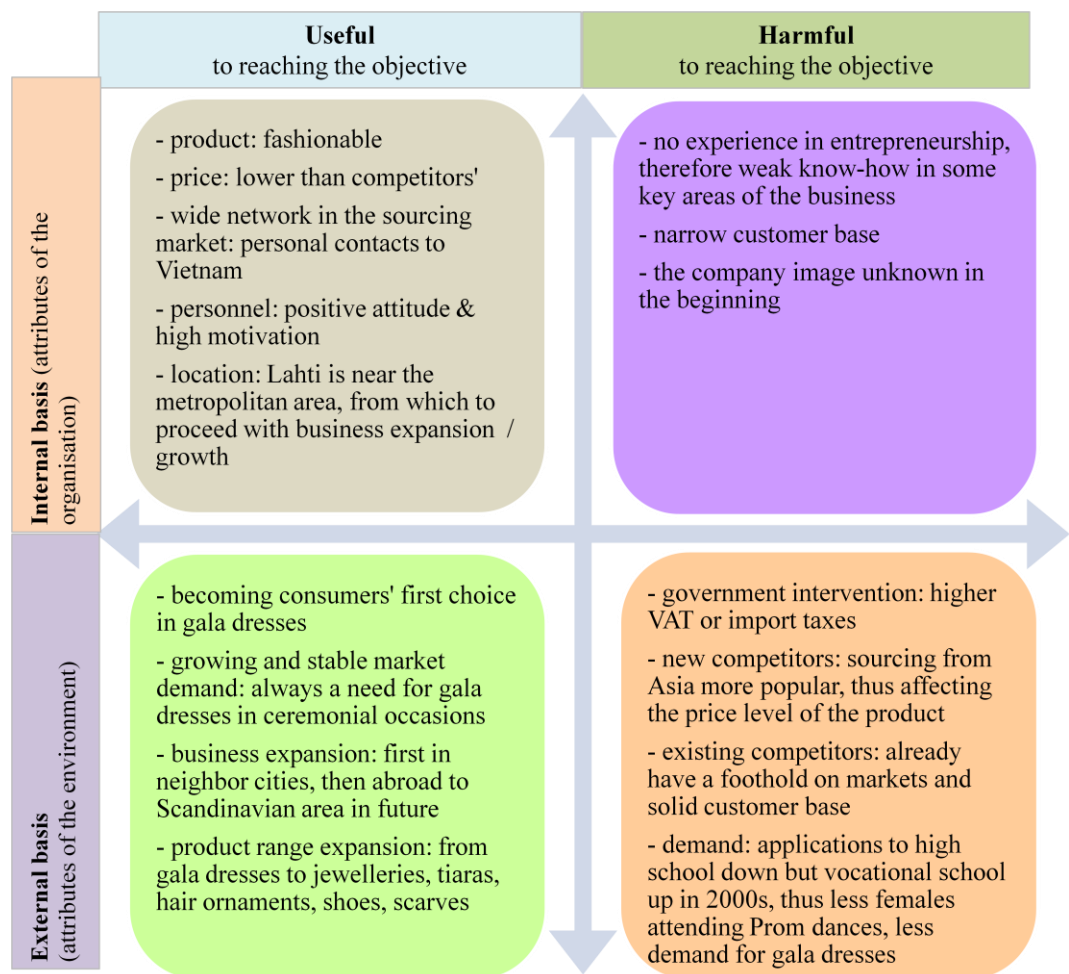


FIGURE 26. SWOT analysis.

The future and environment where the start-up company is meant to start its business provide plenty of opportunities, but then again they also contain threats that cannot be dismissed. Within the chosen product range and market, it is possible for the company to become consumers' first choice in gala dresses in the future if it manages to "steal customers from its competitors". In this sector, there always exist customers as long as Prom dances, weddings and other ceremonial events are organised. As Mr Tran, Managing Director of Zazabella stated, Prom dances are very big and important events nowadays (Tran 2010). With showy dresses at lower prices certainly gives the start-up company a great starting point.

## 6 FINDINGS AND CONCLUSIONS

This chapter analyses the data and findings made so far and based on them, recommendations for the research questions proposed in the beginning of the thesis are given. At the end of the chapter, topics for future research are presented for the company as several essential aspects of the business are not included in this thesis.

### 6.1 Findings

Table 15 shows the research questions and summarises the findings made thus far.

TABLE 15. Research questions and findings.

	<i>Research questions</i>	<i>Findings</i>
1	Is there a market demand for gala dresses designed, produced and imported from Vietnam to Finland?	Yes, the market size for the dresses is sufficient enough for the business to yield profit. With new, fashionable and unique designs at competitive prices, there will be demand for these gala dresses. People want buy/wear a new dress for each ceremonial event.
2	What are the target customer groups of these gala dresses in Finland?	<ul style="list-style-type: none"> <li>- Retailers of costumes &amp; dresses</li> <li>- Costume &amp; dress rent firms</li> <li>- Wedding service companies</li> <li>- End users for ceremonial events; Prom dances, weddings, fancy-dress parties</li> <li>- Others</li> </ul>
3	How should marketing be performed to reach the target customers?	<ul style="list-style-type: none"> <li>- Advertising through local and school newspapers, brochures, the Internet, company visits.</li> <li>- Personal selling with individual product presentations, newsletters, face-to-face meetings</li> <li>- Sales promotion with free gifts and discounts.</li> <li>- Public relations through print media, catalogue, website, email and social media.</li> </ul>
4	Where and how much finance is required for starting such business?	<ul style="list-style-type: none"> <li>- Finnvera: female entrepreneur loan</li> <li>- Enterprise Agency (Uusyrityskeskus): expertise in business planning</li> <li>- Lahti Business Incubators: seed funding</li> <li>- Finnpartnership: expertise in business planning, funding for cooperation projects</li> <li>- Total finance needed: € 33,000</li> </ul>
5	What is the profit potential of such business in Finland?	Because there is a demand for the dresses, tools for overcoming competitors, price level is high and a lifetime value for the product, the profit potential of the gala dress business appears optimistic.

The first research question has been answered successfully as the most essential external issues in the market have been studied: product demand, customers, market size, and competitors. The results from the empirical study indicate that in 430 different high schools in Finland, over 66,600 are female among 111,000 students in 2010. Every year, about 22,000 female students participate in Prom dances, for which the official dress code is showy, ceremonial gala dress. Such amount already forms one permanent customer base for gala dresses in the market. Besides, these female participants have become very important sales targets since more and more money and effort are invested on this special event by the participants. A large competitor in this sector, Zazabella, sells at least [REDACTED] dresses for only Prom dances every year, totalling a turnover of EUR [REDACTED]. However, their sales mainly focus on Turku and its neighbour areas. Another smaller company specialised in merely gala dresses, Unelmapuvut, earns over EUR [REDACTED] with more than 300 dresses annually.

Other occasions where gala dresses are worn are weddings, dance events and fancy-dress parties. In Finland, the number of marriages has been increasing since 2007, reaching 29,836 in 2009. That is to say, averagely 2,000 weddings are organised every month but certainly not everyone celebrate this special day. Anyhow, weddings are also a significant sales target as consumers spend plenty of money on their dresses for the event, roughly under EUR 1,000/dress. Zazabella, for instance, gains revenue of around EUR [REDACTED] from selling wedding dresses. Apparently, all these ceremonial occasions together form a large and steady market size for the demand of new, beautiful and unique gala dresses in Finland.

The second research question concerning the target customer groups has been solved with the following answer: 1) retailers of costumes & dresses, 2) costume & dress rental firms, 3) wedding service companies, and 4) end users and others. The company's resources should be spent on where they can produce the highest number of sales: retailers, rental and wedding firms. Selling to these large national chains of gala dresses stores, who already have an existing customer base, will allow for maximising sales volume quickly and safely. That is B2B selling strategy. Selling directly to end users on the Internet will add a small proportion to the total sales.

The third question requires a thorough marketing plan for the gala dress industry. Since retailers, rental firms and wedding service companies are similar in nature; gala dresses advertised to them are done through same types of tools: brochures, outlets, company/store visits, product presentations, direct selling, discount coupons and free gifts. The purpose here is to provide introduction of the dresses while at the same time creating demand and bringing the focus groups closer to the company. On the other hand, the Internet (website, social media) is the most vital marketing tool for reaching end users. Because the majority of this customer group are young consumers seeking dresses for their Prom dances, marketing on Facebook, Twitter, MySpace and Youtube will undoubtedly arouse some interest.

Timing for marketing is one more essential topic here. The best time for positioning gala dresses in the market to reach the target customers is few months prior to high sale season. For end users, it is August – January as peak sales take place in November – January, just before Prom dances in February. For wedding service companies, marketing should start in March to give them sufficient time for re-marketing to their end users by a busy season in July and August. Similarly, retailers and rental firms also need time for marketing, therefore in addition to all-the-year-round marketing; more focus is given to August – January and April – June.

The life cycle of a gala dress is short; a consumer purchases a dress for a specific occasion, uses it once and then it stays in a closet. Next, the consumer seeks another new dress for a further event. For this reason, the start-up company should be able to regularly launch new designs of gala dresses onto the market to maintain and increase its market share in this sector.

The solution for the fourth question in this study has been successfully found as well. The author has discovered several financing sources supporting the start-up company's business. Since the total need for finance to implementing the business is EUR [REDACTED], there exist at least three funding suppliers. The first source is Finnvera who grants a low-interest loan for female entrepreneurs. The entrepreneur is not obliged to begin repayment of the loan the first year, but for the next four following years. From the borrower's point of view, this is a great benefit as

the interest is rather low: Euribor 6 months + fixed interest rate at 1.0%. The second funding source is TE-centres who provide the entrepreneur a start-up financial aid between EUR ■■■ and EUR ■■■ per month up to a maximum of 18 months. The third money supplier is public Lahti Business Incubators. If the company's application for seed funding is accepted, EUR 1,000/month may be allowed.

In addition to the discussed financing organisations, the company can receive valuable guidance from business specialists in business planning, Finnpartnership, for example. To some extent, importing gala dresses from Vietnam improves the employment in Vietnam. Thus, more finance can be collected from Finnpartnership to enhance cooperation between Vietnam and Finland.

The final question "What is the profit potential of such business in Finland" is responded to based on three aspects: demand, competition, and business value. First, to keep the entrepreneur in business, there must be enough potential customers in the market, and certainly there are. More or less, the Finnish market provides suppliers of gala dresses with a great deal of opportunities for selling their dresses; 50,000 ceremonial events take place each year in Finland. There is room for all suppliers to enter the market. Second, competition in the gala dress sector is not impossible to deal with. Selling gala dresses is challenging, but with appealing dresses at affordable prices, the success can be guaranteed. Last, the start-up company's B2B, internet and business has a high lifetime value; the total value of each customer to company's business is high as they purchase from the company again and again. Particularly end users are persuaded to repeat their purchases by offering add-on gifts to develop lasting, valuable relationships with them. Free exclusive jewellery and accessories, for example, could be a good option.

## 6.2 Go/No Go decisions

Yes, it is recommended to proceed with the planned business idea of importing gala dresses from Vietnam and selling them in Finland.

The results gained from the initial business plan have proved that there exists demand for dresses designed, produced and imported from Vietnam, and consumers are willing to buy them at a reasonable price level, € [REDACTED]. Few competitors in this industry source their dresses from Asia, particularly China and they had been succeeding at selling them in the Finnish market. Many retailers charge a very high price from € [REDACTED] to € [REDACTED] on one Chinese imported dress. Still, there are very many consumers interested in their products. Thus, there is no reason not to believe in the success of selling Vietnamese imported dresses in Finland because the start-up company has adequate prerequisites for competition in the market:

- lower prices than competitors
- new, fashionable, unique and beautiful designs
- more effective sales with a wider trading network
- more focus on better customer relationships

As a result, the author encourages the start-up company to continue planning and implementing the proposed business idea. Since the fundamental subjects of launching a business have been discussed and evaluated in this thesis, other essential aspects of the planned business idea could be studied further before the business is seriously executed. In addition, the conducted business plan in this study is very preliminary. As there is no discussion about transport, logistics, production plan, or choosing sourcing suppliers in this research, a more detailed and broader business plan should be carried out for the use of external investors.



### 6.3 Suggestions for future research

Conducting this bachelor thesis has created a strong understanding of the procedure of launching a business in Finland. In addition, the course of turning a business idea into reality has been covered with the main emphasis on Hoffren's business plan model. In the process of writing the thesis, many suggestions for future research have emerged. Given that information collected is at a general level, there is plenty of scope for future investigation: 1) sourcing and purchasing process from Vietnam to Finland, 2) sourcing strategies, 3) a thorough market research on the target customers, and 4) research on the market demand for gala dresses in Scandinavian countries.

As stated in Chapter 1.4, Vietnam is chosen to be a sourcing market of ready-to-wear dresses for the start-up company in Finland. However, only one criterion for sourcing location is discussed: price levels of gala dresses produced and sold in Vietnam. Therefore, further research could be conducted on the more detailed sourcing process in Vietnam. A.T.Kearny suggests seven steps model in the sourcing process: profile category, select sourcing strategy, generate supplier portfolio, negotiate and select suppliers, integrate suppliers, and lastly benchmark supply market (Clegg & Montgomery 2005). Furthermore, in this study, a discussion and evaluation of potential suppliers of gala dresses in Vietnam is excluded. Hence, the purchasing process might be another topic to be considered for future research: where and how to reach potential suppliers of gala dresses in Vietnam? Certainly, field research in the form of company visits would be advisable.

In this thesis, more focus is given to the selling market (Finland) than the sourcing one (Vietnam). However, the collaboration between the two is not mentioned here. For this reason, future research could deal with the transport, logistics and import-export practices from Vietnam to Finland. These issues are crucial as total costs and time-to-market are greatly affected by them which, in turn, influence the profitability of the business.

The conducted market analysis in this thesis is based on the information gathered at a very general level. No detailed or structured questionnaires or interviews have been performed in the study. Hence, there is an opportunity for carrying out a thorough market research or customer survey on each of the target customer groups: retailers, rental firm, wedding companies, end users and others. How much are customers willing to pay for a specific gala dress? What are their desires and expectations for the dresses? Which factors have a great influence on their purchase decisions? These could be questions to be solved in a further study.

Since this study has revealed that the business idea of selling gala dresses sourced from Vietnam to Finland is feasible enough to be carried out, research on approaches to expand the business to Scandinavian countries Sweden, Norway and Denmark could be one more topic for further research. For instance, overseas online shopping could be a starting point for expanding. However, the market demand in these countries should be firstly defined.

## 7 SUMMARY

The objective of this thesis is to theoretically test the potential profitability and success of the planned business idea of gala dresses in the light of current market situation in Finland. One suitable approach to achieve this goal is building a preliminary business plan, giving indicative information for the start-up company in making a decision; whether or not to enter the Finnish market with gala dresses imported from Vietnam. In order to solve this question, five essential aspects supporting the main objective of the thesis are studied and evaluated accordingly: market demand for the gala dresses, target customer groups, marketing tools for reaching the customers, finance sources available in Finnish entrepreneurial environment, and potential profitability of the business.

Based on the calculations and analyses in the initial plan, the proposed business idea is viable enough to be implemented. However, a broader business plan covering production aspects, sourcing process, transport and logistics must be carried out if external investors are used for funding the business. The start-up company has adequate prerequisites for succeeding at selling Vietnamese imported gala dresses to Finnish customers. The market size for the product demand appears comprehensive, the scope of defined target customers is large enough for the company to yield profit from its business and the strongest competitive edge; lower prices, give the start-up company a great starting point. The calculated sales target and profitability are considered realistic and achievable in a real business life as well. Still, it is crucial to bear in mind that the calculations are rough estimated figures that are based on gathered data in the empirical part. They may radically change over time.

This thesis has also pointed out that Finland is a very business-friendly environment. All entrepreneurs launching business in Finland are greatly encouraged by several public and private business supporting organisations. However, the main prerequisite for starting a business is a business idea itself: it has to be good enough to sustain the business. A careful planning for the business is a critical factor to success. As stated earlier, planning is free of charge, launching is not.

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