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**HOW FINNISH FURNITURE COMPANY ESTABLISH BUSINESS IN CHINA**

**Case study of a Finnish furniture company**

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## TABALE OF CONTENT

ABSTRACT .....	5
1 INTRODUCTION .....	7
1.1 Background of Furniture Market .....	7
1.2 Purpose .....	8
1.3 Research Questions .....	9
1.4 Outline .....	9
2 THEORETICAL FRAMEWORK.....	11
2.1 Entry Environment Analysis .....	11
2.1.1 PEST Model .....	11
2.1.2 Intellectual Properties .....	13
2.2 Entry Modes .....	14
2.2.1 Branch & Subsidiary .....	14
2.2.2 Exporting .....	15
2.2.3 Joint Venture .....	16
2.2.4 Strategic Alliance .....	16
2.2.5 Management Contract & Contract Management.....	17
2.3 Distribution.....	18
2.3.1 Manufacturing .....	18
2.3.2 Warehouse Management .....	19
2.3.3 Inventory Management.....	20
2.3.4 Distribution System .....	20
2.4 Production Management.....	21

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2.4.1	Mission and Vision.....	21
2.4.2	Positioning and Segmentation .....	22
2.4.3	4Ps .....	24
2.4.4	International Product Decisions .....	25
2.5	Relationship Management.....	26
2.5.1	Customer Relationship Management.....	26
2.5.2	Government Relationship Management .....	27
2.5.3	Supplier Relationship Management.....	28
2.5.4	Competitor Management .....	28
2.6	Risk Management.....	29
3	BACKGROUND OF CASE COMPANY.....	31
4	METHDOLOGY .....	33
4.1	Data Collection and Analysis .....	33
4.1.1	Primary Data Collection and Analysis .....	33
4.1.2	Secondary Data Collection and Analysis .....	34
4.2	Quantitative and Qualitative Research .....	34
4.3	Research Strategy .....	35
5	RESULT .....	36
5.1	Questionnaire Collection .....	36
5.1.1	Gender & Age Scope & Life State .....	37
5.1.2	Professions & Salary Level & Living Cities .....	39
5.1.3	Attitude and Consumption Possibility with Nordic Furniture.....	44
5.1.4	The Preference Furniture Style & Materials & Types.....	47

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5.1.5	Furniture Budget & Price Level Acceptance & Focused Aspects.....	49
5.1.6	Consumption Motivation & Consumption Interval.....	52
5.1.7	Experiencing Furniture & Information Channels & Shop Online.....	54
5.2	Chinese Legal Environment .....	57
5.2.1	Process of Registration and Establishment.....	57
5.2.2	Furniture Standard Legislations with Company Operation.....	58
5.2.3	Laws with Foreign Companies & Furniture Tariffs .....	59
5.3	Competitor Comparison & Case Company SWOT Model .....	60
5.4	Risk Assessment.....	64
6	DISCUSSION.....	66
6.1	Entry Environment Analysis .....	66
6.1.1	PEST Analysis in China .....	66
6.1.2	Intellectual Properties .....	70
6.2	Entry Modes .....	71
6.2.1	Branch & Subsidiary .....	71
6.2.2	Exporting .....	72
6.2.3	Joint Venture .....	74
6.2.4	Strategic Alliance .....	75
6.2.5	Management Contract & Contract Management.....	78
6.3	Distribution.....	80
6.3.1	Manufacturing .....	80
6.3.2	Warehouse Management .....	82
6.3.3	Inventory Management.....	83

---

6.3.4	Distribution System .....	84
6.4	Production Management.....	85
6.4.1	Mission and Vision.....	85
6.4.2	Positioning and Segmentation .....	86
6.4.3	4Ps .....	88
6.4.4	International Product Decisions .....	91
6.5	Relationship Management.....	92
6.5.1	Customer Relationship Management.....	92
6.5.2	Government Relationship Management .....	94
6.5.3	Supplier Relationship Management.....	95
6.5.4	Competitor Management .....	96
6.6	Risk Management.....	98
7	CONCLUSION .....	101
8	REFERENCES:.....	104
9	APPENDICES .....	114

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**ABSTRACT:**

In recent year, the Chinese furniture market has been vigorously development due to the continually openness of Chinese economy, especially in the high-end market presents the increasing trend. This phenomenon not only spurs domestic furniture enterprises to accelerate the space of seizing consumers' preferences, also make many foreign high-end brands enter Chinese market. At present there are 200 Europe furniture brands already established business in China. The focused consumers in Chinese furniture market mainly from the aged group between 30 to 50 years old with stable job and have been married, and even have one or two Childs in family. They are advocating the furniture products with simple, natural, health, fashion but also bring some traditional elements. For instance, the Nordic furniture brands of IKEA and BoConcept have seized so many Chinese consumers. However, the known with high-end and high

quality Finnish furniture brands have not yet entered such huge Chinese market until now.

So this thesis is aiming at opening the Chinese market opportunity for Finnish furniture companies, and provide a basic entering theories and market analysis based on a Finnish furniture company (High-end brand) as case study. From the aspects of entering possibility, entering models, and entering strategies discussing Chinese market. The methods which are used in the thesis include primary data from a Finnish furniture company's information and interview, a Chinese furniture company's market data and interview as well as the questionnaire conducted for Chinese consumers; the secondary data are mainly from a large number of literature review and Chinese market reports. In fact, there are three main considerations and strategies for Finnish Furniture Company enter China from thesis analysis: Totally understand the PEST model with Chinese furniture market; Achieve localization; and bring furniture technologies into Chinese market. Once the Finnish furniture company achieves these three aspects, it will obtain a big market in China.

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**Key words:** Chinese furniture market, Finnish furniture company enter China, Focused consumers, PEST model, Localization

# 1 INTRODUCTION

## 1.1 Background of Furniture Market

Furniture as a product of industrialization history has began in the 19th century, after more than hundred years of development; furniture market has become a fully competitive and mature market. Under the background of economic global integration, specialized division of labor and cooperation promote the formation of world furniture industry chain (Reuvid & Li 2006: 39). As Bradley (1991) mentioned, the international marketing is not only referring a simple theory, it is associated with manifold business, such as economic transactions, political and cultural interactions.

Compared with domestic markets, the international market will become more flexible and complex since the company should be faced with several of uncontrolled variables which are conducted by different culture, technology, raw material or fluctuation in foreign currency exchange rates. Within the international furniture market, the national furniture design technology, management experience, management pattern and production process can be learned from each other, this result in the manufacturing capabilities of furniture enterprises has consciously enhanced. However, according to the global relevant institutions report, nearly three years there is a big difference between developing regions and developed regions of international furniture industry, the Western Europe and North America's furniture demand growth is slow, and Eastern Europe, South America, Middle East and Asia showed a trend of rapid growth. Especially, there is 32% furniture consumption showed in Chinese market (Liu 2012: 8).



With the outbreak of the international financial crisis, the international furniture brands started focusing on Chinese consumption power. According to relevant government officials introduced, the international high-end brands which have entered in the Chinese market generally had a good market impact in countries of origin and high-end consumer groups, at present there already has 200 European furniture brands establish business in China, foreign furniture brands seizing Chinese market has become a boom. The biggest attraction with international brands is the huge market potential in China; Chinese economy has overtaken Japan as the world's second largest economy, at the same time, the excellent design and quality with foreign furniture brands are the key promoting Chinese consumers' consumption desire (Han, Wen & Kant 2009: 561-562).

At present, the Nordic countries, particularly the various furniture brands in Denmark and Sweden have entered the Chinese market, and received good results. In China, most of the consumption power for high-end furniture products comes from frontier, high-end consumer groups, although imports are continually increasing, but still relatively focusing on niche markets, while in some middle-end furniture brands are attaching attention on mid-level income of the youth market (Harapiak 2013: 26-27). However, whether for high-end or middle-end Nordic countries' furniture brands entering China to be successful, there is necessary to understand Chinese culture, economic and trends, and choose the products which are met the needs of Chinese consumers and marketing strategies.

## 1.2 Purpose

The purpose of this thesis is analyzing the considered aspects when Finnish furniture company entering Chinese market with a case study.

### 1.3 Research Questions

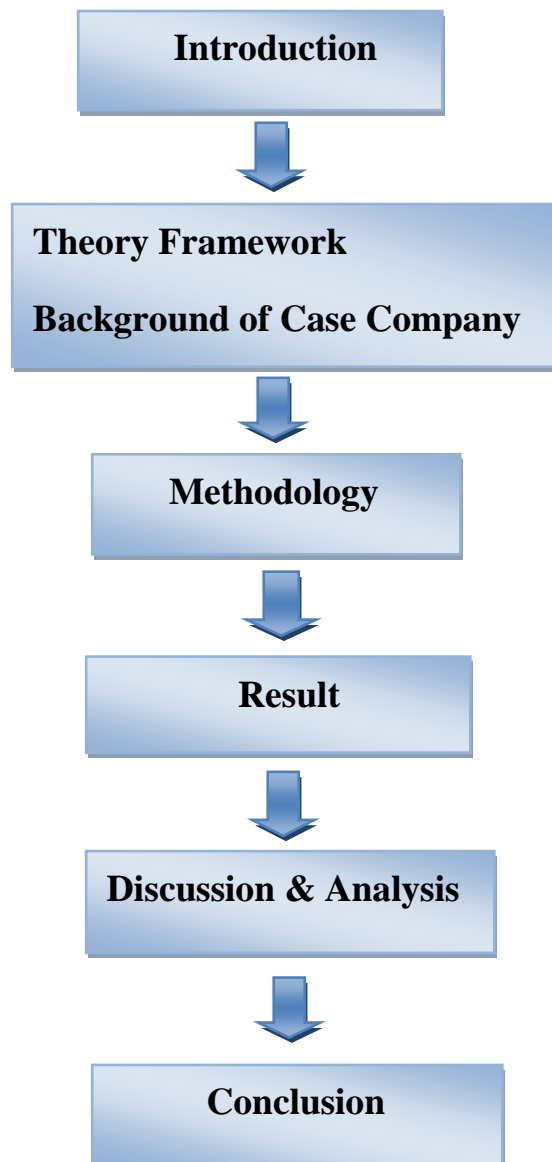
Is it possible for a (high-end) Finnish furniture company enters Chinese Market?

What factors needed to be considered before a (high-end) Finnish furniture company enters China?

What strategies could be implemented by the (high-end) Finnish furniture company establish business in China?

### 1.4 Outline

The structure of this study mainly concludes 6 sections. The first section introduces the background of international furniture market and the situation of Chinese furniture market at present, as well as the purpose and research questions with the thesis are displayed. The Second section is focusing on the relevant studies and theories with theme, so that readers could understand the clear theoretical framework and knowledge in this topic. Meantime, the background of the case company is also stated in this section. The third section states what methods are applied inside this work in order to achieve the purpose. The fourth section shows the result of considering factors and aspects with Finnish furniture company establish business in China, in which based on Chinese market questionnaire and case company interview. The fifth section is discussing and analyzing the findings and strategies, when a Finnish furniture company enters China with an empirical case study of a high-end Finnish furniture company. And the last section provides the conclusion for research questions, as well as put forward a further study idea with related topic.



**Figure 1.** The structure of thesis

## 2 THEORETICAL FRAMEWORK

### 2.1 Entry Environment Analysis

#### 2.1.1 PEST Model

PEST refers to the analysis of macro environment, mostly plays a role with exploring external environment while a company establish the markets at the beginning, so as to ensure the normal operation of a company as well as the rapid development. Especially play a key role for many multinational enterprises expand diversified markets. The PEST analysis concludes Political, Economic, Social and Technological four aspects (Kolter & Armstrong 2010).

Political factor is a country or region's political system, policy, laws and regulations, etc. These factors often affect or restrict the enterprises' management behavior, especially conduct a significant influence on enterprises' longer-term investment behavior. Enterprises need to consider the stability of country's political environment, the government's economic policy and whether the country have signed trade agreements with other organizations, etc. Meanwhile, in order to build a relatively unrestricted political environment, enterprises should take measures to reduce political by stimulating local economy, sharing ownerships, employing national staff and so on (Onkvisit & Shaw 2004: 84-107). There are so many aspects needed to be considered with political issue (Onkvisit & Shaw 2004: 22-187):

- Political stability
- Political system
- The level of government subsidies
- Industry policy and investment policy

- Legislations for international company
- The change of the tax law
- Environmental protection

The economic environment mainly includes two aspects of macro and micro economy. A country's population and its growth trend, the gross national product, and national income reflect a country's macroeconomic environment and development. And microeconomic is needed to take into account for company's service areas of consumer income level, employment level, consumer preferences and other factors. All of these factors will directly decide the size of the enterprise in the future market. Some economic variables showed as follow should be seriously premeditated (Onkvisit & Shaw 2004: 22-187):

- The condition of GDP
- Price fluctuations
- Labor productivity level
- Exchange rate
- Disposable income level
- Residents' propensity to consume and pattern
- Employment situation

The culture of a country or region level will affect residents' demand level, and the historical influence and customs could reflect consumer preferences. Besides, values will influence residents' recognition with the commodity and the level of consumption, and aesthetic has relations to consumption patterns and consumer attitudes. The key social factors are stated as follow (Ambler, Witzel & Xi 2009):

- Population
- Lifestyle

- Per capita income and the income gap
- Consumption practices
- Consumption habits
- Attitudes with foreign companies

Technology environment is not only examining technology changes and development which are directly related to enterprises' activities, but also should focus on learning and integration of new technology, new material and new process at home and abroad in time. In this high information technology era, many companies choose a digital network to establish the network shopping market, formed with B2C efficient operation mode. The development of e-commerce makes global product and inventory synchronization, so that provides a strong support for satisfying customers' changeful demands. Some aspects are required to pay attention (Tian 2007):

- National investment and support in technology
- Technical development trends
- The influence with existing technology
- Technology transferring
- Information technology

### 2.1.2 Intellectual Properties

As World Intellectual Property Organization reports, the company must protect its inventions, symbols, names, images, design or other literary and artistic works used in commerce (Ostergard 2000: 349). Industrial property rights are closely related to company business and product development. Industrial property mainly involves in trademarks, patents and patent protection, and the right of trade name three aspects.

The trademark competent authority grants to owners with registered trademark of exclusive rights, which are protected by state laws. It is the key to distinguish sources of goods and services, trademarks has the effect on maintaining the order of business activity, is one of the industry event identification marks. The difference with trademark rights, patent rights mainly lies in promoting the development of industry, when individuals or firms apply the products patent application to national patent office, any other organization or individual without the permission of the patentee shall not manufacture, sell and import the patented product. In order to protect the enterprise's name, especially for many multinational companies who would like to develop foreign markets must maintain its own trade name right (Lewis 2008: 3-30).

## 2.2 Entry Modes

### 2.2.1 Branch & Subsidiary

In order to manage a company's operation in foreign country, there is necessary to make a legal decision on whether applying branches or subsidiaries for implementing new business. Branch is regarded as an extension with parent company, it is not legally independent from the parent company, in which the responsibility is borne by the parent company, and the business bound cannot beyond the scope of parent company. On the contrary, subsidiary is legally independent as well as its business scope and it is incorporated on owns. The parent company is the shareholder of subsidiary and will not take responsibility with offset subsidiary's losses (Onkvisit & Shaw 2004: 129-131).

Therefore, many multinational companies prefer to choose the mode of subsidiary rather than branches. Subsidiary can obtains preferential tax treatment including tax holidays by host country, however the branch is regarded as one of composition of enterprise sent to foreign countries, and the host country is reluctant to provide more preferential

policies. And if the company wants to remit profit to parent company, the subsidiary is more flexible than branch, this means the investment income with parent company can be hold in subsidiary, or it will get extra profit tax benefits when subsidiary remitting profits in a relatively lighter tax burden time (Onkvisit & Shaw 2004: 129-131). In general, if a subsidiary can receive profit in the beginning, then it can obtains the tax incentives and other business benefits provides by local government. But if the company happened loss at the start, the forming a branch is best choice to reduce the tax burden for parent company.

### 2.2.2 Exporting

When company wish to do the business without wishing to invest in the country directly, exporting could provides the potential for high profit gains, but also require the considerable time investment. On the one hand, the company has a choice of applying direct exporting, in which the shipment of goods and provision of service across borders or transfer of technology directly to end customers from one country to another. In general, exporting requires the company has license for export based on local laws and such company must be registered in the planning market country. Practically speaking, the company has the responsibility of carrying out all administrative requirements and conducting market research. Directly exporting give a help for company receives the fastest feedback on product and performance in marketplace, owns greater flexibility to improve market efforts. However, it also requires more efforts to cultivate a customer base. On the other hand, enterprise could also choice a way of hiring intermediary enter one foreign market, such as agents or distributors, so that the agents or distributors could assist in collecting market data and tracking of locally regulation (EU SME Centre 2010: 6-8).



### 2.2.3 Joint Venture

Joint Venture is one of choices for a company entering foreign market, so as to effectively realize the combination of enterprise resources and reasonable allocation, as well as increase business capital scale. Joint venture refers to two or more than two national or international enterprises based on cooperating agreement jointly engaged in a product research, manufacturing or sales, so that the enterprises from different regions can share risk and resources, access to knowledge and enter into new markets. When the entering market is characterized with high investment risks or high legal registrations, the company is better to use joint venture mode (Brouthers 2002: 204). Although joint venture effectively avoid the risk between producers and dealers, and play a positive influence in solving channel conflict, but resource input, profit distribution, management and monitoring problems also appear from time to time (Prescott & Swartz 2010).

### 2.2.4 Strategic Alliance

Strategic alliance is constituted with two or more than two enterprises, in which share a common strategic interests or have same strength in order to obtain more markets and share resources, the relationship with strategic partners are both cooperative and competitive. The joint venture mentioned above is belonging to a form of strategic alliance. In the implementation of strategic alliance, company should avoid the cooperation in the field of core competition with other companies as much as possible to reduce the possibility of creating rivals. At the same time, the company should consider the restrictive factors with market environment, mode of production and enterprise culture. Good strategic alliance needs perfecting the innovation management and cross-cultural management, promoting enterprise information and knowledge. The

implementation of the strategic alliance is beneficial to realize the diversity and flexibility of enterprise strategy. In a certain extent, it could prevent excessive competition among the industry (Isoraite 2009: 40-43)

### 2.2.5 Management Contract & Contract Management

Management contract will become a selected strategy for newer entering foreign markets with minimum political risks and investment, especially when company is not willing to burden the pressure forces from host government. The company could sign a management contract with new owner in foreign market or host government so as to manage business and generate revenue. But the company should spend high cost on hiring specialized managing consultant for undertaking management tasks; this may result in high administrative costs finally (Onkvisit & Shaw 2004: 252).

Before signing a contract with other organizations, the enterprise has to understand the relationship between market and contract, the interdependent relationship between contract and contract management as well as the contract law consciousness with enterprise personnel. Especially under the situation of many new entrants are not fully know the local environment, it often appears the risks of vulnerability with contract text and contract terms. In order to avoid the happening of the similar situation, the new entrants shall establish a guarantee system on contract implementation after detailed understanding of local laws and company operation regulations (Cullen & Parboteeah 2010).

## 2.3 Distribution

### 2.3.1 Manufacturing

Manufacturing in host country helps company obtain more price competitive with products, due to the cost of transportation will be reduced compared with the company would like to exporting materials from own country, and the labor costs could also be decreased as well. At the same time, it provides the job creation in host countries and culture communication between two different countries; this may result in the diversification with final products (Albaum 2008). However, the related problem with factory and product image should be seriously considered while manufacturing abroad.

In some extent, company can choose outsourcing no matter for human resource, technology or logistics. According to a study, outsourcing can make the enterprise concentrate more on core business, save 9% of the cost and ability and the quality is increased by 15%. For example, if a production enterprise would like to organize team for raw materials and product transportation, the transport management cost and cost of marketing chain increased caused by the lack of management experience in the transportation field. Outsourcing can be divided into outsourcing within borders and offshore outsourcing according to the suppliers' geographical distribution. Within the territory of outsourcing is emphasizes core business strategy and technology knowledge, from fixed costs to the variable cost, and outsourcer and outsourcing suppliers are from the same country. And offshore outsourcing is more focus on cost savings and availability of skilled labor, choose the strategy of using lower production costs to offset the higher transaction costs, outsourcer and outsourcing suppliers are from different countries (Cullen & Parboteeah 2010).

### 2.3.2 Warehouse Management

For the warehouse management modes, enterprise can choose the ways of self-built warehouse or leased warehouse according own circumstance. If enterprise wants to make a design and layout for warehouse in accordance with the characteristics and requirements of its products, control warehouse to a greater extent, and want to give customers a good image of the long-term continuing operation, then the self-built warehouse is the best choice for enterprise (Christopher 2011: 43-81). And if the warehouse could be fully used for a long-term, it will reduce cost of unit storing goods, to a certain extent it become as economies of scale. However, no matter how enterprise demand for warehouse storage, warehouse capacity is fixed, enterprise is still need to afford the unused part when storage requirements reduced. As the changing of market size, location, and customer preference, self-built warehouse will lose flexibility of optimal location, which could miss a lot of business opportunities.

From a financial perspective, the rental warehouse's most prominent advantage is helping enterprise avoid capital investment and financial risk. The difficulty of the workers' training and management will be reduced because of the leasing warehouse. For inventory capacity and enterprise's business activities could become more flexible under the condition of lease contracts. But lease warehouse will also bring the risk of bearing more careful inventory management and even the risk of commercial secrets leaked (Speh 2009: 1-4).

Other aspects for the warehouse management need to be aware of are its location, inventory control and what system could be applied. Especially whether the company choose self-built warehouse or leasing warehouse, it should consider the relative

position of warehouse location, surrounding environment, warehouse quantity, size and customer issue (Gu, Goetschalckx & Leon 2010: 540-545).

### 2.3.3 Inventory Management

Inventory management firstly requires enterprise overcome challenges from sample inventory management, inventory cost management, procurement management on time, JIT inventory management and other aspects of problem. Achieving good inventory management is helpful to control the used inventory capital and accelerate capital turnover. For some multinational companies, like Sony, it uses the inventory management method of faucet form implementing zero inventories. Customers can put forward purchase request at any time, take the way of buying as much as they need, enterprise will supply the order timely with own inventory and effective supply system responsibility so as to realize zero inventory. But the risk is the customer orders is unpredictability and storage may appear non-supply, this needs enterprise have strong flexibility. On the other hand, the enterprise can take 1,5 times principle to forecast inventory quantity based customer's previous order, as well as regularly arrange sales staff to visit customers (Nozick & Turnquist 2001).

### 2.3.4 Distribution System

Traditional distribution is one of distribution system. Many large companies have their own local distribution or warehouse which is located closely with raw materials and customers. And most of logistical structures are designed in view of distance between producer and customer in traditional distribution structure (Christopher 2011). But traditional distribution may conduct negative effect on customer service, cost saving and material supply due to its inflexible time setting and untimely information sharing.

Compared with traditional distribution system, Centralized distribution system is more advanced and frequently used in today's distribution system. Centralized distribution only keep stock in distribution center and there is no inventory in retail locations , deliveries from suppliers are directly transported to central location, thus it could reduces the total inventory and inventory risk for enterprise. In general, distribution center is established in suburbs, the rent will be lower than the same area located in city center, and the original warehouse in store can be used to increase the selling area. At the same time, centralized distribution reduces the transportation costs from warehouse to store; distribution route optimization plays a positive effect on vehicle efficiency. The most important is the quality for customer service time and service methods have greatly improved (Christopher 2011).

## 2.4 Production Management

### 2.4.1 Mission and Vision

There are the important questions that every company should answer: Why we are here? What are we doing? For whom we are doing? And how we are doing? There questions help enterprise clearly understand and clarify business mission and objectives (Bergamn & Klefsjö 2010: 435-438). For many multinational companies they have a plan to expand business in new markets, they are focusing on a target group based on age, gender, education or other factors, and they have to know the market environment and design a new market strategy to gain more potential customers and developing methods. Hence, in order to achieve the good mission, company should make a mission plan based on market trends and customer demands, as well as the consideration with present market mission.

The vision statement provides an image of where it is heading and estimated of when the target could be realized. A good vision is provided with clear, flexible, desirable, communicative and visualized characters, so that it could evaluate enterprise' aspirations for future work. The key with vision statement is applying resource collection and action plans to achieve objectives and aims (Bergamn & Klefsjö 2010: 435-438).

#### 2.4.2 Positioning and Segmentation

In simple terms, market positioning is to determine what products will be provided to meet what kinds of demands. In line with competitors' market position and consumers' value degree on features or properties of existing products, the enterprise strongly shape the product image and convey the image vividly to customers, so that establish a suitable position with products (Blankson & Kalafatis 2007: 435-440). Market positioning can be divided into the re-positioning of existing products and pre-positioning of potential products. Re-positioning of existing products may result in the change of product price or packaging etc. And pre-positioning for potential product, enterprises can be decided on product characteristics, specific market, customer benefits as well as the user types. Final positioning must be defined after the identification of potential competitive advantage and core competitive advantages, and company can implement repositioning in accordance with competitors' new products and changing of consumer needs or preferences (Kolter & Armstrong 2010: 259-268).

In order to support enterprise invests more concentrated manpower and material resources into target market as well as improve economic benefit, the enterprise could divides the whole products market into several consumer groups according to consumer needs and desires, differences in buying habits and behavior, each group become a market segmentation. At the time of fractionizing market, enterprises ought to consider

the differentiable, regional, measurable, accessibility or realizable, as well as the profitability or market development efficiency (Ahmad, Kamarudin, Syaquif, Aziz, Bakhtiar, Ahmat 2011: 113). Market segmentation could be divided based on geographic variables, demographic variables, psychological variables or behavioral variables (Ahmad et al. 2011: 114-115).

**Table1.** Market segmentation variables

<b>Segmentation Variables</b>	<b>Segmentation Factors</b>
<b>Geographic</b>	National, Regional, City scale, Climate, Population Density, Landform
<b>Demographic</b>	Age, Gender, Family Size, Family Life Cycle, Income, Occupation, Education Level, Religion, Race and Nationality
<b>Psychological</b>	Lifestyle, Personality Characteristics, Way of Life
<b>Behavioral</b>	Consumers on Product Knowledge, Attitudes and Usage



### 2.4.3 4Ps

4 Ps is organized by Product, Price, Place and Promotion four aspects (Kolter & Armstrong 2010: 32-36). Product strategy is refers to the combination and implementation based on the varieties, specifications, style, quality, packaging, features, brand and various service measures. For example, packaging has become a powerful marketing tool for a new product. on the terminal shelves, product packaging is the first contact with consumers, and the selling point is most directly reflected in the package, if the packing cannot stimulate consumers perceived interests, it is hard to prompt consumers produce the desire to buy (Singh 2012: 40-41).

Due to the acceleration of technology, the average product life cycle is faced with shortened situation, and competitors' imitation means are becoming faster. At the same time, technological advances provide more choices for consumers, so the correct pricing decision for the development of company turns into increasable important. Company has to take into account whether the present product pricing is in line with customer's acceptance and competition strategy. In this regard, enterprise can choose the value-based pricing strategy based on of customer value, or decided on cost-based pricing strategy the basis of the suppliers and manufactures cost (Goi 2009: 2-4).

On the one hand, Place involves the enterprise achieving market objectives as the foundation of reasonable distribution channels choice and circulation of commodities ways. For instance, take measure with manufacturers' direct supply by manufacturers without middlemen and distributors link to realize cost reduction, and then apply bulk purchase or custom method to sell products. On the other hand, Place is also related to store location selection in view of peripheral economy, population and flourishing degree issues (Singh 2012: 40-42).

With the continuous development of the market, consumers will receive numerous promotion information and product category every time, in this kind of confused information condition, the memory and recognition of single brand is very low with consumers, so this requires enterprise strengthen the brand attention and acceptance with consumers. Firm is able to use advertising, personal selling, business promotion and public relations to expand product awareness, such as micro film shoot, donations and timed promotions, etc (Percy 2008: 104-120).

#### 2.4.4 International Product Decisions

When a company decided to expand the markets to other countries, there is necessary to consider the problem of international product decisions. International product standardization strategy and differentiation strategy can be chose according to firm's market analysis (Ghauri & Cateora 2009). Standardized strategy is refers to same products are exported with abroad market; it is a product extension strategy. The strategy could help firm implements the economies of scale, establish unified image in the whole world, and also can make the effective control for global markets. However, this strategy may not be able to satisfy different customer demands caused by different cultural and social environment. While firm decides whether to adopt standardization strategy, products' demanding characteristics, production characteristics, competitive conditions and cost analysis are required to be considered (Ghauri & Cateora 2009: 2-24).

In order to meet different areas' consumer demands because of economic, cultural and other environmental differences, and enterprise may adopt product differentiation strategy to change product design, service or utility. Company will benefit from the products diversity and culture, technology integration. However, the practice of

differentiation strategy demand enterprise owns strong ability of research and creation. With the increased production and sales species, marketing costs will be higher than standardized products, and management difficulty will also be increased (Basuki & Cahyadi 2010: 370-371).

## 2.5 Relationship Management

### 2.5.1 Customer Relationship Management

Customer relationship management could be divided into intern customer relationship management and external customer relationship management. The intern customer relationship management is related with employee management issue. Some companies may ignore the internal relationship management standard and lack comprehensive incentive constraint mechanism because of excessive pursuit for short-term interests, in which could leads to the declining of employee working enthusiasm. Hence, strengthen enterprise's internal information sharing and communication, reinforce the publicity of company culture; and complete training, welfare, fair mechanism are the important ways to manage employee relations (Bergamn & Klefsjö 2010: 355-371). Especially for many multinational companies, it is beneficial to hiring local staff, understanding employees' local culture and lifestyle, strengthening communication between national staff and local staff, as well as improves the training mechanism.

Managing external customer relationship is a constantly process of strengthen communication with customers, continuously to understand customers' needs, and constantly to improve and enhance products and services, the final purpose is to attract new customers, retain old customers and motivate existing customers into loyal customers. For example, in order to attract new customers, firm is able to use market

surveys for collecting customer list, or get help from old customers to introduce new customer. RFM model is widely applied in customer management analysis at present, it stimulates the pace of products and services improvement through customer purchasing Recency, purchase Frequency and consumption Monetary to analyze customer value (Bergamn & Klefsjö 2010: 324-329).

### 2.5.2 Government Relationship Management

The government relationship management is an important factor of enterprise achieves business objectives. Since a large number of scarce resources may controlled by government, so it is advisable to keep communication with government, and this will determines the marketing strategies of enterprise competitiveness (Ritter, Wilkinson & Johnston 2004: 177). The communication is mainly through the official channels with government, such as talks, written reports, visit, working meals, etc. When companies and government officials have been familiar with each other and even established a trust relationship, informal communication channels could be used, such as phone, social networking, entertainment, etc. In certain cases, enterprise can mobilize own media and public relations network indirectly coordinating relationship with government (Ambler, Witzel & Xi 2009: 96-112).

Behavior of communication is another important way for managing government relationship. Any behavior of firm must comply with national laws and regulations, any violation will reduce credibility with enterprise, thereby weakening the government relations. So enterprise is able to pay close attention to dynamic news media, collect government's orders and documents at any time, and adjust enterprise policies and activities as far as possible according to the change of laws and policies (Ambler et al. 2009: 102-110).

### 2.5.3 Supplier Relationship Management

Supplier relationship management is the cooperation and mutual assistance between company and suppliers so as to develop and expand market share, and achieve win-win situation. Due to the efficiency and development with economy of scale, the needs of new market value and the satisfaction of customer demands; establishing, optimizing, expanding and enhancing relationship with suppliers is particularly become important for new enters(Ritter et al. 2004: 177).

To start with, company should strictly select suppliers according to their quality level, delivery capacity, price level, human resources, technical ability, support services as well as the existing cooperation conditions. From the point of view with supplier risk assessment, half principle requires company's purchase amount could not exceed 50% of supplier capacity, if firm just be provided by single supplier, the operation of whole supply chain will be influenced based on the development of the butterfly effect once appear the problem. At the same time, company is better to follow the supply quantity control principle, selecting 2 or 3 suppliers is the best choice with same material and also dividing primary and secondary suppliers to ensure supply stability (Bergamn & Klefsjö 2010: 293-298). The most important point is the firm has to build strategic cooperative relations based on trust, cooperation and open principle, and do not develop this relationship into competitors because of selfish interests (Dries, Gorton, Urutyan & White 2014: 99-100).

### 2.5.4 Competitor Management

In this intricate market, enterprise is faced with the existing competitors, potential competitors and even the threat of substitute competitors all the time. In order to deal with the relationship between enterprise and competitors, on the one hand, enterprise

needs to clearly understand own situation and competitors' condition. On the other hand, enterprise could enhance understanding and trust with competitors by industry conferences or joint activities; greatly strengthen the cooperation within competition atmosphere, which can facilitate the alliance collaboration between each other (Cullen & Parboteeah 2010: 2-60).

For the management of competitors, enterprises could firstly apply SWTO model (Strengths, Weaknesses, Threats and Opportunities) to analyze market situation so as to determine competitive marketing. Strengths and weaknesses analysis are the foundation for product modifies and development; opportunities and threats discussion will assist enterprise catch more potential customers, as well as avoid some risks or reduce the influence caused by threats occurrence (Chermack & Kasshanna 2007: 386-387).

## 2.6 Risk Management

Based on SWOT model with enterprise internal and external environment analysis, enterprise can make a risk assessment for produced or potential threats. Conditions such as national policy, the fluctuation of exchange rate, changes in consumer preferences or competitors' new products are likely to bring the market risks for enterprise creation and development (Albaum 2008). The national policy conditions may become one of the most serious threat therein, because no matter how enterprise should implement the marketing strategy to meet consumer demands or to resist the impact of the competitors' new products, all these activities must be comply with national policies and regulations, so the aspect of policy could be marked highest for running international business (Percy 2008).

Enterprise can adopts avoidance, acceptance, sharing or reducing to decrease potential risk impact after assessment. For example, the method of brand development may

reduce the impact of changes in consumer demand. In risk management, the enterprise needs to strengthen the flow of information and communication so as to predict and take measures with risks (Kolter & Armstrong 2010).

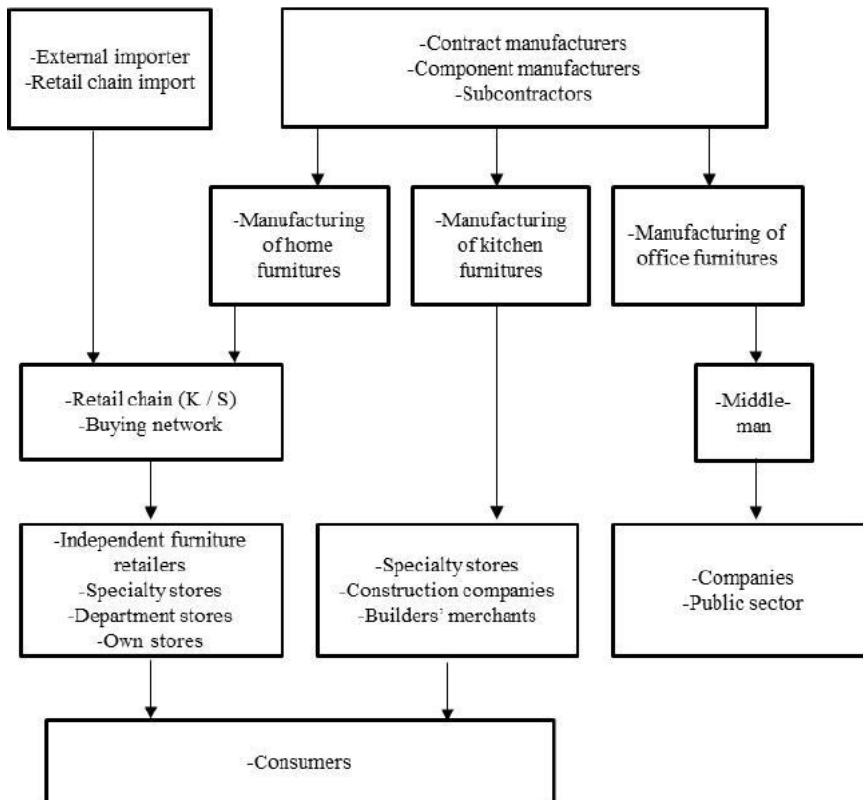
### 3 BACKGROUND OF CASE COMPANY

Case Company is a furniture company which develops, markets and manufactures furniture under its own brand, in which concludes bedrooms, living room and kitchen furniture. It was established with joint venture type by several local furniture manufacturers in the south of Finland.

From the beginning, it had established business in some other European countries in order to increase sales and creates scale economics, however, due to the incomprehensive knowledge with market environment and price strategy with local manufactures, there was no satisfied result for these markets, and the company had withdraw its operation from these markets finally. After that, it decided to invest project business by providing design solutions for some organization or institutions and got big success for this change, the company operates as the customers' strategic partner in the project. External agencies are applied for supplying product design and marketing by this company, while manufacturing is mainly outsourced.

The company had limited distribution channels for marketing products by using product exhibition and products sold under distributors' brand. The company's supply chain consists of several key suppliers and some component suppliers. However, the furniture situation also showed the increased competition in Finland. A small number of retailers have controlled Finnish furniture markets, the retail has been centralized to a few main companies and the supply chain has been decentralized, especially this industry has become globalized and requires global system suppliers, but the company focus on Finnish suppliers at present. The follow picture will showed the clear distribution structure with this furniture industry.





**Figure 2.** Distribution structure with furniture industry

The products with case company described as timeless but modern, and highlight the uniqueness of the furniture. The furniture is manufactured in Finland and sales argument is high quality Finnish production. However, because of high labor and material costs are reflected in product prices, it is difficult for company compete with prices. During the development process, the company has invested advanced technology and special material to improve products design. Besides, the company makes use of magazine, advertorials, establish cooperate with specific dedicated designers etc to expand market influence. However, there is no internet sale until December, and reentering international markets has not been seriously discussed at present.

## 4 METHDOLOGY

As Walliman (2005) point out, data collection and analysis, quantitative and qualitative research, as well as research strategies thee perspectives attributed with research method. In order to put these research methods into practice, this thesis is applied theoretical basis and empirical study. The key words of "furniture industry", "Chinese market environment" and "new enters in foreign markets" becoming the foundation for collecting primary and secondary data.

### 4.1 Data Collection and Analysis

In order to get result for research questions and draw a conclusion for research topic, the relevant data and information needed to be collected and analyzed once research problem has been formulated. The methods of collecting data will be divided into primary data collection and secondary data collection (Walliman 2005: 246-248).

#### 4.1.1 Primary Data Collection and Analysis

Primary data is gained directly by researcher and is the nearest one can get to the truth, the data will be more accurate and reliability (Walliman 2005: 246). Interview with case company, and questionnaire made are applied in this thesis in order to receive primary information. In the beginning, questionnaire is made related to Chinese consumer psychology with furniture products, and result is collected online after one month. At the same time, invite case company for doing telephone interview and interview with market consideration and strategy in China, and also receive information and data with company background through e-mail. At the same time, get a support from one Chinese furniture company for competitor analysis and Chinese market information. The validity

of thesis analysis become stronger based on questionnaire result and interview discussion.

#### 4.1.2 Secondary Data Collection and Analysis

Source collected by internet, library, government department and someone other than users are called secondary data. In this thesis, articles, books, reports from internet and library are flexible concluded or compared to support topic discussion and gain more viewpoints, as well as apply the lecture notes combined with article references. For instance, the models of PEST are analyzed from Chinese environment source searching online. But sometimes, Chinese will be used to searching for Chinese regulation and policy so as to find out more comprehensive information.

#### 4.2 Quantitative and Qualitative Research

Research methods are mainly conducted by qualitative research and quantitative research. Quantitative research is implementing analysis and inspection through statistical investigation or experimental method, and collects accurate data (Walliman 2005: 301-306). This thesis is applying questionnaire method to gather sample data and make market analysis from comprehensive aspects of consumer's age, salary level, living condition, consumption habits etc. Qualitative research tends to use interviews, observation and literature data collection methods, and conduct research according to subjective understanding and qualitative analysis (Walliman 2005: 308-320). Hence, interviews and literature research are utilized in this paper to conduct an exhaustive investigation and summary, as well as make use of marketing job experience in summer holiday. Therefore, this paper uses both qualitative research and quantitative research methods to complement each others.

### 4.3 Research Strategy

Research strategy is depends in what kinds of research topic is going to be done. Case study is a significant strategy applied in this thesis work, and case study mainly help author and readers find out answers with research questions by data collection, information analysis and result conclusion. It is essential to compare theories with practical case and go to further discussion in this thesis. In fact, the thesis is focus on analyzing one customer group older than 30 years old, because most of them are working with stable job, and have economic strength to afford furniture price. Besides, most of them would have plan to get married, or already got married even have child in family, there will be more chances and factors to stimulate them to buy furniture.

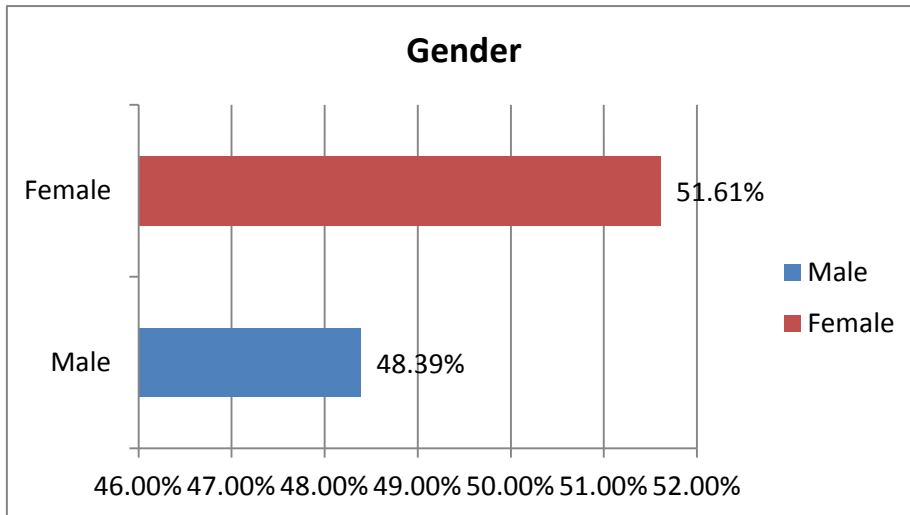
## 5 RESULT

The Result section is mainly focus on questionnaire result collection and short analysis with result chart, due to the feedback from questionnaire result is the key and basic for case company's (Finnish furniture company's) considerations and strategies when enter Chinese market, as well as lay the data and literature foundation for subsequent discussion. At the same time, the Chinese legal environment for foreign enterprises entering, the main competitor comparison with critical factors, as well as SWOT model and risk assessments with treats will be abbreviated displayed in this section so as to provide a support for analysis.

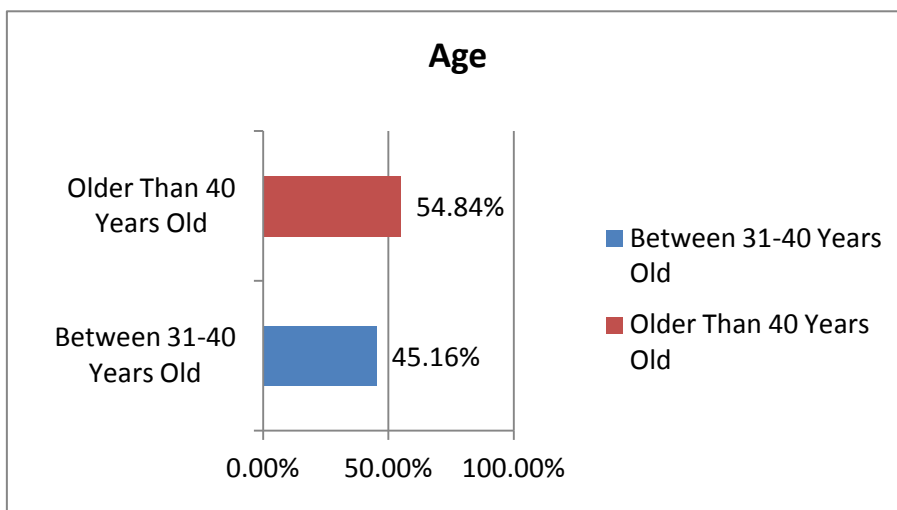
### 5.1 Questionnaire Collection

There are 168 Chinese take part in questionnaire, in which 113 participants are aged older than 30 years old, the rest are aged between 22 to 30 years old. In order to focus on one segment customer group for deep discussion, the demographic segmentation of aged group older than 30 years old are picked for final figure design and analysis. On the one hand, Furniture is not same as cloth or food such cheap or normal price commodities, the people located in this customer group have stable job and suitable salary to afford such relatively expensive goods. On the other hand, the participants aged older than 30 years old are all got married and even most of them have child in family based on questionnaire result. Hence, they have much experience with consume furniture, and will consider more aspects than young people when buying furniture. The figures are made according to each questionnaire question, so that give a foundation and support for later discussion.

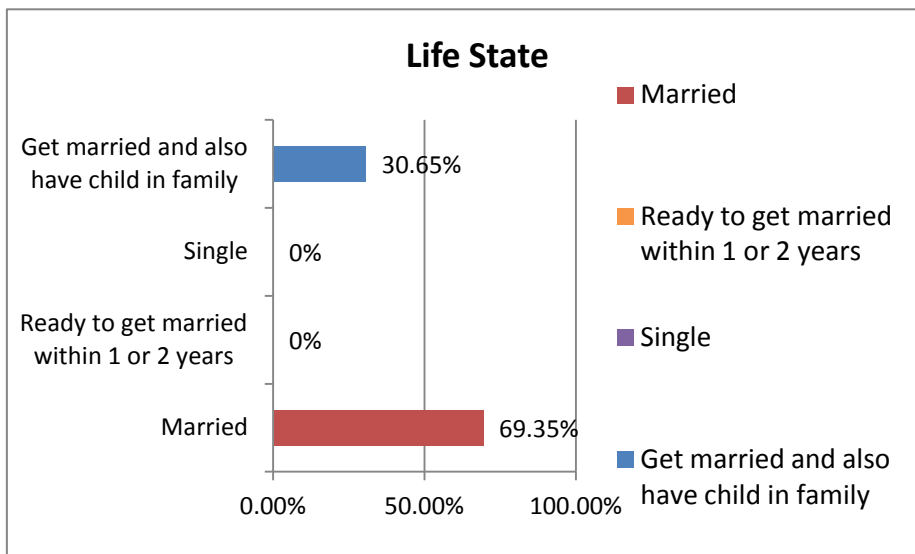
### 5.1.1 Gender & Age Scope & Life State



**Figure 3.** The gender of focused group



**Figure 4.** The age of focused group

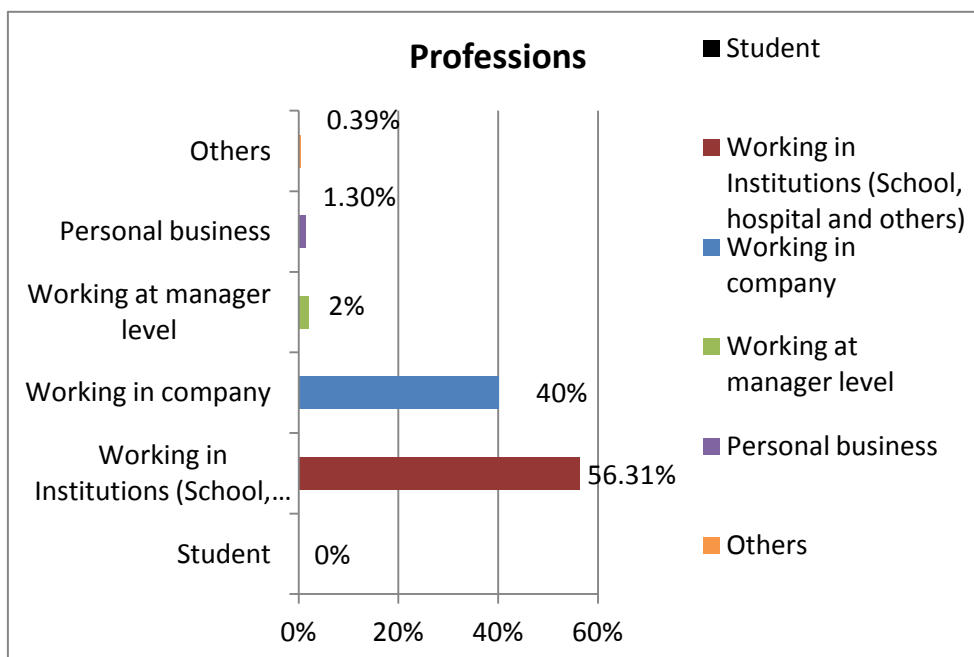


**Figure 5.** The life state with focused group

According to a survey, female consumers would show the perceptual character when choosing furniture, they are particular care about color, pattern, appearance characteristics. The young married woman will choose the comprehensive considerations from husband's suggestion when buying furniture. Modern minimalist styles with some romantic elements become their best choice. The middle-aged married women would consider more practical function with warm elements furniture (Purnomo, Irawati, Fauzan & Melati 2011). In general, male consumers pay more attention to concise and practical of furniture, while women consumers may more likely choose furniture with high quality brands, in addition to meet the requirements of environmental protection, composite personality features should be supported. Hence, the Finnish furniture company is better to pay more attention to female customers when enter China.

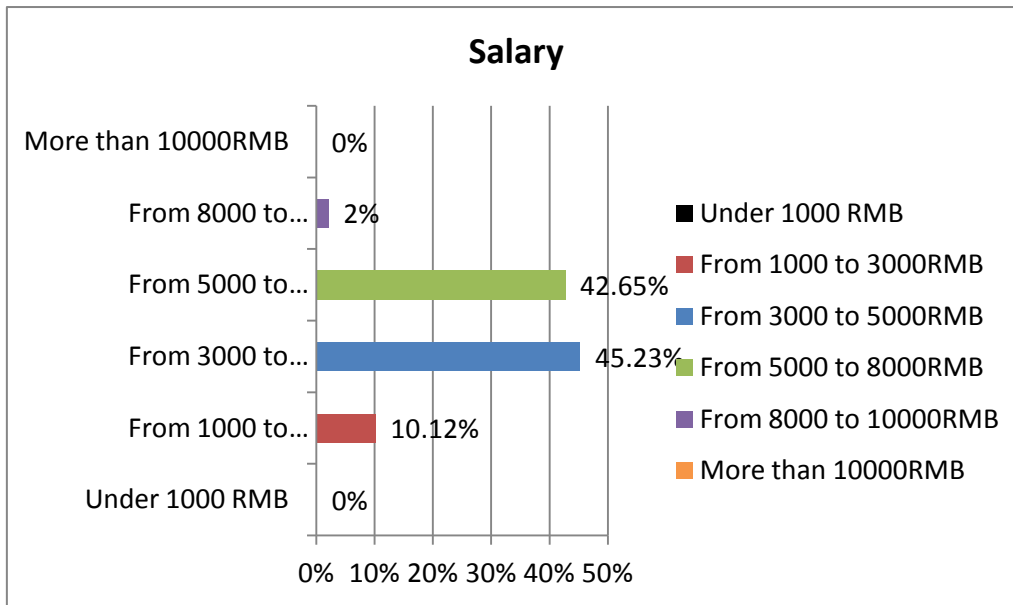
For families with a small child, furniture demand is likely to be more focus on functional and receive type, such as partition storage cabinet to collect small items. In order to provide a warm and convenient room environment for child, the short and small furniture, soft furniture in the form of special shape which can easy to transform its pattern cutting, or the furniture which can be folded and easy to move will be affected by such families' concern. In the families with children attend middle school or college, the pursuit of beauty has been seriously pay attention to, so the modern furniture or the furniture with hand-painted pattern will be very popular (Bednarik 2010: 76).

### 5.1.2 Professions & Salary Level & Living Cities

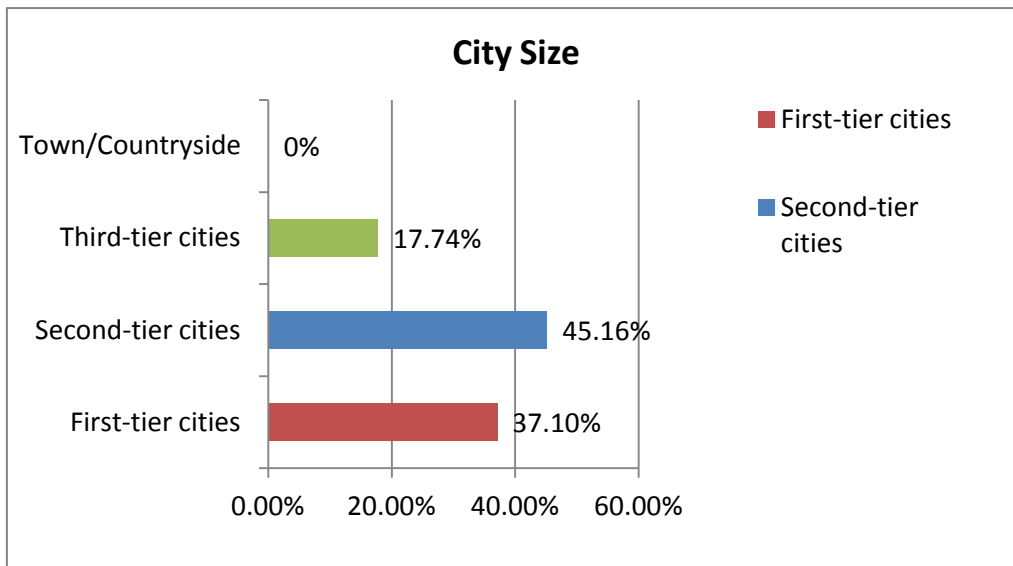


**Figure 6.** The professions with focused group





**Figure 7.** The salary level with focused group



**Figure 8.** The city size where focused customers live

According to the questionnaire, there are more than half of focused customers working in institutions (school, hospital etc); and 40% working in the company, but the consumers who worked with manager level are very few. Combining the result with wage level, most consumers' salary is located at 3000 to 5000 RMB (375Euros-625Euros) and 5000 to 8000 RMB (625Euros-1000Euros). Such salary is not only need to afford their own monthly expenses, but also should take responsibility on whole family's monthly living costs. So most of Chinese consumers are highly caring about furniture price and cost performance when they buy furniture (Harney 2008).

Based on consequence of living cities, the consumers living in the second-tier cities become the largest one. Because a lot of Chinese people over the age of 40 tend to live in a medium-sized cities, which have relatively calm and less pressure environment. There are also around 37% of participants live in the first-tier cities. In addition to the factors of grow and have been lived in the first-tier city throughout the whole life, most of Chinese consumers living in big cities are due to work or family, and their children are living in the first-tier cities (Reuvid & Li 2006). Compared with second-tier and third-tier cities, the basic salary will be slightly higher in first-tier cities, the spending power of commodities are comparatively high, and there will be more raw materials and distribution channels with commodity. However, on the contrary the possibility of similar commodity competitions will become more fiercely. On the other hand, prices in big cities is also relatively improved, especially the house price and land price are continually increase within these years in China (Ambler et al. 2009). The details about main professions and different cities' average salary level and population are showed as below (Carriban, 2012; Ambler et al. 2009):

**Table2.** Average monthly salary with different professions in China

<b>Professions</b>	<b>Monthly Average Salary (RMB)</b>
Education Industry	4000RMB (500 Euros)
Medical and Health Care Industry	6000RMB (750 Euros)
IT Industry	7000RMB (875 Euros)
Finance Industry	7000RMB (875 Euros)
Energy Industry	5000RMB (625 Euros)
Agriculture and Forestry Industry	4000RMB (500Euros)
Transportation Industry	3000RMB (375 Euros)
Service Industry	5000RMB (625 Euros)
Furniture Industry	5000RMB (625Euros)
Real Estate Industry	4000RMB (500Euros)

**Table3.** Average population and monthly salary with different cities in China

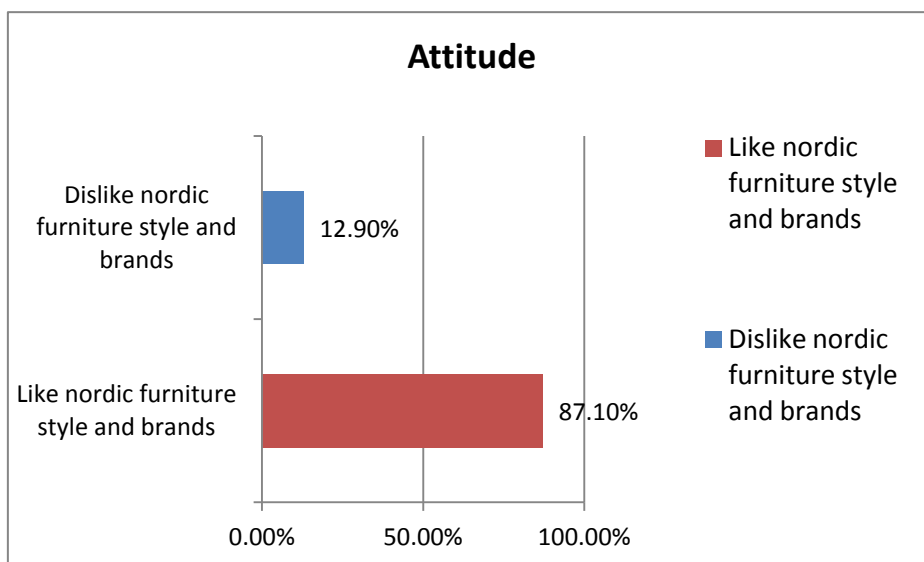
	<b>First-tier City</b>	<b>Second-tier City</b>	<b>Third-tier City</b>
<b>Average Population</b>	2000 Ten-thousand	1000 Ten-thousand	500 Ten-thousand
<b>Monthly Average Income</b>	6000RMB (750Euros)	4000RMB (500Euros)	3000RMB (375Euros)

The facts can be seen from Table 2, the highest average monthly salary is about 7000 RMB (875 Euros), the minimum average monthly wage has reached 3000 RMB (375 Euros), and most people's wages are 4000 RMB to 5000 RMB (500 Euros to 625 Euros) level. Chinese salary standard is far behind Finland compared with Finnish monthly salary standard, especially health care and education is the costly expend with Chinese. So from the data collected showed in table, on the one hand, it can be indicated that the importance of commodity price strategy, on the other hand it also provide a human and labor cost standard for Finnish furniture company establish business in China (Harney 2008).

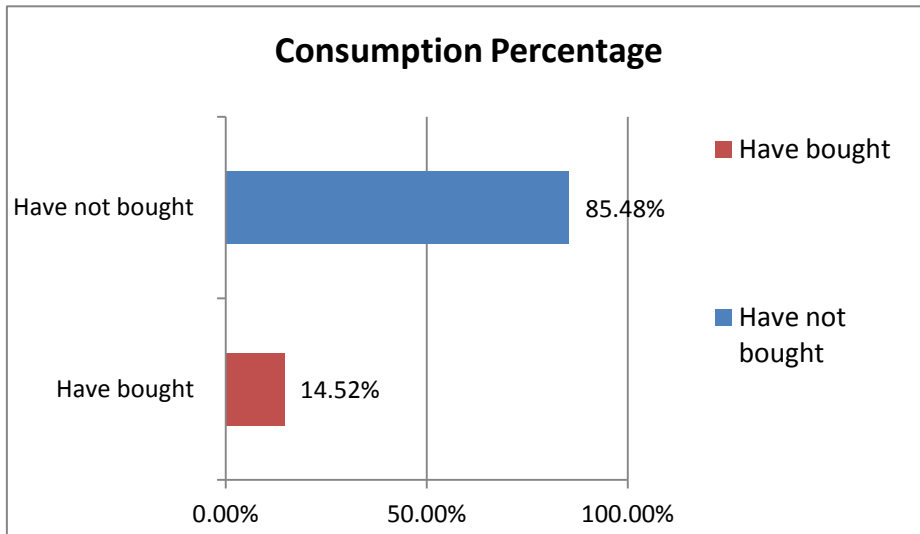
Table 3 not only display the vast furniture market opportunities with huge population, but also can be seen the possible consumption capacity and economic strength difference with different city size. At the same time, according to the Chinese census bureau data showed, the biggest population group is not concentrated on youth,

the residents over the age of 35 has reached to 70% with total population, while people aged over than 65 years old will reach 16.6% in 2020 (Republic of China of Hongkong Census and Statistics Department 2012). Hence, the main spending power still focused on the consumers over the age of 30, and the furniture which is provided with health care function or good for health may attract attention and more popular with the increase of elderly population.

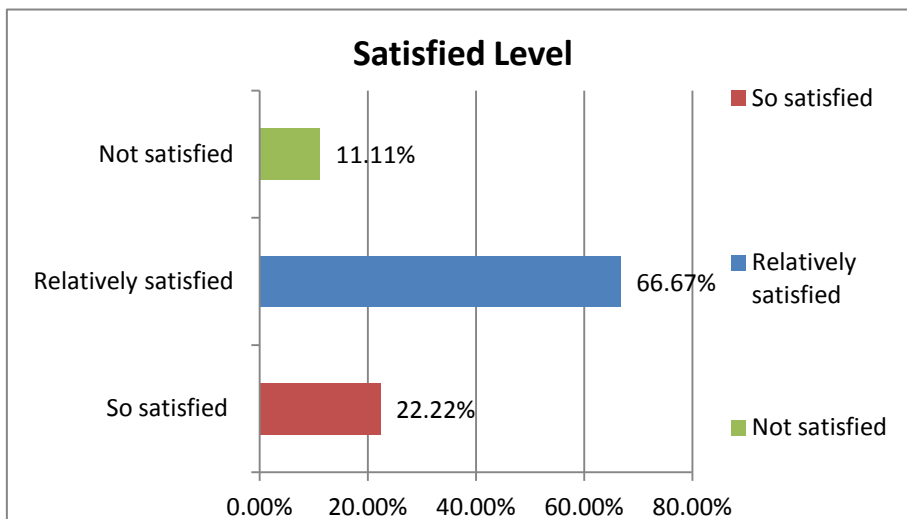
### 5.1.3 Attitude and Consumption Possibility with Nordic Furniture



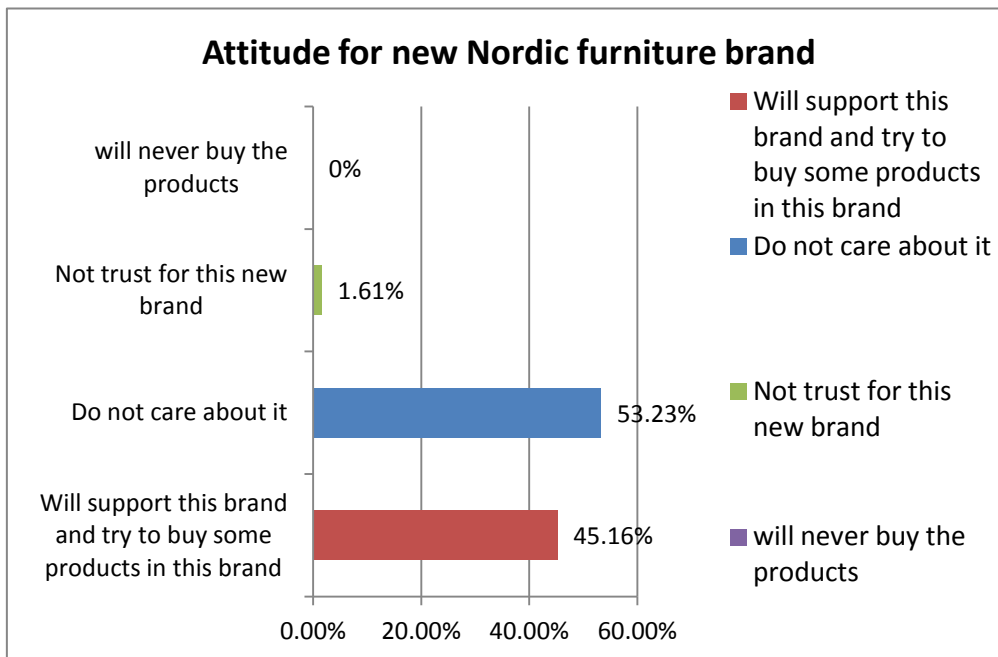
**Figure 9.** Attitude with Nordic furniture style and brands



**Figure 10.** Whether Chinese consumers have bought Nordic or European furniture brand products



**Figure 11.** The satisfaction level with customers who have bought Nordic or European furniture brand products

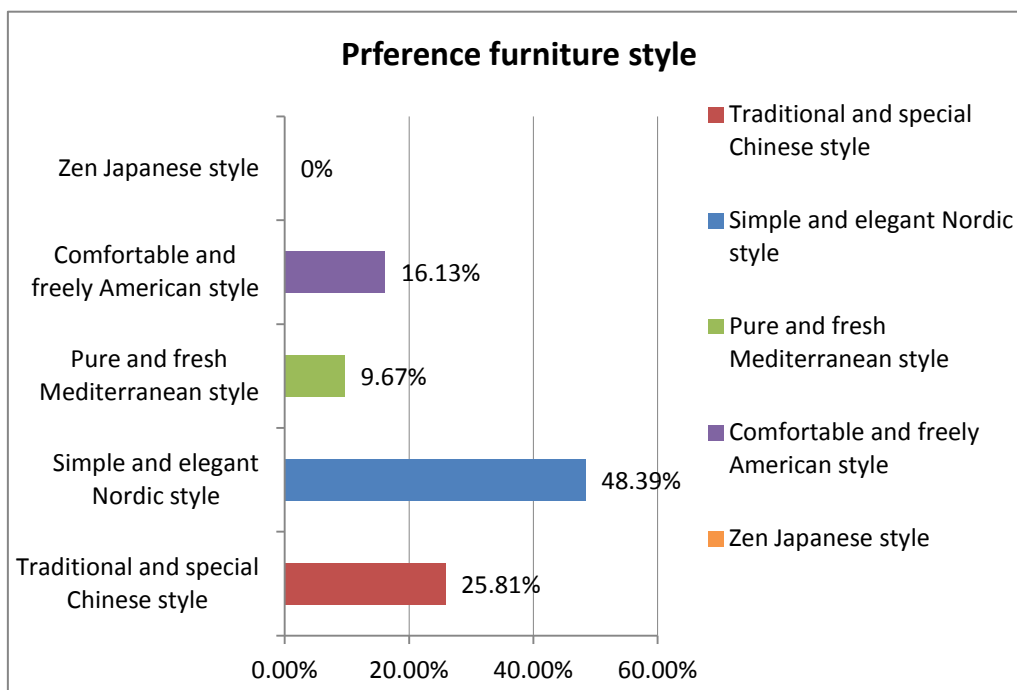


**Figure 12.** Attitude towards a new Nordic furniture brand entering China

It could be concluded from the data collection, few Chinese consumers especially the focused customer group have the experience with buying Nordic or European brands of furniture products, and a lot of people are found of Nordic or Europe furniture products whether they have bought it or not. However, for most customers who have bought Nordic or European furniture brand products are relatively satisfied with it, the level of so satisfied with products only around 20%, and even about 10% of the focused customers are not satisfied with the product or service. This is one of factor that more than half of focused consumers just show careless attitudes if a new Nordic furniture brand enter China. But fortunately, there are still 45% of focused consumers said they would support the new Nordic furniture products and try to buy the products. According to these results can be obtained, if the Finnish furniture company wants to enter Chinese market, on the one hand, it needs to rethink the product and service mode, and how to

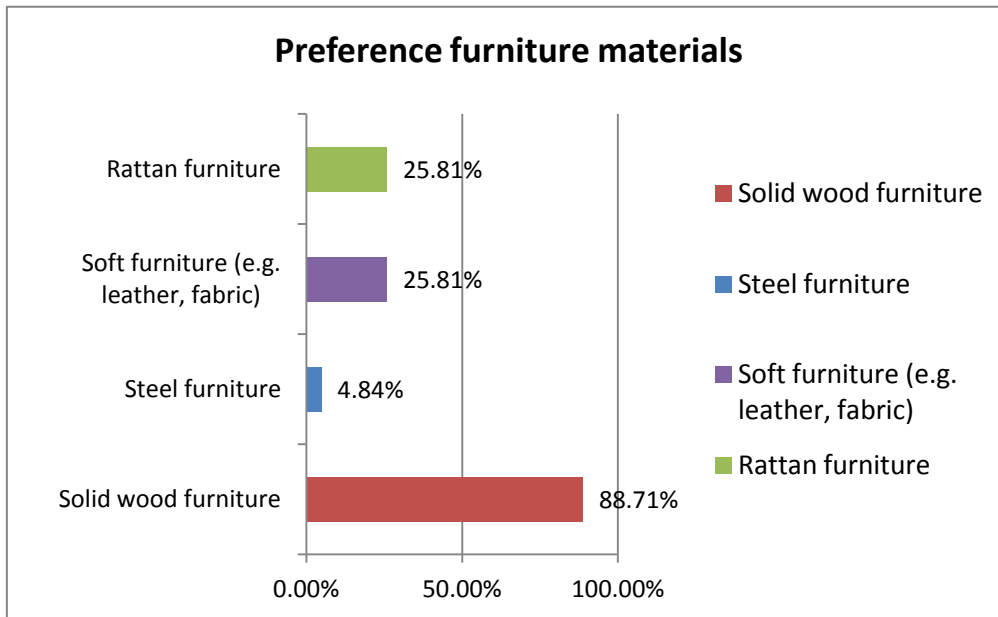
manage customer relationships, on the other hand, the entry model required seriously considered, such as manufacturing, strategic alliance, or if there has necessary to implement joint venture business structure in China etc (Ambler et al. 2009: 69-95).

#### 5.1.4 The Preference Furniture Style & Materials & Types

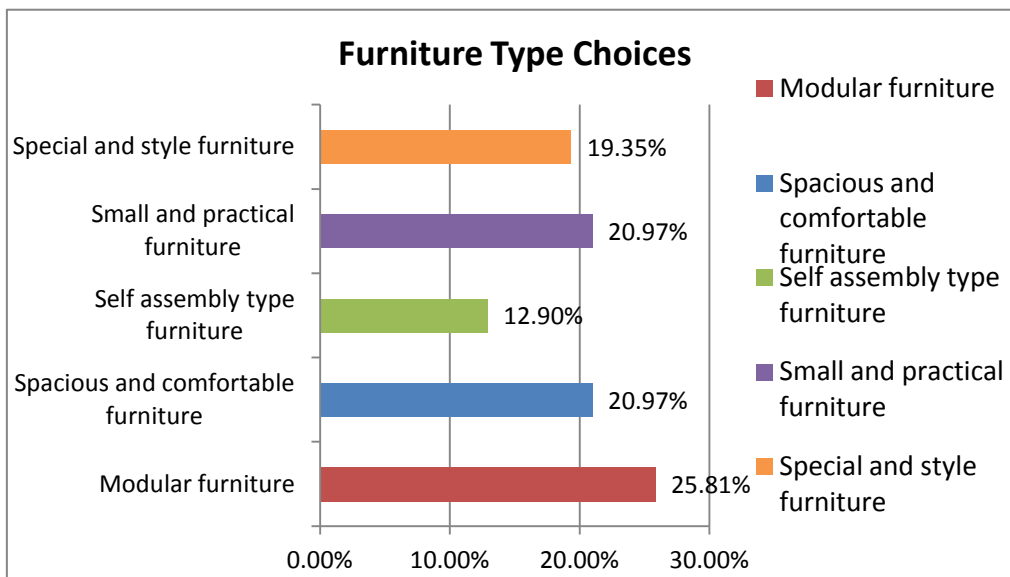


**Figure 13.** The preference furniture style with Chinese consumers





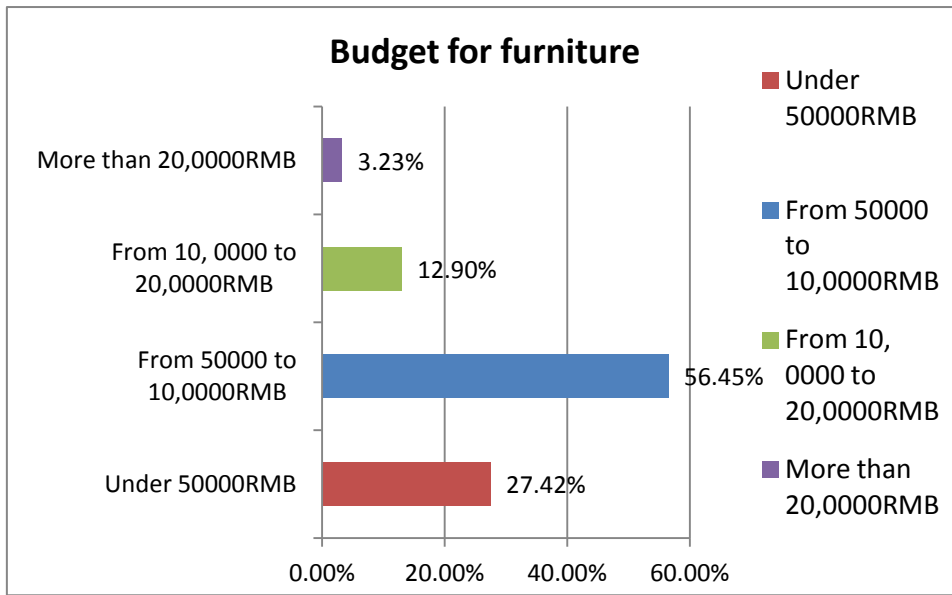
**Figure 14.** Preference furniture materials (Alternative Choices)



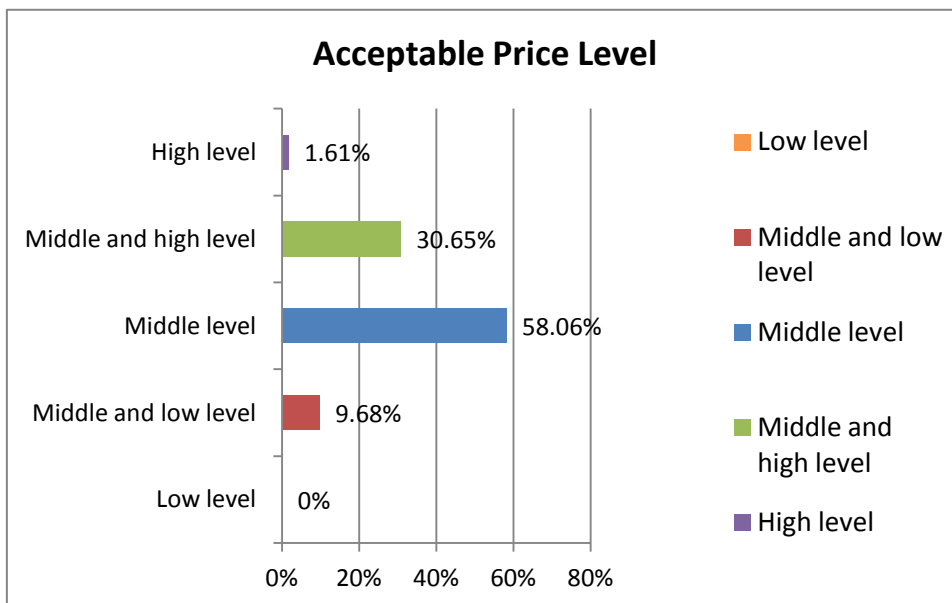
**Figure 15.** Preference furniture types

In general, the Nordic furniture style is very popular with Chinese consumers based on survey consequence. And the most of Nordic furniture products are made with high-quality wood materials, this is catering to the taste for Chinese consumers when choosing furniture material. At the same time, the Finnish furniture company may need to consider whether adopt exporting wood materials or products from Finland, what mode of transportations will be used, and how to manage raw material or products inventory if the company want to export (EU SME Centre 2010). Based on the cause of Chinese housing pattern, most Chinese consumers also tend to choose furniture with small and practical, as well as modular characters. According to the Chinese furniture market survey indicates, sofa and bed are the most furniture products to be purchased, and are also the furniture that consumers willing to spend money to buy high-grade or good products (Hong Kong Trade Development Council 2014). So the Finnish furniture company could pay attention to the change of type and function with products design and manufacture.

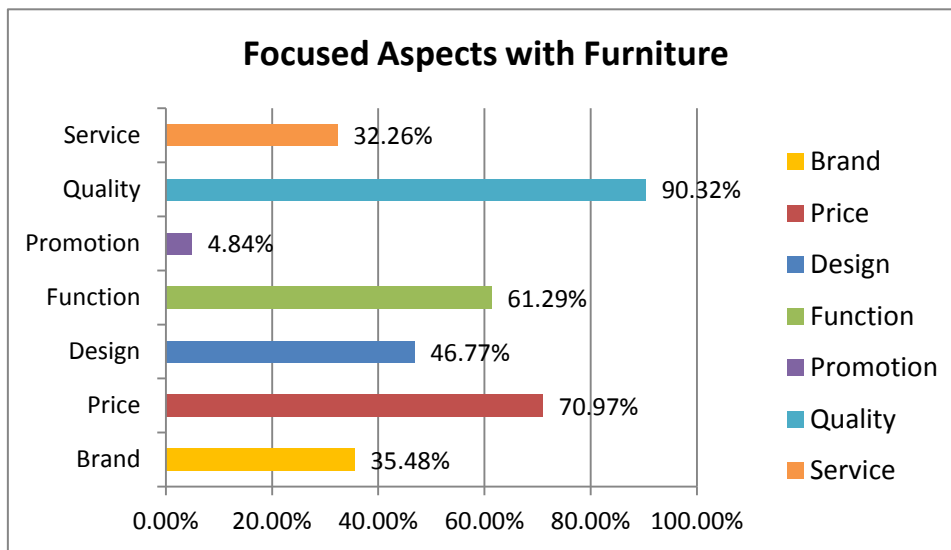
#### 5.1.5 Furniture Budget & Price Level Acceptance & Focused Aspects



**Figure 16.** Furniture budget for decorating house



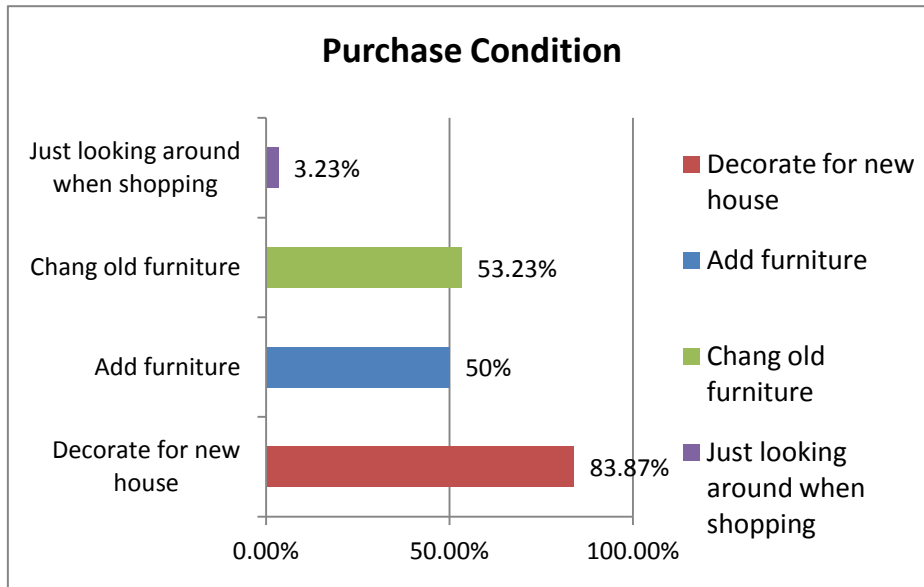
**Figure 17.** The acceptable furniture price level for one unit furniture product



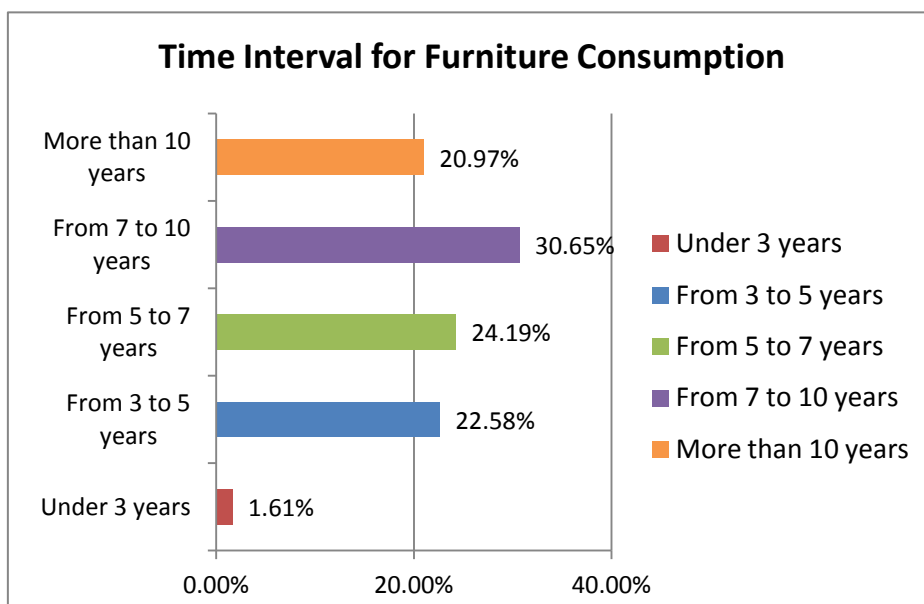
**Figure 18.** Focused Aspects when consumers buy furniture (Alternative Choices)

From the data analysis illustrated, due to different economic environment between China and Finland, most Chinese consumers are willing to spend 50000RMB to 100000RMB on furniture costs to decorate a house (6250 Euros to 12500 Euros). And the majority of consumers accept middle price level furniture products, such as the furniture price in IKEA (Harapiak 2013). But it is interesting to notice that the choices with high and middle price level are higher than choices with low and middle price level, this implies Chinese consumers are pursuing the right price and at the same time also concerning about the quality (Tian 2007). From Figure 18 could also see the quality and price become the most two concerned aspects of Chinese consumers. So the business strategy of quality and moderate price advantage is the best choice for foreign companies, and this would require company pay a great attention in terms of material purchasing and supplier selection (Onkvisit & Shaw 2004: 244-270).

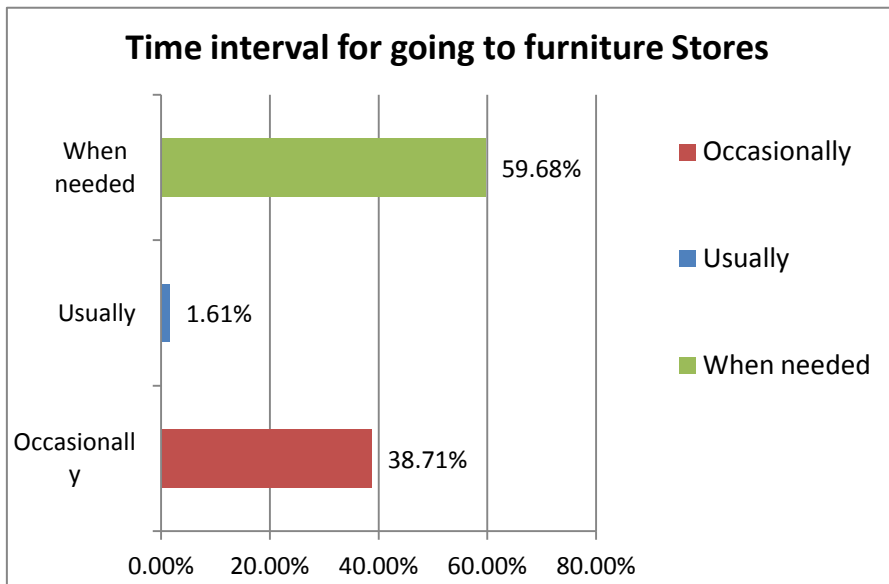
### 5.1.6 Consumption Motivation & Consumption Interval



**Figure 19.** Motivation for purchasing furniture (Alternative Choices)



**Figure 20.** Time interval for changing or buying furniture



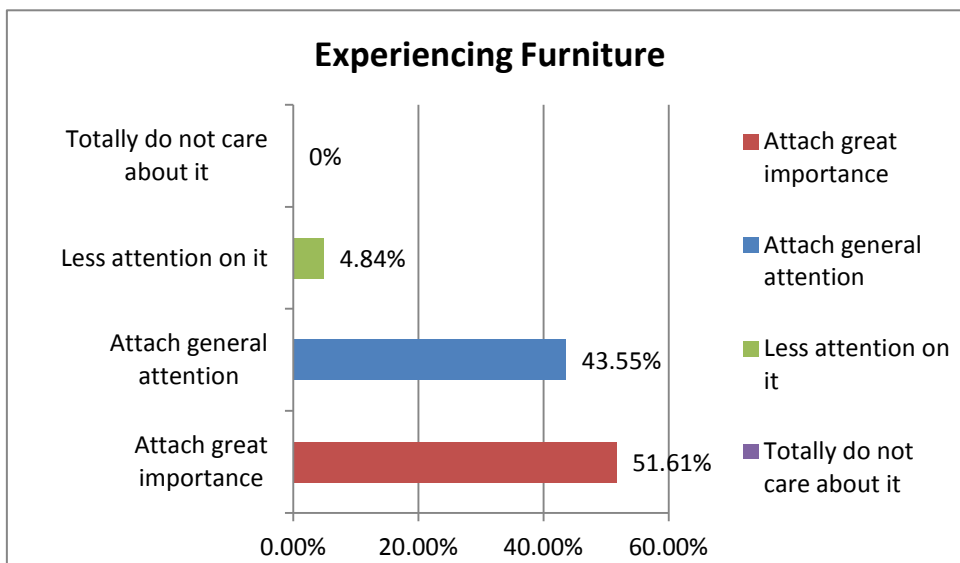
**Figure 21.** Time interval for going to furniture store

From the data analysis shows, a large part of Chinese consumers will buy furniture products for decorate new house. Compared with change old furniture or add furniture, decorate new house will consume more furniture products and the requirements with furniture will be higher. Based on the result of time interval for purchasing or changing furniture, the interval from 7 years to 10 years is most appropriate time for Chinese consumers to buy furniture; this also implies the average life expectancy of a furniture quality. According to the national statistics show there are approximately annual 438.93 million households would change furniture in China, assume average household spend 1000RMB (125Euros) on it, the total annual update of furniture could unexpectedly reach 44 billion RMB (8.8 billion Euros). In addition, due to the urbanization becoming future direction of Chinese main policy of stimulating domestic demand, and urbanization will contributes to the development of the furniture market; working class

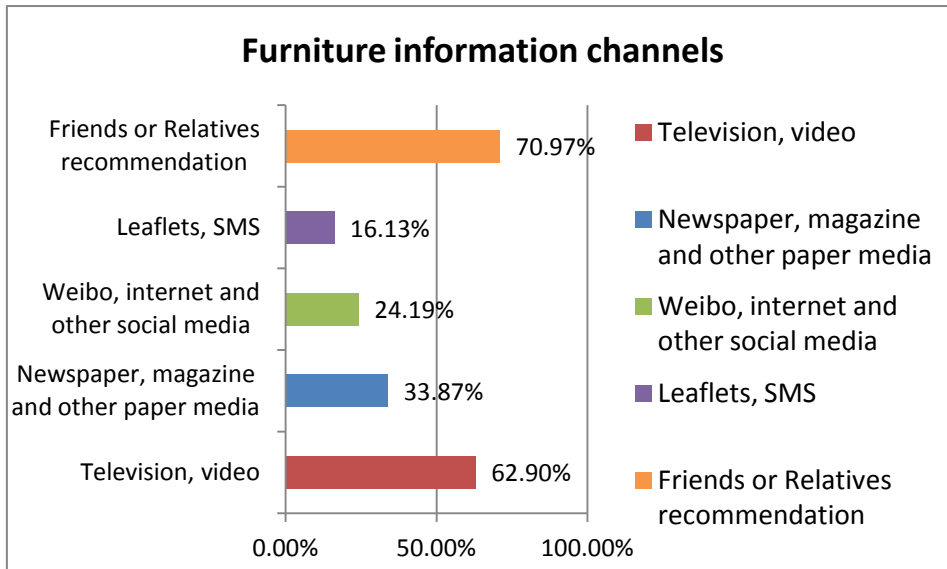
would become the main body of the furniture market consumption in the process of urbanization (Hong Kong Trade Development Council 2014).

However, due to the fast pace of life and larger work pressure in China, Chinese consumers do not have too much leisure time to go to furniture market; most people will go to furniture store when they need to buy (Ambler et al. 2009). Actually this situation will have a certain negative impact on sales of furniture. Face to face directly perceive furniture and frequently visit furniture store are one of the main ways to stimulate consumers to buy furniture.

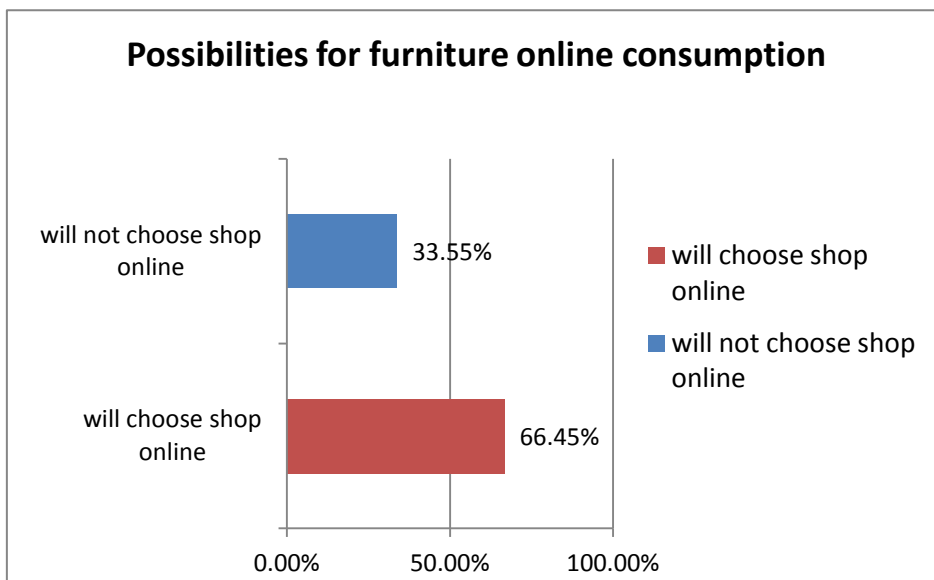
#### 5.1.7 Experiencing Furniture & Information Channels & Shop Online



**Figure 22.** Degree of attention for experiencing furniture



**Figure 24.** Channels for receiving furniture information (Alternative Choices)



**Figure 25.** Possibilities for purchasing furniture online



These three charts imply the significance of furniture product sales strategy. Most Chinese consumers still attaches great importance to furniture experience, so the case company (Finnish furniture companies) need to value the importance of furniture display as well as the experience marketing strategy in China. Focusing on the consumer at the soul level of products and brand closely feelings, attaches great importance to the consumption scenario (Harapiak 2013). In the aspect of receiving information channels, most consumers get furniture information through friends or relatives' recommendation, as well as TV or video. So this would require the company focus on brand publicity, development of basic customer lines and effective use of advertisement influence (Percy 2008).

Because of convenient, relatively low price and multi-species with online shopping, now many Chinese people would like to choose online shopping way. Questionnaire result also show that more than 50% of main consumers are willing to buy furniture on the Internet. According to the structure of Chinese netizens survey until 2014 conclude, the internet rate with people over 30 years old access to reach 42.7%; The internet rate with residents whose monthly income from 1000 RMB to 3000 RMB (125 Euros to 375 Euros) is 35.7%, from 3000 RMB to 5000 RMB (375 Euros to 625 Euros) is 18.9%, 5000 RMB to 8000 RMB (625 Euros to 1000 Euros) access to 8.1%, and the monthly salary over 8000 RMB (1000 Euros) only take up 5.3%, this emphasize the application of combined strategy between online shopping and paper or television advertisement (CNNIC 2014: 14-16). With the development of C2B, Chinese Internet shopping (including cell phone shopping) scale has reached 537 million people until June 2014 (CNNIC 2014: 29). Thus there is a great potential of online shopping market with furniture. But also need to pay attention with timeliness of delivery and rigorous of corresponding delivery service (Harapiak 2013).

## 5.2 Chinese Legal Environment

Legal environment is the basic and most significant factors when case company (Finnish furniture company) entering Chinese market, it will directly result in entry modes, distribution considerations and market strategy with a new Finnish furniture company.

### 5.2.1 Process of Registration and Establishment

(People's Republic of China State Administration for Industry 1992)

- Enterprise establishment application: including basic situation with investors and legal representative; Currently products and related operating conditions; Organization form of company in China, legal representative, production technology and equipment, general sales direction and channels, payment arrangement, staff set, site or store selection, environment pollution and solving measures, the planed operation period to set up enterprise in China.
- Start registration in China according to the preset company form after Chinese government allow the application. The minimum registered capital is 30000RMB (3750Euros) for ordinary company, and need two or more shareholders to support this company.
- Check the company name under local industrial and commercial bureau, and get the approval notice of enterprise name.
- Business field transaction including house property certificate or lease contract registration.

- Write the company's articles and manage bank account opening procedures.
  
- Manage related formalities of registration under industrial and commercial bureau and obtain business licenses.
  
- Examination and approval with seals and registration with land tax, national tax under the public security bureau.

### 5.2.2 Furniture Standard Legislations with Company Operation

All listed furniture including foreign imports of furniture products must comply with the *legislation of Consumer Goods-The Sixth Part: Furniture*, involve in the name of furniture, purpose, scope of application, models, quality assurance, etc (China's State Administration of Quality Supervision & National Standardization Management Committee 2004).

In order to ensure the life and safety of furniture products, all the furniture products need to pass *Furniture Mechanics Performance Test*, the content involves the stability and durability with chair stool class, cabinets, single-level bed, table class (China's State Administration of Quality Supervision & National Standardization Management Committee 2013) .

*Redwood Furniture General Technical Conditions* regulate redwood furniture's classification, size, inspection rules, transportation, etc., and redwood furniture products must provided with product specification, product quality cards and product certification (China's State Administration of Quality Supervision & National Standardization Management Committee 2011a).

*The New Standard of Furniture Environmental Monitoring*, which apply undamaged monitoring to ensure the safety of furniture material content (China's State Administration of Quality Supervision & National Standardization Management Committee 2011b).

All upholstered furniture must comply with the *Limitation with Upholstered Furniture Mattresses Harmful Substances*, *Limitation with Upholstered Furniture Sofa Harmful Substances*, *Determination of Furniture Dimethyl Fumarate Content* and light industry standard of *Upholstered Furniture Sofa*, which including the furniture raw material selection, production process and specification, etc (China's State Administration of Quality Supervision & National Standardization Management Committee 2011c).

*Wood Furniture General Technical Conditions* and *Limitation with Wood Furniture Harmful Material*, in which fix the wooden furniture products, quality, packaging, transportation, chemical content, etc (China's State Administration of Quality Supervision & National Standardization Management Committee 2014).

### 5.2.3 Laws with Foreign Companies & Furniture Tariffs

All foreign companies must strictly abide by the rules of *Modified People's Republic of China Foreign Companies Implementing Rules*, the content including the company establishment process, product purchase and sale, tax and asset patents, etc (People's Republic of China State Council 2001).

According to legislation of *New Entering Goods with Country Duty-paid Price List in People's Republic of China*, tariff with solid wood furniture, leather furniture, bamboo rattan furniture and other furniture changes from the original 0% to 10% since April 15, 2012 (China General Administration of Customs 2012).

### 5.3 Competitor Comparison & Case Company SWOT Model

As the managing director of case company indicates, there are four main competitors with case furniture company. BoConcept and Ikea are two of most competitive Nordic furniture brands and both of them have already established business in China; other Finnish furniture competitors still have not entered Chinese market. Due to the high local brand awareness, market positioning and company business strategy, the Chinese furniture brand B will become one of main competitor whether for case company or other Finnish furniture brands.

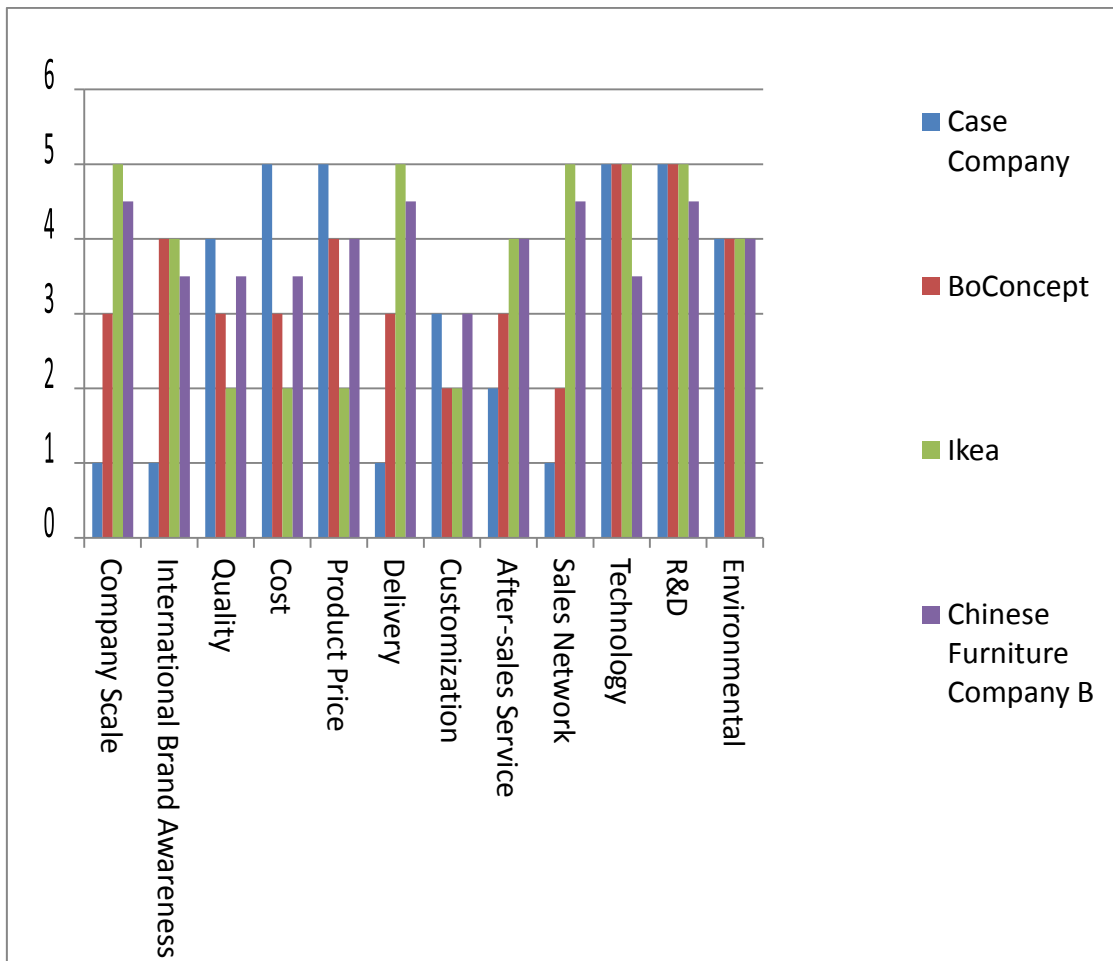
BoConcept was established in Denmark in 1952 for dedicated to the design of modern furniture; the products emphasize concise, warmth, nature and multicultural with excellent practical function. It is worth mentioning that the procurement lines of BoConcept cover all over the world, and in 2004 the university of BoConcept was set up with provide related services and indoor training for staffs. It had 25 stores in China since entering Chinese market in 1995, and was evaluated in 2007 by Chinese consumer as favorite import furniture brand.

IKEA was founded in Sweden in 1943; so far it has become the largest furniture and household company in the world. The characters of IKEA products are species diversity, reasonable price and design localization. IKEA implements the most advanced globalization procurement mode, in which purchasing from the different trade area to 26 global distribution centers and then send to IKEA's global markets; it totally has 1300 suppliers worldwide. IKEA already has 16 stores from 1998 entered Chinese market, and attach the favour of Chinese young and middle-aged consumers.

The Chinese furniture company B was established in China since 1980s, the products with elegant, warm, harmonious, natural and Nordic design concept. There are

approximately 600 stores at home and more than 30 distributors in foreign countries. The biggest advantages and characteristics of the furniture company B is the international production line, in which 80% equipments are introduced from Germany and Italy, buyout the foreign designer and set up a multinational R&D team, the products are also sold to Europe, United States and Southeast Asia.

The following figure is collected based on interview with case company's critical factors evaluation (how the manager evaluate its own company), the assessments of opponents (how the case company understand its opponents) and Chinese furniture company B's evaluation. The standard with evaluation is from 1-5 point. 1 means at low or small level, 3 stands for middle level and 5 points out the high or big level, the interval is set as 0.5.



**Figure 26.** Competitor Comparison

The SWOT model with case company on the one hand it is a further discussion with main competitor analysis, it will help case company clearly know own situation, on the other hand, the model will lay a good foundation with deeper market analysis based on interview and Chinese furniture market information, and the detail is showed below. The SWOT analysis would also provide a guidance and support for discussion part.

**Table4.** SWOT with case company

<p><b>Strength:</b></p> <ul style="list-style-type: none"> <li>■ Products with high quality and environment</li> <li>■ Determinate market positioning and focused customer group</li> <li>■ High customization</li> <li>■ Business strategy improvement</li> <li>■ High technology with continually technology learning</li> <li>■ Use of external resource</li> <li>■ All the owners work together for producing products to ensure operation details</li> </ul>	<p><b>Weakness:</b></p> <ul style="list-style-type: none"> <li>■ keep products at high level with high cost and high price</li> <li>■ Product category is relatively few compared with competitors</li> <li>■ Not so rapport relationship with retailers and owners</li> <li>■ Small supplier choices</li> <li>■ Inefficient market strategies</li> <li>■ Locally market without internationality</li> <li>■ Unfair phenomenon in networks</li> </ul>
<p><b>Opportunity:</b></p> <ul style="list-style-type: none"> <li>■ With the high development of living standard, more and more Chinese pursuing high quality life</li> <li>■ Big population with great business opportunities</li> <li>■ Internationality of China</li> </ul>	<p><b>Treat:</b></p> <ul style="list-style-type: none"> <li>■ Different political, culture and salary situation between Finland and China</li> <li>■ Fierce competition</li> <li>■ Localization demand</li> <li>■ The changeable of furniture market</li> </ul>



<ul style="list-style-type: none"> <li>■ Green consumption with furniture trends</li> <li>■ Low labor and material cost in china</li> <li>■ More choices with retailers and supplier in China</li> <li>■ Opportunities with technology learning and combination</li> </ul>	<p style="text-align: right;">and customer demand</p> <ul style="list-style-type: none"> <li>■ The relationship with Chinese suppliers and retailers</li> <li>■ Internationality trend</li> <li>■ No experience in Asian market</li> </ul>
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#### 5.4 Risk Assessment

Based on SWOT model analysis, the treats will be identified by their happening risk probability and occurrence impact with Excel. All threats' risks may not be prevented and the prevention costs might be even higher than the actual occurrence cost. The risk assessment table will show the identified treats based on Chinese environment analysis and interviews, so that the case company (Finnish furniture company) could recognize the threats influence and implement the suitable strategy. It could be concluded that the risk of different political, culture and salary situation between Finland and China become the highest one, and the localization demand shows the relatively low risk. The probability and impact matrix can be seen from the table and the deeper analysis will be showed in discussion part.

**Table5.** Risk Assessment with Treats

	A	B	C	D	E	F	G	H	I	J	K	L	
1								Probability		Impact	Composite risks index		
2	Different country environment							1		1	1		
3	Fierce competition							1		0.9	0.9		
4	Localization demand							0.9		0.8	0.72		
5	The changeable of furniture market and customer demand							0.98		1	0.98		
6	Relationship management with Chinese suppliers and retailers							0.99		0.98	0.97		
7	Internationality trend							0.99		0.95	0.94		
8	No experience in Asian market							1		0.99	0.99		

## 6 DISCUSSION

### 6.1 Entry Environment Analysis

#### 6.1.1 PEST Analysis in China

China has maintained a stable political environment since reform and opening. After joined the WTO in 2001, China gradually become open, equality, competition and transparent market, this provides more opportunities to participate in fair competition for the enterprise development (Reuvid & Li 2006: 13-16). With the opening up of Chinese market, it promotes the enterprise to further renew the idea and continually learning with international advanced operation methods (Reuvid & Li 2006: 83-85). In recent years, furniture demand has risen due to the development of domestic real estate and house decoration. According to the government forecast, the domestic furniture market demand will grow at a rate of 10% to 15% within next 10 years (Ambler et al. 2009: 69-95).

Tax is one of main income resource for Chinese government, is the key of the macroeconomic regulation (Reuvid & Li 2006: 209). The import duty on the furniture industry as mentioned before has changed to 10%.The increased import tariffs could result in price increase with imported lower-middle level furniture, but for the relatively high profits of high-grade imported furniture, it will not affect the original logistics channels and imports of goods, but using their own high-end brand advantage to further expand the market share by getting help from increased tariffs.

At present, Chinese furniture industry national standards which also including the mentioned legislations in result part will be divided into five categories: furniture

product quality standard, furniture general technology and basic standards, furniture chemical composition test standard and test method standard with furniture products. Including safety, energy saving and environmental protection as the main policy guidance in recent years. ISO14000 environmental management system certification, OHSAS18001 occupational safety and health management system standard, and the vital regulations about processes standard associated with foreign enterprises enter China which displays in result part are necessities with Chinese market demand (Ahmad et al. 2011). The related laws about government procurement and bidding are conducive to promoting the fair competition and development of furniture industry. At the same time, the institution of China International Economic Consultants Corporation would provide legal and economic consulting service for foreign investment and business establishment (EU SME Centre 2010).

According to the national bureau of statistics bulletin, the domestic GDP in 2013 are totally 56.8845 trillion RMB (7.1106 trillion Euros), including Shanghai, Beijing, Hong Kong, Guangzhou, Shenzhen are ranked the top five with GDP (Peng 2014). Due to Chinese economic development in recent years, income level is relatively increased, but also accompany with the income inequality and increase of the gap between rich and poor (Tian 2007). In general, combined with salary level form displays in result part, most of the citizens' monthly income is around 3000-8000RMB (375-1000Euros). Due to the limitation of income level, as the marketing manager of Chinese furniture company B mentioned, the current domestic per capita furniture consumption level is about 30 Euros; Chinese per capita furniture consumption is obviously on a relatively low side compared with Finland. Besides, along with rising prices and strength of the real estate regulation in recent years, the furniture prices of raw materials, logistics costs and staff costs are relatively increased. The exchange rate with Euro and RMB is ranged between 7.5 and 8.5 in recently 5 years. In recent years, RMB has appreciated with the

rising power of Chinese economy, the strong development momentum of foreign trade and increased foreign exchange reserves year by year.

Based on the data provided by Chinese furniture company B, the output value for furniture industry is worthy 330 billion RMB in 2013 (41.3 billion Euros), the company's accumulative total profit has increased by 14%. In Chinese furniture market, the large furniture enterprises are accounted for 26.98%, medium-sized enterprises are held 39.98%, and small businesses are occupied 33.04%, so the small and medium-sized enterprises are the main in Chinese furniture market. In these furniture enterprises, the total income reached 61.57% with wooden furniture manufacturing, the income of metal furniture manufacturing achieved 21.85% for whole market, bamboo and rattan furniture manufacturing industry is 1.97%, other furniture manufacturing accounted for only 14.61% of income. Hence, according to the data provided by company B, the woodiness furniture of Chinese furniture industry become the highest competition and biggest profits. Furniture industry output value in Guangdong, Shandong, Zhejiang, Sichuan, Henan and Liaoning are located in the top six cities. Due to resources and distribution channel advantages of these cities, the case company would better focus on them in terms of store location and material purchase.

With the population of 1.3 billion, 661 cities in total, in which population in first-tier city is about 20 million, second-tier city covers 10 million people, third-tier city is valued 5 million people, and Chinese market contains powerful potential furniture consumption (Republic of China of Hongkong Census and Statistics Department 2012). But also due to the huge population, most Chinese still live in a stressful environment, among those aged older than 30 years old accounted for 70% of the total population, and they are involved in the busy work even in weekend. However, because of stable job and income, this part of the crowd is also a main consumer in Chinese

furniture market; they prefer a middle level or middle and high level furniture with form a complete set, functional, health care and environmental protection.

According to Chinese furniture company B's market survey, 90% of their customers are interested in using green environmental protection material, wood furniture is the best sold furniture in their stores. In all kinds of furniture products, the unit price ranged in 3000-5000RMB (375-625Euros) of furniture consumption accounted for 25%, the price between 5000-10000RMB (625-1250Euros) of consumption accounted for 24%, the unit price which is more than 10000RMB (1250 Euros) of furniture consumption reach at 16%. And consumption custom is not only confined to buy furniture for live or marriage, at the same time also turns to office, hotel and other new type of furniture consumption (Hong Kong Trade Development Council 2014). In addition, as the mix of different cultures and the entry of many foreign furniture enterprises, European-style furniture, the furniture combined with Chinese and western type, light material (e.g. Easy to move) has become a leading consumer preference either.

At present, the Chinese government gives the loan interest and discount support to furniture production enterprise's new product development and technical R&D. Science and technology department increase the supports with establishment of furniture industry research and development center. Information bureau actively sustain establish the national information center or network center for furniture industry. For the whole furniture market, the application of new materials, as well as the practice of green furniture industry chain has been widely covered. Such as the application of water-based painting is reducing the pollution from volatile organic compounds, promoting the furniture enterprise to realize the coordinative development of economy and environment. At the same time, Chinese exquisite carved technology and the introducing of advanced foreign (such as Italy, Germany) technologies, creates a good

production environment for furniture market. The products such as ultraviolet bed appear on the market at present are the result of technology development. For all the furniture enterprises, online shopping become a biggest marketing opportunities with rapid development of Chinese B2B and B2C business modes (Harapiak 2013). According to the Chinese furniture company B noticed that, It has achieved more than 100 million RMB sales of 13000 pieces of furniture by online-shopping within one month.

### 6.1.2 Intellectual Properties

In fact, product design is actually one of the main weak links in Chinese furniture market. The lack of designers, relatively with short of innovation, and some furniture are mutual imitated, plagiarized, or even appeared a lot of counterfeit goods. The main reason for appearing this problem is the corresponding business value may not be received when a few small and medium-sized enterprises once denote huge cost into product development and design, this may be a fatal blow to these companies (Steve & Gan 2007). For instance, the price of the sofa with original design is about 5000RMB (625 Euros), but the copying products in market may be only priced 1000RMB (125 Euros).

Truly the most terrible is not the low price with copied products, but the plagiarism does not reach the designated position. Copying products tend to reduce the product cost, do shoddy work and use inferior material. Although the imitation products look the same with original products, but the quality is quite different, and this will produce a big lethality to original brand (Reuvid & Li 2006: 153-160). Besides some furniture enterprises invested a lot of money, manpower and material resources to the original design, but the products are imitated once new products come out , and even imitations

are appear on the market in great quantities but new product is not listed. Such a vicious cycle result in the relatively reduced original design.

At present, the design has become the core of furniture products. In the beginning, many furniture companies do not pay attention to protection of intellectual property rights, so that led to increase in the number of counterfeit products later. Now the main legal for protecting furniture design in China are patent law, trademark law and copyright law. The patent law noticed appearance of furniture product design or utility model patent protection, the copyright is the protection with originality design or designed map. And in order to regulate the virtuous competition in furniture market, the establishment of furniture association of patent protection will also give a support for the entrance of foreign furniture brands (People's Republic of China State Council 2001). So when the case company entering China, it must comply with the *Modified People's Republic of China Foreign Companies Implementing Rules* procedures to apply design patent with Chinese Patent Office, the products appear in market with same appearance will belong to infringement products after get approval for own design, the company will own the right to use legal means (People's Republic of China State Council 2001).

## 6.2 Entry Modes

### 6.2.1 Branch & Subsidiary

Establish subsidiaries or branches in the Chinese market are a form of foreign enterprises to enhance the adaptation with Chinese market. For example, BoConcept reaches the strategic cooperation with many domestic furniture companies through its subsidiary of BoConcept retail (China) co., LTD. For most of Finnish furniture companies, if the head office is profitably but the new production and business operation entity in China may appear loss in recent years, and its operation is closely



associated with the headquarters procurement, there are the situation of internal transfer of semi-finished products, the best solution for them is to choose set up a branch in China, which the loss of branch can be applied in reduce patent company's income tax payable (Onkvisit & Shaw 2004: 129-131; Ghauri & Cateora 2009).

However, if the patent company is profitably, and the new production units will be profitable, but the profit is small, and the whole business in China will be relatively independent, such as create new brands or production line, and the new company in China conforms to the tax preferential terms with small profit-making enterprise, then set up a subsidiary will be the best choice (Onkvisit & Shaw 2004: 129-131; Ghauri & Cateora 2009). On the other hand, in case the company suffered losses in recent years while the new branches could bring profit in China, so the company also better to decide setting up a subsidiary, such subsidiary can achieve market development through capital accumulation in China, there is no need to bear loss of patent company, and the patent company may also put its good assets transferred to the subsidiary so as to get rid of bad assets. According to the case company's last year marketing analysis report, one of original owner company's bankruptcy brought a big market impact with company, all invoices had to be paid at once with big cash demand, and the profit has also decreased compared with 2012. The market not only need company focus on the high-end products, also should develop a new mid-priced product line, so subsidiary should be better choice for case company.

### 6.2.2 Exporting

Direct export generally needs to spend a lot of money, the export of professional personnel and good relationship with government (Onkvisit & Shaw 2004: 246-247). Especially for the direct export with furniture such large commodity will

denotes the increased transportation costs for company. On the one hand, although there is no doubt the direct export with timber or the final furniture products can ensure the product quality, but the high price of raw materials in Finland may lead to some small and medium sized Finnish furniture companies cannot afford the high transportation cost. On the other hand, due to the Chinese government is a little slow to approve direct-sales license application for new entrants (Ambler et al. 2009: 69-95), so for most of the Finnish furniture companies, especially like case company such small and medium sized furniture brands may export some final products to Chinese market, the most important thing is to bring the advanced machines and technology into China, and cooperate with Chinese furniture factory or company to produce products, because the machinery and technology will create much higher value than directly using the Finnish raw materials. For instance, the case company could bring the technology of heat-treatment to refine birch tree to fit with customer's conception of "hardwood", and the protection of product color with ginger technology into China.

In China, there is also a lot of corresponding furniture agencies that buy foreign products and import into China through the national import and export licensees (Wu & Zhao 2007). Because most of the Finnish furniture companies are not so international companies, many of them focus on Finnish or Nordic markets, the Finnish furniture companies such as case company, in which just has limited market budget for entering Chinese market and it is the first establish business in China, it is also wisely choose to cooperate with the Chinese local agency for selling the partial products. This could result in a quickly products sold abroad and obtain timely market intelligence by agencies, and enterprise do not need to assume any credit risk (EU SME Centre 2010: 6-8). Meantime, the contract with agency is flexible and has a certain period, the case company can choose finish using agency when it has a stability business in Chinese

market. So, agency will play a great support with Finnish furniture companies' early development in China

### 6.2.3 Joint Venture

Many companies point out, exports may not result in significant market penetration compared with a joint venture, especially the speed for establishing a wholly owned subsidiary is slow and the required resources are too much, so the creation of international joint venture is often thought to be the most attractive compromise (Brouthers 2002: 204-205). At present, the foreign furniture brands which have entered Chinese market would like to create a joint venture with local enterprises in order to reduce the risk of entering new markets, in many cases they are selecting joint venture partners who are running business with related product line, so as to have a good cognitive with local market.

The case company could make use of local enterprises' material, human resource, plant and market information, and local enterprises could organize production, transportation and sales. For case company, it is mainly to provide technical services, including production technology, design, and staff training. The most important thing is that due to the better market understanding with local enterprise, the aspects related with advertising planning, product research and development should cooperated by both sides (Prescott & Swartz 2010). Besides, because many domestic furniture companies are also import machines from abroad, the case company just can use these advanced machines in products research and development. As further measures to reduce risk, Sino-foreign furniture joint ventures can start from the simple sales and marketing operation, after the product sales began to rise, then it can create a pure assembly factory for case company assemble, improve or redesign the product in order to better

adapt with local market, and fully implement the production localization and buy raw materials locally at final. The purpose of this strategy is implementing large-scale investment after reducing market uncertainty (Onkvisit & Shaw 2004: 252-254). Meantime, Sino-foreign joint venture enterprises can enjoy preferential tax policies in China.

#### 6.2.4 Strategic Alliance

There is no doubt that the main consumers in Chinese furniture market are the aged group between 30 to 50 years old, who has or middle-income or higher-middle income, they pay attention to product's price and quality and also like the simple and natural furniture design. But most Finnish furniture brands are located at high-end route, it makes a lot of major consumers cannot afford the high consumption, and traditional Chinese values and house type are all more or less produce some constraints to buy Finnish furniture products. So in order to cater to Chinese consumers' consumption psychology and develop products diversification in Chinese market, the choice of strategic alliance is realized the localization market strategy.

First of all, like the case company such small and medium sized Finnish furniture companies could choose the technology development alliance with the domestic large furniture companies. Such as the brand QuanU, which has products with high-end and middle-end, its agents and outlets are distributed widely all over the country. The funds and marketing power are provided by such large domestic furniture companies, the case company could offer new product development plan, conduct cooperation in technology and development of new products (Ghauri & Cateora 2009). Secondly, the Finnish furniture company could also implement Co-production alliance with domestic furniture enterprise to purchase equipment for engage in local or end product of project

production by Co-financing. This alliance can help both parties share the benefits of high production capacity utilization, and could adjust the production according to the different conditions of supply and demand in a timely manner (Isoraite 2009). The case company which is specialize in wood furniture could consider priority form a stable coalition with Chinese wood manufactures which are expert in medium density fiberboard and fine wood.

In addition, the case company also could forms an alliance with international furniture brands which have entered China. On the one hand, they have marketing experience with Chinese market, on the other hand, they will own more advanced production technologies and equipments than many domestic furniture companies, and their entire supply chain are more international, so that the case company could obtain the resources from Chinese market and other countries. What is more, the alliance with retailers is also necessary with case company firstly enter China. The case company could select cooperate with local furniture store, individual furniture store, general merchandise store, supermarket and local exhibition. The strengths and weaknesses cooperate with these retailers are illustrated as below.

**Table6.** Strengths and Weaknesses with Chinese Retailers

<b>Retailer</b>	<b>Strength</b>	<b>Weakness</b>	<b>Other notes</b>
<b>Local furniture store</b>	-professional furniture market -Gather the high	-Poor controllability -Competitiveness of products is high	High-end local furniture store features a certain

	attention of consumers	with other furniture brands in store	restriction
<b>Individual furniture store</b>	<ul style="list-style-type: none"> <li>-Strong controllability</li> <li>-Large individual display space</li> <li>-Have advantages for brand publicity</li> </ul>	<ul style="list-style-type: none"> <li>-High input costs</li> <li>-Lack of market effect</li> </ul>	Relatively few application with furniture company in China
<b>Department store</b>	<ul style="list-style-type: none"> <li>-Big market capacity and is advantageous for furniture company to discover potential customers</li> <li>-Convenient for customers choose products</li> </ul>	<ul style="list-style-type: none"> <li>-Unprofessional furniture market</li> <li>-Individual exhibition space is relatively small</li> </ul>	The proportion of furniture products sale in department store is gradually reducing in recent years
<b>Supermarket</b>	<ul style="list-style-type: none"> <li>-Gain a larger customer market</li> <li>-Convenient for customers choose products</li> </ul>	<ul style="list-style-type: none"> <li>-Unprofessional furniture market</li> <li>-There has limitation for products' positioning</li> </ul>	

<b>Local exhibition institution</b>	-Furniture company can get subsidies and support from government -Receive furniture industry development information -Discover and develop potential dealers through the help of exhibition	-Relatively low Persistent with exhibition -Publicity function is dominant but sale become auxiliary function by cooperate with exhibition institution	
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### 6.2.5 Management Contract & Contract Management

In order to reduce political risk factors and direct investment, the case company could also choose way of management contract by signing a commercial contract with Chinese government and hiring one or two Chinese consultants to open the door of entering Chinese market (Onkvisit & Shaw 2004: 252). On the one hand, signing commercial contract with Chinese government is a great method receive support from government resources, and indirectly take advantage of Chinese government's network resource and channel resource to assist case company understand the local market situation and expand enterprise in local market influence, and even get the financial

support from Chinese government under certain circumstances. On the other hand, hiring Chinese consultants undertake marketing management tasks will help case company familiar with the Chinese market environment with the quickest speed and understand consumer habits. The choices of selecting consultants could be assisted from Chinese government or case company's alliance partners. Although it might take a little costly expense on employ Chinese consultants, but also it is a necessary strategy with uncertainty risks in Chinese market.

In regard to the highly competitive market in China, a good contract management system and procedure are fundamental for a company to survive in the competition, especially for the case company such new Finnish furniture brand in China. In order to avoid and reduce the market disputes, it is prerequisite to establish a strict contract management program within case company. According to the stipulations of *Contract Law of People's Republic of China*, contract shall follow the legitimacy, rigor and feasibility characters. For the purpose of increase legal and insurability of case company's all contracts; the contracts should be reported to the competent authority for verification and approval, or report to the administration of industry and commerce administrative department with verification, or make notarization from notary office (National People's Congress Standing Committee of the People's Republic of China 1999).

Secondly, case company's management level and financial department shall understand and master the contract implementation from time to time, identify problems in time or reporting. Thirdly, the internal company needs to establish contract files, contract management reconciliation and monthly report. Fourthly, the company should keep receipts related with ship products, inspection and acceptance, as well as sample of product quality appraisal report. Fifthly, if the contract will be changed or terminated,



there is a need to deal with relevant formalities in accordance with the law of contract (National People's Congress Standing Committee of the People's Republic of China 1999). In addition, the case company could use contract management software, in which including contract drafting, examination and approval, file, settlement management, the actual schedule, goods management, contract changes, early warning system and statement management procedures (Cullen & Parboteeah 2010).

### 6.3 Distribution

#### 6.3.1 Manufacturing

In fact, if the Finnish furniture company wants to set up the market in China for a long time, it is unlikely that all the products would be exported from Finland to China continually. Because of unfamiliar market cognition and huge investment cost, it does not recommend the Finnish furniture company establish independent production factory to manufacturing products in the start, the most effective way is to work in collaboration with local Chinese manufacturers to produce products (Onkvisit & Shaw 2004: 254-257).

According to Chinese geographical distribution, the largest natural forest area is located in northeast China. As a result of widely distributed in forest resources, there will be higher quality and cheaper price with wood material, and there are many industrial zones and manufacturing areas in northeast distribution. Combined with the reported provided by Chinese furniture company B, Liaoning which is located in the northeastern China has high furniture output but relatively low competition compared with Shandong. Hence, the manufacturing cooperation in Liaoning would be a good choice for case company.

Shenyang is located in the capital of Liaoning with 14700 hectares of forest resources, own developed traffic lanes (particularly developed highway for easily facilitate wood transport) as well as the new industrial district. The scale and quantity of furniture manufactories in Shenyang are more than the south cities of Guangzhou and Sichuan. According to the CFI (critical factor index) statistics analysis of Shenyang furniture manufactory which receive a support by a furniture training institution shows, although the cabinet manufactory, modular furniture manufacturer and sofa manufactory in Shenyang exist a technical (CNC, CAD, Automation) problem, but most of the Finnish furniture companies especially the case company already has high technology (especially high Automation), so the case company can provide technical training to workers in these manufactories, and guide them how to improve technology. It can be also noticed from the CFI report, cabinet manufactory has a strong logistics, management, quality, resources, market awareness and good relationship management; module furniture manufactory and sofa manufactory are good at management, design, marketing, production, the diversity of products, market knowledge, logistics etc. The detail CFI report with Shenyang cabinet manufactory, module furniture manufactory and sofa manufactory will be displayed in Appendix.

Therefore, the choice of cooperated manufacturing with Shenyang cabinet manufactory, module furniture manufactory and sofa manufactory is conducive to the integration with advantages and disadvantages of each other. At the same time, the case company can outsource some products and materials to Shenyang cabinet manufactory, module furniture manufactory and sofa manufactory. Since they already own the adequate resource and clearly know the locally transportation situation (especially the highway transportation). And there is no great need for using offshore outsourcing with case company, due to Shenyang cabinet manufactories, module furniture manufactories and sofa manufactories have large scale and long experience with production, the workers

are skilled with furniture production process. The case company is better to focus on strategy of domestic outsourcing in case of difficult management with international suppliers (Cullen & Parboteeah 2010).

### 6.3.2 Warehouse Management

For the case company, due to its small and medium-sized scale and relatively low cash at present, the best choice for adapting new Chinese market and reducing the risk of investment and capital is adopts the approach of lease warehouse. In fact, many Finnish furniture brands are belong to high-grade furniture, and they are focus on the customization of furniture production, which mostly, begin to produce the products after receiving customer orders. Even if the company need to develop a part of the middle-level product line in Chinese market, there is no require for big storage capacity (Speh 2009: 1-4).

In terms of the site selection with rental warehouse, the company should firstly take into account the warehouse located in suburban area. On the one hand, the industrial areas are generally built in the suburbs so that the company could conveniently use these diffusion resources. Besides, the warehouses in outskirts have less restrictive conditions and more developed with technology relative to the warehouses located in city area. On the other hand, the rent with outskirts will be much cheaper than in city area, and the Chinese government has put high investment on developed transportation in outskirts industrial area (Christopher 2011). When case company rent the warehouse, it should notices the stock area, shipping area, tally, buffer, corridor and shelves these six areas must concluded inside (Christopher 2011). It is better for case company arrange one or two internal staff manage the inventory cooperatively with original rental warehouse staff in order to ensure the product safety.

### 6.3.3 Inventory Management

For the overall inventory management in accordance with Chinese furniture company B suggested that, ERP inventory management software would be a best and easiest way to operate. Due to different climate conditions between China and Finland, there will be relatively higher humidity in China, so for wood products inventory is best keep the principle of first in first out.

In regard to master inventory quantity, 1.5 times method could be implemented with case company inventory management in China. On the one hand, the company can still be in accordance with the original customization strategy for high-end furniture products, it means store a part of the samples and final products. On the other hand, the company could apply 1.5 times expected inventory method based on the number of sold products in the first period for the middle-level furniture products (Nozick & Turnquist 2001). At the same time, use VMI (Vendor Managed Inventory) with the help of customers to optimize product forecast. The Customer provide monthly purchase demand plan information for company, in which include the detail purchasing plan for next four weeks or more than one month's purchasing plan so that the case company could exactly know the amount of production (Christopher 2011).

Towards the classification of inventory, case company can adopt hierarchical classification based on product type difference. For instance, products are divided into tables, chairs, cabinets, etc. According to the type (set table as an example), the high-end price table and new developed middle-end table will be placed separately , after that, label the different level tables classified by color or size.

#### 6.3.4 Distribution System

Based on the above analysis with case company (most Finnish furniture company)'s warehouse management in China, there is no big quantity with inventory, so centralized distribution system can effectively use for company's distribution aspect in Chinese market (Christopher 2011). On the one hand, the company could reduce the cost consumption and alleviate the current cash flow problems. On the other hand, the company is able to have a better management and control with distributors through a centralized distribution system.

The case company should firstly pay attention to those furniture distributors who have ample liquidity and operating conditions, it is best to choose a few large furniture distributors, especially the Chinese furniture distributors who have experience cooperated with international furniture brands so as to get more resources. When case company use centralized distribution system to manage distributors, the most notable issues are a good payment settlement, information flow as well as the confirmation and timely adjustment with distributed furniture accessing warehouse information (Tian 2007). Simultaneously, due to the distribution center of centralized distribution system is normally located in the suburbs; the distribution route of the shortest and fastest should be strictly decided. In the beginning, it would be better for case company design an optimal fixed distribution route to reduce the uncertainty of unfamiliar routes, especially more use of the advantages of highway.

## 6.4 Production Management

### 6.4.1 Mission and Vision

For the new Chinese market, the most main purpose is to understand the Chinese market environment, gain valuable human resources and material resources in the Chinese market, as well as open the opportunity for re-entering foreign markets based on Chinese market. At the same time, the case company will open online sales at December in Finland, so the entry of Chinese market will play a role for supporting and extension with online shopping.

Compared with Finnish and Chinese market, even though the company is still focus on the strategic group aged older than 30 who has (more focus on customers aged between 30 to 50 years old) already married, have a stable job, or have child in family, but the difference is the company have to pay attention to such focused customer group with middle-income. Hence, in order to attract the main customer base in China, the company is able to develop a series of furniture products of medium price with good quality. The technology in Chinese market is still relatively weak compared to the furniture technology in Finland, so the company still needs to take the advanced technology into the Chinese market and strengthening the green furniture idea. In addition, because the case company attaches great importance with project business in recent years, and there are also a plenty of high-end hotels and restaurants in China, the company could continually furnishing solutions that are sold separately for hotels, restaurants and health care center in Chinese market.

#### 6.4.2 Positioning and Segmentation

In Finland, the case company is focus on providing good products for those customers with high salary and pursuit high quality life, the market positioning is high quality, high price, environmental protection and rustic style of high-end furniture brand. But according to the Chinese income data and questionnaire investigation, most of consumers just have middle-level salary. While maintaining the production and sale of original products, the case company could cooperate with local furniture manufactory to joint producing a series of middle price product, or it could creates or develops a sub-brand which are producing and selling middle-level furniture. Hence, the market positioning for case company in China would be high quality, higher and middle level price, environmental protection and high-end furniture brand.

For the geographic market selection in Chinese market, the case company should not be constrained by only the main customers of first-tier cities, but should put more attention to the development of main customer group in second-tier cities. In first-tier cities' furniture market, the vicious competition is more intense in recent years, like Beijing, Shanghai and other first-tier cities of furniture market are gradually saturated, especially the state issued a series of property control regulation in the last two years, the real estate is blocked in first-tier cities and furniture consumption demand is shrunken (Hong Kong Trade Development Council 2014). However, combining the questionnaire analysis, the second-tier cities also has a large population and spending power (Ambler et al. 2009). At present, the second-tier cities are facing rapid urbanization and industrialization process, they are becoming the new growth point for the real estate market and furniture market.

According to Chinese furniture company B mentioned, the consumers aged 30 to 40 years old located at highest furniture consumption level, the average consumption is around 71000RMB (8875Euros); 40 to 50 years group's average consumption is around 63000RMB (7875Euros); and the average consumption for 25 to 30 years old consumer groups only spend 7000RMB (875Euros). So the case company's demographic market focus should be on 30 to 50 years old consumers who have high-income and middle-income.

The furniture consumption for Chinese high-income level are pursuing exquisite and fashion, the furniture consumption is mainly from import and domestic high-grade furniture, the high-end product with case company will be conform to this group. And most Chinese middle-income class are focusing on the cost of furniture, furniture is given priority to with mid-level products, more for solid wood and soft furniture. At the same time, the customer group aged older than 30 have already created a family, so the versatile, health and environmental protection furniture will be more attract the consumers' purchase desire (Republic of China of Hongkong Census and Statistics Department 2012).

Most high-level furniture products consumption are from the front and high-end consumer groups, they had lived abroad or study abroad, like good quality life, advocate delicate, understated and handmade products in particular, some consumers would even purchase furniture from overseas (Hubacek, Guan & Barua 2007). They are familiar with a lot of Europe or Nordic furniture products, so they will give a support for the new foreign furniture products. However, most of them are burdened with work pressure, fast-paced work and have a desire for relaxing and soothing after back home and in weekends. Hence, for further analysis for psychological and behavioral market,



case company will focus on the customers who had lived or studied abroad within the main customer group.

#### 6.4.3 4Ps

In Chinese furniture market, the furniture design which contains the cultural connotation, natural, environmental protection, fashion has become the mainstream culture with middle-aged consumers (Republic of China of Hongkong Census and Statistics Department 2012). According to Chinese furniture company B mentioned, the main Chinese consumers in furniture market are interested in western products and way of life, at the same time also focus the traditional values. Because the difference between Chinese house type and Finnish house design, there is necessary for case company make slight size adjustment in original products, and some Chinese elements can be added to the new products. Chinese furniture market is mainly divided into Nordic style and Chinese style these two groups. But it had to admit that the combination of Chinese and western furniture products has become the new favor in recent years (Hong Kong Trade Development Council 2014). The material selection would be more diversified, such as elm, paulownia, as well as the relatively expensive material with iron pine, redwood are the high quality wood raw materials with Chinese culture. In order to attract more customers, the case company also could use the Chinese unique sculpture and rattan details into design.

In addition, the case company's existing products category is less, it should increase the range of products faced with Chinese such big market. Based on the analysis with questionnaire and suggestion with Chinese furniture company B, the products ratio for case company can be divided into 60% focused on wooden furniture, 30% products with soft furniture and 10% into the furniture of other materials. Besides, pay attention

to the development of multi-functional furniture and combined furniture; Apply its own advanced technology to create some health furniture; Form a complete set of hard and comfortable mattress production due to the Chinese consumers over 30 years old are prefer hard mattress (Ambler et al 2009: 69-94).

In order to comply with the main consumers in Chinese furniture market with different economic basis, actually a brand balancing the high-end and mid-end route is the best choice. For 250 million affluent middle class in China, they have the economic basis and willing to afford the expensive furniture products, due to the price is the best response to furniture quality in their consumption habit. So on the one hand, the case company can fully in accordance with the original product price of high-end products line in China. On the other hand, due to the implementation of localization strategy will reduce the cost of logistics and human resources, the company must expand the middle price products, and increase the diversity of color elements and raw materials suppliers into middle price products (Singh 2012: 42). The roughly middle price for case company such as cabinet can be decided from 500 to 1000 BMB (63 Euros to 125 Euros); Table 500-1500 RMB (63 Euros to 188 Euros); Bed products are about 1000-4000RMB (125 Euros to 500 Euros); Sofa could be 1000-6000RMB (125 Euros to 750 Euros), etc.

The Chinese furniture market can be divided into six markets according to the geographical location: Shenyang and Harbin based northeast market; Beijing as the center of the north market; Shanghai as the center of the east market; Wuhan and Zhengzhou-based central market; Guangzhou and Shenzhen as the center of the south market; Chengdu and Xi 'an based western market (Han et al 2009). According to the analysis of wood raw materials and furniture production before, the distribution channels can be more focused in Shenyang and Harbin based northeast market for case

company. The case company could make use the distribution channels of distributed furniture market, the urban agglomeration sales venues, and large furniture enterprise's distribution network to achieve market circulation of products (Harapiak 2013). The different distribution channels have different emphases, such as a few large furniture malls are more managing with home furniture and office furniture, furniture stores usually focus on proprietary brand, give priority with domestic large enterprises and foreign famous brands.

Most of first-tier cities in China have earlier furniture market development and the market is relatively mature, the new Finnish furniture brand could enter first-tier cities first, and then turn to second-tier cities' product development. It have to mentioned that, the large furniture stores and brand has occupied the first-tier cities nearly 10 years, this result in saturated even surplus furniture market in Beijing and Shanghai (Hong Kong Trade Development Council 2014). Compared with the first-tier cities, the second-tier and third-tier cities have relatively low furniture brand concentration and late market started; it will have greater development potential and advantage (Hong Kong Trade Development Council 2014). And the development of real estate investment and high housing demand in second and third tire cities drives the furniture consumption, like Shenyang such second-tier cities has high increased furniture consumption in recent years. So the case company can focus on high-end products sold in first-tier cities, and the middle-level products are concentrated in second and third line cities.

Combined with questionnaire results and Chinese Online shopping data, the case company could apply O2O (Online to Office) network marketing to connect online marketing and online purchase with offline operation and offline consumption, display the pictures with different products by taking advantage of own developed website as a

sales platform, consumer also can experience the products on offline with the stores of dealership, purchase the products in store according to online price, in which would comply with most of Chinese online shopping habit and form a brand promotion effect for case company (CNNIC 2014). Practically, there are so many influential furniture exhibitions held in China every year, the case company is able to actively take part in larger exhibition to expand visibility and impact of products.

Due to the widely application of most popular communication plats called Weibo and Weixin in China at present, the case company can register the official accounts on these plats, and update the news and information related with company and products (CNNIC 2014: 35-36). At the same time, it is better to build a mobile client APP for consumers conveniently browsing the product information and pictures on mobile phones. Micro-film would be a most cost-effective and widely-spread video strategy for case company making full use of Chinese vast network and video user crowd, so as to spur consumers' direct sense of furniture. For the case company's high-end furniture products , it is able to try the untraditional forms of advertising to attract high-end consumers, such as the advertisement put in aviation magazines or hotel magazines. In order to develop a basic focused customer line, membership card could be applied with high-level products, and some promotional activities will be conducted regularly for middle-level products (Ambler et al 2009: 70-94).

#### 6.4.4 International Product Decisions

In fact, the key for case company to adapt Chinese market is adhering to the original furniture products positioning with taking into account the localization. On the one hand, it can use standardization strategy directly exports some products from Finland, because its original excellent quality is the crucial factor stimulate Chinese consumers willing to

buy such high-end products (Ghauri & Cateora 2009). However, the development history of Chinese furniture market is relatively short and also with rapid development, the whole furniture market is more take a fancy to production and sales, as well as the whole market is immersed in rapidly pursuing interest atmosphere. On the contrary, the case company is pursuing quality more than interest. Like the manager of case company mentioned in interview, the average life expectancy for their products is at least 15 years.

On the other hand, the company should also implement localization strategy to developing the middle-level furniture products (Ghauri & Cateora 2009: 24). In addition to the cooperation with local manufactories, suppliers to reduce the original furniture production cost, and gradually achieve localization of raw materials, at the same time try to integrate Finnish and Chinese culture into the producing concept, design the products with Chinese characteristics and the combination of Nordic style, this is also due to the customers aged between 30 to 50 they have more traditions with Chinese characteristics and ethnic characteristics' products than young people. There is also one more issue to be noticed for case company about online shopping in China. In general, most of Finns will buy commodities in store, but most of Chinese they are prefer buy commodities online due to the manifold Chinese network marketing channels at present. So, the case company ought to put 60% effort on online shopping while 40% effort on direct sales in Chinese market (CNNIC 2014).

## 6.5 Relationship Management

### 6.5.1 Customer Relationship Management

Hiring Chinese staff can be a necessary condition for Finnish furniture company develop Chinese market. A good multinational furniture company in China usually

owns at least 50% of Chinese employees. The reason is that Chinese employees have better understanding of present market background, and have a certain experience or contacts in furniture industry, the company could develop own local business networks through Chinese employees' contacts. When foreign staff and Chinese staff get good integration, the company's strategy and sales also can get more international and diversified development, such as the employment of Chinese furniture stylist is very conducive to the products design combined Chinese elements with Finnish style. In order to hire the outstanding Chinese employees, the company could ask the help from embassy or external agencies or strategic cooperative partners except just through open recruitment (Cullen & Parboteeah 2010: 200-204).

There are three significant issues must be noted for case company. Firstly, the flow of information among employees should be located between Finnish and Chinese employees; it should not only exist in unilateral internal employees. Secondly, the culture and technical training and investigation must be done on time because of culture difference at beginning. The last and the most important thing is that compared to the domestic furniture companies, the company need to build more and fairer welfare mechanisms to retain talent (Bergamn & Klefsjö 2010: 355-371).

According to the results of the questionnaire, there are about 60% of the major consumers do not specifically go to furniture shop unless needed to buy to, and most of the major consumers will choose 7 to 10 years for a time interval with furniture purchase. Due to the income limits, most consumers are willing to pay the furniture products with middle or higher-middle level price, and the furniture budge for decorating a new house is around 50000 to 100000RMB (6250 Euros to 12500 Euros). So based on RFM model conclusion for focused Chinese consumers, the case

company needs to take the following points to expand consumption frequency and satisfaction of consumers.

Realize the product differentiation is the main task for case company establishes business in Chinese market (Ghuri & Cateora 2009). At the same time, improve product parts standardization and generalization as well as order management information level in the basis of improving product diversification , so as to perfect the company personalized custom services (Ghuri & Cateora 2009: 2-5), in which not only for high-priced products but also for some middle-level products. Seriously pay attention to the strategy of consumer experience, design several sets of complete intuitive "home" in connection with Chinese house type and area in stores, make consumers experience the wonderful furniture collocation to stimulate more products consumption. Take advantage of poster advertisement and mobile advertisement to promote product awareness in some commercial or residential areas, in order to stimulate consumer have desire to go to stores (Percy 2008).

### 6.5.2 Government Relationship Management

Establish an effective relationship with Chinese government is as important as the company's strategic management, in which the strategic management can guarantee the company running the right path in China while the government relationship would accelerate the company development in the right direction (Wu 2008: 172). The case company still needs to take the initiative to pull into a relationship with Chinese government, in addition to the immediate attention of relevant housing policy and substandard furniture market reports.

On the one hand, the case company need to draw a clear and accurate path graph of government relations, so as to understand which departments and personnel are related

to their business in China and which department personnel is decision makers, who is practitioner, and then establish a specific team worked with government relations (Ambler et al. 2009: 96-112). The most feasible method is setting up a relationship promoting organization with the relevant government departments; the organization is managed and participated by both sides of high-level person (Ritter et al. 2004: 177-180). The advantage is that the case company could directly get the latest news and the fastest help from Chinese government by this organization. On the other hand, when the case company begins to stabilize in Chinese market, it can participate in some social public welfare undertakings or some government technology projects, so as to meet the government's social interest (Ambler et al. 2009: 102-110).

### 6.5.3 Supplier Relationship Management

There is necessary to receive support from Chinese furniture suppliers in order to achieve material localization. In fact, 70% cost are came from the raw materials for case company's products, the cooperation with Chinese furniture raw material suppliers to improve purchasing process and price negotiation can reduce the cost of about 10%; Guarantee the quality of new middle-level products by local suppliers could help company reduce 14% cost; Make full use of local suppliers' just-in-time production, the cost can be saved by 20%; Take advantage of local suppliers' expert process and technology, the cost will lower 40%; And if the case company let Chinese suppliers to participate in product development, the cost is able to reduced about 40%.

Quality is the biggest advantage for case company's products, so in order to guarantee the quality of raw materials, the company should firstly select 5-10 local suppliers in the list by bidding (Bergamn & Klefsjö 2010: 293-298); Then conduct the fieldwork for selected suppliers to determine the final cooperated suppliers, as well as business



guidance and training by supplier evaluation team which are formed with company purchasing, quality and technical personnel; When determine the prices with new suppliers, the time and raw material status must be clear and settlement (Dries et al. 2014: 99-100); Adopt a multi-sourcing feedback method, the company should require suppliers to give a percentage of discount when large amounts of purchase are conducted (Dries et al. 2014: 100-101); Periodically reassess suppliers and analyze market information provided by local suppliers; For the highest credit suppliers, the company can provide materials exemption or priority payment preferential terms (Ghauri & Cateora 2009: 10-11).

#### 6.5.4 Competitor Management

At present, Chinese furniture market is mainly based on domestic furniture and accounts for about 80%, the regional economic characteristics of furniture industry is very clear, the enterprises with high production and competition are mainly distributed in north China, south China and east China, especially in the Guangdong province (Han et al. 2009). Because of development and openness with Chinese economics in recent years, it attracts many foreign furniture companies or manufacturers to seize opportunities actively. Italy, Germany, France, the United States and Spain as the representatives of European and American furniture brands continually expand export to Chinese market, as well as actively obtain Chinese partners in order to promote local production (Hong Kong Trade Development Council 2014).

For the purpose of surviving in fierce market competition, many foreign furniture brands also shows the Chinese characteristics on product style and sales model. Such as the Italian furniture brand Natuzzi, in addition to selling original exported high-end products, also open two brands of Italsofa and Editions with fashion line and public

route for Chinese markets, so as to fully cover the Chinese market segmentations (Italian Trade Commission 2012). At the same time, some foreign furniture companies are expanding market into second-tier and third-tier cities.

BoConcept and IKEA are the Nordic furniture brands, in which the case company is most familiar with and formed a greater competitiveness. BoConcept was the first foreign high-grade furniture company enters Chinese market; its biggest competitiveness is expanding the diversification of products by different local furniture factories based on unchanging high-end positioning. Once BoConcept are mainly concentrated the customer group in 35-40 years old, but now is to make the brand getting younger.

IKEA, the Nordic furniture company with largest brand awareness in China, the biggest advantages is globalization of supply chain system, parity but manifold product design and the warmest and theme sample room. In IKEA, almost all the goods are applied plate type packaging, customers would pick up products personally in warehouse after choose in store and write down number, then assembling the products in the home (Harapiak, Clayton 2013). This saves the cost for customers on picking up goods, shipping and assembly, and save the totally cost and achieve parity with products finally. But the quality with IKEA products in China is relatively low.

While Chinese furniture company B is also a high-end furniture brand but with a global strategic partnership system. It owns eight special design collaboration offices, four independent brands and it is also the largest furniture manufacturer with special wood in China, but its personalized service is lack of creation and it is not sufficiently to cultivate consumer brand loyalty.

It could be analyzed from the result part of competitor comparison figure; the biggest weaknesses with case company relative to main competitors in China are low international visibility, weakly delivery service and after-sale service and current narrowly sales network. Compared with the same high-end brand of BoConcept and Chinese furniture company B, BoConcept have higher brand popularity; while Chinese furniture company B is outstanding with delivery and after-sales service quality for customers, but the case company possess the greatest advantage with high quality of products.

## 6.6 Risk Management

Based on the SWOT model and risk assessment analysis in result part, due to the difference comprehensive environment between Finland and China market, as well as the case company itself also has some large weaknesses, it may encounter some big challenges and risks in China. Different country environment, no marketing experience in Asia and changeable customer requirements could prove to be biggest risks for case company. And these larger risks may cause the consecutive risks such as relationship management with Chinese partners. Hence, the case company must understand the Chinese market in the shortest time with the fastest efficiency, hiring the Chinese consultant and learning from Nordic furniture brands which have already entered China would be the best way in the start (Reuvid & Li 2006).

In fact, risk and opportunity is coexistence and mutual transformation for the beginning and development of case company's Chinese market. The Chinese furniture market could be divided into 3 grades market. The primary market is formed by 80 furniture brands and focusing on capital cities with high consumption power. The customer base is mainly for the family of successful people between 30 to 40 years old with high income (Hong Kong Trade Development Council 2014). And the primary market is

focusing on brand as a center. The secondary market is composed by intermediate consumption cities with around 60 furniture brands; some brands are doing business across first class and second class markets. It is aim to build brand as marketing center, and the customer group is mainly organized by 25-45 years old consumers with high, middle income (Hong Kong Trade Development Council 2014). The third class market is distributed by area cities with relatively low consumption power, there are about 100 furniture brands inside. The customers are focused on 25 to 35 years old with middle and low income. The purpose of this market is to establish a brand and product sales for marketing center (Hong Kong Trade Development Council 2014). So the case company's main business is putting effort on first and secondary markets, especially for second class market. Although there will be relatively fierce competition in those markets, the information flows would be faster in first and secondary markets, the case company could learn more from similar furniture products and obtain more resources to reduce the risk of unfamiliar with Chinese market.

In order to avoid or reduce the risks caused by changing market, the case company, on the one hand, there is necessary to pay attention to consumers' consumption trend (Tian 2007). More and more Chinese customers going to furniture stores not only just to buy furniture, also want to learn more furniture knowledge, including how to match the furniture, how to choose the products of environmental protection, So the company is able to find ways to allow consumers learning practical furniture knowledge and skills except only pay attention to products with unique character (Wu 2008). Let the consumers to participate in product design process, the customers could also make an appointment with company designers for getting support with house design and old furniture reforming, so that the consumers would like to patronize the products of case company.

On the other hand, increase investment and research in furniture technology development (Kolter & Armstrong 2010). Although many Chinese furniture companies are continuously introduce advanced technology and machines, the Chinese furniture market is relatively weak with technology. But the case company already had advantage of high technology with furniture operation, if the case company will increase its own technology research and investment based on study existing technology of Chinese market by cooperating with Chinese furniture companies , the diversity of products and functional will be enlarged for company's present products. The future products can be divided into creative products, functional and technological products, and main products in order to meet the different needs of consumers.

## 7 CONCLUSION

According to the analysis of thesis, it shows a big possibility for a Finnish furniture company enters Chinese market. Based on the questionnaire result and information provided by Chinese furniture company B, the cultural integration in Chinese market become more and more prolific, even there are some imitation furniture designs with Nordic furniture products because of its popularity. And Chinese government always gives a practical support with economy or resources for many foreign furniture enterprises. The high market potential with Chinese market it is not only owing to the large population and variety consumer preferences, but also the rich natural resources, channel resources and human resources existing in China, this will provide a good basis and support for Finnish furniture company. At the same time, the Finnish furniture products own high quality and high technology in which the Chinese market is lack of, so the Finnish company, especially the high-end brand can use these advantages to occupy a certain market in China.

The first and most critical factor needed to be considered for Finnish furniture company enter Chinese market is the completely different PEST (Political, Economic, Social and Technology) environment between China and Finland. The company needs to clearly understand and comply with relevant Chinese laws, such as the laws related with process of foreign companies establish a business in China, the eligibility criteria with wood furniture etc. Although the Chinese economy has made great development nearly 10 years, most Chinese residents just have the middle income compared to Finland, especially the main consumers aged between 30 and 50 years old, their average monthly income is about 5000 RMB (625 Euros), so for most of Finnish furniture companies with high-end price must pay attention to the situation of such Chinese customer

group. It is because of different PEST environment, Finnish furniture company must carefully consider what kind of entry mode is the most suitable for developing this new market, such as export, joint venture, outsourcing, and strategic alliance; What kind of distribution system would be applied, including the management of warehouse and inventory; Which type of city market would be focused on; how to deal with the relationship with Chinese customer, government suppliers and competitors.

In fact, there are a lot of strategies that Finnish furniture company could be implemented in Chinese market. To start with, it could conduct subsidiary, exporting partial products, and implementing joint venture with large Chinese furniture enterprises or establishes strategic alliance with Chinese retailers of individual stores, local furniture market etc. Secondly, cooperate with some Chinese furniture manufactories with technology and resource integration so as to realize producing localization, such as cabinet and sofa manufactories in Shenyang. Use the method of lease warehouse to reduce the risk of direct investment. Take advantage of centralized distribution system to achieve distribution system management and distributor management in Chinese market. Thirdly, the supplier selection could be more diversity compared with Finnish market for making full use of supplier's valued material resources and information resources.

Fourthly, develop a medium-level furniture production line or brand with original high-level products promotion. The market is better to concentrated on first-tier and second-tier cities, especially the second-tier cities. Make full use of large online shopping customer group in China, put 60% effort on online shopping while 40% effort on direct sales in Chinese market. Some Chinese elements can be added on product design as well as increase investment in technology and research and development. Fifthly, in order to meet the comprehensive requirements of Chinese

consumers, and improve the quality of service, the company should find ways to allow consumers learning practical furniture knowledge and skills except the products with unique character when make sale. Let consumers participate in product design process; the customers could also make an appointment with company designers for getting the support with house design and old furniture reforming.

From the whole thesis analysis, it would be so interesting and high market development potential with Finnish furniture companies enters China. Hence, there will be a valuable topic for further discussion. What is the enlightenment for Chinese future companies by Nordic furniture companies establish business in China? How about if Chinese furniture company enter Nordic countries? For example, the new market in Finland. This could be regarded as an interesting topic to discuss in the future.



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## 9 APPENDICES

### APPENDICES 1 Interview Questions with Finnish Furniture Case Company A

1. How would you think about the questionnaire result? Is there has big differences compared with Finnish consumers?
2. Do you have any plan for entering Asian market in the future?
3. Which types of cities you may choose to enter Chinese market? (The first-tier city, second-tier city or third-tier city)
4. According to the questionnaire, most of focused customers just have middle-level income and they prefer to buy a middle-level or higher middle-level furniture products. So will you choose to create or spread a middle-level product line or brand in China?
5. What are the focused consumers in Finnish furniture market? What are the focused consumers with your company?
6. Any considerations or strategies with focused customer group aged older than 30?
7. Will the online shopping applied in China?
8. How would you think about the company's situation at present? What are the strengths and weaknesses for company? What are the biggest strengths for company enter China?

9. What kind of products the companies are focused and what kind of products are consumers prefer to buy at present? How long is the life of company's furniture?
10. What are the existing technologies are used for company? Will be brought into Chinese market?
11. What challenges will be faced for exporting? Will you export final products or raw materials into China?
12. How does the company manage the inventory at present? How will you manage your inventory when enter China?
13. How would you evaluate your competitors of IKEA and BoConcept?
14. Based on the SWOT analysis with Chinese market entering, how will you think about the threats with risk influence?
15. What can be conclude from the entering with previous foreign markets?

## APPENDICES 2 Video Interview Questions with Chinese Furniture Company B

1. How is the furniture market situation in China?
2. What is the situation for company's furniture market?
3. How would you evaluate yourself?
4. What technologies are used at present? Will you introduce many foreign technologies or machines?
5. What market segmentation is mainly focused at present?
6. How is the online sale for company's products? Is it sales good?
7. What are the main market strategies the company focused?
8. Have you cooperate with any international furniture brands?
9. How will you manage your manufacturing and inventory?
10. If a new Nordic furniture company would like to establish a business in China, how will you think about it from the experience? Any suggestions?

## APPENDICES 3 Questionnaires in Chinese Market

1. What is your gender:

-Male

-Female

2. How old are you:

-Under 22 years old

-From 22 to 25years old

-From 26 to 30 years old

-From 31 to 40 years old

-Older than 40 years old

3. What is your profession:

-Student

-Working in Institutions (School, hospital and others)

-Working in company

-Working at manager level

-Personal business

-Others

4. How much about your income monthly:

-Under 1000RMB

-From 1000 to 3000RMB

-From 3000 to 5000RMB

-From 5000 to 8000RMB

-From 8000 to 10000RMB

-More than 10000RMB

5. What is your state of your life:
  - Married
  - Ready to get married within one or two years
  - Single
  - Get married and also have child in family
  
6. The city where you live are:
  - First-tier city
  - Second-tier city
  - Third-tier city
  - Town/Countryside
  
7. Do you like the Nordic furniture brands or desire:
  - Yes
  - No
  
8. Have you bought any Nordic or European furniture brand products:
  - Yes
  - No
  
9. If you had bought the Nordic or European furniture brand products, did you satisfied with it:
  - So satisfied
  - Relatively satisfied
  - Not satisfied
  
10. What household style you prefer:
  - Traditional and special Chinese style

- Simple and elegant Nordic style
- Pure and fresh Mediterranean style
- Comfortable and freely American style
- Zen Japanese style

11. What materials you are fond of with furniture (**Alternative choices**):

- Solid wood furniture
- Steel furniture
- Soft furniture (e.g. leather, fabric)
- Rattan furniture

12. If you would like to buy furniture for decorating the new house, how much money you will spend on it:

- Under 50000RMB
- From 50000 to 10,0000RMB
- From 10, 0000 to 20,0000RMB
- More than 20,0000RMB

13. When you buy one unit of furniture, what level you can accept:

- Low level
- Middle and low level
- Middle level
- Middle and high level
- High level

14. Which aspects you will focus when you buy the furniture (**Alternative choices, but cannot be exceed four choices**):

- Brand



- Price
- Design
- Function
- Promotion
- Quality
- Service

15. what circumstances will stimulate you purchasing furniture (**Alternative choices, but cannot be exceed two choices**):

- Decorate for new house
- Add furniture
- Chang old furniture
- Just looking around when shopping

16. When you have a new house, which style you prefer to arranging the house:

- Modular furniture
- Spacious and comfortable furniture
- Self assembly type furniture
- Small and practical furniture
- Special and style furniture

17. The importance of experiencing furniture when buying:

- Attach great importance
- Attach general attention
- Less attention on it
- Totally do not care about it

18. How long you will buy or change the furniture:

- Under 3 years
- From 3 to 5 years
- From 5 to 7 years
- From 7 to 10 years
- More than 10 years

19. How long you will go to a furniture store:

- Occasionally
- Usually
- When I need to buy the furniture

20. Will you choose to buy the furniture online:

- Yes
- No

21. How could you know the furniture information in your actual life (**Alternative choices**):

- Television, video
- Newspaper, magazine and other paper media
- Weibo, internet and other social media
- Leaflets, SMS
- Friends or Relatives' recommendation

22. What is your attitudes with a new Nordic furniture brand entering China:

- I will support this brand and try to buy some products in this brand
- I do not care about it
- Not trust for this new brand
- I will never buy the products

23. Do you have any suggestion for a Nordic furniture brand entering Chinese market?

APPENDICES 4 CFI Report with Shenyang Furniture Manufactory

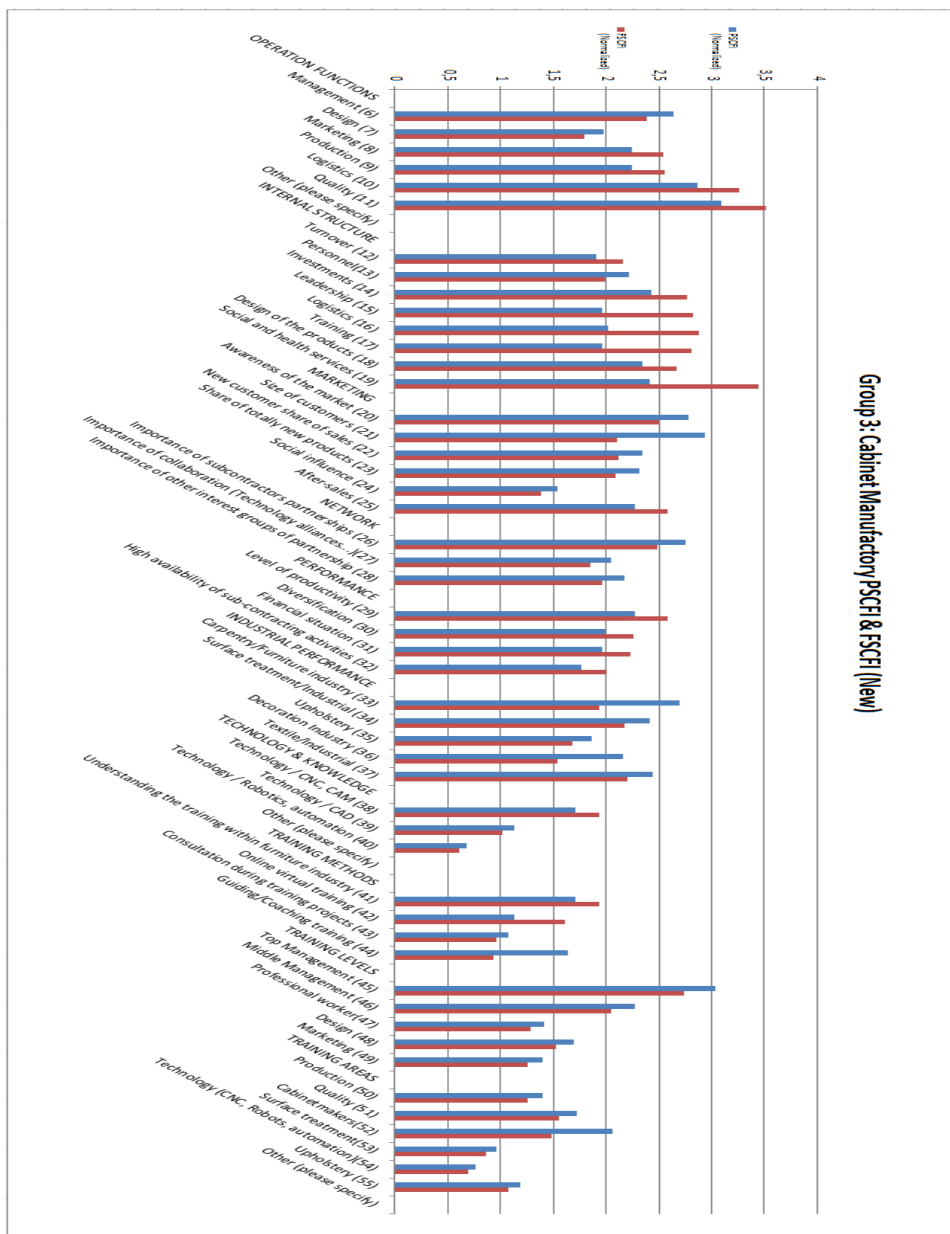


Figure 27. CFI with Shenyang Cabinet Manufactory

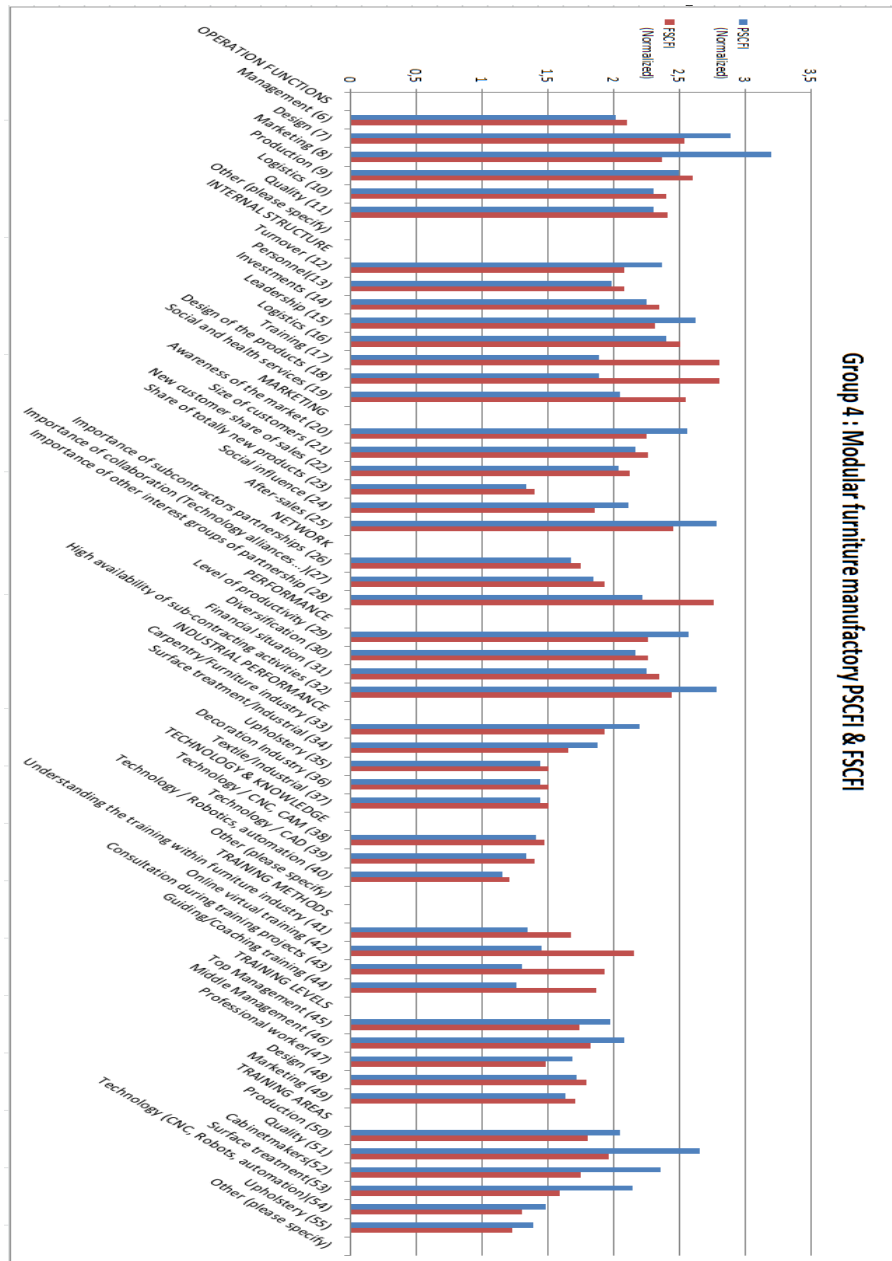


Figure 28. CFI with Shenyang Modular Furniture Manufactory

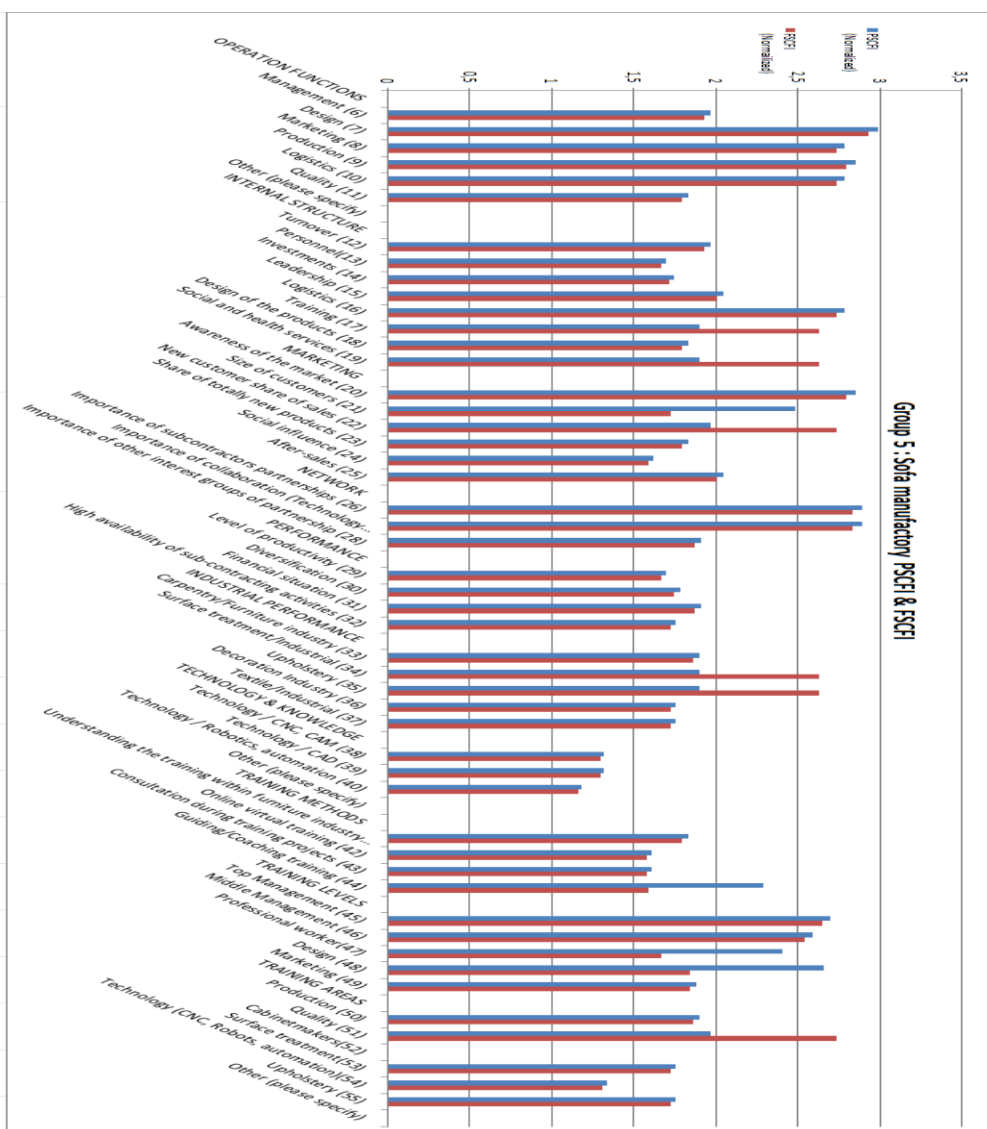


Figure 29. CFI with Shenyang Sofa Manufactory