Hu Chenjuan

SME-OPERATED CHOCOLATE EXPORT OPERATION TO THE CHINESE MARKET

Case “Fazer” chocolate

Thesis
CENTRIA UNIVERSITY OF APPLIED SCIENSES
Degree Programme in Industrial Management
May 2012

ABSTRACT

CENTRAL OSTROBOTHNIA UNIVERSITY OF APPLIED SCIENCES	Date 20 May 2012	Author Hu Chenjuan
Degree programme Degree Programme in Industrial Management		
Name of thesis SME operate chocolate export activity into Chinese market, Case "Fazer" chocolate		
Instructor Ying Liu, Mikael Naveri		**Pages** 55+Appendix
Supervisor Principle Lecturer: Ossi Päiväläinen		

This thesis is focused on describing and analyzing SME (small and medium enterprise) operated export operation for Finnish famous chocolate brand "Fazer" to the Chinese market. It is based on a real case from international trade company CF Line, which is a totally new trade company located in Kalajoki, and which has started this operation summer 2012.

The objective of the thesis essay is to research and analyze Chinese market by using marketing, supply chain and financial knowledge to evaluate the feasibility of case Fazer. It is an export plan of an existing product - Fazer chocolate, to enter a new market. From marketing view, I will use several marketing tools to analyze the product environment. Financial aspect is worked for financial statement and existing company position. And Supply chain is focused on real logistics perspective.

From my thesis, it is possible to understand basic relationship between Fazer chocolate production and Chinese food market. I wish it will enlighten and guide more SMEs in which wish to implement export business between Finland and China.

Key words

Fazer, Chocolate, Export, Financial analysis, Marketing, Entry strategy, Supply Chain

ABBREVIATIONS

SME	Small and medium (sized) enterprises
EU	European Union
INCOTERMS	International Commercial Terms
FTE	Full time employees
EBIT	Earnings before interest and taxes
ROA	Return on assets
ROI	Return on investment
ROE	Return on equity
RSPO	Roundtable on Sustainable Palm Oil
CIF	Cost Insurance and Freight
CFS	Certificate of free sales
CO	Certificate of Origin
AQSIQ	Administration of Quality Supervision, Inspection and Quarantine
SFDA	State Food and Drug Administration
IMF	International Monetary Fund
AFTA	ASEAN Free Trade Area
SCO	Shanghai Cooperation Organization
APEC	Asia-Pacific Economic Cooperation
WTO	World Trade Organization
GDP	Gross Domestic Product
CPI	Consumer Price Index
CVS	Convenience store
C2C	Customer to customer
B2C	Business to customer
SWOT	Strategy planning method utilized for analysis firm’s potential business operation with its strengths, weakness, opportunities and threats.
SBU	Strategy Business Unit
BCG Matrix	Boston Consulting Group Matrix
EOQ	Economic Order Quantity

ICC	The International Chamber of Commerce
EXW	EX Works (...named place)
FCA	Free carrier (...named place)
FAS	Free alongside ship (...named port of shipment)
FOB	Free on board (...named port of shipment)
CFR	Cost and freight (...named port of destination)
CIF	Cost, insurance and freight (...named port of destination)
CPT	Carriage paid to (...named place of destination)
CIP	Carriage and insurance paid (...named place of destination)
DAF	Delivered at frontier (...named place)
DES	Delivered Ex-ship (...named port of destination)
DEQ	Delivered Ex-quay (...named port of destination)
DDU	Delivered duty unpaid (...named place of destination)
DDP	Delivered duty paid (...named place of destination)
ROP	Reorder point
JIT	Just in time
FMEA	Failure Mode and Effect Analysis
RPN	Risk Priority Number

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PREFACE

First of all, I would like to thank those who have helped me in completing this thesis successfully. My thesis supervisor, Ossi Päivälainen, who provides the best guidance and suggestion for thesis content in the whole writing processes. Juha Huumonen, who responds to modify my thesis essay to be correct in regular forms. Also thanks to financial supervisor Marja-Liisa Kaakko for guiding and correcting my financial report. Finally, I deeply thank Yin Liu and Mikael Naveri, who provided me with this subject topic and opportunity for practice.

This thesis is based on a real case from international trade company CF Line, which is a totally new trading company, operated by Naveri family in Kalajoki, and has started this operation from summer 2012. CF Line is an SME (small and medium enterprises) company and one project of the company is to have Finnish famous chocolate brand enter the Chinese market.

The purpose of the thesis is to analyze the feasibility of Case Fazer from the financial marketing and supply chain perspectives utilizing my educational knowledge with many management tools to deepen understanding of the relationship between production and marketing environment. These comprehensive analyses are the basic and necessary information before a real business activity starts.

Through this thesis work not only have I got many valuable experiences, but it also gave me an opportunity to utilize the book knowledge in real business management. Practice is the best way of learning. I am glad that I can gain a lot from this thesis work, and also wish the readers can gain some useful information from my thesis work.

Thanks a lot! Kiitos paljon!

ABSTRACT

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1 INTRODUCTION

Small Medium Enterprise (SME) in European Union (EU) standard means those companies with number of employees from 0 to 250. SME's also can be defined as those having annual revenue around €10–50 million or a balance-sheet total of €10–43 million. (EU recommendation 2003.) Usually SMEs are perseverant and full of vitality, they are more flexible than large-scale enterprises, but also SMEs find it hard to get into international market. The operation scale is not big otherwise the management efficiency is not high.

But CF line wishes to break the limits of SME's. CF Line is a micro-entity international trade company, which was officially registered in July 2012 by Naveri Family in Kalajoki. It had only three employees at the beginning. Mrs. Yin Liu is the founder of the company. She is a Chinese, who provided language and background advantages for company's business between Finland and China. But the company in the start-up stage, the company size limits investment and business scale. However, the company still wishes to have a star production combined with their advantages, which is the reason of operating Finnish famous chocolate brand "Fazer" in Chinese market.

Case Fazer started in May 2012. The objective of this case is based on SME perspective to analyze the operating process. The preliminary work of this case is collecting and researching necessary information about import and export activities about Fazer production.

The purpose of my thesis work is doing the theoretical analysis based on previous research activities. Since Fazer is an existing product but planned to enter to a new market, this thesis is focused on analyzing the feasibility of this case from financial view point; marketing and supply chain perspective. By utilizing my educational knowledge with many management tools to deep the understanding of the relationship between production and marketing environment. According to product exporting process, the entire thesis is divided into five different sections, which are also corresponding to five chapters.

In Chapter 2, I started with introduction of Fazer Group to basically realize the brand value and reputation of Fazer. And then, I did the existing financial analysis about financial statement, cash flow statement, profitability, liquidity and solvency statement of Fazer Group. The last is the forecast analysis of Fazer’s organization and financial purpose. These analyses are used for evaluating the stability and sustainable chocolate support activities between Fazer Group and CF Line.

In Chapter 3, after target products analysis follows target market research. This chapter describes the Chinese import market environment with Fazer chocolate. I started from import regulations to understand the barriers for exporting into China. Then I utilized PEST for comprehensive analysis of the entire Chinese market environment, and made a conclusion with Fazer production.

In Chapter 4, I changed to end-customer analysis. In this chapter, I focused on analysis of production potential development in Chinese food market. Through analysis of the customer purchasing behaviors, I try to identify the target customer and search possible distribution channels based on the target customers.

In Chapter 5, I utilized many management tools, such as SWOT, Strategy Business Unit, BCG Matrix, to analyze Fazer's product feasible strategies with all the activities and competitors. Through these analysis tools, the operating company can then recognize the relationship between Fazer potential operation activity and Chinese market more deeply.

In Chapter 6, I focused on production supply chain perspective. It included transportation analysis with International Commercial Terms (Incoterms), specific economic order quantity for SME’s, risk analysis and transportation condition analysis. I have considered all possible factors around supply chain management and given feasible solution for problems.

The conclusion combined my thesis work with preliminary research and is followed by analysis. It presents the feasibility of this case which can be operated by SMEs, and the content of my thesis is available for future entrepreneurs who wish to operate their business between Finland and China.

2 FAZER GROUP

The original Fazer Company was founded by Karl Fazer in 1891 in central Helsinki. Recently, on 17 September 2011, Fazer has just celebrated its 120th anniversary in Helsinki. The Fazer Group is a part of Fazer family company and operation in two business areas, which are Fazer Food Services and Fazer Bakeries & Confectionery. Fazer food service is operating as a contract catering company to offer customers simple and formal food services. Fazer bakeries are offering various kinds of bread for the shop and food services, and confectionery is the manufacturer of confectionery production. The Group business has already business in eight countries, include Finland, Sweden, Russia, Denmark, Norway, Estonia, Latvia, Lithuania and others, its confectionery products are offered all around the world.

Fazer confectionery has three confectionery factories for chocolate, sugar confectionery and chewing gum separately. The chocolate is manufactured in Vantaa factory, which is located in the South of Finland. It means all Fazer chocolate products are manufactured in Finland and exported to other countries from this factory. Fazer chocolate has more than three catalogs of special taste brand, such as Geisha, Fazer blue and Karl Fazer Nordic Gourmet chocolates. These chocolate has the special brand taste in order to distinguish the brand from their competitors. Nowadays, Fazer is still focusing on creating and innovating the tasty production.

The Fazer brand has a very high reputation in Finland. According to a survey by TNS Gallup, two companies are considered as the top spot of most reputable Finnish companies: One is Fiskars and another one is Fazer, which is famous for its candy and chocolate. Fazer says consumers' interest in corporate responsibility has risen and that they have made concerted efforts to be a good corporate citizen. "We have responded to this increased demand by providing our stakeholders with products and services that suit a responsible lifestyle…"says Kartsten Slotte, CEO of Fazer (Helsinki Time Issue 2012, 8.)

A foundation of a corporation is successful operation is the fact that company must have its unique business mission of brand value. For Fazer Group, as we can see from Graph 1, its mission is to create taste sensations, which is insist on Fazer Company over hundred years.

The vision of Fazer is to build the reputation and to be the first choice for customers with relevant production. To be the leading service and food corporation on defined markets. Their operation values are based on the passion for customers, quality excellence and team spirit. (Fazer Mission 2012.)

GRAPH 1. Mission, vision and Value of Fazer Group (Fazer Mission 2012.)

Fazer is not only responding for customer requirement, but also focusing on building a good relationship with suppliers and distributors. According to Fazer financial annual report, until 2011, Fazer has 553 direct suppliers and 355 indirect sources. These suppliers and sources are the guarantee of Fazer taste quality since beginning.

The amount of output between 2009 and 2011 was 590 547 tons, 580 462 tons and 591 293 tons. It shows the annual production quantity was stable and kept increasing during the past three years. The indicator of stocks in 2011 was 61 000 EUR from finished goods in inventory. Although this quantity is not enough for the entire Chinese market requirements, yet it is enough to meet a region's requirement in China.

2.1 Fazer Oy Financial Position

The optimal path to understand the state of company's operation is to analyze their annual report. The annual report should involve the income statement and balance sheet statement according to last period year. It is the necessary information for financial analysis which is based on consolidated profit of corporate governance.

I utilized a useful financial tool, Navita system, with input of last three years financial report to indicate Fazer's current financial situation. In Table 1, it shows the consolidated indicators for Fazer financial since year 2009 to year 2011. These data will indicate the condition of Fazer Group's operation during past three years. Later, I will specifically analyze their financial condition from basic statement, cash flow, profitability, liquidity and solvency statement perspectives.

TABLE 1. Consolidated indicators for Fazer financial position (APPENDIX 1)

Fazer Financial Statement 1000 EUR	2009	2010	2011
Turnover	1441	1514	1567
Operating profit; EBIT %	44; 3,1%	58; 3,9%	54; 3,4%
Operating margin; with%	125; 8,7%	144; 9,5%	142; 9,0%
Net profit; with %	14; 1,0%	38; 2,5%	28; 1,8%
Financial margin; with %	96; 6,6%	123; 8,2%	116; 7,4%
Return on assets (ROA)		9,3	8,3
Return on investment (ROI)		6,0	5,2
Return on equity (ROE)		7,3	5,3
Working capital	-182	-379	-195
Working Capital/turnover %	-12,6	-25,0	-12,4
Quick ratio	1,1	0,7	1,0
Current ratio	1,3	0,8	1,3
Equity ratio	52,8	54,4	57,9
Relative debt ratio	31,6	29,6	25,0
Z-ratio	-1,7	-1,9	-1,4
Debt equity ratio	0,4		0,2
Number of employees	14690	14294	13865
Dividends paid	-14	-9	-19
Shareholder's equity	434	495	496

2.1.1 The company's basic statement

Until the end of 2011, see Table 1, Fazer Group had 13,865 Full Time Employees (FTE). The number of employees was decreasing during past years, which could cause both bad employment situation and simplification of company governance. The dividend indicates the relationship between shareholders and company. The payment in last three years was 19,000 Euro, which is almost double paid compared with previous year, and also indicates the return of investment for shareholders is getting better.

2.1.2 Cash Flow Statement

Cash flow statement indicates the cash flow implementation of company in certain period of time. Cash inflow before financing activities was 263,000 Euro and -128,000 Euros in year 2010 and 2011. After investment and changes in credits receivables and liabilities, the net cash inflow after financing was around 11,000 in 2010 and -39,000 Euros in 2011. It means the company is more concentrated on operating and satisfied shareholders. Its leading shareholders invest more money inside company, since the invest equity was changed from 39,000 Euro to 49,200 Euro now.

2.1.3 Profitability

Profitability is used for indicating the turnover and profit of a company’s operation. It results from combination of turnover, operating margin, net profit and return on capital.

In Table 1, the turnover was 1,576,000 Euro in year 2011, which increased by 62,000 euro and above 4.1% of growth over the previous financial year. It indicates the company’s profit was smoothly increasing during the past.

Operating margin is a measurement of actual business operating revenue before taxes and other indirect costs. It can also indicate depreciation and investment-relative financial project. During the past three years, the operating margin was less than 10% of revenue, which means the operation cost of company is relatively high. Operating profit before interest and taxes (EBIT) presents profit earned form operating business without including any profit earned from the firm's investments. The record is all under 5% since year 2009, which are lower than a standard satisfactory level.

Net profit is a direct data equal to financial income when the expenses and taxes of actual profit are deduced. The percentages of net profit from year 2009 to 2011 were 1.0%; 2.5% and 1.8%. Even the operating margin and EBIT is not satisfied, but the profit is still stably increasing and profitable for Fazer’s stakeholders.

Return on capital indicators includes three parts: Return on Assets (ROA), Return on Investment (ROI) and Return on Equity (ROE). ROA is an indicator showing profitability relative to its total assets. ROI is the minimum value as average financial expense percentage which can be regarded as a great situation. ROE ratio measures the company's probability and service by utilizing capital investment from shareholders, such as dividends.

The ROA was 8.3% in last financial period, which is approximately to 10% and satisfactory as company operation. In Navita system, ROI was 5.2% in year 2011. According to Navita system formula, it is above 5% which means the business operation is satisfied and the investment of capital is profitable. But in original annual financial report of Fazer Group, ROI was 8.0%. The difference is caused by different calculation formula. ROE was 5.3% in year 2011.

2.1.4 Liquidity

Liquidity means the amount of cash or liquid assets that are available inside the company. Liquidity indicates the ability of conversion between forms assets and cash degree to affect marketing activities. There are several liquidity ratios that can indicate the level of liquidity.

Working capital is the initial invested cash money for doing business. The amount of working capital has rapidly dropped, which means the company adjusted their strategy in past years. Year 2010, Fazer invested more than 300 thousands euro for operation activities. The ratio shows the capital turnover in year 2011 was the same as year 2009.

Current ratio measures the probability of a firm by utilizing current resources or assets to pay its debts in a short period (over the next 12 months). It also includes inventories as short term liabilities in liquidity. The ratio of Fazer company was 0.8 in past three years, which are all around 1-2 level. This means this company is stable and is satisfactory when facing sudden financial activity.

Quick Ratio, which is also called Acid-test Ratio, measures the near cash or quick assets of company to extinguish its current liabilities immediately. It must be noted here that the company's inventories will not be included into current assets. The index of quick ratio was 1.1, 0.7 and 1.0 in last three years. They are all above 0.5 which means the index is good but not satisfactory with company.

2.1.5 Solvency

A person's or organization's solvency is their ability to pay their debts. Solvency should be distinguished from liquidity. It means assets to convert cash or cover liabilities. In corporation, solvency is also measured by ratios.

Equity ratio is a financial indicator for analyzing the company's solidity, capability of impact loss and ability to fulfill commitments in the long run. As we can see from Table 1, all equity ratios are above 50%, which means the condition of solidity is good. The company is stable and has enough ability to pay their debts during the coming years.

Relative Debt ratio is also the indicator to measure the firm's ability to repay long-term debt. The difference is the reduced monetary capital. The indexes were 31.6% and 29.6%, which are all below 40% level. It means the company is stable and low risk in view of a long-term debt. But normally in high level trading activity, that the percentage of debt ratio is high may not mean high risks, because inside the liability structure perhaps there is a large quantity of long-term credit and corresponding to a lot of mortgage property. The situation of finances could be healthy even by creating profit through financial leverage.

Z-ratio is an indicator about bankruptcy and corporate collapse situation of a company. The limited indicator number is -4, 5. Fazer was around -1.5 in the last three year which means the company is still solid and not facing the pressure of bankruptcy.

2.2 Fazer Oy Development Forecast

The forecast analysis of a corporation is necessary and important. It not only sets a future target of their operation, but also indicates their future development direction. At the same level, their strategy and expectation plan will also affect SMEs' operation activities.

After a hundred years' of development, Fazer has successfully established its brand in its home country, Finland. But stakeholders will never be satisfied with the current achievement. According to Fazer group's annual report, Fazer's strategy aims at profitable growth through strong brands, a winning operating model and expansion. By 2016, Fazer is going to be an international company that is successful and highly valued also outside its current markets. (Fazer group's annual review 2011, 13)

According to Fazer's annual report, it indicates the Business goals for 2012 will be: (Fazer group's annual review 2011, 29.)

- Better visibility of corporate responsibility in the consumer interface
- Country specific programs for Sweden and Russia
- Energy policy for Fazer Group
- Increased offering of organic food and seasonality
- Less food waste
- Implementation of raw material risk analysis tool
- 100 percent Roundtable on Sustainable Palm Oil (RSPO) certified palm oil
- Developing traceability of cocoa
- Better visibility of country of origin in restaurants
- Updating the stakeholder study

When I compared this year's business goals with previous year, I realized Fazer Group reset its business strategy of being an international company with a strong brand, high value production and successful operation model. Unlikely focus on profitable growth, from the new goals for next financial period of Fazer, means the company is not just planning to improve the efficiency of stakeholders, but also continually promoting health environmental response.

I made an annual 2012 forecast analysis of Fazer. Since Fazer is a big company with large variable factors, one year forecasting seems more accurate. When I was forecasting at Navita system, I have tried many times about reducing inventory and increasing the profitability of company, and have considered more specifically about investment in international expansion, which needs more purchasing and investment during the next financial year. Also to satisfy shareholders with a stable operation process is another key factor I mentioned during forecast. In Table 2, I made for combine previous consolidated indicators with forecast data about annual 2012.

TABLE 2. Consolidated indicators for Fazer forecast analysis (APPENDIX 1)

Fazer Financial Statement 1000 EUR	2009	2010	2011	2012
Turnover	1441	1514	1567	1639
Operating profit; EBIT %	44; 3,1%	58; 3,9%	54; 3,4%	50; 3,1%
Operating margin; with%	125; 8,7%	144; 9,5%	142; 9,0%	141; 8,6%
Return on assets (ROA)		9,3	8,3	7,3
Return on investment (ROI)		6,0	5,2	5,2
Return on equity (ROE)		7,3	5,3	5
Quick ratio	1,1	0,7	1,0	1,0
Current ratio	1,3	0,8	1,3	1,2
Equity ratio	52,8	54,4	57,9	54,8
Relative debt ratio	31,6	29,6	25,0	27,8
Z-ratio	-1,7	-1,9	-1,4	-1,5
Dividends paid	-14	-9	-19	-15

Profitability of next forecasting period will focus on EBIT and operating margin. In next year, the operating margin and operating profit will decrease a little bit compared to 2011, but it is still stable when compared to average by past four years. Since 2011, the company is going to expand its brand reputation and prepare to invest in new markets. The good part is the ROI is almost at the same level as previous year, even if the company invested more money for new business strategy.

The liquidity of company in next financial year is also satisfactory. The quick ratio and current ratio are also at the same level as last year, which means the assets of company are healthy and active. Company is available to pay the short term debts in this financial situation.

The solvency of the company is focused on long term payback of investment. The equity ratio has decreased a bit, based on investment decision; relative debt ratio is also increasing which means long term loans and investment in the future, and we will have a good financial leverage profit in the future. Z-ratio is smoothly decreasing, but the data is still satisfactory, not possibly leading to bankrupt based on investment in year 2012.

2.3 Financial Conclusion

Finally, we can balance the Fazer financial condition with SMEs operation. The financial analysis not only identified the current financial statement inside Fazer Group, but also determined SME's business strategy.

According to the financial statement report we analyzed before, the company statement analysis showed the company is willing to satisfy the shareholder and attract more investment from public. It responded to the expansion strategy of the company. That is indicating the SME's have business opportunity with Fazer Group.

Good performance of cash flow indicates the company has a good financial situation. Profitability indicators also show the company's benefit statue. A beneficial company can provide sustainable business support to SME's. From previous analysis, the data proved the Fazer Group will continue their business and manufacture, which is a kind of promise of production reputation.

Liquidity and solvency are both used for showing stability of the company. It proved the possible long-term relationship with SME's. Fazer Group would like to expand their business scale and increase brand value without obvious bankrupt risks. SME's acquired a chance to profit from the company.

3 MARKETING RESEARCH

After understanding our target products, we have to research the market of the products. Marketing research is done by describing Chinese import regulation and barriers for imported products. It shows Chinese government attitude when foreign company expanded into Chinese market. I utilized PEST analysis tool for evaluating the whole Chinese market environment condition with importing production. The PEST analysis is a useful tool identifying the production in the targeted market condition from macroscopic view.

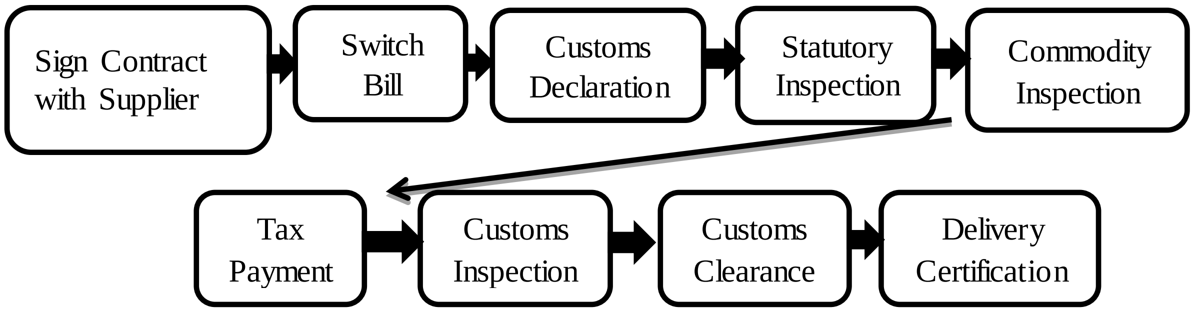
3.1 Chinese Import regulation

According to article 30 of Chinese food hygiene law provided, the imported food, food additives, food containers, packing materials, tools and equipment for food must comply with the national hygiene standards and the hygiene control regulations. (Chinese food hygiene law, Article 30.)

Under the law, imported products are obligated to pass through the health supervision and inspection by port-imported food for hygiene supervision and inspection agencies. Without a valid certificate and fulfill procedure from inspection, importers are face pecuniary punishment, fines, or even confiscation. That is named customs entry and clearance, which is an important barrier for imported production.

Recent customs regulations in China have mandated new requirements in order to regulate export and import process on July 1, 2010. “Import and export trade samples, whether provided for free of charge, the consignee or consignor of agent should register and declared at the customs office.” (General Administration of Customs Announcement, No.33, 2010.) Importing food in accordance with national health standard needs production inspection. Import entities applying for inspection should provide the exporting country (region) used as for pesticide, additives, fumigation agent and other relevant data and inspection report. The information required to delivery into import countries’ General Administration of Customs.

Chinese General Administration of Customs states that the importing process should involve all necessary processes of supervision and inspection. I made Graph 2 which clearly classifies importing activities with nine continuous steps.



GRAPH 2: Chinese import process

Step1:

From Graph 2, the first step of import process is a contract with supplier. The buyer is obligated to provide all required documents, which includes transportation information, bill of lading, invoice and contract, to consignee and seller. These are preparations of import process, and should be mentioned the contract.

Step2:

Switch Bill is similar with Cost Insurance and Freight (CIF) service. It will happen when the custody need different bill to pick up and deliver goods from shipment to any named destination place. The bill of lading should include endorsement of responsible person's real information.

Step3:

After switch bill, customs declaration requires the consigner of agent is obligated to be registered and declared at the customs office, and relative documents delivered. The materials involved are:

a) Fulfilled import and export food labeling audit application
b) Test report by the inspection and quarantine agencies
c) Food labeling sampling and the content note
d) Chinese labeling
e) Certificate of Free Sales (CFS) or Certificate of Origin (CO) (See APPENDIX 2)
f) Business licenses of manufacturer and distributors

g) Hygienic license
h) Food ingredients
i) Sample Production

During customs declaration, present food labeling is a very important element. It will affect the subsequent sales process from first import activity. Record label is suggested at first time. A good label can save time and money in long-term business, be an outstanding production features and increase passing rates of inspection. Chinese government requires any document in English shall be translated into Chinese with the seal of the applicant organization. Any label with specific items, such as ISO9001 or royal specific, should be attached to the improving materials.

Choice of the first time import is very important for production. Since production does not need labeling audit when it has a record number of label. It simplified the inspection period of the same production. What must be noticed here is that if product recorded number has been done in one of the port's national commodity inspection administration; there is no possibility to use this record number in other ports. It means the later import process should go through the same port as recorded in the existing number.

Hygienic license is issued by The General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ). According to the national hygiene standards for inspection, the importer must provide food health evaluation materials by the exporting country (region). If the production has no standard before, the import unit shall submit inspection requirement to the State Food and Drug Administration (SFDA) from port customs.

Step4:
Statutory inspection is different from commodity inspection. The customs declaration form refers to the supervision's condition is A (import) or B (export) of goods, the goods need statutory inspection which from U.S., Japan, Korea and European Union. Without A or B, goods do not need statutory inspection. (Commodity inspection, 2012.)

Step 5:

Commodity inspection in China involves three perspectives, which are commodity inspection, plant and animal inspection and sanitation inspection. Importing company should record imported food consignee and get the record number from commodity inspection bureau. Then, it should deliver all required label and certificates to Chinese commodity inspection bureau. Finally, it should arrange health and quality inspection with commodity inspection bureau (see APPENDIX3). When the commodity inspection is qualified, commodity inspection bureau will issue goods declaration form. It is the beginning of pick up process form customs.

Step 6:

Tax payment is in accordance with Incoterms (See section 6.2) marked in contract between exporter and importer. Normally, the tax payment is paid by seller and arranged by buyers, but this condition also could be negotiated by both parts within the contract.

Step 7:

Customs inspection is arranged by customs declarer. The declarer will forward declaration certificate, contract, bill of lading goods, declaration form, tax payment invoice and other required document to customs offices. The customs will spot-check or automatically inspect imported goods coincide with document.

Step8:

Customer clearance arranged by customs to insure the previous steps had been done, and without any additional requirement or punishment required. The customer will provide a certificate of inspection which is used for releasing goods from customs.

Step 9:

Import Company with valid delivery certificate can pick up goods from customs offices.

The Chinese import regulation is significantly impacting the success of Case Fazer. Chinese government has normative and standard rules for importing process. But the relationship with Chinese government is more important when combined with regulation. Chinese government allows different import ports have little diversity of regulations. As I mentioned before, record number and import port is allocating the future import port of same production, authorized port will limit future distribution of products. But the business will have high chances when the SMEs have relationship with a port. This case is possible when the person of SME is available to deal with these problems. Otherwise, seller can use a relative person from official agency in China.

3.2 PEST analysis of Chinese import market

In addition to import barriers and regulations, we should also understand the target market. An accurate environment analysis is not only helping the corporation to get more profit from market, but also reduce the risks of business activity. In fact, environment analysis is not a temporary project but sustainable and continual at all aspects of planning.

PEST analysis is an effective tools for studying the host country`s environment which from political, economic, social and technological perspectives. By utilizing this tool, firm can assess organization's business environment and establish new market strategy before physical exporting process. A good PEST will take account of internal and external factors and the micro- and macro- environment reasons. (PEST Analysis, 2012.)

3.2.1 Political factors

The economy of China declined during the end of Mao Era. But since reformists within the Communist Party of China started the Chinese economic reform in December 1978, the economic situation is recovering now and is more open. The reform and opening-up policy is not communism but encourages the entrepreneurs to start businesses and inspires the foreign countries to invest in China. Nowadays, this policy has made China's economy turn into the second largest after the United States, and it is still increasing based on its population advantage.

China joined several world economic organizations, such as International Monetary Fund (IMF), The World Bank, ASEAN Free Trade Area (AFTA), Shanghai Cooperation Organization (SCO), Asia-Pacific Economic Cooperation (APEC) and World Trade Organization (WTO). These organizations give Chinese enterprises more chances in the joint global business activities. For our case, WTO provides a good environment for trading agreements works between European countries and China. It can effectively reduce trade barriers and additional expenditure, increase fair and free trade for Finnish enterprises.

On 30th of March, Chinese State Council held an executive meeting determining many policies to expand import scale, promote international trade development between China and foreign countries. (Chinese State Council, 2012) The executive meeting pointed that China will down-regulated import tariffs of some commodities to encourages more importing activities on a global scale, which included parts of the energy raw materials, consume daily goods, cannot be produced or be performance key parts for primary energy raw material and emerging industries.

3.2.2 Economic factors

Gross Domestic Product (GDP) is the market value of all final products and services in a certain period of time of the country or region. It is a kind of index to reflect a nation's economic development status and measure national economic condition. In GRAPH 3, the annual growth rate of GDP of China expands by 7.60 percent in the second quarter of 2012 over the same quarter of the previous year. It indicates the Chinese market value tends to be stable and low of market growth.

GRAPH 3: China GDP Annual Growth Rate (adapted from Trading Economics, 2012)

At the same time, GDP has a lot of uncertainty if inflation rate is not given. Inflation rate is used for analyzing of product price increase against a standard level of purchasing power.

It is an indicator of domestic Consumer Price Index (CPI) indicator with GDP deflators. Inflation rate indicates the purchasing power, when the inflation rate increasing the money is less valuable. In Chart 4, the current inflation rate in China was recorded at 1.9 percent in September of 2012 which is 0.1 percent lower than last month. The percent is declined more than three times compared with last year. It means the Chinese currency is power than before and the Chinese market environment is getting stable under the Chinese macro-economic control policy.

GRAPH 4: China Inflation Rate (adapted from Trading Economics, 2012)

3.2.3 Social factors

The social factors can be divided into many aspects: religion, business environment, attitude, language, social culture, purchasing behaviors and variety of people. Especially, the social factors may lead to different results in business operations and strategy planning.

Chocolate as new product entering Chinese market has no basic consumer group from before. Chinese chocolate market is relatively simple and production variety small. It means Fazer needs to put more focus on its product image penetration and to guidance about their chocolate. Foreign production has a high reputation of quality and safety food image for Chinese people. That is the reason why Chinese consumers prefer foreign products over domestic product. But a big gap of purchasing power between city and country limits chocolate distribution scale in reality.

At the time a foreign product enters the Chinese market, language is the first barrier that a firm cannot avoid to face. Although major Chinese chocolate consumers have good level of English, Chinese consumers still wish to learn about the product in their own language. The global brands, like Mars, nestle, Ferrero, have a Chinese name and label for the Chinese market. It makes the consumer feel like home.

3.2.4 Technological factors

Technological change has had a huge impact not only on how firms produce products, but also on how their business is organized. (John & Kevin 2007, 7.) The application of automatic production line has changed the traditional production process for chocolate manufacturers. Instead of full handmade mode, modern industrial technology introduced mass production concept which increases production quantity with reduced production cost and additional expense. With computer and technology improvement, the technology of chocolate manufacture is also increased.

Variety distribution method is another breakthrough of technology, for example: modern terminal channel has been facilitated in many aspects of industry diversification. The rise of the Internet has significantly affected customer purchasing behaviors. Young generation prefers innovative things. The purchasing channels have become diverse and simpler than even before, too. (Spectrum Management and Telecommunications, 2010)

As we can see from the information above, PEST analysis identifies the Chinese food market for chocolate industry is in a positive situation. The political and economic perspective indicates the consumption capability of Chinese consumer is increasing and government wishes to provide more opportunity for foreign chocolate industry to enter the Chinese market. The other perspectives are also indicating the more local and stable production with future development. So, after self-production analysis and general market analysis, we should focus on production and market development of chocolate products.

4 MARKETING DEVELOPMENT

Marketing development is focused on analysis of the end customer. I will go to research the purchasing behaviors and explore the requirement from target customer. And then combine the research report with SMEs' operation. In this Chapter, I'm going to basically describe Chinese customer purchasing behaviors and discover our target customer group based on real questionnaire research. After that, I will continue with distribution analysis for Fazer production in future operation process.

4.1 Purchasing culture and behaviors

In fact, the customer research is used for understanding targeted national culture and relative purchasing behaviors. Given the broad and pervasive nature of culture, its study generally requires a detailed examination of the character of the total society. (Schiffman, Kanuk & Håvard 2012, 342) Culture may be the most effective factors of guiding and distinguishing the target market. It is a character of total society, which combines history, religions, language, knowledge, people, life behaviors, etc.

Following with the internationalization of culture, a few Chinese traditional festivals have been changed in many small details because of globalization of cultural exchange. Valentine's Day is not a traditional festival of China, but because of this influence, many Chinese lovers prefer to celebrate it. Especially consume chocolate concept during Christmas and Valentine's Day have been successful implanted into Chinese festival concept between young generations. China, as one of the world's most present preferring country, makes large for a profitable market during festival period. Chocolate not as daily consumption, but as valuable festival gift is the best choices for Chinese lovers and young generation group.

Valentine's Day which is just around the corner, means big business for chocolate companies. In the U.S. alone, more than 58 million pounds of chocolate candy is sold during Valentine's week. (CNN Freedom Project 2012.) It is also happens in Chinese chocolate market.

4.2 Target Customer Analysis

The direct way of understanding target customer is the questionnaire. I got a free import food investigation report, which is from a Chinese online questionnaire website, and investigates Chinese consumer's attitude to import food and feedback on them.

This questionnaire was arranged by Data100 marketing researching company on 6th of January, 2012. (Data100, 2012) The survey carried of 407 nationwide respondents in domestic marketing in China. The entire questionnaire is available in APPENDIX 4. In Table 3, I only pick up necessary information which relates to target customer.

TABLE 3: Import food questionnaire abstract

	Man	Woman	First-tier city	Second-tier city	Third-tier city
Import food is expensive	54%	63%	62%	57%	56%
I have purchased import food before			85%	76%	63%
Chocolate as the first choice of import food	56%	67%			
Wine as the first choice of import food	46%	29%			
Supermarket is the path of import food	61%	51%			
Online shop	10%	12%			
Import food increased living standards and diversity of consumption	52%	55%	61%	50%	51%
Import food more safety	46%	46%	54%	47%	39%
Import food is less demand	26%	34%	23%	32%	34%

For reason of equality, the nationwide respondents are collected from equal gender, three consumption levels of China and are different of ages. The questionnaire scale is based on percentage of vote, which means high percent means more possible of choice. Through combination of different percentages of vote, we can recognize the consumption tendency and target customer groups.

From the abstract of questionnaire, for Chinese customer, we can see the import food belongs to high-value production. The customer from first-tire city has more purchasing power for expensive production. Women suggest chocolate as their first choice when considering purchasing import foods, but men prefer wine to chocolate. A Consumer will choose supermarket as his first purchasing channel, which is by a large margin more popular than online shopping. More than half investigators think that living standards increases led to more wide diversity of consumption. Around half of respondents from first-tire citizen consider import food safer than domestic food, and second-tier and third-tier citizen think the thing is valued if it is rare.

For SMEs, it is not hard to recognize that a first-tier citizen has more purchasing power for Fazer products. They would like to increase their own living taste by purchasing high value production. Focus on women and rich citizen will reduce pro-investment of SMEs. A second-tier citizen has more potential purchasing intention of chocolate, which is key information when we consider entry strategy later. Almost half of respondents are geared towards to safety food, which can be the key attractive factor for Fazer production.

4.3 Distribution Channels

After choosing the target customer, we should continue with the path of distribution to end customers. The distribution channel analysis will affect distribution logistics and new marketing entry strategy in strategy decision. It makes a difference between imported food and domestic production, especially as to suppliers, transporters and final distributors with common productions. Therefore, the choice of distribution channel of imported food needs to be chosen carefully. In the Chinese market, there are several channels to be utilized by import foods already. Following, I specified the main channels of sales into four kinds of channels form market information research.

4.3.1 Chain Supermarket

First, chain supermarket means the supermarket has more than one retailer in certain region, like: Wal-Mart, Carrefour, BHG Beijing, 7-11 and 24 hours Convenience Store (CVS). They can be operated by international or global firms, and also domestic companies. No matter which chain market will be utilized, products are allowed to be distributed directly to public consumer without service limited. Compared with other channels, supermarket support consumer freedom of choice and comparing production requirements.

When we consider supermarket as our distributor, there is a condition I need to mention here which is admission. In China, some supermarket’s admission fee can push up the retail price for nearly three times. Experts told reporters, compared with current global consumer market, collection admission fee is almost China's unique commercial retail mode, it can be said that this is a real Chinese "business freaks". (Supermarket admission, 2012.) Admission made the biggest barrier for product distributing through supermarket. Carrefour takes a huge price of admission from Chinese suppliers without clear charges items. Wal-Mart’s strategy is without admission fee, but they require lower purchasing price than other distributors. These policies have the same target, which reduces supplier’s profits and increases the risk of product liability.

But undeniably, making contract with chain supermarket will be a great promotion of product. Since a chain supermarket has its own reputation in national wide size, it potential built brand image and promoted production for free. For a SME as a supplier, in a long-term business with continued contract, this case will become a star product with stable profit for company.

4.3.2 Food agency and sub-distributor

Food agency means a food Company which has private relationship or contract with restaurants, hotels, bakeries and any place to support food supply. These agencies have necessary information and understand the specific requirements of their customer. Sub-distributor is similar with food agency but it is small and local size. They may not have contract with restaurants or bakeries, but they can satisfy local demand of product.

There are many importing food agencies and sub-distributors in China that have a private channel with hotels and bakeries, which are indispensable for buying some high quality or import productions to satisfy customer requirement. The needs of those products is large and that is the reason why agencies prefer to adopt direct purchasing strategy, firmly grasp consumers and guarantee the smooth and stable sales of products. If a SME can be the only supplier in Chinese market, it will allow these agencies and sub-distributors make supportive contract only in long-term business. Even the quantity of order may not be as large as chain markets, but potential brand reputation will be higher than common production. It could make a good impression in a new market. In supply chain perspective, stable reorder quantity is also reducing costs for the company itself.

4.3.3 Sole trader

Sole trader means self-employed entrepreneurs, who are responsible for their own business activities. They can own a physical shop in the market with limited customer volume and low shop image will also lower the production brand image.

Nowadays, there is a kind of exclusive shop in Chinese streets, which is only selling the products mentioned. For example, a chocolate exclusive shop only sells chocolates from worldwide suppliers. This idea is brilliant for a general established business and increase production brand reputation in the foreigner-concentrated area, or the street of large passenger volume. These shops both help to increase shop’s reputation and product’s brand image.

4.3.4 Internet Shop

Along with the rapid development of Internet, more and more customers prefer utilizing internet as their purchase path, and even substituted traditional purchasing behavior (See section 4.1). The online shops get popularity with unique products; the Internet also is a good way for imported foods to promote.

Compared with physical shops, the most striking feature of online shop is they avoid the costs of store’s rent. The price is not including rent, services cost, additional costs and so on, so that is prices are generally cheaper than in physical shop. This special feature of online shop is it not conflicting with physical shop. I did some research online with internet shop and discovered, lot of official companies open their own e-commerce shop to sell their products.

For example, Taobao is one of the famous online shops in China. It was established in 2003, and it is a division of Alibaba Group’s website. The mission of Taobao is to build a global leading network retail business circles. Nowadays, Taobao's businesses have both the Customer to Customer (C2C) and Business to Customer (B2C). Currently they have nearly 500 million registered users in Taobao, and more than 60 million fixed visitors per day (Taobao online shop, 2012). This huge consumption group will indicate the basic purchasing power for products. The excellent promotion and good consumer satisfaction via online shops are able to improve the brand loyalty.

In the case of SME, I consider utilized Taobao's B2C mode as production entry strategy. The online shop builds a good relationship bridge between supplier and consumers. The consumers are available leave their comments at the website directly, and companies are able to receive the updated marketing information and flexible change the purchasing orders from consumer's feedback, which is a good promotion way of increase brand image.

5 MARKETING ANALYSIS

Marketing analysis is the topic of the product's own features. Combining production features with existing marketing environment is next to customer purchasing behavior and distribution path analysis. In this chapter, I used SWOT analysis, strategy analysis, and competitor analysis as my marketing analysis tools to explore the foundation of production entry to a new market.

SWOT is a useful tool to understand the advantages and disadvantages of products, and it could be relative with entry strategy decision. Through combined entry mode decision with current business situation, the SME can receive several possible production development reports. And then, I will analyze the current competitors and competitor strategies in result of increase market share.

5.1 SWOT analysis

SWOT analysis is a strategy planning method utilized for analyzing firm's potential business operation with its strengths, weakness, opportunities and threats. (Humphrey, 2005.) It can successfully identify the internal and external factors that will affect the achievement of firm's business target or objective. Since Fazer product do not exist in Chinese market, I only combine current market with Fazer potential brand image in Finland.

5.1.1 Strength

S1, Increasing market. Compared with other countries, Chinese current chocolate market is fresh and small. But followed by Asian economy growth, the demand is increasing. In fact, Chinese food market increases stably and is expected to hold a 20% share of the global market by 2016. This year, chocolate sales in China are expected to rise 19 percent to $1.2 billion. (See section 3.2)

S2, Production value. As a century-old brand, Fazer has been known for good quality, unique taste and a responsible reputation in the Nordic Countries. That is the cornerstone of developing and increasing process. (See chapter 2)

S3, Distribution variety. As the chocolate final channel of distribution, modern terminal channel is more and more important. This involves supermarket, sales agents and internet sales network. In this way, Chinese candy market is explored successfully. (See section 4.3)

S4, Product variety. Fazer products include more than five series of production in the market. According to seasons and festivals differences, Fazer also offers special taste products. (See chapter 2)

5.1.2 Weakness

W1, High value consumption. Compare with Chinese traditional leisure food. Chocolate belongs to high-price and unnecessary consumption in China. Chinese average purchasing power is lower than that of foreigners, which limits the consumer group. (See section 4.2)

W2, Low brand awareness. Not only Fazer, but Finland is rarely known by Chinese people. Relative economic and trade activities between China and Finland are significantly fewer than other European economy countries. It takes a long time to familiarize the customer with Fazer and Fazer’s production. (See chapter 2)

W3, Low yields. Currently, Fazer’s major market is around Nordic and Western Russia market. The amount of consumers is even lower than that of a province in China. For example, Shanghai, which is the biggest market for chocolate, has more than 20 million citizens. With the existing production quantity it is not possible to satisfy the entire Chinese market. (See chapter 2)

W4, High product cost. Comparison of global chocolate manufacturer and domestic factories, Fazer has not production lines in China but rely on export method, which will extremely increase the production cost per unit. The market price will have less competitive advantages and limit consumer group more than that of competitors. (See section 3.1)

5.1.3 Opportunity

O1, Low market saturation. Chocolate is an 83 billion dollars business in a year. Europeans account for nearly half of all the chocolate the world eats and the average Brit, Swiss or German will each eat around 11 kilograms (24 pounds) of chocolate a year. But in China, each Chinese only consume 99 grams (3.5 ounces) chocolate a year. Indians eat 165 grams a year. (CNN Freedom Project 2012)

O2, Healthy food concept. China is facing a big food safety problem. (Li, Li & Zhang, 2008) The Chinese consumer prefers more healthy food than ever before. Fazer production has its own food security inspection system which can give its product with high quality and safety better than others. (See chapter 2)

Q3, Competitive advantages. A foreign brand has more competitive advantages than Chinese domestic brand regardless of production taste variety or product process. Foreign chocolate manufacturers have more advanced technology and skills than Chinese chocolate manufactures. (See section 5.4)

5.1.4 Threat

T1, Fierce competition. Almost all famous global chocolate enterprises have available its products in Chinese markets. The competitors are numerous and the production scales are wide. (See section 5.4)

T2, Low consumption quantity. Chocolate is not Chinese traditional consumption product. No chocolate history and short time customer orientation result in a huge gap compared to the foreign market. Culture difference limits consumer demand. (See section 4.1)

T3, Operation difficult. Chocolate market operation is difficult in China. The market operation cost is high and with many barriers. Normal candy enterprises are impossible to operate effectively in short period. The majority of corporations have it hard to get balance between input and output. (See section 3.1)

TABLE 4: PEST Analysis

	Strength	Weakness
Opportunity	When we combine strengths with opportunities, there are several strategies possible for Fazer product. Fazer can broader the chocolate market by utilizing its production variety. Healthy food concept and good reputation will be a good promotion of brand image. Product should more focus on target consumer and build good relationship with them by fully using modern terminal channel.	Low yields and high production costs forces Fazer to pay more attention to high-value and high profitable products. Stable production can utilize the health and safety Nordic food concept. Avoiding brand value becomes common and cheap.
Threat	Fazer can be different from other competitors by focusing on Chinese consumer taste behaviors; be more creative and innovative for target consumer. Increasing product value with high price low demand strategy, focus on satisfying a small scale of consumer.	Fazer needs to be more careful and be specific for export process and production process in China. Focus on product features and reduce unnecessary promotion expenditure at beginning.

Table 4 is a conclusion which collected and combined all previous factors on the product. It is an entry strategy map which clearly shows Fazer product's available strengths and opportunities. For example, SMEs can focus on products, and make the best use of Fzaer brand and concept to establish the brand in new market. Otherwise, the identification of threat and weakness are also of help to avoid many risks for entry process. SME need to be more careful when operating business, e.g. reducing extra expenses and specifying export process.

5.2 Basic Entry Decisions

Theoretically, an existing brand extending into a new foreign market needs to consider the international strategy. The entry strategy is always concerned with two items. First, decision of which foreign markets of firm expansion, time of entry, scale of firm wished entry.

Fazer has a hundred year's history with stable and satisfying brand in Finland and Nordic EU countries. In this case, the target market is the world's second-largest economy, China. We analyzed PEST environment before (See section 3.2). It shows the Chinese market to be a long-run economy area increasing profit market. Chinese government tends to attract all high technology and consumption production investment. The SWOT analysis (see section 5.1) indicates the considerable existing and potential market size in future, and the rapid growth of purchasing power of consumers. Chinese chocolate market is still unsaturated and attracting more manufactures to invest in the future time. China, while relatively poor is growing so rapidly that they are attractive targets for inward investment. (Charles & William 2011, 445)

Entering time is a consideration about entry mode decision. Only the suitable strategy works for company, wrong strategy operated can be counterproductive. Even though China is unsaturated for chocolate production, Fazer will never be the first mover of this product. Without advantages of first-mover means the brand needs more promotion to establish the brand value and strive for gaining market share. But as the following entrants, we can avoid the disadvantages of pioneers, such as pioneering cost. It is such a kind of tuition fee for early entrant to pay for learning the rules, exploring new market, promotion for inexistence product and failure during management. The following entrant needs not only to connect with product orientation but also decide the strategy for future management.

Scale of entry limited pre-investment of SMEs. Large scale of entering implied large investment and strong supplier. Small scale means no rapidly increasing marketing share. (Aydemir& Schmutzler, 2008.) In this case, as a SME company, the scale of first entry is limited by company's assets. In view of future brand expansion, the decision of distribution way should carefully think over, for reason of making scale decision.

5.3 Strategy Business Unit

The second project of entry strategy is analysis of level of Strategy Business Unit (SBU), It is the collection of entry mode and competition strategy for target market. The international strategy of entering new markets normally can be classified into six different modes, which are direct and indirect exporting, contract manufacturing, franchising, licensing, joint venture and wholly owned subsidiary. These modes have their own advantages and disadvantages.

Since this case is based on SME's business model with limited resources rather than Fazer group operation this business, it is more realistic to decide the modes combined with the distribution modes we described before (See section 4.3). Internet mode only can be operated under SME's business. (See section 4.3.4)

5.3.1 Direct exporting

Direct exporting into foreign market has more advantages; such as company can take over entire exporting activities, direct contacts with end customers and immediate get feedback, achieve experience and study local economic situation more clearly. There is a very distinct feature of saving costs for establishing manufacture for products, especially for SMEs limited with investment. But the drawbacks are obviously, for example, high relation costs, high transportation costs and tariff barriers restrict SMEs' operation. These features indicate the exporting strategy must be based on small and flexible operation mode business of SMEs. For an internet shop (see section 4.3.4), with short business periods, low inventory and moving cash flow, it is easier to monitor and adjustment with low sales volume and discontinued demand period requirement.

5.3.2 Licensing

As our SME in this case is not an original manufacturer of product, therefore the SME's should get the license from the original company which allows the SME to sell the product to another. Also SME as a subcontractor purchases production and overtakes the responsibility of production, with available licenses, the following sales activity will not relate with legal problem. Licensing is a less risky and cheaper way to exploit potential subcontractors with less investment.

5.3.3 Indirect exporting

The third distribution way we have been mentioned is to distribute products by domestic wide Chain Supermarket (See section 4.3.1), for example: Wal-Mart and BHG Beijing. This business model is indirect exporting in which production selling relies on retailer's own sales network. The supermarket is the agent of SME Company; they need know-how of the local market and established a stable network. The SME pays for the entering fee of supermarket and the supermarket's supply chain will increase the sales volume of product. By using this method, we can flexibly adjust the average of investment scale and also decrease the promotion of brand reputation. But the shortcoming is barriers of entering; it may be varied in different level per supermarket.

5.4 Competitor analysis

In recent years, Chinese chocolate market has rapidly grown up. China has attracted almost all chocolate manufacturers' attention in Chinese market. More than ninety percent of chocolate manufactures have jointed or invested in Chinese market. In addition to Europe and the United States brands, chocolate manufacturers from Korea, Japan and other Asian countries have all accelerated development in China. Multinational enterprises recorded high growth of China chocolate market. They have set more and more manufacturing factories in China in the past few years.

In current Chinese domestic market, participating enterprises can be divided into three major groups: first group is foreign global brands, representative as Dove, Ferrero and Hershey, occupied the largest market share with high-grade chocolate; the second unit is representative of the joint venture brands, leading intermediate chocolate market; the third group is domestic factories with local brands, sales in the cheap chocolate market. (Li Ying, 2010.). I have separated existing brands in Chinese market into two parts: one is global brand from famous international enterprise; another is domestic brand from Chinese manufacturers. Then, I will continue with the major competitor analysis of Fazer brand in Chinese market.

5.4.1 World import brand

Chocolate industry in China has gradually formed a monopolistic and centralized state. At the present, the world's top twenty chocolate enterprises have already entered China; more than 70 brands are available in Shanghai’s supermarket. Those chocolate factories including Mars Inc. and Hershey Company from United States, Birmingham from United Kingdom, Ferrero Group from Italy and Nestle from Switzerland have accounted for more than 70% of the global market share. Imported chocolate is accelerating the Chinese chocolate factories to international competition evolution process. Here I illustrate some contenders and examine them in details and classify their features compared to Fazer product.

First, Mars Inc. is one of most famous chocolate manufacturers in the world. It has successfully entered and is stationed in the Chinese market. The production includes M&M’s, Snickers and Dove, which are Mars Company specific, launched products at beginning. Mars has large scale of products and entire production lines in China, which can satisfy Chinese large demand with low cost. (Forbes, 2011)

Second, Nestle is also famous in Chinese food industry, but in comparison with Nestle wafer chocolate series, like Kit Kat, Chinese consumer knows better about its coffee products. (CNN Money, 2011)

Then, Birmingham candy manufacturers, the mark of Cadbury is also popular in the Chinese chocolate market. The product utilizes its Royal authorization marketing strategy on the Chinese market, determining the marketing position and consumption level. (Cadbury, 2010.)

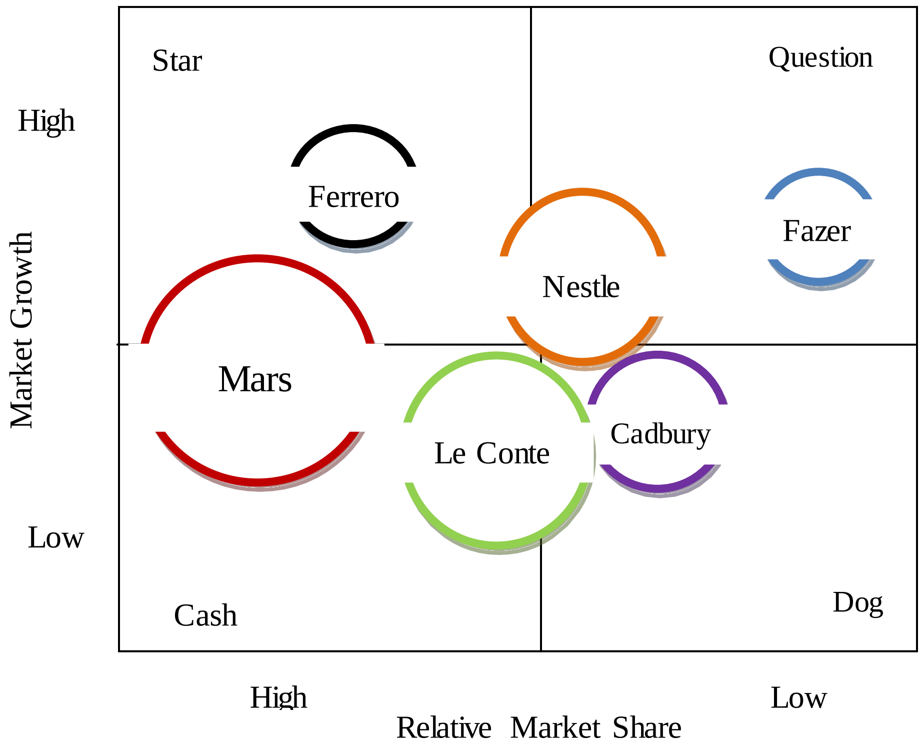
The last one I want to introduce is Ferrero Rocher chocolate. Italian Ferrero group is the world's fourth largest chocolate manufacturers. Their products are luxury chocolate products known also by Chinese consumers. Their production scale is not wide but with clear market strategy. (Ferrero, 2012.)

5.4.2 Domestic brand

Chocolate is a not Chinese traditional leisure food. Chinese chocolate manufacture process was established in the past thirty years. Comparing with those famous and historical chocolate manufacturers, Chinese chocolate factories have less knowledge and technology of process. Le conte from China Foods Limited Company is the only brand that can compare with a world famous brand. It is a branch of Chinese official food manufactory, getting support from state technology and financial department. The marketing position is at second level of lower price and position than famous luxurious products.

5.4.3 The BCG Matrix

The BCG Matrix (Boston Consulting Group Matrix) is focused on product range and combines product relative position of market share with potential increases of future growth. In the BCG Matrix life cycle can be divided into four stages that are question, star, cash cow and dog. According to different business growth rate and relative market share, I can make a BCG matrix to identify the position of product position in the market and the potential growth direction.



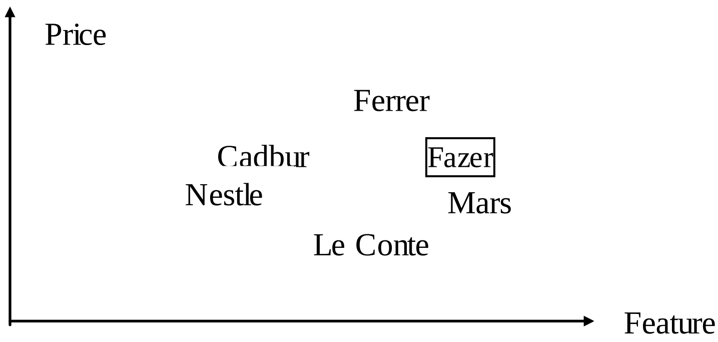
GRAPH 5: The BCG Matrix for Fazer

As we can see from the BCG chart (See graph 5), the Mars' production is a mature product with wide product scale and low production price; it has the biggest market position. Nestle and Cadbury have also existed in Chinese market for a long time, they have a certain level of market share, but the business growth is tightly relative with their future strategy. Ferrero chocolate is a new entrant in the Chinese market. It has clear market orientation, good marketing strategy leading to high profit with high marketing share. Le Conte is a domestic product with relative good reputation and fair price of production. It has a good market share, but skills and marketing strategy limit its potential growth of production.

After understanding the competitors' position and feature, we can combine them as Fazer product. Fazer production is in an introduction stage, which is a stage of high growth with low market share (Reuvid & Sherlock 2011, 73.). The choice of entry strategy can potentially determine the market share, but competitor strategy is more important for production entry than the target market. It will significantly affect the production image and position for the future.

5.5 Competition strategy

Competition strategies are intended to give full play to enterprise respective advantages and create differences between the enterprise's market position and those of its rivals. There are three different competition strategies in market, which are cost leadership, differentiation and focus on niche strategies. In the case, the decision of strategy can help the enterprise make clear of its market position and potential orientation against rivals. Once chosen, a firm's business-level strategy and its use demonstrate how the firm differs from competitors. (C.Zott, 2003.) I made a chart, see Graph 6, to simply identify the Fazer product in the existing Chinese chocolate market.



GRAPH 6: Chocolate market position relative price and feature

5.5.1 Cost Leadership Strategy

From previous chart, (See graph 6), we can basically see competitors' competitive advantages. The cost of leadership strategy here is comparing product services and features with acceptable low cost. Based on Fazer present situation, it is impossible to utilize this strategy very well. Because Fazer is a fresh product in Chinese market, SME can't lower the basic cost for unit product without direct investment for establishing production line inside the target country. (Lynch, Keller & Ozment 2000, 47-50) Mars, Nestle and Le Conte have this competitive advantage of price, which leads to price leadership in Chinese market. Cadbury and Ferrero rely on existing sales network and business activities among countries, they are also able to reduce the unit cost successfully.

Actually, without these competitive advantages, Fazer needs be to more careful about price setting. As I suggested in the chart, the price could be like the average price of Mars and Ferrero with more tastes and features.

5.5.2 Differentiation Strategy

The differentiation strategy more focuses on the product's own characteristics for customer perception. Production services and features are the competitive advantages of attracting customers. A product can be different in many ways, such as features, services, innovations, technologies, perceived prestige and so on. (Michael, R. Duane & Robert, 118.) Unusual features, responsive customer services, rapid product innovations and technological leadership, perceived prestige and status, different tastes, and engineering design and performance are examples of approaches to differentiation.

Fazer chocolate is a good example of approaching differentiation. (See chapter 2). Fazer has more than hundred year's histories, which has extensive production experiences with manufacturing chocolate. The technology of manufacture is mature, but Fazer is never stopping the innovation process. Fazer has more than five series of chocolate product in the market, such as Geisha, Fazer Blue and Karl Fazer. The special taste and unusual features is always attracting consumers more than other competitors. But differentiation concept most of times lies on high costs of manufacture. Fazer group needs consistently to upgrade differentiated features that customers value, without significant cost increases.

5.5.3 Focus on Niche

The company using focus strategy is when company wish to use their core competencies and concentrate on a particular service or skill to occupy market or to exclude competitors. For example, Ferrero chocolate has limited series of chocolate, but it has patent of making chocolate. Fazer chocolate also has unique technology of making chocolate, but Fazer is a common and public chocolate brand in the Nordic countries. It is quite hard to say that Fazer prefers to use focus on niche as their competition strategy. But this strategy can be changed during entry time.

6 SUPPLY CHAIN ANALYSIS

This chapter is mainly analyzing of transportation and relative problems of logistics. In following sub-sections, based on realistic situation of SMEs, analysis the transportation mode with Economic Order Quantity (EOQ) and Incoterms is utilized. Also the risk analysis and the solution of possible hazards will be mentioned in detail in this chapter.

6.1 Transportation analysis

Logistics is only just one piece of the entire supply chain management. But it is also the main components of Supply Chain. In this case, SME is doing international trade based on tangible productions which rely on transportation process closely. Generally, the organization will require third-party transport if it has no transporter of its own. The cost of transport is significantly important consideration for transportation which directly affects the cost of production itself. The price will be devise since different quantity, length of trip, weight, size and value of goods and so on. (Waters 2003, 312.)

Transportation covers all of logistics modes. Each mode has its own advantages and disadvantages. Relative cheap transport should also be considered according to organization's practice operation. Here I just present two options: water and air. These are the only existing transfer tools on earth that can transfer goods across the oceans destinations, such as between Finland and China.

6.1.1 Water carriage

Water mode is most common transport way in supply chain system, over 90% of world trade is utilizing shipment as first choice. The advantage of water method allows large quantity for long journeys. According to customer's economic requirement, shipment supports many different types of vessel for various cargos and with unit costs. (Waters 2003, 314-315.)

In our case, the best sales period for chocolate is during Christmas and Valentines ‘day, before and after about for four months’ time. As we analyzed before, chocolate will be a best gift to present friends (See section 4.1). Therefore, the sales quantity will rapidly increase during this busy season. Combing with historical EOQ and quantity requirement forecasting, it allows SMEs make an order in large quantity with water mode before Christmas time. Utilizing air transfer goods will lose a large profit since each unit receives air charge.

Notice that even water is cheap for large volume and long journey business, water is the one of the slowest and the most inflexible mode of transport modes. Chocolate is not a suitable production for storage for long time period and water mode always need subsequent process for delivery, even if the ports are close to your customer.(See section 6.5.3) So care of time and additional costs is the most important things when we use this mode.

6.1.2 Air freight

Air freight is the fastest transportation tool in the market. It offers long distance with shortest time delivery service, high frequency with low quantity products and high relevant cost with high level service. (Waters 2003, 315-316) It is more useful than water transport when we deliver low quantity with high frequency goods. After the busy season, the reorder quantity will sharply decline and review period will be longer. On this basis, continuing with water mode delivery is not profitable anymore. Low quantity and long reorder period makes this mode hard during off season.

The sale of chocolate in warm season is the worst period of year. It is not a wise decision to keep storage during this period. But, if we still get some order from customer, satisfy customer in time with good quality production requires air transport.

But, by air is limited the place of transfer place. Air also needs subsequent process to deliver goods from supplier or to customer, it also take times and money. Especially, the prices of transportation will affect each piece of production. Accordingly, accommodating the purchasing process with these two modes is the key idea of this mode analysis.

6.2 Incoterms 2000

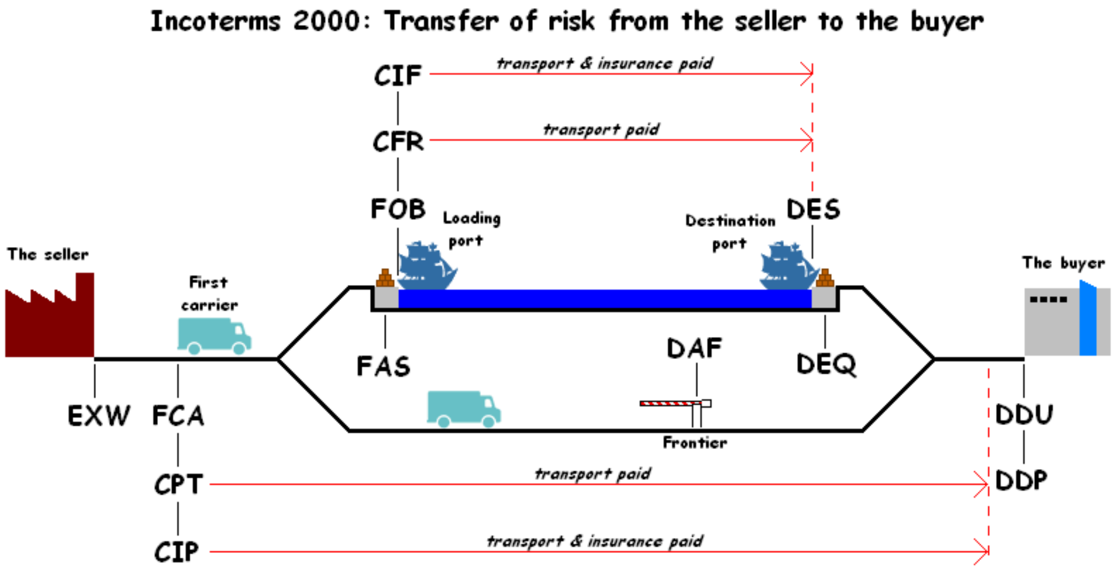
The International Chamber of Commerce (ICC) is the official international rules for interpretation of trade terms. The purpose of Incoterms is to provide a set of international rules for the interpretation of the most commonly used trade terms in foreign trade. Thus, the uncertainties of different interpretations of such terms in different countries can be avoided or at least reduced to a considerable degree. (Asko Räty 1999, 109)

In international trade business, the misunderstanding and confusion of the terms affecting the trading practices and obligation of contracting itself. According to different terms, the duty and the costs during production will be different. When we consider the deciding of usage of trade terms, we should also relate it with our marketing strategy (See section 5.3 & 5.5) and EOQ level (See section 6.3) with transportation chosen (See section 6.1). Incoterms 2000 provide 13 different trade terms in common trade business, which can be classified in the following table 5:

TABLE 5: The categories of Incoterms 2000 (Incoterms 2000, 127)

Group E **Departure**	• **EXW** EX Works (...named place)
Group F **Main carriage unpaid**	• **FCA** Free carrier (...named place) • **FAS** Free alongside ship (...named port of shipment) • **FOB** Free on board (...named port of shipment)
Group C **Main carriage paid**	• **CFR** Cost and freight (...named port of destination) • **CIF** Cost, insurance and freight (...named port of destination) • **CPT** Carriage paid to (...named place of destination) • **CIP** Carriage and insurance paid (...named place of destination)
Group D **Arrival**	• **DAF** Delivered at frontier (...named place) • **DES** Delivered Ex-ship (...named port of destination) • **DEQ** Delivered Ex-quay (...named port of destination) • **DDU** Delivered duty unpaid (...named place of destination) • **DDP** Delivered duty paid (...named place of destination)

These trade terms' relevant services with their price are obviously affecting the final quoted price because of components of Incoterms services, which includes: exporting packing, marking & labeling, inland carriage or on-carriage, inventory, international freight, export clearance, insurance, loading & unloading costs, documentation and license fee, future delivery costs, customs clearance and any other additional costs and penalties. Depending on the different terms the obligation of goods will be moved from sellers to buyers. In Graph 7, it shows clearly the scales of correct utilization of the Incoterms, and it can precisely represent the duty transfer between seller and buyer.



GRAPH 7: Incoterm 2000: transfer of risk from the seller to the buyer (adapted from Ningbo Technology Co., Ltd, 2005)

6.2.1 Delivered Duty Paid

I prefer DDP as our internet shop trade model because DDP is the only term in which seller has to bear all the costs and risks of goods delivered to the named place of destination. The seller is obligated to provide goods and the commercial invoices, to prepare all documentation and license of export declaration and import clearance, to pay whole transportation fees including international traffic and freight in both countries, insurance, contract of carriage and any additional costs assured during transport. Buyer only obligates to the payment of contract of sale and unloading fees of goods.

I thought internet shop model is fully controlled by our own company, which is limited to the demand quantity and reorder lead time. Fazer chocolate as a new product wishes to transfer from Finland to China which will need several documents and license. As for this official document, it is impossible to be prepared by Chinese domestic company. So the most concise and convenience way is to select a responsible company who can deliver goods directly to destination place with DDP model.

6.2.2 Delivered Ex-quay

DEQ refers to goods which have arrived at the destination country's quay and passed the ship's rail at the place named in the sales contract. The seller bears all costs and risks involving in bringing goods to named place. Normally, the DEQ requires the buyer to prepare the documentation of clearance, pay for the duties, taxes and additional costs with customs. The other obligation is as same as DDP, except the import customs duty should be arranged by buyer.

I suggest DEQ mode for subcontractors. Depending on our primary sales network and SME size, our subcontractors will be expending by provinces or cities surrounding import province. The only different details with original DEQ is that seller can take over the customs clearance and commodity inspection costs of goods in destination country. The goods from Finland are transferred to authorized port and customs clearance by seller will reduce risk of seizure. The subcontractors can also deliver production from authorized port to any surrounding cities speedy.

6.2.3 Delivered Ex-ship & Free On Board

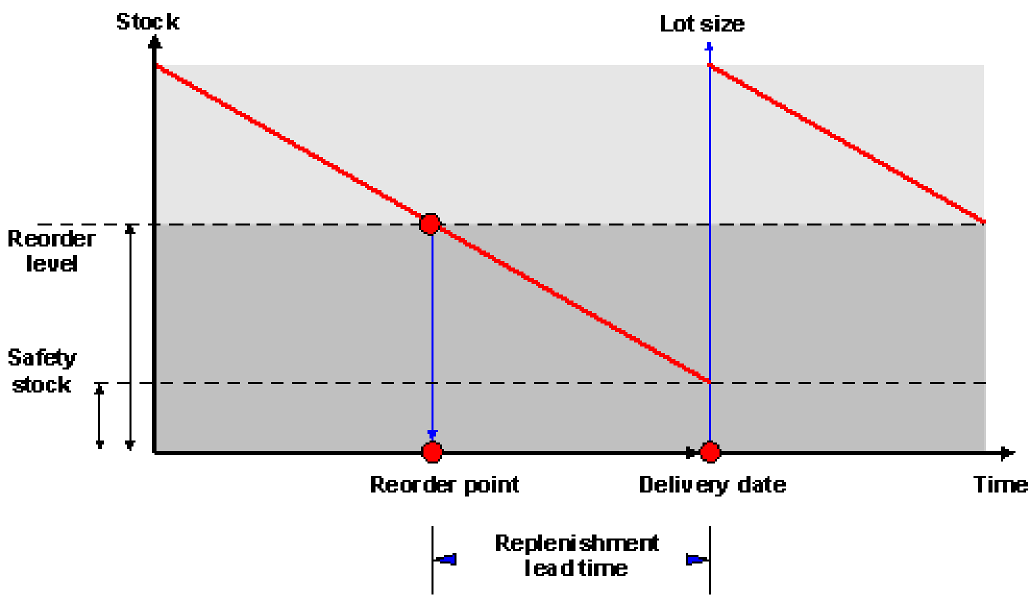
DES is almost the same as DEQ, except for the costs of unloading the goods at quay. By utilizing DES, the risks and full costs will be finished before the goods passing to the ship's rail. FOB is the most common way of international trade business, which requires the seller places the goods on the board of named shipment in the sales contract. The risks and costs will transfer from seller to buyer when the goods are passed to the ship's rail in the port of shipment. The seller is responsible for finishing all formalities of exporting declaration and costs of loading the goods.

DES and FOB are suitable for the Chain Supermarket which has import business by them. These supermarkets do not need seller to help them to clear the goods for export, and they have a certain consignee who can pick up goods from domestic quay or is even responsible for international freight by their own; such as Wal-Mart.

However, seller and buyer always have some special requirements based on trade terms, For example, seller deals with import clearance business under DEQ and free VAT of delivered duty under DDP. Thus the detail terms should be more specific for both parties in sales contract. Incoterms is used to avoid misconstrue of contract.

6.3 Economic order quantity

Generally, product demand quantity always relate to inventory division. Inventory division needs analysis the Reorder Point (ROP) and EOQ. EOQ formulation avoid statistical inventory levels fall to a certain predetermined point, which is ROP. It is balances the cost of holding inventory and the costs of the replenishment of orders. (Martin Christopher 2005, 123-128) Figure 8 demonstrates the possible situation of inventory condition with ROP.



GRAPH 8. Reorder Point Planning (adapted from SAP Reorder Point Planning, 2012)

In this case, the ROP number is different between winter and summer season. In winter time, the production demand is large which results in a high level of stock. In this situation, as our SME, I suggest to hold a safety stock during winter time. Utilizing water route (see section 6.1.1) allows large quantity replenishment. Not only to guarantee the possible delay during transport period, but also to reduce the replenishment time.

But in the summer time, chocolate is sensitive to specific temperature fluctuations, humidity and possibly ventilation conditions. Summer causes bad conditions for inventory. Zero inventory and Just in Time (JIT) strategy will be fully applied for this period of time. Airplane (see section 6.1.2) as transport tool increases replenishment time but guarantees zero inventory strategy. SME needs more focus on valuable customer than normal one by this mode.

The calculation of reorder quantity at most economic price is relative with our next concept: EOQ. It remains the best way of tackling a wide range of inventory problems. It is flexible and easy to use, and gives good guidelines for a wide range of circumstances. (Waters 2003, 272.)

The EOQ can be easily determined by the formula:

$$\mathrm{EOQ} = \sqrt{\frac{2AS}{i}}$$

Where A = Annual usage

S = Ordering cost/set-up cost;

i = Inventory carrying cost.

So, according to previous ROP analysis with this formula, the result of EOQ should be verified between winter time and summer time. In winter time, when annual usage is large, set-up costs may change by transport agencies, and then EOQ will increase. In summer time, even the set-up cost of airport is the same as water mode, inventory carrying cost is same as winter time, but the small reorder amount of chocolate will decline EOQ significantly. (See graph 8) It indicates the reorder quantity during winter is larger than summer time.

6.4 Risk analysis and FMEA

Risk analysis is a necessary tool for assessing the possible dangerous or hazardous factors affecting the business operation practice. The risk perspectives of SMEs will focus on trading operation, which is different with Fazer Group. For this reason, I will skip the management risk of Fazer Corporation, but the risks based on SMEs.

In this case, SME as an international trading company, logistic risk perhaps is the most hazardous element for the entire trading process. Incoterms which has been decided before indicate the responsibility of safety delivery is almost belongs to sellers. (See section 6.2)

Failure Mode and Effect Analysis (FMEA) is a useful tool helping in identifying the priority risk during the entire management process. It intends to anticipate the possible failure modes within production development and operations management procedure. FMEA is based on historical data and past experiences to assess the hazardous factors and avoid the repeated failures before implementing next stage of process. By using estimates the potential failure's severity of consequence, we can get a Risk Priority Number (RPN) out of this function and simulate the recommendation of this failure mode.

The entire FMEA analysis is available in APPENDIX 5. As we can see from the FMEA analysis, it is almost all about consideration of production delays and mistakes of transportation. Those are potential risks that the company will possibly meet during transportation management. My next topic is about logistic precautions.

6.5 Logistic precautions

As we have already seen in the FMEA analysis, we get the same mission as keeping the taste and satisfying the customers as Fazer Corporation. To avoid the risks appearing during transportation stage I should specify the standards of storage and transfer for chocolate.

Avoiding chocolate spoilage and keeping taste of chocolate are the most important and considerable issues during supply chain stage. Good quality chocolate should have a fresh overlook with glossy surface. Bad chocolate will lose smooth taste, grains, color changes, and aroma during times. In following sub-sections, I will in detail describe the relevant conditions of chocolate business.

6.5.1 Packaging

Generally, chocolate will be packaged in aluminum foil, composite films, paper or plastic trays for the first layer for protection. And then packaged in batches and corrugated board cartons. Utilizing plastic or metal strapping around cartons will increase stability during transport.

The production volume indicates the packaging size. The packaging size actually could be different according to its dimensions. Basically, the aim of modular system is to ensure the flexibility and safe transfer between different transportation tools. But when we consider international standard cargo units, the cartons better conform to the conventional pallet sizes, about 800x1200 mm and 1000x1200 mm. (Scharnow 1986)

6.5.2 Marking

Marking of products is an effective prevention of unsafe condition of cartons. These symbols can indicate correct handling, incorrect delivery, limited requirement and potential accidents of production. Complete marking and labeling also reduce the risk and damage, with details on the documents and licenses from customs' authorities. Complete marking must include shipping mark, information mark and handling instructions. (Bauer 1981)

Shipping mark is used for identifying the shipper or receiver with letters or order numbers, numbers of package and total number of items, and place or port of destination. It indicates the customs and transporter about basic information about shipping that helps for tracking product from seller to buyer.

Information mark includes country of origin, which is mandatorily marked on the package, indication of weight of package and dimensions of packages. This information supports the production information.

The symbols for package handling instructions are international standard symbols to ensure the safety cargo handling. The information includes: whether the package is sensitive to heat or moisture, whether it is fragile, where the top and bottom are and where the center of gravity is located and where loading tackle may be slung.

6.5.3 Environment condition

To keep chocolate fresh, it is necessary and important to analyze environmental conditions analyze. Environment condition is focused on how temperature, heat and moisture affect chocolate quality.

TABLE 6. Maximum storage time with temperature and humidity (adapted from German Insurance Association, Chocolate)

Type	**Temperature**	**Relative humidity**	**Maximum duration of storage**
Slab chocolate	10 - 18%	60 - 70%	9 months
Filled chocolate, such as milk chocolate, sweetened dairy chocolate, nut and almond chocolate and fondant-filled chocolate	10 - 18%	60 - 70%	3 - 5 months

Chocolate is very susceptible to temperature fluctuations, humidity and possibly ventilation condition. From Table 6, the optimum storage and transport temperature is 10 - 18 ℃. When temperature is above 21 ℃, chocolate deteriorates with respect to both appearance and taste. At 24 ℃ it becomes soft, and slabs, hollow molded figures and individual filled chocolates become deformed, nuts turn rancid and cocoa butter becomes greasy on exposure to solar radiation. When it is above 28 ℃ it will melt, the fat constituents are separated and then solidify while re-cooling.

TABLE 7. Temperature requirement (adapted from German Insurance Association, Chocolate)

Designation	**Temperature range**
Favorable travel temperature	10 - 18 ℃
	4.4 - 7.2 ℃

TABLE 8. Humidity/Moisture requirement (adapted from German Insurance Association, Chocolate)

Designation	**Humidity/water content**
Relative humidity	65 - 70%
Water content	0.5 - 1.6%
Maximum equilibrium moisture content	70 %

Chocolate must be protected from all forms of moisture (seawater, rain and condensation water). Excessive humidity or marked temperature fluctuations cause sugar bloom. (Naviglio, Conti, Ferrara & Santini 2010) A sugar bloom forms when moisture is presented, which dissolves the sugar in the chocolate. When the water evaporates, the sugar remains on the surface in a form of crystal. High humidity levels and temperatures also turn chocolate musty, moldy and rancid.

6.5.4 Container transport

When I combine previous environment condition with container, chocolate transported in refrigerated container is been suggested. Refrigerated container is an integral unit or porthole containers at 4.4 - 7.2 ℃.

Standard containers do not provide any protection for external temperature fluctuations. The solar radiation, for example, will significantly transmit into the inside of the container and directly reflect on the taste of chocolate. But refrigerated containers are specific with insulated walls, which can keep in within a relatively low melting point. Factors having a decisive influence on the selection of an appropriate container type are the season, the route, the duration of the voyage and the container stowage space on board.

Due to their insulated walls are less sensitive to external temperature fluctuations and the connected refrigeration units allow the required travel temperature to be maintained. However, problems may arise with this container type if the refrigeration units are not switched on and reliance is placed solely upon the higher level of insulation. Even with these containers, direct solar radiation for example may raise the internal temperature to a high level. In general, it is essential to provide a cold environment for chocolate transportation through the chain. (Alders 1995)

7 CONCLUSION

Actually, it is hard to make a conclusion in practice because the case Fazer is ongoing. The only thing that I can do is make a theoretical conclusion based on previous research and analysis. The result of the case is possibly unsuccessful in the end; because of operation in reality has differences.

From financial perspective of Fazer Group, I collected all information about Fazer products from Fazer Group. That data can ensure that Fazer will be our strong and stable supplier for chocolate exporting. Their brand value and reputation will be helpful for establishing this brand in Chinese. It is not the only benefit for SMEs, but also the increasing of reputation of Fazer in a new market.

Marketing perspective aims at describing the Chinese export environment. The beneficial policies and increase economic market provides large opportunities and potential market shares for chocolate production. From PEST analysis, we recognize even doing business with Chinese government and administration is difficult, but Chinese market is still welcoming those exporting products. In SWOT analysis, we can get some vision of a SME occupying Chinese market share and also developing Fazer brand reputation. The deep analysis of scales of targeted customers will contribute SME to avoid unnecessary expenses and concentrate on profitable business.

As for supply chains, it is closer to a logistics perspective. I enumerated all possible problems and information relative with real business operation. I start with transportation mode decision, Incoterms decision, and inventory with reorder quantity and finally go to risks of entire logistics process. My thesis essay basically focuses on details analysis so that it is more realistic and reliable for readers.

This thesis provides all necessary information of Chinese market, all official documents required and all possible hazard analysis and results for readers. But theoretical information is not enough since this case is realistic for SMEs, there still are many problems when operating. For example, CF Line know that Fazer group was operating the same project in Chinese market in year 2010, but this project was failed due to the lack of knowledge of Chinese market and Chinese government. The problems from reality, such as sales permit from Fazer Group, Chinese government examination and verification, and distribution establishment, are directly affecting the success of the case. But in my case, CF Line has the competitive advantage in Chinese market and environment, which is the reason of starting this case.

Hopefully my thesis will guide someone who wishes to do business between Finland and China. At least, they can gain some idea of business from it. This case is a combination of real experience with theoretical knowledge. It is a good case of business experience.

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INCOME STATEMENT 1000 EUR	2009/12 12	2010/12 12	2011/12 12	2012/12 12(P)
Turnover	1441	1514	1576	1639
Change in stocks of finished goods and WIP (increase -, decrease +)	-1	-4	-3	0
Other operating income	16	10	9	10
Purchases during the period / Materials usage	522	539	569	595
Wages and salaries	481	509	511	533
Depreciation on fixed assets	81	85	88	91
Other operating costs	330	335	366	380
Operating profit	44	58	54	50
Other interest and financial income	-12	0	-4	0
Financial items, total	12	0	4	0
Profit after financial items	33	58	50	50
Profit after extraordinary items	33	58	50	50
Income tax	18	20	22	23
Share of minority interests of result	-2	-7	-7	-7
Profit for the period	12	32	21	20
Turnover growth percentage	0	5	4,1	4
Average turnover growth %	0	5	4,6	4,4
Operating margin %	8,7	9,5	9	8,6
Operating profit %	3,1	3,9	3,4	3,1
Return on capital employed %	0	9,3	8,3	7,3
Return on equity %	0	7,3	5,3	5

BALANCE SHEET, ASSETS 1000 EUR	**2009/12 12**	**2010/12 12**	**2011/12 12**	**2012/12 12(P)**
Fixed assets				
Intangible assets				
Goodwill	258	236	218	225
Other intangible assets	11	15	16	18
Intangible assets, total	268	251	234	243
Tangible assets				
Other tangible assets	390	378	369	406
Tangible assets, total	390	378	369	406
Investments				
Holdings in associated undertakings	3	3	3	3
Other shares and holdings	8	8	8	8
Investments, total	11	12	11	11
Fixed assets, total	669	641	614	660
Current assets				
Stocks				
Finished goods	52	57	61	48
Stocks, total	52	57	61	48
Long-term receivables				
Loans receivable	2	3	6	10
Long-term receivables, total	2	3	6	10
Current receivables				
Deferred tax asset	12	12	8	8
Loans receivable	170	195	211	230
Current receivables, total	182	207	219	238
Marketable securities				
Cash and bank balances	62	74	33	53
Current assets, total	298	341	319	349
Assets, total	967	982	934	1009

BALANCE SHEET, LIABILITIES 1000 EUR	**2009/12 12**	**2010/12 12**	**2011/12 12**	**2012/12 12(P)**
Shareholders' equity				
Subscribed capital	120	127	127	127
Reserve fund	0	27	27	27
Retained profits	301	311	322	328
Profit for the period	12	32	21	20
Shareholders' equity	434	495	496	502
Minority interests	77	39	44	51
Accrued appropriations				
Provisions				
Other provisions	15	18	15	16
Provisions, total	15	18	15	16
Liabilities				
Long-term liabilities				
Other liabilities	211	0	129	149
Long-term liabilities, total	211	0	129	149
Current liabilities				
Deferred tax liability	22	23	22	22
Other liabilities	208	407	227	269
Current liabilities, total	230	430	249	291
Liabilities, total	441	430	378	440
Liabilities and equity, total	967	982	933	1009
Quick ratio	1,1	0,7	1	1
Current ratio	1,3	0,8	1,3	1,2
Debt equity ratio	0,4	0	0,2	0,3
Gearing	29,1	-13,9	17,7	17,3
Equity ratio	52,8	54,4	57,9	54,8
Relative debt ratio	31,6	29,6	25	27,8

CASH FLOW STATEMENT 1000 EUR	**2009/12 12**	**2010/12 12**	**2011/12 12**	**2012/12 12(P)**
Operating profit	44	58	54	50
Depreciation	81	85	88	91
Financial items, total	-12	0	-4	0
Taxes	-18	-20	-22	-23
Funds generated from operations	96	123	116	118
Change in stocks	0	-6	-4	13
Change in current operating receivables	0	-1	5	0
Change in current interest free liabilities	0	203	-184	43
Change in working capital, total	0	197	-183	56
Net cash inflow from operating act	0	320	-67	174
Investments, total	0	-57	-61	-136
Cash flow before financing activities	0	263	-128	38
Change in long-term receivables	0	-1	-3	-4
Change in current interest bearing receivables	0	-25	-16	-19
Change in long-term liabilities	0	-211	129	20
Dividends paid	-14	-9	-19	-15
Change in shareholders' equity	0	39	0	0
Change in minority interests	0	-45	-1	0
Net cash inflow from financing	0	-252	89	-18
Net cash inflow after financing	0	11	-39	20
Change in liquid assets	0	11	-41	20
Financial surplus	0	0	1	0
Cumulative surplus	0	0	1	0

WORKING CAPITAL STATEMENT 1000 EUR	**2009/12 12**	**2010/12 12**	**2011/12 12**	**2012/12 12(P)**
Finished goods	52	57	61	48
Total stocks	52	57	61	48
Other operating receivables	12	12	8	8
Current operating receivables, total	12	12	8	8
Other current interest free liabilities	245	448	264	307
Current interest free liabilities, total	245	448	264	307
Working capital	-182	-379	-195	-251
Change in working capital	0	-197	183	-56
Net working capital	68	-89	70	58
Turnover rates (days)				
Working capital / turnover %	-12,6	-25	-12,4	-15,3

TAX FORECAST 1000 EUR	**2009/12 12**	**2010/12 12**	**2011/12 12**	**2012/12 12(P)**
Total profit	0	0	0	27
Profit/loss for the financial year	0	0	0	20
Tax before credit	0	0	0	23
Taxable profit	0	0	0	50
Expense deficit	0	0	0	50

RATIO SPECIFICATIONS 1000 EUR	**2009/12 12**	**2010/12 12**	**2011/12 12**	**2012/12 12(P)**
Shareholders' equity	434	495	496	502
Minority interests	77	39	44	51
Interest bearing liabilities	211	0	129	149
Capital employed	722	534	669	702
Profit after financial items	33	58	50	50
Return on capital employed	33	58	50	50
Return on capital employed %	0	9,3	8,3	7,3
Total assets	967	982	934	1009
Turnover	1441	1514	1576	1639
Profit after extraordinary items	33	58	50	50
Return on assets	33	58	50	50
Profit %	2,3	3,9	3,2	3,1
Asset turnover	0	1,6	1,6	1,7
ROI %	0	6	5,2	5,2
Operating margin + change in advances paid	126	144	143	141
Ending stocks	52	57	61	48
Beginning stocks	52	52	57	61
Quickflow I A	126	138	138	155
Other income - expenses	-12	0	-4	0
Direct taxes	18	20	22	23
Quickflow I B - taxes	96	118	112	132
Financial assets	244	281	252	291
Current liabilities	230	430	249	291
Quick-cash	14	-149	3	0
Total liabilities	456	448	393	456
Total assets	967	982	934	1009
X1-% (income financing)	9,9	12	12,1	13,1
X2-% (quick financing)	1,5	-15,1	0,3	0
X3-% (capital financing)	47,2	45,6	42,1	45,2
Z-ratio (bankr meas)	-1,7	-1,9	-1,4	-1,5

RATIO SUMMARY 1000 EUR	**2009/12 12**	**2010/12 12**	**2011/12 12**	**2012/12 12(P)**
Scope of operations				
Turnover (12 month)	1441	1514	1576	1639
Turnover growth percentage	0	5	4,1	4
Number of employees	14690	14294	13865	13458
Total liabilities	456	448	393	456
Current liabilities	230	430	249	291
Shareholders' equity	434	495	496	502
Capital employed	722	534	669	702
Net working capital	68	-89	70	58
Total liabilities and equity	967	982	933	1009
Net investments	0	57	61	136
Result and profitability				
Operating margin	125	144	142	141
Financing margin	96	123	116	118
Net profit	14	38	28	27
Operating margin %	8,7	9,5	9	8,6
Operating profit %	3,1	3,9	3,4	3,1
Financing margin %	6,6	8,2	7,4	7,2
Net profit %	1	2,5	1,8	1,7
Return on equity %	0	7,3	5,3	5
Return on capital employed %	0	9,3	8,3	7,3
ROI %	0	6	5,2	5,2
Asset turnover	0	1,6	1,6	1,7
Profit %	2,3	3,9	3,2	3,1
Financial status				
Quick ratio	1,1	0,7	1	1
Current ratio	1,3	0,8	1,3	1,2
Debt equity ratio	0,4	0	0,2	0,3
Equity ratio	52,8	54,4	57,9	54,8
Relative debt ratio	31,6	29,6	25	27,8
Z-ratio	-1,7	-1,9	-1,4	-1,5
Financial surplus / period	0	0	1	0
Cumulative financial surplus	0	0	1	0
Other ratios				
Value added	606	652	653	674
Value added / staff costs	1,3	1,3	1,3	1,3
Net financial expenses %	0,8	0	0,3	0

COMPANY VALUES 1000 EUR	**2009/12 12**	**2010/12 12**	**2011/12 12**	**2012/12 12(P)**
Shareholder value, end of period				
Interest rate on shareholders' equity %	2,7	1,8	2	2
Average interest rate %	0	1,8	1,6	1,6
Capital structure %	0	100	80,7	78,8
Valuation horizon, years	0	20	20	20
Terminal value horizon, years	0	17	18	19
Terminal value growth %	0	0	0	4
Earnings before interest and taxes	33	58	50	50
Taxes	-9	-15	-13	-13
Depreciation	81	85	88	91
Investments	0	-57	-61	-136
Operative cash flow	106	71	64	-8
Change in working capital	0	197	-183	56
Free cash flow	106	268	-119	48
Free cash flow, cumulative	0	197	-71	48
Discounted free cash flow, cumulative	0	197	-72	48
Discounted terminal value	0	959	1064	1161
Enterprise value	0	1156	992	1209
Interest bearing liabilities	211	0	129	149
Shareholder value	0	1156	863	1059
Shareholder value comparison, period 2011/12	0	1175	863	1043
Internal rate of return %	0	-	22,4	53,2
Risk-free return on equity %	2,7	1,8	2	2
Interest rate on equity %	2,7	1,8	2	2
Return on equity %	0	7,3	5,3	5
Average interest rate %	0	1,8	1,6	1,6
Net profit	14	38	28	27
Interest on equity	14	9	11	11
Economic value added	1	29	17	16
Cumulative value added	1	29	47	16
Substance value				
Fixed assets	669	641	614	660
Stocks	52	57	61	48
Financial assets	246	284	258	301
Total assets	967	982	934	1009
Liabilities	456	448	393	456
Substance value	511	534	540	553
Substance value comparison, period 2011/12	528	542	540	544

Certificate of Origin of Chinese administration

ORIGINAL

1. Exporter
SHANDONG BESTSOYBEAN INDUSTRY CO., LTD
ADD:1TH SHENGFENG ROAD, ZHIFANG TOWN, JIAXIANG COUNTY, JINING CITY, SHANDONG, CHINA

Certificate No. CCPIT 113973603

12C3708M0602/00001

CERTIFICATE OF ORIGIN
OF
THE PEOPLE' S REPUBLIC OF CHINA

2. Consignee
SARMADI FOOD STUFF CO LLC
ADD: SHOP# 143, BLOCK#4, CENTRAL FRUITS AND VEGETABLE MARKET AL AWIR

3. Means of transport and route
FROM QINGDAO CHINA TO JEBEL ALI UNITED ARAB EMIRATES BY SEA

5. For certifying authority use only
CHINA COUNCIL FOR THE PROMOTION OF INTERNATIONAL TRADE IS CHINA CHAMBER OF INTERNATIONAL COMMERCE

4. Country / region of destination
UNITED ARAB EMIRATES

6. Marks and numbers	7. Number and kind of packages; description of goods	8. H.S.Code	9. Quantity G. WEIGHT	10. Number and date of invoices
N/M	NINE THOUSAND SIX HUNDRED (9600) BAGS OF GARLIC **	070320	84000KGS	2012SFDY0221 FEB. 21, 2012

11. Declaration by the exporter
The undersigned hereby declares that the above details and statements are correct, that all the goods were produced in China and that they comply with the Rules of Origin of the People's Republic of China.

SHANDONG BESTSOYBEAN INDUSTRY CO., LTD 山东圣丰豆业有限公司 JINING CHINA MAR. 1, 2012

沈宜菊

Place and date, signature and stamp of authorized signatory

12. Certification
It is hereby certified that the declaration by the exporter is correct.

中国国际贸易促进委员会 单据证明专用章 (鲁8) CHINA COUNCIL FOR THE PROMOTION OF INTERNATIONAL TRADE (SHAN DONG)

JINING CHINA MAR. 1, 2012

Place and date, signature and stamp of certifying authority

Certificates for Chinese commodity inspection bureau and arrange health and quality inspection.

山东出境植物产品生产经营企业
检疫注册登记证书

生产经营企业名称：山东圣丰豆业有限公司

生产经营企业地址：济宁市嘉祥县纸坊圣丰路1号

经审查，你单位符合出境植物产品检验检疫条件，予以注册登记。

注册登记编号：3708LS005

注册登记植物种类：大豆

发证日期：2009年05月05日

有效期至：2012年05月04日

山东出入境检验检疫局

（印章）

Translation information:

Shandong province commodity inspection bureau and arrange health and quality inspection The certificates including enterprise name, address, authentication content, registration number, registration production type, date of issue, valid date, and official seal from administration.

Import Food Questionnaire

The City Size	Valid Percent	Amount
First-tier city（Beijing,Shanghai,Guangzhou）	28%	114
Second-tier city（Provincial capital city）	35.10%	143
Third-tier city（Other small city）	36.90%	150
Total	100%	407
Age	Valid Percent	Amount
Under 25	18.40%	75
Age 25-35	43.50%	177
Age 35-45	30.50%	124
Above 45	7.60%	31
Total	100%	407
Gender	Valid Percent	Amount
Men	49.40%	201
Women	50.60%	206
Total	100%	407

Q1: How do you feel “Import Food”?

	Total	Men	Women	First-tier city	Second-tier city	Third-tier city
Expensive	58%	54%	**63%**	**62%**	57%	56%
Delicate Package	47%	46%	49%	50%	54%	39%
Luxury	35%	36%	33%	31%	36%	37%
Confused	32%	**36%**	28%	34%	27%	35%
Safety	25%	26%	23%	35%	22%	19%
Delicious	19%	15%	**23%**	28%	19%	13%

Q2: Have you ever purchased import food?

	Total	First-tier city	Second-tier city	Third-tier city
Yes	74%	**85%**	76%	63%
No	26%	15%	24%	**37%**

Q3: Which kinds of import food you have purchased before?

	Total	Men	Women
Chocolate	**61%**	56%	**67%**
Confection	**45%**	38%	**52%**
Biscuit	41%	33%	**48%**
Milk power	40%	41%	39%
Coffee	40%	38%	43%
Wine	38%	**46%**	29%
Drinks	31%	32%	30%
Chips	22%	22%	21%
Juice	21%	18%	24%

Cooking oil	16%	15%	16%
Food can	16%	17%	14%
Grain	9%	10%	8%
Others	1%	1%	1%

Q4: Where you purchased import food?

	Total	Men	Women
Supermarket	**56%**	**61%**	51%
Friends bring	12%	10%	13%
Website franchised store （B2C）	11%	8%	13%
Taobao store（C2C）	11%	10%	12%
Import food chain	10%	10%	11%
Others	0%	1%	0%

Q5: How do you choose the import food?

	Total	Men	Women
Pay attention to the origin place	**57%**	58%	55%
Production date	**55%**	52%	59%
Ingredients	34%	26%	**41%**
Chinese label	33%	34%	32%
Suitable for	33%	26%	**39%**
Nutrition label	31%	28%	**34%**
Health certificate	30%	30%	30%
Contact info of domestic agency and distributors	26%	28%	25%
Batch number	16%	15%	16%
Others	1%	1%	1%

Q6: How do you think the reason of increasing buying activity?

	Total	Men	Women	First-tier city	Second-tier city	Third-tier city
Increased living standards and diversity of consumption	**54%**	52%	55%	**61%**	50%	51%
Import food more safety	46%	46%	46%	**54%**	47%	39%
Less demand	30%	26%	**34%**	23%	**32%**	**34%**
A life style	32%	27%	**37%**	32%	31%	33%
Others	1%	1%	0%	1%	1%	1%

Process	Logistic process between Finland and China	**Prepared By:**Chenjuan Hu
FMEA responsibility	Potential failures for delivery goods	**Creating Date:** 10.Sep.2012

Process step/input	**Potential failure mode**	**Potential Effects of failure**	**Severity**	**Potential causes of failure**	**Occurence**	**Current Controls**	**Detection**	**RPN**
Export Packing	Non-conforming packaging	Cause the damage of the part	5	Indeterminate of packaging methods	4	Set standard specification at process line and QC verify before delivery	7	140
	Inferior packing material	Cause the damage of the part	3	Unknown of supplier to material requirement	3	QC checks the part quality certificate and delivering list.	8	72
Marking & Labeling	Un-clear label	Damage of part	3	Indeterminate of labeling systems	3	Specificate label standard	5	45
	Non-conforming label	Influence processing of customs approval	5	Non-conforming import & export documentation preparation	2	Documentation check with relative department before delivery	7	70
	Imcomplete label	Influence processing of customs approval	5	Seawater and bad environment	4	QC confirms the label raw material specific list according to the material order.	3	60

Transpotation	Non-conforming placement	Production spoilage	7	Non-conforming transportation without certain requirement	5	Contract with qualified logistic company and emphasize the spec of production	6	210
	Peak Season	Overlong delivery	6	Lack of prior communication	4	Frequently contact with logistic company	2	48
	Production spoilage	Return of goods	8	Temperature and humidity fluctuations of container	6	Require refrigerated container	5	240
	War or piracy	Transport return	2	Threatening activity on the high seas	4	Follow the news	2	16
Warehousing	Production spoilage	Return of goods	8	Long term storage	4	Re-check goods in period	6	192
	Chocolate condensation	Production spoilage	8	Refrigeration units are not switched on and unloaded in a warm environment	5	QC re-check during transport and inventory	4	160
	Non-conforming container	Production spoilage inside container	6	Broken refrigerated container	4	Contract with qualified logistic company and emphasize the spec of production	6	144

Loading & unloading and delivery	Non-conforming movement	Cause the damage of the part	5	Unknown of labor to label knowledge	3	Prior communication with third part	3	45
	Third logistic part without complete formality	Production retention	6	Lack of prior communication	3	Documentation check with relative department before delivery	7	126
Customs Clearance	Production retention	Affect delivery time to customer	7	Incomplete formality	4	Documentation check with relative department before delivery	7	196
	Production forfeiture	Financial loss for company	6	Non-conforming import & export documentation preparation	3	Documentation check with relative department before delivery	7	126
	Import food restraining order	Production retention or return	1	Domestic political reasons	1	Analysis market before delivery	2	2