



30 ECTS MS Thesis
International Business and Marketing

**What is the best global marketing strategy for a
sourcing company located in China?**

A Case Study of BIK International

Margrét Kristín Sigurðardóttir

Supervisor: Ingjaldur Hannibalsson Ph.D.
The School of Business – Business Administration
January 2012



HÁSKÓLI ÍSLANDS

**What is the best global marketing strategy for a sourcing company
located in China?**

A Case Study of BIK International

Margrét Kristín Sigurðardóttir

30 ECTS MSc Thesis in International Business and Marketing

Supervisor: Ingjaldur Hannibalsson Ph.D.

Business Administration

School of Business - University of Iceland

January 2012

What is the best global marketing strategy
for a sourcing company located in China?
A Case Study of BIK International

30 ECTS MSc Thesis.

University of Iceland, School of Business

Copyright © 2012 Margrét Kristín Sigurðardóttir

All rights reserved.

Háskólaprent.

Reykjavík, 2012

Preface

This thesis is 30 ECTS MS degree in International Business and Marketing. The supervisor is Ingjalður Hannibalsson, Ph.D., who the author thanks for assistance and encouragement when choosing the research path. The information gathering started in May 2011 and included a visit to the facilities of BIK International in Shanghai in China. The purpose of the visit was information gathering for the research. The in-dept interviews with the managers of BIK International were conducted in Shanghai.

It is a pleasure to thank those who made this thesis possible. Primarily I wish to thank the CEO of BIK International, Thomas Vestergård, who initially accepted the research and was encouraging and helpful in any possible way. The author also want to thank Gunnar Bachmann, CFO of Lagerinn Dutch Holding BV (LDH) and CEO of Lagerinn Island ehf, who introduced me to BIK International and Thomas Vestergård. Encouragement from Jón Þórisson, Helena Margrét Jónsdóttir, friends and family is also very appreciated.

Abstract

The purpose of the thesis is to find out what is the best global marketing strategy for a China based sourcing company focusing on the best strategy option for a particular company, BIK International. The goal of this research is to contribute to the potential view of the owners and managers of BIK International on possible routes and ensure that the decision makers have relevant information on hand to make important decisions for the future of the company. The analysis is based on in-depth-interviews with BIK's managers and information received from the company and the Internet. Various analyzing tools are used in this case study. The analysis shows that BIK has many options but in this thesis it is highly recommended that BIK use its strengths to focus on targeting small and medium sized retailers, offering clear product range in furniture and home accessories. It is furthermore recommended that hierarchical mode will be selected with sales representatives in each country to be targeted. Countries expected to grow fast in consumption in the near future, such as China, should also be seriously considered as an option. There is increasing number of western resource companies defining themselves as a bridge in both directions between West and East. In that way the owner of BIK International, LDH BV, could get its share of the fast growing Chinese market. In terms of value, the importance of this research is mainly for the owners and managers of BIK. It could as whole or specific parts, all the same, be useful to other sourcing companies located in China and enhance their knowledge.

Table of Contents

Preface.....	5
Abstract	6
Table of Contents	7
List of Figures.....	10
List of Tables	10
1 Introduction.....	12
1.1 Background	12
1.2 Research question.....	12
1.3 Description of the research.....	13
1.4 The objective of the research	13
1.5 The importance of the research	14
1.6 The structure of the thesis.....	14
2 Literature Review	15
2.1 Global Strategy.....	15
2.2 Sourcing	16
2.3 Analysis	25
2.3.1 SWOT Analysis Theory.....	25
2.3.2 Porter's Five Force Model	26
2.3.3 Entry Mode.....	27
2.3.3.1 Export Modes.....	28
2.3.3.2 Intermediate Entry Modes.....	28
2.3.3.3 Hierarchical Modes	28
2.3.3.4 Entry Modes Choice	29
3 China's Business Environment.....	31
3.1 China	31

3.2	GDP	32
3.3	Retail – Consumption - Price	35
3.4	Income	36
3.5	Five Year Plan (FYP).....	39
3.6	Import & Export	40
3.7	Foreign investment in China	43
4	Research	46
5	BIK International Ltd.	49
5.1	History.....	49
5.2	Ownership.....	50
5.3	Financial status	51
5.4	Marketing.....	51
5.5	Employees.....	52
5.6	Suppliers	53
5.7	Customers	55
5.8	Product Portfolio.....	61
5.9	Competition	63
5.9.1	Porter’s Five-Force Model	63
5.9.1.1	Bargaining Power of Customers.....	63
5.9.1.2	Bargaining Power of Suppliers	63
5.9.1.3	Substitutes	63
5.9.1.4	Entry of Competitors.....	64
5.9.1.5	Rivalry Among Existing Players	64
5.10	Competitors	64
5.10.1	Source by net	64
5.10.2	Tradepoint	65
5.10.3	Actona.....	65

5.10.4	Li & Fung	66
5.10.5	Interstil.....	66
6	Interviews	68
7	Analysis.....	71
7.1	SWOT analysis.....	71
7.2	Core competences	75
7.3	Image	76
8	Conclusion - Options for BIK International	79
8.1	Options.....	80
8.2	Current and new customers	80
8.3	Retailers – Manufacturers – Agents - Wholesalers.....	81
8.4	Product categories	81
8.5	Countries.....	82
8.5.1	Targeting China	83
8.6	Entry Mode	84
8.7	Action Plan	85
	References	88
	Appendix 1.....	95

List of Figures

Figure 1. SWOT. (Chen, Bruniski)	26
Figure 2. Five-Forces Model Porter. Porter (2008).....	27
Figure 3. Ownership. Lagerinn Dutch Holding BV.	51
Figure 4. BIK organizational chart. Source: BIK 2011.	53
Figure 5. BIK suppliers. Source. BIK 2011.	54
Figure 6. BIK suppliers location. Source: BIK 2011.	55
Figure 7. Number of customers in different countries. Source: BIK 2011.....	55
Figure 8. Current customers. Source. BIK 2011.....	56
Figure 9. BIK margin. Source. BIK 2011.	57
Figure 10. Types of BIK customers - Value. Source. BIK 2011.	58
Figure 11. Types of BIK customers - number. Source. BIK 2011.....	58
Figure 12. Margin in different customer categories. Source. BIK 2011.....	59
Figure 13. Product categories – value. Source. BIK 2011.	62
Figure 14. The main strenghts.....	71
Figure 15. The main weaknesses.....	72
Figure 16. The main threats.	73
Figure 17. The main opportunities.	74

List of Tables

Table 1. Major cities population/million. Source: World Factbook (2011).	32
Table 2. GDP per capita (PPP). Source: World Factbook (2011).....	33
Table 3. GDP growth in China. Source: USChina (2011).	34
Table 4. Total Retail Sales of Consumer Goods. Source: National Bureau of Statistics of China (2011).....	35
Table 5. Distribution of family income – Gini Index. Source: World Factbook (2011).....	37
Table 6. Import – Export Value. Unit: US\$100 million. Source: MOFCOM (2011).	40
Table 7. Merchandise Trade. Source: WTO (2011)	42
Table 8. Top ten countries investing in China 2010. Source: MOFCOM (2011).	44
Table 9. Action Plan for BIK January-December 2012.	86

1 Introduction

1.1 Background

Since the author takes great interest in both business administration and the country of China, this research is done on a company operated in China. In a visit to China the author had the opportunity to meet the CEO of BIK International (BIK), Thomas Vestergård, in Shanghai in April 2011. The discussions that took place at that time inspired the author to want to do a case study on BIK. The main reason for the inspiration were all those questions the managers of BIK had following recent organizational changes. The managers were to decide on those future directions related to the potential growth of the company. This research is directly linked to the fields the author is interested in, international business, marketing and China.

The author holds a Cand.oecon degree in business administration and an MBA. A course at Beijing University named “Doing Business in China” was a part of the MBA degree. The knowledge the author acquired during the visit in China fascinated him and encouraged to seek further information on China. Therefore the author finished a minor in East-Asia studies, studying the culture, society, history, philosophy and literature of both China and Japan.

China’s history is comprehensive; Chinese civilization is remarkable with all those dynasties, emperors, philosophers and revolutionists. The transformation the society has went through the last decades is unique. The economic growth is surprising with the blend of socialism and capitalism, where the government conducts powerful centralized control allowing the individuals to carry out themselves in certain fields. There are obvious cultural differences between China and the Western countries. Therefore it is important for those doing business in China to realize that. Those living in the West can learn from Chinese just as Chinese people can learn from Westerners.

1.2 Research question

The purpose of the thesis is to find out what is the best global marketing strategy for a sourcing company located in China focusing on the best strategy options for a particular company, BIK.

Earlier this year the company was created out of another company, which was established in the year 2004. BIK is located in Shanghai, China. The employees are 26 and the turnover is US\$17 million. The company also has offices and representatives in Malaysia, Vietnam, Indonesia, Bangladesh and India. The company's current customers are located around the world, for instance in Denmark, Germany, Australia, Greece, UK and Iceland. At this particular point in its being the company is on a cross-roads. Strategic decisions need to be made on the future of the company. It is facing many options and in this research the focus will be on the options for a global marketing strategy for BIK.

1.3 Description of the research

The research is two-folded. First there is a literature review on global marketing strategies, sourcing and China's business environment. Secondly there are in-depth interviews with managers with the purpose of finding out the strengths, weaknesses, threats and opportunities among other things that are relevant in making a strategic decision for the future of the company. Certain models and theories are used in this case study. The in-depth-interviews were conducted in the facilities of BIK in Shanghai in June 2011.

There are a numbers of information sources with both secondary and primary research. As for the secondary research the data was collected through the Internet and books. The primary data was acquired through in-depth interviews with managers. The information gathering started in May 2011.

1.4 The objective of the research

The objective of the research is to give the company options to choose from in its decision-making. At this point it is not clear in what direction BIK should head its operations. The goal of this research is to contribute to the facts so the owners and managers of BIK have relevant information on hand to make important decisions for the future of the company.

1.5 The importance of the research

The research is important for BIK and its future. It could also contribute in the field of global marketing strategy. Although the study is specifically made on BIK some of the issues that are addressed could be of use for other companies with operations in China.

1.6 The structure of the thesis

The structure of the thesis is a literature review is provided in Chapter 2 on global marketing strategy, sourcing and analysis method. Three analysis tools are explained. The first is SWOT Analysis Theory, second is Porter's Five Force Model and thirdly three different entry modes are introduced; Export Modes, Intermediate Modes and Hierarchical Modes. In Chapter 3 information on the China's business environment is reviewed. Different key figures connected to China are listed and introduced. Among them are GDP, retail, consumption, price, income, Five Year Plan, import and export and foreign investment. Description on the research method is in Chapter 4. A case study of BIK is presented and analyzed in Chapter 5. The chapter starts with analysis on history, ownership, financial status, marketing, employees, suppliers, customers and product portfolio. In the chapter about competition Five-Force Model Porter's is used and BIK's main competitors are introduced. In Chapter 7 some of the manager's direct quotes are published in relation to different categories. The in-depth interviews with the managers are the basis for the SWOT analysis, core competences and image in Chapter 7. Based on the research, in Chapter 8 different options are presented in connection to those entry modes that can be chosen from. In this last chapter the implications and limitations of this research is discussed. The thesis then concludes by recommendations and suggesting action plan for the year 2012.

2 Literature Review

2.1 Global Strategy

“Global strategy” is defined not as a particular multinational enterprise (MNE) strategy, but as “strategy around the globe.” According to this, “global strategy” is most fundamentally about “strategy” before being “global”. (Peng, 2009) The multinational and the global corporation are not the same thing. The multinational corporation operates in a number of countries, and adjusts its products and practices in each, at high relative costs. The global corporation operates with constancy, at low relative cost, as if the entire world (or major regions of it) were a single entity; it sells the same things in the same way everywhere. (Levitt, 1983)

This distinction that Levitt makes reflect the view that global strategy is one particular form of multinational enterprise (MNE) strategy that treats countries around the world as a common, global marketplace. Therefore “global strategy” is a field at the intersection between strategic management and international business. (Peng, Pleggenkuhle-Miles, 2009)

Levitt wrote an article in the year 1983 which gave impact on how “globalization of markets was at hand” and “the multinational commercial world nears its end”. He forecasted that global companies would offer “everyone simultaneously high-quality, more or less standardized products at optimally low prices, thereby achieving for itself vastly expanded markets and profits.” At the same time Levitt pointed out that companies that do not adapt to the new global realities would become victims of those that do.

In part, thanks to Levitt, the term “global” became mainstream in the 1980s, as firms were encouraged to “go global” by both media and academics. (Peng, M.W., Pleggenkuhle-Miles, E.G., 2009)

Another view defines global strategy in even broader terms: the strategy of firms around the globe, which is firms’ theory about how to compete successfully. (Peng, 2006) Svend Hollensen (2007) distinguish between globalization and internationalization; Globalization reflects the trend of firms buying, selling and distributing products and services in most countries and regions of the world. Internationalization is doing business in many countries of the world, but often limited

to a certain region (e.g. Europe). Therefore “global marketing” consist of finding and satisfying global customer needs better than the competition, and coordinating marketing activities within the constraints of the global environment.

Global marketing is defined as the firm’s commitment to coordinate its marketing activities across national boundaries in order to find and satisfy global customer needs better than the competition. This implies that the firm is able to: (1) Develop a global marketing strategy, based on similarities and differences between markets; (2) Exploit the knowledge of the headquarters (home organization) through worldwide diffusion (learning) and adaptations; (3) Transfer knowledge and “best practices” from any of its markets and use them in other international markets. (Hollensen, 2007)

Even with the best planning, global strategies carry substantial risks. Many such strategies represent a considerable stretch of the company’s experience base, resources, and capabilities. (De Kluyver, Pearce II, 2006)

2.2 Sourcing

The term “sourcing” refers to a broad meaning of buying, purchasing, outsourcing, manufacturing, production and supply procurement. (Fang, Gunterberg, Larsson, 2010)

According to the Purchasing and Procurement Centre there are mainly two definitions on sourcing; strategic sourcing and global sourcing. Strategic sourcing is the process of taking advantage of purchasing opportunities by continually reviewing current needs against purchasing opportunities. Global sourcing is sourcing products and sometimes services irrespective of national boundaries.

The most common definition of sourcing is the process of identifying potential vendors, conducting negotiations with them, and then agreeing supply contracts with these vendors. (PPC, 2011) In Business Dictionary, global sourcing is defined as a procurement strategy in which a business seeks to find the most cost efficient location for manufacturing a product, even if the location is in a foreign country. (Business Dictionary, 2011)

Increased global sourcing of manufacturing and service activities from independent suppliers has been a well-known part of the restructuring of firms' supply chains since the late 1980s. Researchers and practitioners have largely supported the view that

global sourcing is one of the key drivers of superior performance. (Kotabe, Murray, 2010) Companies are increasingly viewing global sourcing strategies as a means of reducing cost, increasing quality, and enhancing a firm's overall competitive position. (Petersen et al., 2000) As more evidence indicates that a corporation is very much defined by its purchases and benefited by its close partnership with the suppliers, the sourcing decision becomes increasingly important in the firm's growth and profit. (Zeng, 2000)

Implementing a global sourcing means efficiently sourcing goods and services from any country that can manufacture goods or provide service more economically. This means getting the best products and services at the best value using a process that achieves a significant reduction in operating costs. (PPC, 2011)

An organization's profit is determined and defined by its purchases to a large extent, and purchasing has been considered one of the key drivers for a company's survival and growth. (Zeng, 2000)

Nassimbeni (2006) concluded that the main motivation that lead companies to international sourcing can be linked to three typologies of underlying factors: access to less expensive resources and intensification of global competition, access to distinctive resources, and their commercial presence on new markets. The main advantages of international sourcing are reduction in purchasing costs and in total costs of production, greater availability of materials and resources and acquisition of new technology.

But there are some obstacles in sourcing related to the difficulty of managing logistics, then the difficulty of evaluating the capacity of foreign suppliers and the difficulty in developing positive relations with them. Obstacles, generally of moderate importance, are factors such as cultural and language differences, bureaucratic problems, difficulties in finding qualified personnel to lead sourcing activities, and the political instability of some foreign countries. (Nassimbeni, 2006).

There has been and still is a strong economic incentive to source globally. But it is more complex whether or not global sourcing is economical. Holweg et al. (2011) define three basic cost elements in global sourcing: static, dynamic and hidden cost. The research showed that many global sourcing ventures do yield less than expected benefits and are in fact not economically viable due to unforeseen hidden and dynamic

costs that had not been accounted for in the initial calculations. Hidden costs are costs that are not related to the actual supply chain operation, such as currency fluctuations, changing energy cost, and changes in the political climate or regulatory framework. Generally, these costs are difficult to predict, and will incur on an irregular basis. (Holweg et al., 2011).

Maltz et al. (2011) study finds that sourcing managers consider multiple factors when rating potential supplier locations. Cost and reliability are key criteria used by sourcing managers, but other factors such as intellectual property protection also matter. They do not consider any attribute in isolation but instead combines the attributes in a way to maximize the probability that their sourcing decision will deliver the planned benefits.

China is one of the most attractive sourcing bases. (Nassimbeni, Sartor, 2006) The fact that it has taken China only 20 years of development to become a great business partner has fascinated the whole world. (Zheng, 2000) But the days of ultra-cheap labour and modest regulation has passed in China. As manufacturers' costs climb in China, export prices will follow. (Roberts, 2008)

China's New Labour Contract Law, which took effect from January 2008, has pushed the labour costs up in China in general. (Fang, Gunterberg, Larsson, 2010) In a case study on four Swedish companies with operations in China the research conclusion is that sourcing in China is becoming both cost- and strategy-driven. The purpose of the study was to understand better why foreign firms conduct sourcing in China where sourcing is becoming increasingly expensive. Companies purely chasing the cheapest production would probably consider leaving China, whereas companies with a long-term strategic intent and a high level of business ethics and a corporate social responsibility (CSR) practices will retain all or most of their sourcing activities in China despite the rising costs. (Fang, T., Gunterberg, C. Larsson, E. 2010)

"China's Factory Blues" is a headline of an article in Business Week where the author says that the days of ultra-cheap labour and modest regulation are gone and as manufacturers' costs climb, export prices will follow. Also the appreciation of the Chinese currency has shrunk margins and threatened China's role as the preeminent exporter of low-priced goods. (Roberts, 2008)

Western companies, such as Wal-Mart, have attempted to change the rules of play in China regarding supply chain management and logistics practices, as well as regarding setting standards for quality. Wal-Mart has a long history of sourcing from China to supply its US stores and in 1996 opened its first Supercenter in Shenzhen and now has many retail outlets in China. (Zhao et al., 2007)

To understand better the roles of customer and supplier involvement in China's business environment, a research was done by Feng, Sun and Zhang (2010) where the findings show that (1) customer involvement has positive impact on product quality, delivery reliability, process flexibility, and customer service; and (2) supplier involvement leads to decreased cost. Customer and supplier involvement can increase firms' competitive advantage. (Feng et al., 2010)

Although China tends to be stereotyped as the factory of the world that sells manufactured goods to all corners of the world, the country's sheer size and growth means that it is also an importer of global influence. (Park, Shin, 2011)

The rise of the RMB may be the biggest single factor driving companies to relocate. Some manufacturers will try to avoid those increases by finding cheaper locations deep inside China. "The answer to high prices in China is more China," says William Fung, Hong Kong-based group managing director at the world's biggest consumer-goods sourcing company, Li & Fung. (Roberts, 2008)

A survey among China purchasing managers signalled a decline in manufacturing activity in the world's no. 2 economy, and the country's Commerce Ministry warned that its export sector is facing new difficulties. (Gao et al., 2011)

A study showed that more than half of foreign manufacturers in China believe China is losing its competitive advantage over to countries like Vietnam and India. But shifting manufacturing abroad though, takes time and money. Complicated logistics networks that have grown over more than a decade to support everything from computer makers to shoe factories will have to relocate as industries move. Even in countries like Vietnam, labour costs are already rising, and shortages are emerging. (Roberts, 2008)

According to a study made for the American Chamber of Commerce in Shanghai, details the state of manufacturing in China and how it compares with global rivals. The conclusion is that the most successful multinationals in China use their operations there

both to export back home and to sell to local customers. This approach generates profitability two-thirds higher than that of companies focusing solely either on exports or the Chinese market. But only one out of four companies uses this dual strategy. (Hamilton, 2008) There is a growing tendency to view China as a large and growing market rather than a competitor in other markets. (Park, Shin, 2011) Since China's accession to the World Trade Organization (WTO) in 2001, competition for market share in China has increased substantially. (American Chamber of Commerce in Shanghai, 2011)

The ground for such optimism depends on the extent to which China's own growth is fuelled by domestic demand rather than exports. In contrast to the majority of Asia, China has maintained a surprising growth rate despite the global shock. It has strengthened the popular view that China can become a new engine of recovery and growth for the Asian region and, perhaps, the entire world. (Park, Shin, 2011)

Although the cost is rising, there are number of advantages that motivate foreign firms to stay in China. Good infrastructure and outstanding manufacturing expertise, China offers a broad spectrum of sourcing possibilities which few other countries can fully match. In Chinese business culture long-term relationship is valued, by which foreign parties can often gain high bargaining power, long-term business relationships, gives foreign companies opportunities to influence the Chinese suppliers positively on corporate social responsibility and business ethic issues. (Fang et al., 2010)

As factory owners in China try to cut costs more and more, manufacturing companies are setting up new plants far away from the coastal provinces. Higher labour cost and higher prices made China's traditional manufacturing bases less advantageous than before. However, inland provinces and cities that offered good transportation capacities and preferential policies shine as new investment destinations. (China Daily, 2011)

Foreign sourcing companies in China see sourcing as a starting phase or springboard for future market penetration and expansion when their Chinese experience and networks increases. It is rather evident that an increasingly expensive China would not mean massive withdrawal of sourcing out of China although companies who are purely chasing the lowest price would probably leave China immediately. (Fang et al., 2010)

Jonathan Anderson, Asia-Pacific Economist at UBS, said in a interview at the CBS Interactive Business Network that the stock of impoverished young people in China to flood into the factories is not quite forever. "Wages are starting to rise pretty aggressively because it is after the one child policy now 30 years ago. It is getting harder and harder to find a new cohort of 20-year-old women to work in the factories and 20-year-old men to work in the construction sites." He also said that China is starting to lose market share at the margin. "There is not a lot of new investment in the light end in China. Most of that new investment now is going to Cambodia and Vietnam and Bangladesh. And so you do end up losing some market share along the way. Labour is getting expensive. They do give up the very cheap end stuff. That will increasingly be moving off elsewhere over the next decade." (CBS, 2010)

A shift of production from China to Vietnam, is not likely to be a solution for the wage increase and other labour issues in China. For foreign companies with years of presence in China, shifting production to Vietnam would mean considerations in fields, such as infrastructure and workforce quality. Moving to Vietnam will require familiarization with Vietnam's regulatory and legal systems. So the main question is whether the savings in production costs would offset any potential challenges to be encountered in Vietnam. (Zhao, 2011)

According to Alexander van Kemenade, an analyst with the China Regional Forecasting Service for the Economist Intelligence Unit (EIU), manufacturing will remain a major part of the Chinese economy for at least the next 100 years despite strikes and increased labour costs. Manufacturing currently makes up around 47 percent of China's GDP, compared with 23 percent in the United States. Speculation of mass departures of manufacturers to cheaper locations such as Vietnam and Bangladesh is alarming. China still has a lot of strengths as a heartland of manufacturing and any migration to other countries in Southeast Asia would happen only gradually, he said. (China Daily, 2010)

In purely quantitative terms, trade among Asian countries, especially among East and Southeast Asian countries, has increased in recent years. Although much of this trade is currently trade in parts and components rather than trade in final goods, the fact that Asian countries are trading more with each other, provides some grounds for optimism

about the future emergence of more substantive intra-regional trade in which final goods play a bigger role. (Park, Shin, 2011)

The most highly performing US companies continue to focus on competing in China's rapidly expanding domestic market. Survey results show that the "in China for China" trend continues to remain a strong point as the China market matures. 55 percent of the companies reported that "in China for China" was the primary strategy. 72 percent say they have designed unique products or services to sell in China. 58 percent report that they import finished goods or parts from the US into China to support their China operations. (American Chamber of Commerce in Shanghai, 2011)

A number of obstacles must be overcome in order to create and manage a sourcing channel in China: language, cultural and geographic distance, coordination of an international logistic net, transfer of technological capabilities and managerial praxis, and quality monitoring. (Nassimbeni, Sartor, 2006)

A study made by The Boston Consulting Group (BCG, 2011) reveals that companies sourcing from China are encountering increasingly tough challenges. The study reached to 15 companies that all opened sourcing offices in China. The central question in the study was "What are the practices that distinguish companies that are highly successful at China sourcing from those that aren't?"

The reward of sourcing from China is well known. They include not only greatly improved cost structures but also product and process innovation arising from increasingly sophisticated and diversified supply bases; a low-cost, highly skilled labour that can support production as well as research and development; low-cost plants and equipment; numerous national and local government incentives; a vast and fast-growing domestic market that can help China-based suppliers quickly reach critical mass; and, in sectors such as plastics, printing, and electronics, highly developed clusters of suppliers.

The challenges the companies faced were different but there were some they had in common. Some issues related to the protection of intellectual property rights, others to the fact that many potential Chinese suppliers need some degree of development to meet Western quality standards.

A common problem in China is the rapid turnover of sourcing personnel. Some participants in the study experienced annual turnover as high as 30%. Therefore an effective HR strategy to recruit, train and retain personnel is critical to the success of sourcing organization. Foreign companies typically recruit new sourcing staff members by poaching ones another sourcing offices. Leading companies are setting up training programs for their sourcing staff, covering both technical and sourcing-related topics. They are also paying more attention to employee retention, offering increasingly attractive compensation packages as well as nonmonetary rewards such as personal recognition, overseas training opportunities, and clear career paths.

In the first stages the companies often confine their China sourcing to products that have been designed elsewhere. But in later stages the sourcing companies integrate suppliers into design and R&D. Companies have found that sourcing products designed elsewhere limits the benefits of China sourcing. The key is to leverage Chinese suppliers' capabilities by integrating the suppliers into product design and involving them in designing products from concept. Companies are offering their suppliers extensive technical support as well as support in process and quality control. Such support is becoming increasingly important as sourcing offices migrate from "build to design" to "build from concept", taking advantage of Chinese suppliers' product-development capabilities.

Sourcing companies are facing many challenges, among them are fluctuations in exchange rates, changes in the costs of labour and materials, power outages, quality problems, transportation delays, intellectual property theft, human rights violations, worker safety issues, environmental damage, and increased obsolescence. Leading companies systematically identify these risks, develop solutions, and ensure that they are broadly communicated within the organization. The study confirms that companies are benefitting by sourcing from low-cost suppliers in China. (BCG, 2011)

According to Ma Jiantang Commissioner in China the base for world economy recovery is relatively weak with uncertainties in domestic economic development. The emphasis is on economic growth, where the central government plans address the scientific outlook of development and opening up independent innovation, among others. (Jiantang, 2011)

Though risk exists, it cannot reduce the strong appeal of China to the entrepreneurial class. China has become number one in the world (among the developing countries) for inflow of direct foreign investments and one of the biggest commercial markets in the world. (Nassimbeni, Sartor, 2006)

Developing Asia has traditionally relied on exports to the United States and other industrialized countries for demand and growth. As a result, the collapse of exports to the United States and other industrialized countries during the 2008–09 global financial crisis has affected GDP growth across the region. The emergence of the China as a globally influential economic force is fuelling hopes that it can supplement the United States as an additional source of demand and growth. (Park, Shin, 2011)

Many European companies have decided to source from China. In a social, cultural, and legal context that is so different from that of Europe, they are likely to encounter numerous obstacles when creating and managing a supply flow from China. (Nassimbeni, Sartor, 2006)

Cultural differences between eastern and western countries often represent an important obstacle to entering the Chinese market. Interpersonal relationships in China are guided by “*guanxi*” rules. (Nassimbeni, Sartor, 2006) Guanxi means personal connections and contacts are means for getting support in an uncertain, unsecured and turbulent society. (Faure, Fang, 2008). Arising from the unique attributes of Chinese culture, guanxi, based on personal contacts, connections and trust has long been considered an important ingredient in conducting business in China successfully. (Tan et al., 2009)

In China, two institutional forces, government support and importance of guanxi, significantly affect trust, which subsequently influences two elements of information integration. The importance of guanxi has a direct, positive impact on information sharing, and government support has a direct, positive effect on both information sharing and collaborative planning. As argued by institutional theorists, these findings suggest that the dynamic nature of institutional forces in an emerging market such as China may shape firms’ intentions to build trust with trading partners and implement information integration. (Cai et al., 2010)

According to Wang Dongsheng, Chairman and CEO of BOE Technology Group, based in Beijing, exercising the Chinese sourcing option requires care. "It's not easy to find a qualified supplier in China. And when you do find one, it takes time to become familiar with both the Chinese business culture and your supplier's procedures. To shorten that learning period, you must make a serious effort to build trust with the supplier." (Huang, 2006)

2.3 Analysis

2.3.1 SWOT Analysis Theory

SWOT analysis will be used. SWOT analysis (the acronym standing for Strengths, Weaknesses, Opportunities and Threats) as can be seen in Figure 1 involves systematic thinking and comprehensive diagnosis of factors relating to any organization, project, or individual. (Gao, Peng, 2011) There is no documented history of SWOT and it seems that nobody took the trouble to write the first definitive journal paper or book that announced the birth of SWOT analysis. (Marketing Teacher, 2011) But SWOT analysis is a helpful tool for generating a list of factors for strategic consideration and an overall assessment of a company's competitive position. (Kluyver, Pearce II, 2006) It is a tool for auditing an organization and its environment. It is the first stage of planning and helps marketers to focus on key issues. (Marketing Teacher, 2011)

Through SWOT analysis, organizations can identify their positive and negative factors and then develop and adopt a strategy resulting in a good fit to these factors. If used correctly, SWOT can provide a good basis for successful strategy formulation. (Gao, Peng, 2011)

The SWOT framework has enjoyed outstanding popularity among both researchers and practitioners in order to attain a systematic approach and support for decision situations. (Ghazinoory et al., 2011)



Figure 1. SWOT. (Chen, Bruniski)

2.3.2 Porter's Five Force Model

To analyse the industry the model of Porter's Five Forces by will be used as can be seen in Figure 2. Michael E. Porter introduced this model in the year 1979 in an article that was printed in Harvard Business Review. In this model the five forces that shapes the competition are:

- Bargaining Power of Customers;
- Bargaining Power of Suppliers;
- Substitutes;
- Entry of Competitors;
- Rivalry Among Existing Players;

As different from one another as industries might appear on the surface, the underlying drivers of profitability are the same. Even though rivalry is often fierce in commodity industries, it may not be the factor limiting profitability. (Porter, 2008).

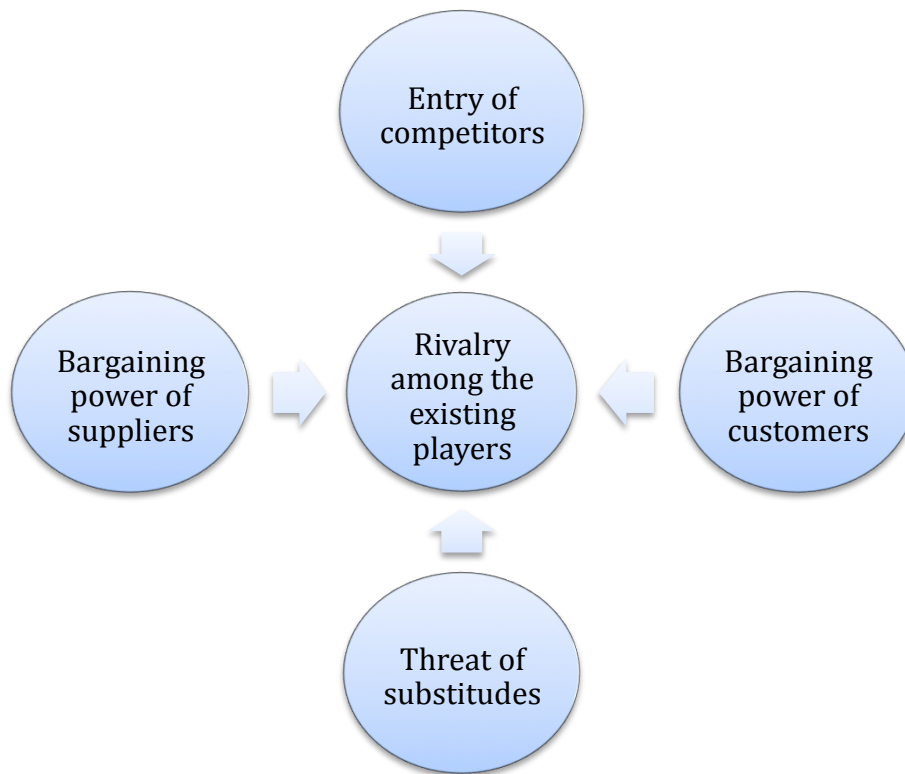


Figure 2. Five-Forces Model Porter. Porter (2008).

2.3.3 Entry Mode

Companies deciding how to entry a new market have different entry modes to choose from. It is possible to use the same entry mode for all the markets or use different entry mode for each market. The risk is different among the entry modes, ranging from low risk to high risk. The control and flexibility is also different according to each entry mode.

Sharma and Erramilli (2004) define an entry mode as “a structural agreement that allows a firm to implement its product market strategy in a host country either by carrying out only the marketing operations (i.e., via export modes), or both production and marketing operations there by itself or in partnership with others (contractual modes, joint ventures, wholly owned operations)”.

There are many theories related to entry modes. Canaba and White (2008) identify the most commonly used theories and constructs in entry mode research. Their classification are related to different topics affecting decisions on entry mode, such as transaction cost, ownership, location and internalization (OLI), cultural distance, control,

internationalization, risk, institutional factors such as rules, norms and values, resource-based view (RBV), foreign direct investment, organizational capabilities, knowledge-based view and uncertainty. (Canaba, White, 2008) Risk perceptions are believed to influence a firm's choice of entry mode into foreign markets. A study showed that a significant relationship was found between the level of perceived risk and choice of entry mode, such that low risk perceptions were associated with high control modes of entry and high risk perceptions were associated with low control modes of entry. (Ahmed et al., 2002)

In this thesis a simplified versions of three different modes will be used (Hollensen, 2007):

2.3.3.1 *Export Modes*

Export is the most common mode for initial entry into international markets. There are three major types; indirect, direct and cooperative export/export marketing groups. Indirect is like a domestic sale with agents or export management companies. The firm has little or no control over the way the product or service is marketed and can damage the reputation or image of the product or service. With indirect exporting, the firm establishes little or no contact with markets abroad. With direct exporting the exporter sells directly to a buyer, but can also sell through distributors or agents.

Low control – low risk – high flexibility

2.3.3.2 *Intermediate Modes*

Ownership and control are shared. The form could be licensing, franchising, management contracts, turnkey contracts, joint ventures or technical know-how or coproduction arrangements. It also can be contract manufacturing, where the production is in the foreign markets.

Shared control and risk - split ownership

2.3.3.3 *Hierarchical Modes*

When the firm completely owns and controls. It could be domestic-based sales representative, one who resides in one country and travels abroad to perform the sales function. It could also be resident sales representatives, foreign sales branch or foreign sales subsidiary. This displays a greater customer commitment than using domestic-based sales representatives and better control of sales activities can be achieved. There

are other forms to choose from; regional headquarters, transnational organization, acquisition or greenfield, where operations are established from the ground up.

High control – high risk – low flexibility

2.3.3.4 *Entry Modes Choice*

A firm's choice of its entry mode for a given product/target country is the net result of several, often conflicting forces. The need to anticipate the strength and direction of these forces makes the decision for entry mode a complex process with numerous tradeoffs among alternative entry modes. The choice of entry mode should be based on the expected contribution to profit. (Hollensen, 2010, p. 297) It seems that chosen entry mode has implications for performance. Firms that select their entry mode based on transaction cost, institutional context, and cultural context variables perform significantly better than firms that make other mode choices. (Brouthers, 2002) Risk perceptions are believed to influence a firm's choice of entry mode into foreign markets. A study showed that a significant relationship was found between the level of perceived risk and choice of entry mode, such that low risk perceptions were associated with high control modes of entry and high risk perceptions were associated with low control modes of entry. (Ahmed et al., 2002) Erramilli and Rao (1993) argues that service firms prefer to start with full-control modes.

Exporting, although relatively low risk and limited control, produce only moderate returns. Strategic alliances and joint ventures have become increasingly popular in recent years. They allow companies to share the risks and resources. Although returns are shared, they give a company a degree of flexibility. Ultimately, most companies will aim at building their own presence through company-owned facilities in important markets. Acquisitions or greenfield start-ups represent this commitment. Acquisition is faster but starting a new, wholly owned subsidiary might be the preferred option if no suitable acquisition candidates can be found. (De Kluyver, Pearce II, 2006)

To choose the entry mode that is appropriate for BIK a model from Hollensen (p. 298) will be used where four groups of factors influence the entry mode decision:

- Internal factors. Firm size; if firm's resources are rather limited it is more likely that export entry mode will be chosen. As the firm grows it will increasingly use the hierarchical mode. International experience; experience reduces the cost and risk of uncertainty of serving a market. Product/Service;

complexity of products and product differentiation is suitable for high control entry mode as the hierarchical mode is.

- External factors. Sociocultural distance between home country and host country; when the perceived distance between the home and host country is great, firms will favour entry modes that involve relatively low resource commitments and high flexibility. Country risk/demand uncertainty; when country risk is high, firms will favour entry modes that involve relatively low resource commitments (export modes). Market size and growth; the larger the country and the size of its market, and the higher the growth rate, the more likely the company is to commit resources, establishing a wholly-owned sales subsidiary or participate in a majority-owned joint venture. Small markets, especially if they are geographically isolated can be best supplied via exporting or a licensing agreement with minimal resource commitment. Direct and indirect trade barriers; tariffs or quotas favour the establishment of hierarchical modes. Intensity of competition; the greater the intensity of competition in the host market the more the firm will favour entry modes that involve low resource commitments (export modes). Small number of relevant intermediaries available; favour the use of hierarchical modes.
- Desired mode characteristics. Risk averse; if the decision maker is risk averse he will prefer export modes and licensing because they typically entail low levels of financial and management resource commitment. A joint venture provides a way of sharing risk. Control; modes of entry with minimal resource commitment, such as exporting, provide little or no control over the conditions under which the product is marketed abroad. Joint ventures limit the degree of management control. Wholly-owned subsidiaries (hierarchical mode) provide the most control, but also require a substantial commitment of resources. Flexibility; the hierarchical modes are most costly but the least flexible and most difficult to change in the short run. Intermediate modes (contractual agreements and joint ventures) limit the firm's ability to adapt or change strategy when market conditions are changing rapidly.
- Transaction-specific behaviour. Tacit nature of know-how; this is when functionality of product/service is very hard to express and drafting of a contract can be problematic. In this situation the hierarchical modes can be used. The greater the tacit component of firm-specific know-how, the more a firm will favour hierarchical modes.

3 China's Business Environment

China's business environment is different in many ways from the Western business environment. China has long enjoyed its position as the world's cheapest production country. However, this position is being shaken due to the increasingly rising costs in China in pace with China's rapid economic development. (Fang et al., 2010)

China remains a challenging business environment for a host of reasons. A survey done by the American Chamber of Commerce in Shanghai shows that finding enough qualified staff is the number one business challenge with increasing competition, inconsistent regulatory interpretation, unclear regulations, bureaucracy, lack of transparency, corruption and concerns about the risk of rising protectionism and inadequate enforcement of intellectual property rights (IPR). (American Chamber, 2011)

China seems to have never given up its single most important cultural characteristic, the ability to manage paradoxes. Ancient Chinese society was a melting pot. In the current age of globalization, Chinese society has retained and reinforced this unique feature even in the most significant sociocultural changes. (Faure, Fang, 2008).

3.1 China

China is the most populous country in the world, with over 1.3 billion people. As the world's population is 7 billion, China represents nearly 20% of the world's population, so almost one in every five people on the planet is a resident of China. (About, 2011) China had a population of 541.67 million in the year 1949. The population grew rapidly, reaching 806.71 million in 1969. In the early 1970s, the Chinese government realized that the over-rapid population growth was harmful to economic and social development and began implementing a family planning and population control. Since then birthrates have steadily declined year by year. (FMPRC, 2011)

People's Republic of China (PRC) was established 1949 but China's records of their civilization dates four thousand years back. China's recorded history begins with the Xia and Shang dynasty from the years 2100 to 1027 B.C.E. (Gamer, 2008) It was the Chairman of the CCP (Chinese Communist Party), Mao Zedong, who declared the founding of the People's Republic of China in Beijing, October 1, 1949. (Spence, 1999)

After 1978, Mao's Zedong successor, Deng Xiaoping, and other leaders focused on market-oriented economic development. Living standards have improved dramatically and the room for personal choice has expanded, yet political control remain tight. Since the early 1990s China has increased its global outreach and participation in international organizations. (World Factbook, 2011)

In China there are 56 ethnic groups. The Han people make up 91.96 percent of the country's total population, and the other 55 ethnic groups, 8.04 percent. (FMPRC, 2011) Looking at the age structure, 17.6% is 0-14 years old, 73.6% 15-64 years old and 8.9% is 65 years and older. 47% of the population is urban. (World Factbook, 2011)

China has 668 cities, of which 13 have population of more than two million each; 24, between one and two million; 48, between 500,000 and one million; 205, between 200,000 and 500,000; and 378, less than 200,000. (FMPRC, 2011) The five major cities can be seen in Table 1 where Shanghai is the biggest city with 16.575 million people and in the capital, Beijing, lives 12.214 million. (World Factbook, 2011)

Table 1. Major cities population/million. Source: World Factbook (2011).

Major cities	
Shanghai	16.575
Beijing	12.214
Chongqing	9.401
Shenzhen	9.005
Guangzhou	8.884

Shanghai plays an essential role in the national economy. The Pudong New Zone, separated from the old city by the Huangpu River, is now undergoing vigorous development and construction. The opening and development of the Pudong New Zone is intended to build it into a modern, multi-functional, export-oriented district, on a par with the world's best. This has laid the foundation for the transformation of Shanghai into an international economic, banking and trade centre, and a modern international city. (FMPRC, 2011)

3.2 GDP

China's economy is the second largest in the world after the United States; with its 10 percent annual growth. (Gamer, 2008) China has experienced a remarkable period of

rapid growth spanning three decades, shifting from a centrally planned to a market based economy, with reforms beginning in 1978. (World Bank, 2011) The restructuring of the economy and resulting efficiency gains have contributed to a more than tenfold increase in GDP since 1978. (World Factbook, 2011)

Gross domestic product (GDP) was US\$4.985.461 million in the year 2009 and the current account balance is US\$297.140 million. (WTO, 2011) China continues to run a trade surplus and to accumulate foreign reserves. (Gamer, 2008) At purchasing power parity, GDP per person has risen almost tenfold since the “reform and opening up” began, under Deng Xiaoping, in 1978. (Financial Times, 2010)

Of 227 countries China is number 125 in GDP on purchasing power parity with US\$7.600. Table 2 shows that Qatar is number one with US\$179.000, Norway number 7 with US\$54.600, United States number 11 with US\$47.200 and the lowest US\$300 is in Burundi. (World Factbook, 2011)

Table 2. GDP per capita (PPP). Source: World Factbook (2011).

Rank	Country	GDP per capita (PPP)
1	Qatar	179.000
2	Liechtenstein	141.100
3	Luxembourg	82.600
4	Bermuda	69.900
5	Singapore	62.100
6	Jersey	57.000
7	Norway	54.600
8	Brunei	51.600
9	United Arab Emirates	49.600
10	Kuweit	48.900
11	United States	47.200
125	China	7.600
227	Burundi	300

The currency is Renminbi or Yuan (RMB) and the exchange rate to US\$ (RMB per US\$) has been ranging from 7.97 in the year 2006 to 6.7852 in the year 2010. (World Factbook, 2011)

The GDP growth in China has been the last 10 years 9,86% on average. Table 3 shows that in the year 2007 GDP was the highest, 13%, and lowest in the year 2001, 8.3%. The growth was 8.7% in the year 2009. The GDP for the year 2009 was 33.535 billions RMB and has tripled from the year 2000 when the GDP was 9.921 billions RMB. (USChina, 2011)

Table 3. GDP growth in China. Source: USChina (2011).

Year	Real GDP growth (%)
2000	8.4
2001	8.3
2002	9.1
2003	10.0
2004	10.1
2005	10.4
2006	11.6
2007	13.0
2008	9.0
2009	8.7

In recent years, some even argue that, in view of the existence of a large underground economy and widespread activities of smuggling and capital flight, China's official GDP figures, if anything, actually tend to underestimate rather than overestimate the true size of its economy. (Gamer, 2008)

China became the world's second largest economy in the year 2010, after US. It is playing an important and influential role in the global economy. (Worldbank, 2011)

China's economy has been much less affected by the global economic downturn, mainly because of its large size and population. About 80 percent of its growth is generated by domestic demand. (Gamer, 2008)

A rising rate of investment is needed to maintain a given rate of economic growth. At some point, investment will stop rising and growth will slow down. China will then face

the Japanese challenge: how to sustain demand as the required rate of investment collapses. (Financial Times, 2010)

3.3 Retail – Consumption - Price

The retail sales has been growing on average 13.4% the last 10 years with value of 12.534 billions RMB in the year 2009. (USChina, 2011) In July 2011, the total retail sales of consumer goods were up 17.2 percent, year-on-year. From January to July, the total retail sales of consumer goods amounted to 10024.1 billion RMB, up 16.8 percent, year-on-year. In terms of different areas, the retail sales of consumer goods in cities was 1249 billion RMB in July, up 17.3 percent, year-on-year; while in urban areas it was 191.9 billion RMB, up 16.4 percent, year-on-year. As can be seen in Table 4 the increase is highest in the categories of gold, silver & jewellery (49.4%), petroleum and related products (39.5%), furniture (30.9%), building decoration materials (29.5%) and communication appliances (28.1%). In the first two months of 2010, the total retail sales of consumer goods reached 2,505.2 billion RMB, a year-on-year rise of 17.9 percent, which was 2.7 percentage points higher than that a year ago, or 2.4 percentage point higher than in 2009. (National Bureau of Statistics of China, 2011)

Table 4. Total Retail Sales of Consumer Goods. Source: National Bureau of Statistics of China (2011).

Total Retail Sales of Consumer Goods	Jan-July 2011	
	Absolute Value	YY%
	(100 million yuan)	
Total Retail Sales	100241	16.8
Grain,Oil,Foodstuff,Beverages,Tobacco,Liquor	5668	25.1
Garments,Footwear,Hats,Knitwear	4270	24.2
Cosmetics	613	20.1
Gold,Silver&Jewelry	1052	49.4
Commodities	1510	24.4
Sport&Recreation Articles	206	15.9
Household Appliances and AV Equipment	2983	21.2
Traditional Chinese and Western Medicines	2017	19.1
Cultural and Office Appliances	806	22.8
Furniture	599	30.9
Communication Appliances	577	28.1
Petroleum and Related Products	8017	39.5
Automobile	11177	15.0
Building and Decoration Materials	676	29.5

In 2009, the total sales of consumer goods reached 12,534.3 billion RMB, a growth of 15.5 percent, or a real growth of 16.9 percent after deducting price factors, which was 2.1 percentage points higher than in the previous year.

In June 2011, the consumer price index went up by 6.4 percent year-on-year. The prices grew by 6.2 percent in cities and 7.0 percent in rural areas. The food prices went up by 14.4 percent while the non-food prices increased by 3.0 percent. The prices of consumer goods went up by 7.4 percent and the prices of services grew by 4.0 percent. The highest increase was in food and housing. (National Bureau of Statistics of China, 2011)

In accordance with the requirements of the socialist market economy, China has been establishing a pricing mechanism macro-regulated and controlled by the government, and fixing prices through the market. Before the reform and opening was introduced, most commodities on the Chinese market were priced by the state. But since the start of the reform and opening, along with the expansion of the commodity market scale and the change of the relations between commodity supply and demand, the state has carried out price reform step by step and according to plan. (FMPRC, 2011)

Inflation rate is 3.2 percent (2010 est.) and in comparison to other countries China is number 107 of 222 countries, with highest inflation, 28 percent, in Venezuela. (World Factbook, 2011) The inflation rate in China was last reported at 4.2 percent in November of 2011. (Trading Economics, 2012)

China still has a lot of room for increasing domestic consumption as a source of its future growth, particularly in the rural areas and small towns, where millions of peasants are in need of basic household consumer durables like televisions, refrigerators, and cell phones. (Gamer, 2008)

3.4 Income

The discussion now tends to focus on how China can avoid “the middle-income trap,” as experience shows that transitioning from middle-income to high-income status can be more difficult than moving up from low to middle income. (World Bank, 2011)

Urban per capita disposable income has been growing on average 11.4% the last 10 years. In the year 2009 it was 17.175 RMB. The increase in rural per capita income is not

as high, on average 8.9%. In the year 2009 it was 4.760 RMB and therefore only 33% of the urban income. (USChina, 2011) Still, income per capita is below the world average. (World Factbook, 2011)

After a quarter of a century's reform and development, Chinese society has become moderately affluent, but economically very unequal, with the Gini ratio well over 0.4, (Gini ratio: perfect equality=0, perfect inequality=1). (Gamer, 2008)

While there are more than 100 million people still living in poverty, by 2007 China was already home to more billionaires than any country other than the US. (Gamer, 2008) According to Gini Index, which measure inequality in the distribution of family income in a country, China is number 53 of 140 countries. Namibia is on the top with the most unequal distribution of income and Sweden number 140 with the most equal distribution. The higher the Gini Index the more unequal a country's income distribution is. As can be seen from Table 5 the index for Namibia is 70.7, Sweden 23 and China is unequal with 41.5. If the country had perfect equality the index would be zero.

Table 5. Distribution of family income – Gini Index. Source: World Factbook (2011).

Rank	Country	Gini Index
1	Namibia	70.7
2	Seychelles	65.8
3	South Africa	65.0
4	Lesotho	63.2
5	Botswana	63.0
6	Sierra Leone	62.9
7	Central African Republic	61.3
8	Haiti	59.2
9	Colombia	58.5
10	Bolivia	58.2
50	Uruguay	42.4
51	Burundi	42.4
52	Russia	42.2
53	China	41.5
54	Cote d'Ivoire	41.5
55	Senegal	41.3
56	Qatar	41.1
57	Venezuela	41.0
126	Iceland	28.0
127	Belgium	28.0
128	Ukraine	27.5

129	Belarus	27.2
130	Germany	27.0
131	Finland	26.8
132	Kazakhstan	26.7
133	Slovakia	26.0
134	Luxembourg	26.0
135	Malta	26.0
136	Austria	26.0
137	Czech Republic	26.0
138	Norway	25.0
139	Hungary	24.7
140	Sweden	23.0

With the second largest number of poor in the world after India, poverty reduction remains a fundamental challenge for China, among other important challenges. (World Bank, 2011) China's progress in reducing poverty over the past three decades is well known. Measured in terms of the World Bank poverty standard for China, the poverty rate fell from 65% to around 4% between 1981 and 2007, and the absolute number of poor fell by well over half a billion people.

The more developed and the more open provinces and cities along the coast have income per capita well above the national average, while those in the inner and the western region have income per capita below the average national level. Specifically, the income per capita of Guangzhou, Shanghai, and Beijing, ranging between US\$7,000 and US\$9,000, have reached the level the World Bank has ranked as upper-middle income economies. (Gamer, 2008) In 2009, the income per capita of urban household was 18,858 RMB. (National Bureau of Statistics of China, 2011)

China has nearly 333 million families, with 3.2 people per urban household, and 4.3 people per rural household on average. Though many young couples do not live with their parents, they maintain close contact with them. Grown-up children have the duty to support and help their parents according to tradition. (FMPRC, 2011)

The one-child policy has helped China in the past decades to have a large working-age population relative to total population and keep dependency ratio low. But now the one-child policy will lead to a rapid rate of population ageing and fast shrinkage of working-age population relative to total population. (Zarathustra, 2011) One consequence of the "one child" policy is that China is now one of the most rapidly aging

countries in the world. (World Factbook, 2011) That means China will be facing increasing labour shortage in the years to come, which mean two things. First, wages have to go up in order for companies to retain workers as the labour situation might change from surplus to shortage. Second, profit margins of companies will shrink as wages go up. (Zarathustra, 2011) The labour force in China is number one in countries comparison with 780 million people. 38.1% are in agriculture, 27.8% in industry and 34.1% in services. (World Factbook, 2011) The unemployment rate has been on average 4% the last 10 years. (USChina, 2011) The unemployment rate is now 4.3%. (World Factbook, 2011)

3.5 Five Year Plan (FYP)

The First Five-Year Plan (FYP) was launched in 1953. The FYP was a typical replica of the Soviet industrialization strategy under Joseph Stalin, putting strong emphasis on the development of some key capital-intensive industries like iron and steel, railroad trains, and agricultural equipment. This First FYP was a great success, with the economy growing at an average annual rate of 8.5 percent during the plan period. (Gamer, 2008) The first Five-Year Plan achieved a dramatic increase in industrial production across a broad sector of goods. This was the period of closest collaboration between China and the Soviet Union. (Spence, 1999).

In its 11th Five Year Plan (2006-2010), the Government of China set the aim at achieving a “harmonious society” that balances economic growth with distributional and ecological concerns. Under this Five Year Plan, considerable progress was made in improving basic public services in social protection, education and health, but structural issues remain under the strong momentum of China’s traditional pattern of growth.

In the 12th Five Year Plan for the years 2011 to 2015 there are five main objectives: (1) Maintaining stable and fast economic growth, with a focus on price stabilization, more job creation, improved balance of payment, and higher quality of growth. (2) Achieving major progress in economic restructure, with higher share of household consumption and in the service sector, further urbanization, more balanced rural-urban development, lower energy intensity and carbon emissions, and better environment. (3) Increasing people's income, reducing poverty and improving the living standards and quality of life. (4) Expanding access to basic public services, increasing the educational

level of the population, developing a sound legal system, and ensuring a stable and harmonious society. (5) Deepening the reforms in the fiscal, financial, pricing and other key sectors, changing the role of the state, improving governance and efficiency, and further integrating into the world economy. (World Bank, 2011)

The FYP is to serve as a kind of “perspective plan”, or as a rough indicator of government policy direction. (Gamer, 2008) The government vows, in the 12th Five-Year Plan adopted in March 2011, to continue reforming the economy and emphasizes the need to increase domestic consumption in order to make the economy less dependent on exports for GDP growth in the future. (World Factbook, 2011)

The objectives in the Five-Year Plan for the year 2010 was to let people enjoy even more comfortable lives, and bring a more or less complete socialist market economy into being. China has transformed its planned economy system into an initial socialist market economy system. (FMPRC, 2011)

3.6 Import & Export

China’s import & export totalled US\$2972.76 billion in 2010, with a year-on-year growth of 34.7%. Table 6 shows the value where China’s export is US\$1577.93 billion and import is US\$1394.83 billion, up by 31.3% and 38.7% respectively. The increase in imports is higher than the increase in export. (MOFCOM, 2011) In the first half of 2011, China’s import & export totalled US\$1703.67 billion with a year-on-year growth of 25.8%. China’s export was US\$874.3 billion and its import was US\$829.37 billion, up by 24% and 27.6% respectively. (National Bureau of Statistics of China, 2011)

Table 6. Import – Export Value. Unit: US\$100 million. Source: MOFCOM (2011).

Import - Export	Absolute Value	Increase +/-%
Total Import and Export Value	29727.6	34.7
Export Value	15779.3	31.3
Import Value	13948.3	38.7
Import and Export Balance	1831.0	<6.4>

Between 2001, when China entered the World Trade Organization, and 2006, the country’s exports more than tripled, and accounted for more than one-third of China’s

economy. China's mix of exports is also shifting toward higher-value-added products. (BCG, 2011)

In the early 1990s, China's exports were dominated by labour-intensive manufactured products, particularly textiles, clothing, footwear, and toys. These traditionally labour-intensive manufacture were gradually overtaken by items such as electronics and machinery, whose share in total exports rose to 57 percent in 2006. Chinese exports are therefore no longer dependent on low technology and low value-added products. (Gamer, 2008)

Jonathan Anderson, a respected analyst of the Chinese economy, claims that the idea that China is an export-led economy, is one of the "China myth" and is not rightly observed. For outsiders looking at the flood of goods "Made in China" rushing into US and European shops, it's easy to conclude that this must be the bulk of what the mainland produces. But, the numbers tell a different story. China's export sector is not tiny, but it is still a very moderate share of the economy as a whole, smaller than in most other Asian countries. Despite the rapid growth of export turnover, the actual contribution to GDP is barely rising over time. The US is a classic example of "domestic-led growth". According to Anderson, Chinese growth is also very domestic-led. Therefore China has little to fear from a global demand slowdown. (Anderson, 2007)

China rank number one in world trade in merchandise exports and number two in imports. (World Trade Organization, 2011) In 2009, the global economic downturn reduced foreign demand for Chinese exports for the first time in many years. (World Factbook, 2011) Export decreased 2008-2009 by 10% while import increased by 4%. (World Trade Organization, 2011)

Table 7 shows the main destinations for merchandise exports. The European Union with its 27 countries is number one with 19.7%. United States count for 18.4%, Hong Kong is 13.8%, Japan 8.1% and Korea 4.5%. The main origin of import is from Japan, European Union, Korea, China and Taipei. (World Trade Organization, 2011)

Table 7. Merchandise Trade. Source: WTO (2011)

Merchandise Trade by main destination	
Destination	Value %
European Union	19.7
United States	18.0
Hong Kong, China	13.8
Japan	7.7
Korea, Republic of	4.4

Vice Commerce Minister, Jiang Yaoping, said in a statement that China's foreign trade is facing slow external demand and pressure from surging costs, while the debt crisis in developed countries also poses greater challenges for emerging economies including China. The minister said the weaker outlook for exports combined with rising import growth because of stronger domestic demand and high global commodity prices is likely to lead to a narrower trade surplus for China. (Gao, Fung, Fletcher, 2011)

Dr Stefan Halper, a senior research fellow at Magdalene College, Cambridge, and author of the book 'Beijing Consensus' about China's future economic outlook, said China's manufacturers are at some form of crossroads. "China is desperately trying to hang on to its export market. It really doesn't want to give up its advantages which it has carved out of granite," he said. (China Daily, 2011)

China's over-reliance on export for growth was starkly exposed by the global economic crisis of 2008. This, coupled with widening income disparities, could jeopardize the sustainability of China's growth unless it adjusts its reform and development strategies to promote income equality and domestic consumption. (Lu, Gao, 2011)

The Employment Contract Law, introduced in 2008, requires all employers to sign contracts of employment with their workers and provide them with social security coverage. This legislation has increased enterprises' labour costs to varying degrees and put added pressure, especially on exporters. The law could be seen as a strong signal of institutional change within the broader framework of the country's development strategy, whereby economic growth may come to depend less on exports and more on

domestic consumption. This would clearly be beneficial to the sustainability of China's economic growth. (Lu, Gao, 2011)

Still very much a developing economy, China certainly has enormous need for infrastructural investment in transportation, communications, ports, airports, and power plants. External demand comes from exports, which play a relatively minor role in China's economic growth. (Gamer, 2008)

3.7 Foreign investment in China

Since the reform was put into practice 1978 and the opening to the outside world, the Chinese government has encouraged the development of diversified economic elements while insisting on the primacy of public ownership. This diversified-ownership economy and the development and expansion of these enterprises have played important roles in many aspects, such as bringing convenience to people's everyday lives, making up for the deficiency of construction funds, and introducing advanced technologies and management from abroad. (FMPRC, 2011)

As an indicator of the interest other nations take in China is that the number of newly approved foreign-funded enterprises in China in 2010 totalled 27,406, up by 16.94% year-on-year, and actual used foreign investment reached US\$105.735 billion, up by 17.44% year-on-year. The number of newly established enterprises is highest from other Asian countries such as Macao, Japan, Philippines, Thailand, Malaysia, Singapore and Indonesia. The increase was 20.4% year-on-year. The number from US went down by 0.76% year-on-year although the value of investment went up 13.31% year-on-year. The number of EU investment went up by 6.97% year-on-year and the value went up by 10.71% year-on-year. (MOFCOM, 2011)

Analysis on different types of enterprises showed that in the first two months 2010, the growth of the state-owned and state holding enterprises went up by 20.7 percent; collective enterprises, 13.4 percent; share-holding enterprises, 22.2 percent; and 20.3 percent growth for enterprises funded by foreign investors or investors from Hong Kong, Macao and Taiwan province. (National Bureau of Statistics of China, 2011)

Table 8 shows the top ten countries/regions (calculated by the actual utilized value of foreign capital) investing in China in the year 2010. The Asian countries/regions are investing the most. Hong Kong is far the biggest with US\$67.474 billion, then Taiwan

with US\$6.701 billion, Singapore with US\$5.657 billion and Japan with US\$4.242 billion. USA invested for US\$4.052 billion and Republic of Korea for US\$2.693 billion. The European countries UK, France, Netherlands and Germany invested for US\$4.763. The actual input of foreign capital of the ten countries/regions accounted for 90.1% of the country's total. (MOFCOM, 2011)

Table 8. Top ten countries investing in China 2010. Source: MOFCOM (2011).

Rank	Country	Value US\$ billion
1	Hong Kong	67.474
2	Taiwan	6.701
3	Singapore	5.657
4	Japan	4.242
5	USA	4.052
6	ROK	2.693
7	UK	1.642
8	France	1.239
9	Netherlands	952
10	Germany	933

China is vast and varied, its culture and traditions are different from those of the West, and its social, governmental, and economic systems are particularly complex. (Vanhonacker, 1997) The government has gradually reduced the categories of products for planned production, eliminated the restriction on enterprises only allowed to engage in production but not in business operation, and abolished the practice of the state fixing commodity prices. As a result, the rights of enterprises to purchase, produce and sell have been extended. Now, department stores, supermarkets and chain stores are scattered everywhere in both rural and urban areas and great variety of food, clothing and other commodities satisfies the needs of consumers. (FMPRC, 2011)

Research conducted by the The American Chamber of Commerce in Shanghai on 2010–2011 business climate shows that US companies in China are confident about their business prospects moving forward and 87% reported revenue growth. 71 percent reported that they expect to increase revenue in China by more than 10 percent in 2011. 41 percent of those surveyed expect to increase their investment in China by more than 15 percent in 2011. The survey's result shows a majority of US companies

with operations in China are in China to compete in the growing domestic market. The “in China for China” is a trend. Opportunities can increase dramatically as China’s domestic market continues to mature and becomes increasingly driven by explosive middle class growth and a widening consumer base. (American Chamber of Commerce in Shanghai, 2011)

The economic success has made China a desirable business partner. Many firms consider China as important as their own home market. Firms in most countries like to sell their products in China and Chinese firms are important suppliers to most countries in the world. (Hannibalsson, 2011)

China is one of the most attractive sourcing basins and one of the countries with the highest inflow of foreign direct investments. (Nassimbeni, Sartor, 2006) Since the late 1990s and early 2000s, China’s economic growth has become less investment-driven while exports and household consumption are becoming increasingly more important. (Gamer, 2008)

4 Research

This research is a qualitative, case-based, exploratory study with in-depth interviews. Different research methods were considered, for instance focus groups and questionnaire through Internet. The chosen method was preferred, mainly because the opportunity it gives of acquiring more understanding on BIK's operations and the management opinions.

In-depth interviewing is a qualitative research technique that involves conducting intensive individual interviews with a small number of respondents to explore their perspectives on a particular idea, program, or situation. (Boyce, Neale, 2006)

In-depth interviews are most appropriate for situations in which open-ended questions are asked to acquire information from relatively few people, as opposed to surveys, which tend to be more quantitative and are conducted with larger numbers of people. (Guion et al., 2009) In-depth interviews take place face-to-face between an individual researcher and his/her interview respondent that is variably referred to as an interviewee, respondent, informant, or participant. (Webber, Byrd, 2010) In-depth interviewing is also known as unstructured interviewing or qualitative interviewing. (Berry, 1999)

This research has a semi-structured format. Semi-structured interviews facilitate the collection of new information with the flexibility to explore different topics in-depth with different informants. (Longsfeld, 2004) It is neither an open conversation nor a highly structured questionnaire. It is conducted according to an interview guide that focuses on certain themes and may include suggested questions. (Kale, 1996) Usually it contain a one-page guide of open-ended questions that are asked in the same order. (Longsfeld, 2004) In-depth interviewing uses open-ended questions to uncover information on a topic of interest and allows interviewees to express opinions and ideas in their own words. (Webber, Byrd, 2010)

One of the advantage of in-depth interviews is that it allow researchers to collect a great deal of information in a short period of time but one of the disadvantage is, that a thorough data analysis is time intensive. (Longsfeld, 2004) An interview is a conversation that has a structure and a purpose. It goes beyond the spontaneous exchange of views in everyday conversation, and becomes a careful questioning and

listening approach with the purpose of obtaining thoroughly tested knowledge. (Kvale, Brinkmann, 2009)

Unlike most surveys, interviews do not require probability samples. Informants for in-depth interviews are typically selected through convenience sampling where researchers include individuals in their study as they please. (Longsfield, 2004)

In this research BIK's management team were participating and interviewed. The author considered this research method appropriate because this qualitative data collection technique is useful for strategic planning. 12 managers in BIK were interviewed and the CEO, Thomas Vestergård, gave also information. Information on customers and competitors were aquired through Internet.

The analysis is based on information aquired in China. The interviews were conducted in China June 25th to July 14th 2011. During this time the managers in BIK were interviewed and other information gathered. The in-depth-interviews were taken in BIK facilities in Building D-1, Dong Sheng Road in Pu Dong Shanghai.

The managers who were interviewed:

- Bill Yu, CFO
- Peter Li, Merchandiser
- Igors Harcenkovs, Product Manager Home Accessories
- Antanas Rinkunas, Product Manager Furniture
- Nguyen Quoc Thanh, Chief Representative Vietnam
- Henry Wang, Quality Control Supervisor
- Li Yue Chang, Commercial Manager
- Sabrina Zhu, Product Manager
- Sharon Chen, Product Manager
- Karen Jin, Merchandiser
- Elina Belavska, Marketing Support
- Carl Zhang, Marketing Manager

Each manager was contacted to arrange a meeting in BIK's facilities. Those interviewed were 12, 8 males and 4 females. There was specific questionnaire to support the interviews (Appendix 1). There was memorandum of the questions at hand during the interviews but the managers had the opportunity to speak freely on the topics through a flexible process. The duration of interviews varied among managers, from half an hour up to one hour. The managers were informed about the purpose of the thesis and notes were taken during the interviews. The interviews were conducted in English.

In the beginning the CEO and some of the managers were asked if it was an issue that the owner of BIK is also retailer and running stores in Canada, East-Europe, Faroe Islands and Iceland. The question was if the customers see it as a problem that the owner could be their competitor. But according to the answers it seems not to be a problem and of no concern. Therefore it was not included in the questionnaire for the remaining managers.

After the interviews the answers were analysed. The answers are the base for the analysis in the following chapters.

5 BIK International Ltd.

5.1 History



The information in this chapter on BIK International are retrieved from the management and Internet. BIK is abbreviation for Baltic, Iceland and Kanada (Canada).

BIK was originally founded in Iceland as a wholesale company but in the year 2004 it established a sourcing and buying office in China. The first office was in Central China, but in the year 2006 the office was moved to Shanghai. The number of employees was 4 in the first years but the company grew fast these first years of operation. The first office was 170 sqm but the current facilities in Pudong district in Shanghai are 5.000 sqm, both offices and showrooms.

In the year 2008 BIK was aquired by Lagerinn Duch Holding BV (LDH). LDH holds companies in the retail industry; Jysk franchise operates over 100 stores in the Baltic countries, Canada and Iceland and ILVA store in Iceland. BIK main task was to service these retail companies of LDH and The Pier, which is also a retail company in the ownership of the founder of LDH. The Pier is operated in Iceland, Faroe Island and Latvia. BIK became the sourcing company for Jysk, Ilva and The Pier, but it also served some “external” customers.

In the financial crisis in the year 2008 BIK faced a number of challenges. The industry had slowed down. The number of employees was reduced by 20-30%, the salary cut by 15% and a new CEO was hired, Thomas Vestergård.

In the end of the year 2010 the board made a decision on splitting up BIK into two separated units aiming for BIK to be an independent sourcing company. A new unit named LPO (Lagerinn Purchasing Office) was established and later the name was changed into LHP (Lagerinn Home Purchasing). LHP task is to manage all buying for the owner’s retail shops, just as BIK had been doing. BIK task is to grow as an independent sourcing company offering service to retailers, agents, wholesalers and manufacturers around the globe.

The main reason for the split of the company into two independent units is that LDH holds the franchise of Jysk Nordic and as such is to sell the same products as Jysk. Therefore BIK could have access to the information on prices and bids from Jysk

suppliers. The buyers at Jysk thought that having such an access to valuable information could bias the bidding that BIK would do. Therefore the decision was made to split it into these two units to increase the opportunities that BIK could get.

BIK had mostly served current owner's retail shops (JYSK, ILVA, The Pier), but is now facing the challenges of acquiring new customers. Now Jysk Nordic is number 7 in BIK's customer list and account for 3.34% of the value.

BIK has established representative offices in Malaysia, Vietnam, Indonesia, Bangladesh and India.

5.2 Ownership

Figure 3 shows that BIK is owned by BIK Holding ehf which is owned by Lagerinn Dutch Holding BV (LDH). The LDH group holds franchise for the retail companies JYSK and ILVA.

The founder and owner of the mother company is Jákup Jacobsen. He opened his first store in his home country, Faroe Islands, in the year 1985 and shortly after he opened stores in Iceland. In the year 1996 he opened the first store in Canada and now they are 50. He also holds franchise for The Pier and is running three such stores in Iceland, one in Faroe Islands and two in Latvia.

Lagerinn Dutch Holding BV is operated in three different continents, Europe, Asia and North America with 1.600 employees. The retail stores are in Canada, Latvia, Lithuania, Estonia, Bulgaria, Romania, Faeroe Island and Iceland. The holding company runs 100 stores in these countries.

The stores are operated under different brands according to the franchise. Jysk, which was established by Lars Larsen in Arhus Denmark in 1979. Jysk has grown to 1.800 stores in 35 countries with 16.000 employees. The Jysk stores specialize in home furnishings and bath and bedding and are emphasising quality for less. Ilva was established in Denmark in the year 1974 and is emphasising quality, diversity in design and good service. The Pier is a home furnishings and house wares retailer. The Pier emphasis is on different and adventurous products from different parts of the world on reasonable prices.

Lagerinn Dutch Holding product range is wide and includes everything for the home, from small items such as candles and towels, up to big furniture such as tables, beds, chairs and chests including outdoor furniture.

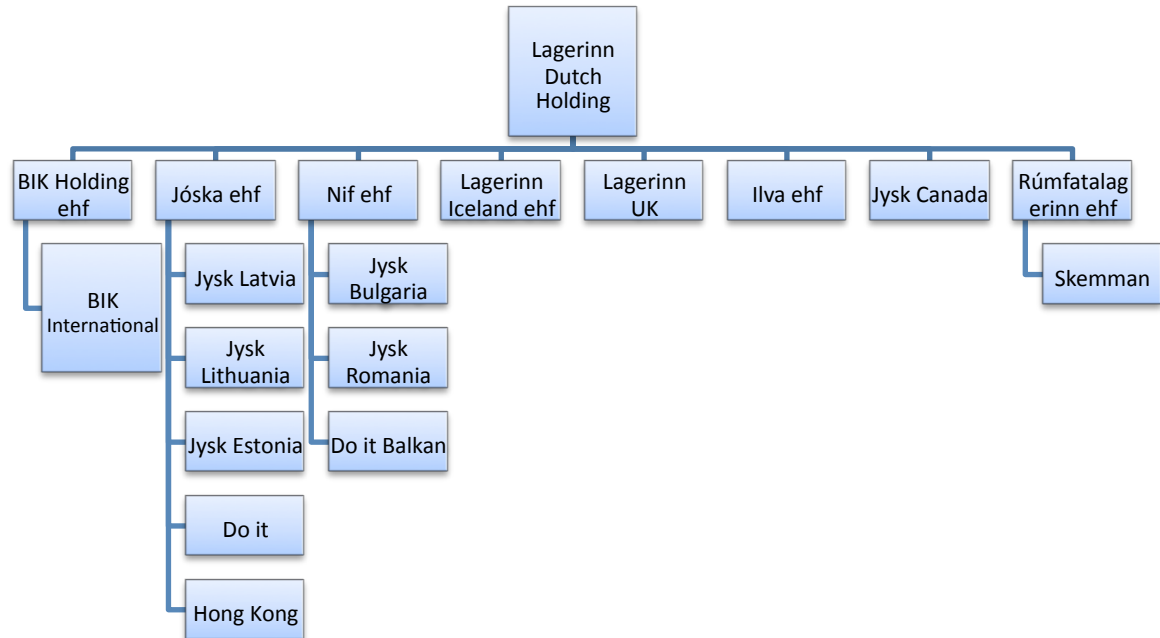


Figure 3. Ownership. Lagerinn Dutch Holding BV.

5.3 Financial status

As BIK has only recently become independent (March 1st 2011) there are no annual reports to look into. The estimated sales in the year 2011 is US\$17.000.000, the profit is US\$825.460, which gives nearly 5% margin. The direct cost is US\$390.050 and shared cost is US\$420.172. EBITDA is therefore US\$15.238 or 1,85%. The estimated sale for the year 2012 is \$24 millions. The goal is to increase sales by 40% between the year 2011 and 2012.

There are several functions that BIK shares with LHP. It is in finance, IT, quality control (QC), marketing and logistic.

5.4 Marketing

The marketing strategy is not well defined at BIK. The reason is partly recent split of the company and because of current organizational changes. There is no marketing department because the function of marketing is shared with LHP.

BIK emphasis is on “one-stop-shopping” where the customer can have merchandising, finance, logistic, quality control, showroom and warehouse, all under one roof.

According to a customer satisfaction survey conducted in May 2011, 36% of BIK existing customers thinks that BIK offers better products and service than other sourcing companies, another 36% think that the company provides “somewhat better service”.

At this time BIK lacks strategy but the management is aware of the situation and there are plans to work on strategic issues. It is important that BIK has clear strategy to be able to compete in a way that delivers successful result.

The management of BIK wants to have growth but there are no clear directions on how that should be accomplished. BIK has limited resources and therefore it is important to have a clear strategy to be able to allocate those resources in the best possible way.

There seems to be lack of focus and it is not clear where BIK wants to position itself. On the website the mission of BIK is said to be “to provide our customers with great product at a great price coupled with exceptional service.”

BIK use personal selling as it’s main promotional tactic. According to a customer survey conducted in May 2011, 73% of existing customers choose BIK because of close personal relationship.

By opening representative offices in Vietnam, India, Malaysia, Indonesia and Bangladesh, BIK can offer customers wider product range and in some instances lower prices. BIK is still on the way of establishing good relationship with suppliers in these countries.

5.5 Employees

The number of employees working for BIK is 26. The annual employee turnover is 35%. Figure 4 shows the organizational chart with two supporting roles and six main departments based on product categories.

The knowledge and experience of the employees are of various kinds. There are employees who have been with the company from the early days, but most of the

employees working for BIK have been recently recruited. The majority of the employees are Chinese.

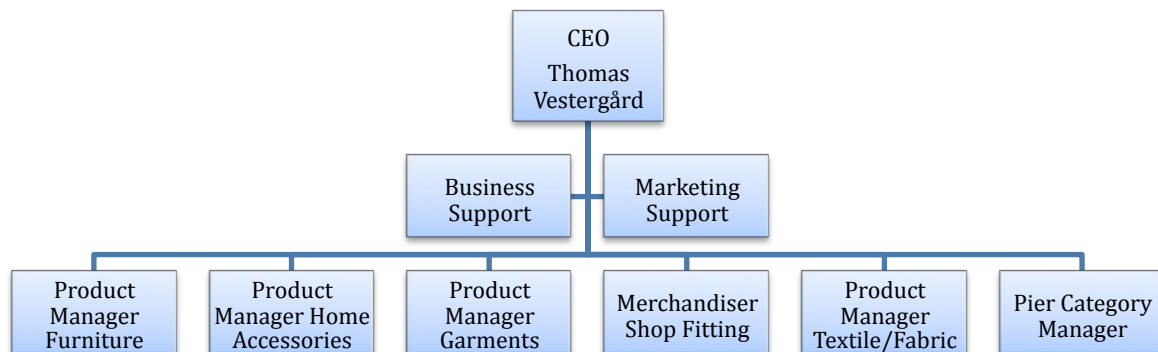


Figure 4. BIK organizational chart. Source: BIK 2011.

5.6 Suppliers

BIK did business with nearly 400 suppliers in Asia few years back, mostly located in China. But systematically the number of suppliers has been reduced and now BIK is doing business directly with 200 suppliers.

Figure 5 shows that the biggest direct supplier is Share & Shine with value of almost US\$1.000.000. This company is by far the biggest with 14% of the total value. The next, Futian (Fuzhou), count for 5% with a value of US\$347.000.000.

Those with business more than US\$100.000 count for nearly half of the total value or 49%. The 15 biggest suppliers have total value of US\$3.500.000. All the other suppliers have business less than US\$100.000 and their share of the total value is from 0,01% to 1,37%.

Figure 6 shows that 90% of the business value is with suppliers located in China, 8% are located in Vietnam and 2% in Malaysia.

Sungarden is BIK's biggest customer and buys textile and fabrics. The Sungarden's supplier list consists of 22 supplier as can be seen in Figure 3. The biggest one,

Sanyuan/Sinotex, is accounting for 40% of the total value of US\$7.800.000. The four biggest suppliers count for 80% of the total value with US\$300.000 or higher amount. Other suppliers are accounting from 0.04% to 4.28% of the total value.

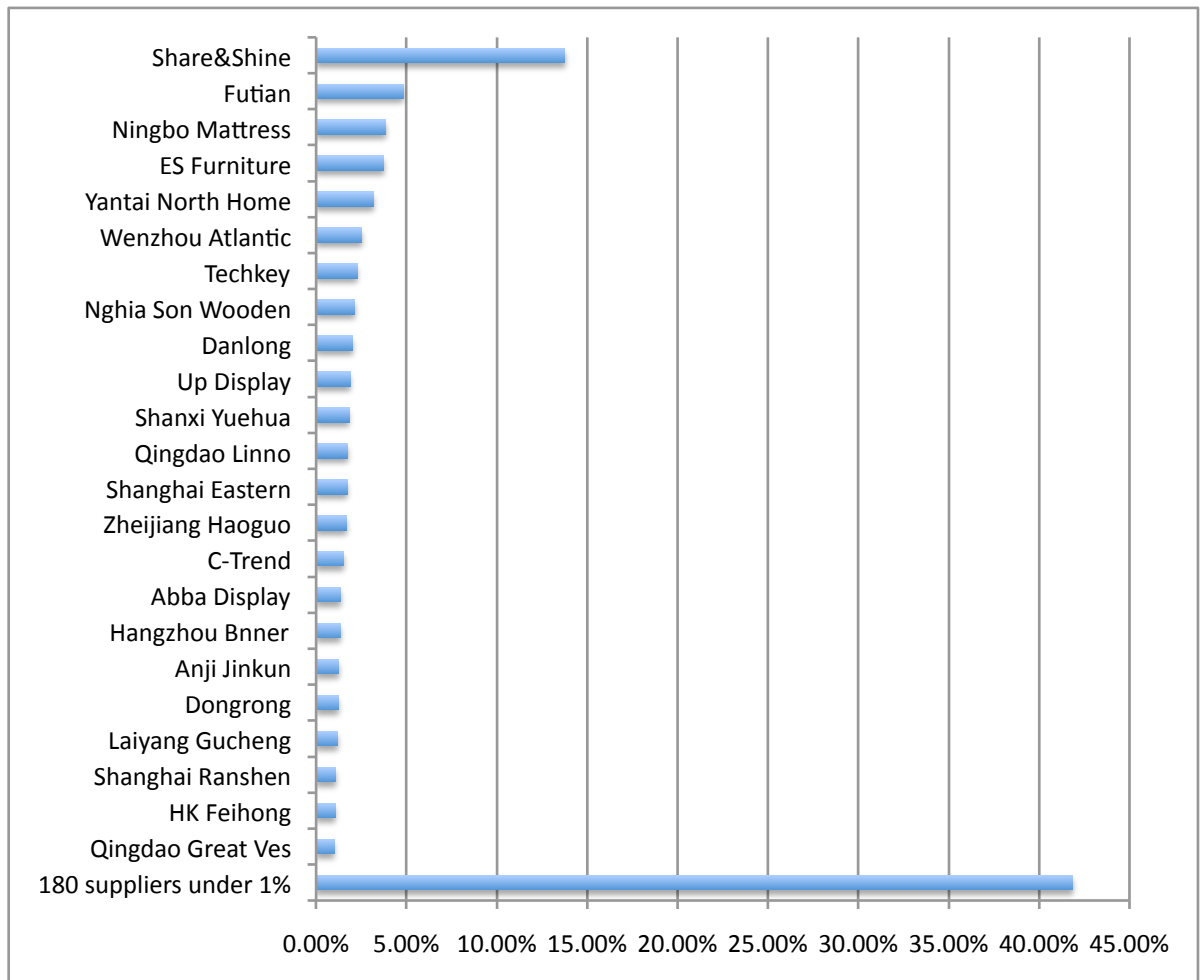


Figure 5. BIK suppliers. Source. BIK 2011.

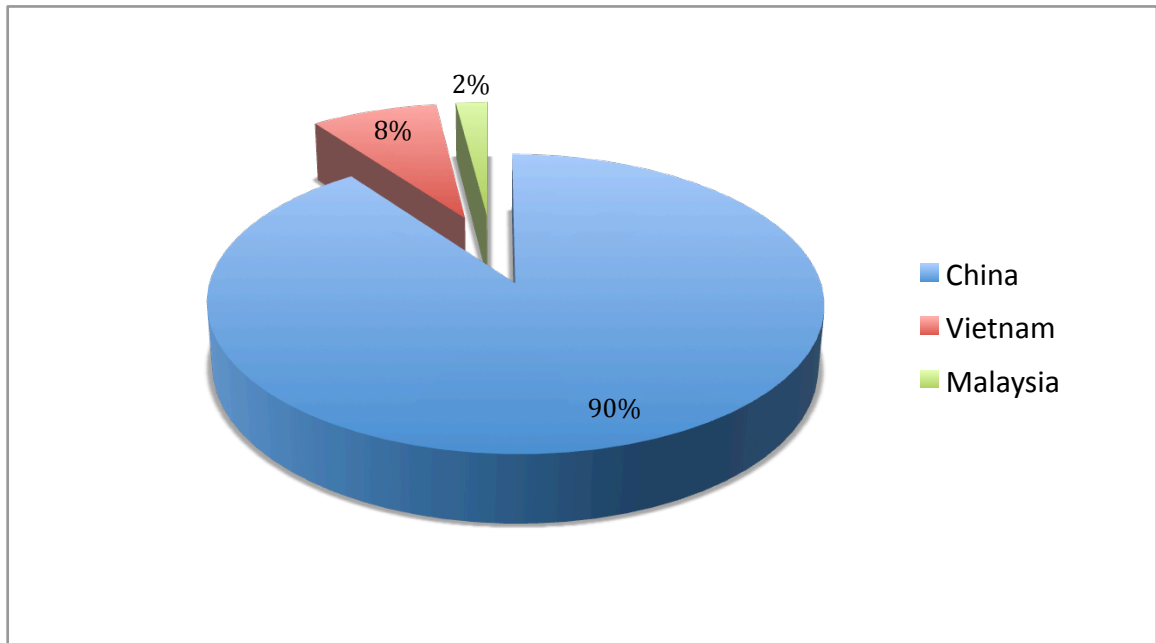


Figure 6. BIK suppliers location. Source: BIK 2011.

5.7 Customers

BIK customers are located in different parts of the world but the two biggest customers are located in Germany. As can be seen in Figure 7 other locations are Denmark, Iceland, Sweden, UK, Netherlands, New Zealand, Australia and Poland.

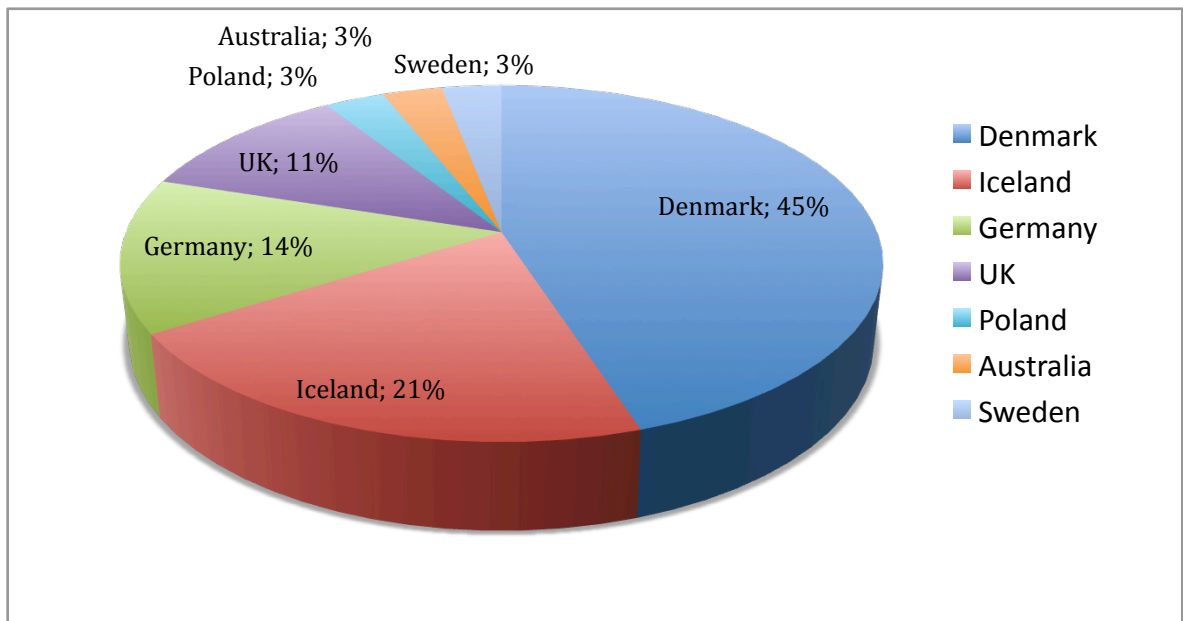


Figure 7. Number of customers in different countries. Source: BIK 2011.

Figure 8 shows BIK's current customers. Of 28 current customers there are 8 who count for 80% of the sales. The far biggest customer, Sungarden, has 40% of the total sales. There are 4 customers who have over US\$1.000.000 sales, they count for 64% of total. Those are Sungarden with the 40%, Koopman with 10%, NJA with 8% and The Pier 6%. There are 16 customer in the range US\$100.000 to US\$1.000.000, the Myhome and 2-Connect the biggest, each of them with 4% of the total sales. Those customers under US\$100.000 in sales are 8 and only count for 1,5%.

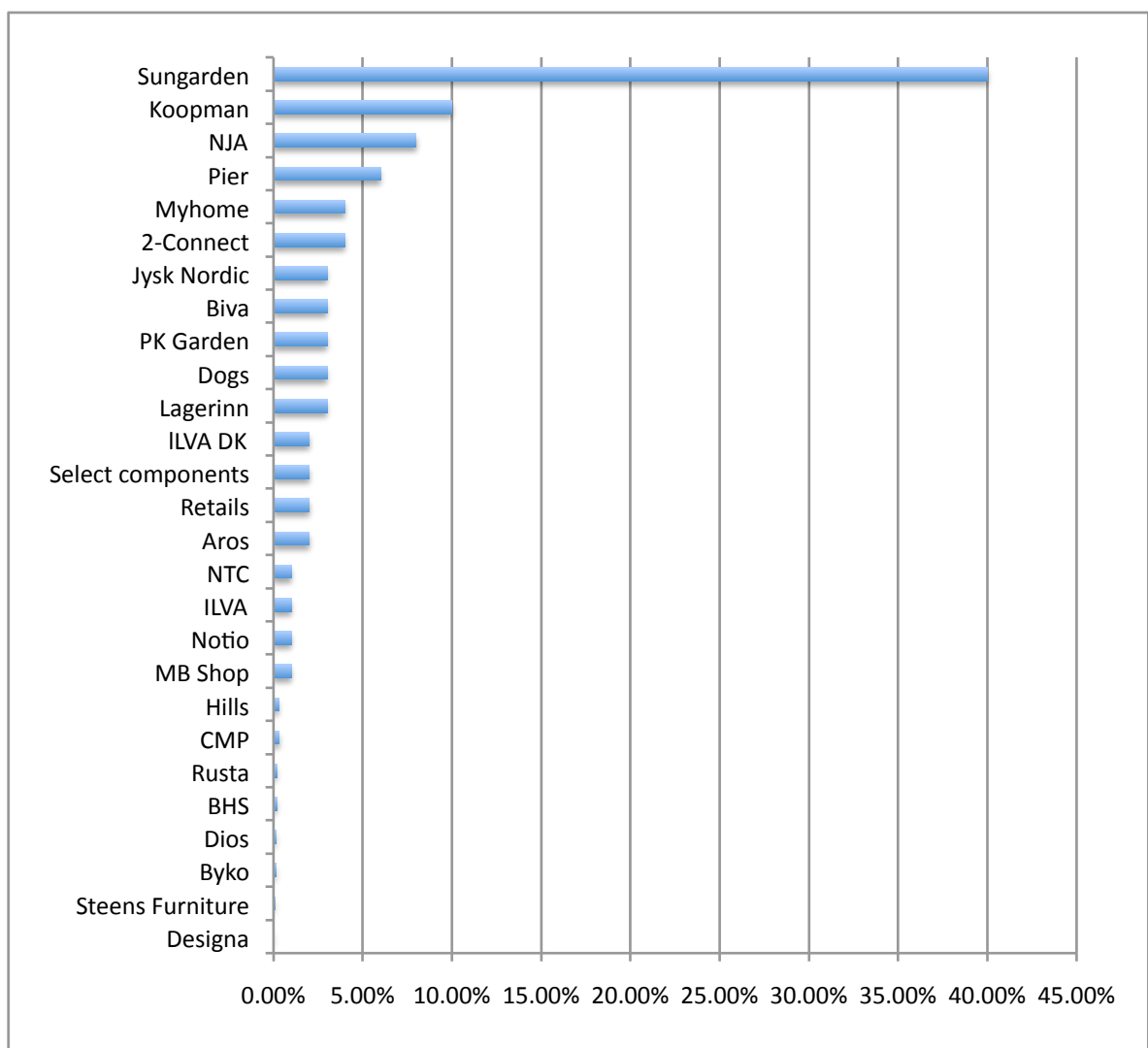


Figure 8. Current customers. Source. BIK 2011.

As for the margin, the average is 7,09% in the range of 3,9% to 12,30%. Figure 9 shows the margin for each customer. The biggest customers, Sungarden, Koopman, NJA

and The Pier are lower than average with 4-5% margin. There are 13 customers with higher than 7% margin and count for 12% of the total sales. Those under 7% are counting for 88% of the total sales.

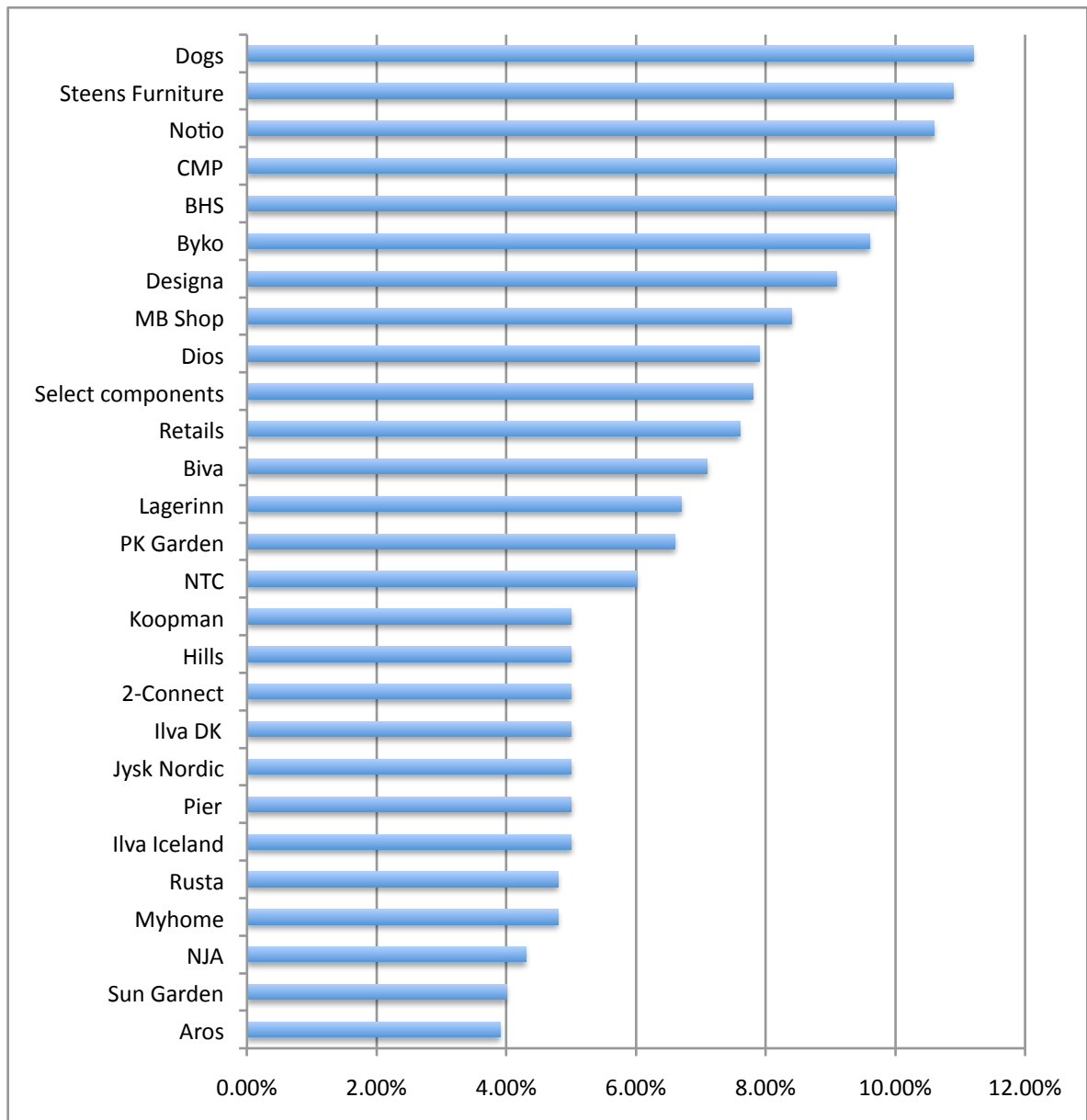


Figure 9. BIK margin. Source. BIK 2011.

The customers are divided into four different business types;

- Retailers
- Agent
- Wholesalers
- Manufacturers

In the business value perspective the manufacturers are the biggest or 49% as can be seen in Figure 10, then retailers with 27%, wholesalers 13% and agents account for 11% of the total value. In Figure 11 the number of customers in each category is shown. The retailers are 36%, agents 27%, manufacturers 20% and wholesalers 17%.

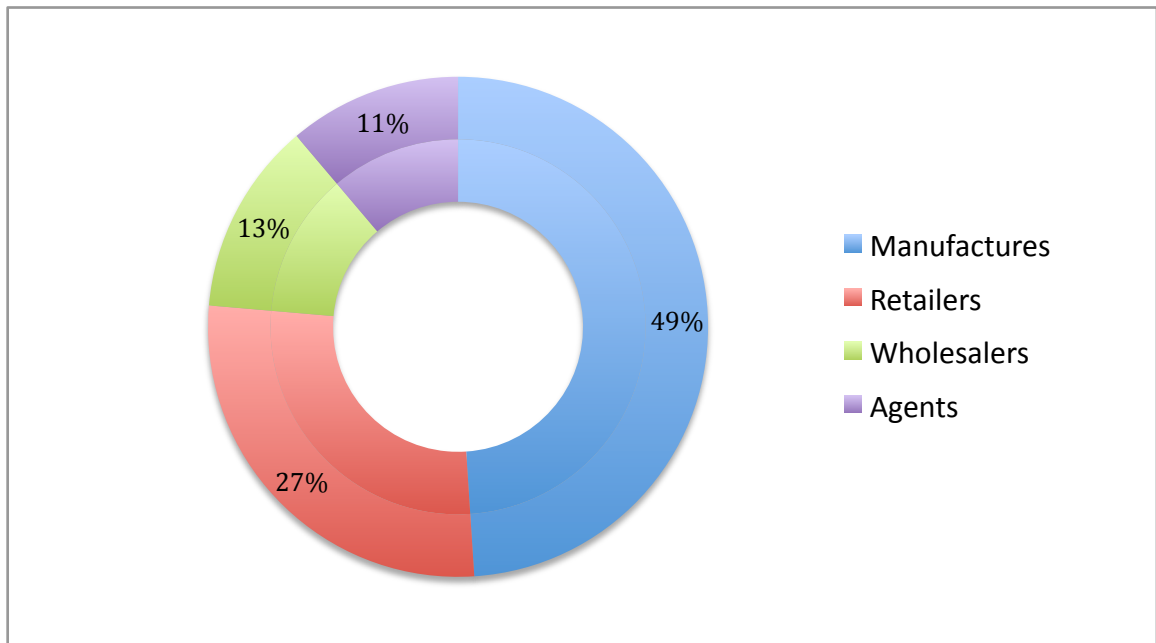


Figure 10. Types of BIK customers - Value. Source. BIK 2011.

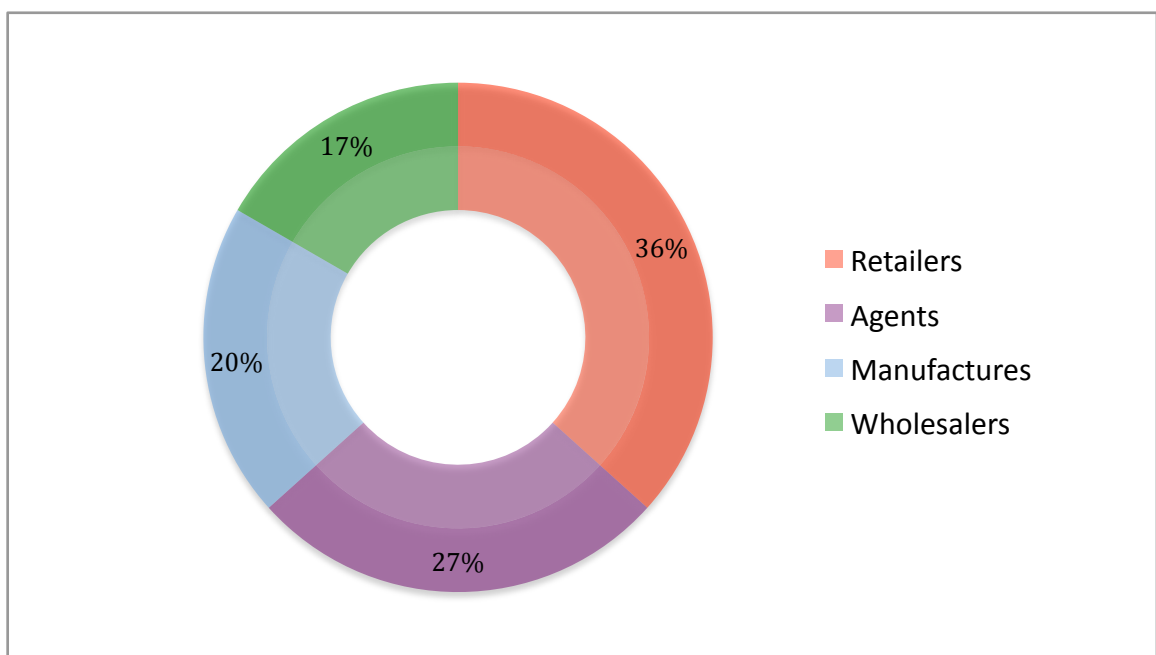


Figure 11. Types of BIK customers - number. Source. BIK 2011.

The margin is different in each category. Figure 12 shows that the highest margin 7,4%, is from the retail companies, 6% from agents, 5,5% from wholesalers and the lowest margin is from the manufacturers, 4,1%.

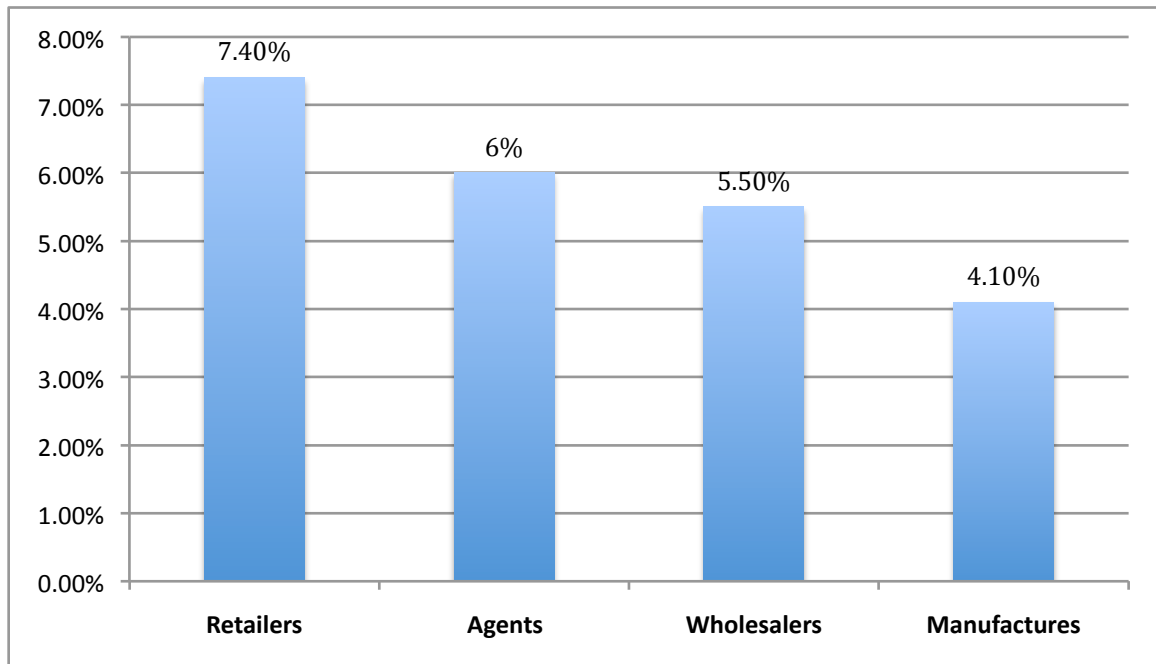


Figure 12. Margin in different customer categories. Source. BIK 2011.

The size of the customers companies varies, there are small companies with only one to two employees up to large companies with several hundred employees. It is rather difficult to get information on each of the customer because some of them are not on the Internet. This is therefore just an overview of what type of companies the customers are. The information was gathered from the Internet and from the product managers.

Sungarden is a German company, founded 1982. This is a manufacturing company with operation in Poland and Romania, besides Germany. Sungarden has 100 employees located in Germany, 700 in Romania and 1.400 in Poland. The size of their plants is 30.000 sqm in Germany, 65.000 sqm in Poland and 10.000 sqm in Romania. They produce garden seat pads, garden furniture, mattresses, home textiles and upholstered furniture. Sungarden buys textile and fabric from BIK. (Sungarden, 2011)

The Pier is a retail company located in Iceland and operates three shops there, one in Faroe Islands and two in Latvia. It is a franchise from Pier-1-Imports, which is located in US. The Pier buys furniture and fabrics from BIK. (The Pier, 2011)

Jysk Nordic is a part of the Jysk Group which is retail chain that sells “everything for the home”, furniture, home accessories and textile. It is divided into Jysk Nordic with stores in 15 countries, Danisches Bettenlager with stores in 6 countries and then there are Jysk Franchise in 14 countries. The turnover is 2.35 billions Euros. Jysk has more than 500 suppliers all over the world. Jysk Franchise covers Greenland, The Faroe Islands, Iceland, Canada, Latvia, Lithuania, Estonia, Kosovo, Ukraine, Bulgaria, Kazakhstan, Romania, Albania and Macedonia. LDH owns the shops in The Faroe Islands, Iceland, Canada, Latvia, Lithuania, Romania, Bulgaria and Estonia. Danisches Bettenlager is in Germany, Austria, Switzerland, France, Italy and Spain. Jysk Nordic is in Denmark, Norway, Sweden, Finland, Poland, The Czech Republic, Hungary, The Netherlands, Slovakia, United Kingdom, Slovenia, Croatia, Bosnia-Herzegovina, China and Serbia. (Jysk Nordic, 2011)

BIVA is a retailer, founded in 1982 and running 40 shops in Denmark. They are located in all the biggest towns in Denmark. They offer furniture for homes at low prices. They buy furniture from BIK. (BIVA, 2011)

Lagerinn/Rúmfatalagerinn The first shop was opened in Iceland 1987. Now there are 4 shops operating under the brand Rúmfatalagerinn. The company has been a leader in the Icelandic market in low-price retail. This is a franchise from Jysk but has it's own buying unit, LHP, located in China. (Rúmfatalagerinn, 2011)

Skemman was established 1986 in Faroe Island, it is a Jysk Franchise. (Skemman, 2011)

ILVA was established in the 1950's í Copenhagen Denmark, first it was JL Möbler og Tæpper A/S but changed into ILVA in the year 1977. ILVA opened its first store outside Danmark 2005 in Malmö Sweden. Lagerinn bought majority in ILVA 2007 and a shop was opened in Reykjavik in 2008 in 7.500 sqm facilities. In the year 2009 Iddesign, which own IDEmöbler, bought ILVA. ILVA and IDEmöbler are operated as separate brands. ILVA buys furniture and home accessories from BIK. (ILVA, 2011)

BHS is a British retailer running shops in more than 180 locations in UK. It runs stores under the brands Bhs, Bhs kids and Tammy. They also own the brands Wallis and Evans. They have been running an international franchise operation since 1985. Bhs franchise partners operate stores in 17 countries across the world. They offer a comprehensive range of competitively priced products. Franchise partners can select from 20.000 products per year and tailor a range to suit their market. The product categories at Bhs are home ware, furniture, lighting, clothes for women, men and kids, lingerie and weddings products. Bhs buys furniture from BIK. (BHS, 2011)

Larsen Global Shop Expansion is a German company assisting branch outlets in the fashion industry worldwide in their expansion. They are specialist in the fields of shop planning. They have coordinated and realised various shop concept in 35 countries. It was established in 1992. They buy shop fitting from BIK. (Larsen, 2011)

MB Shop Design AB is a Swedish company founded in 1997, developed from being a producing company within the metal industry into becoming partner within the shop fitting and display systems sector. It has 30 employees. It buys shop fittings from BIK. (MBShopdesign, 2011)

Kozmoz Design is a Belgian Company established in 2003 with 14 employees. They buy shop fitting from BIK. (Kozmoz, 2011)

Koopman is a German company buying socks from BIK.

NJA is a wholesaler located in Holland buying furniture from BIK.

Myhome is a retailer and buys furniture, home accessories and fabric from BIK.

2-Connect is a two men agent company buying furniture, home accessories and shop fitting from BIK.

Aros is one-man agent company located in Iceland buying home accessories and garments from BIK.

5.8 Product Portfolio

BIK has comprehensive range of products, ranging from small home accessories up to large outdoor furniture.

The categories are six as can be seen in Figure 13. The fabric and textile is the largest with 41% of the total value. Furniture is 27%, garments 14%, home accessory 8% and

shop fitting 4%. The products that are bought by The Pier are in special category with 6% of the total value.

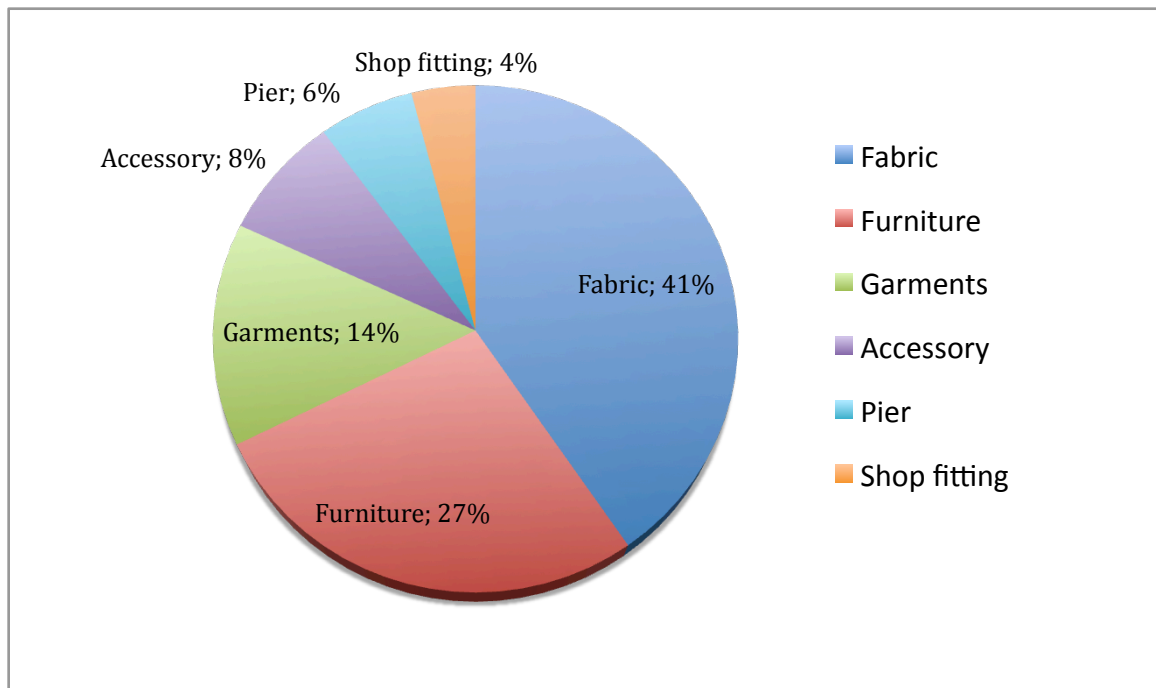


Figure 13. Product categories – value. Source. BIK 2011.

The number of customers in each category varies, there are 20 customers in the furniture category and is therefore the biggest, there are 3 to 4 customers in each of the other categories but only 1 customer in the fabric and textile, the Sungarden. The number of customers buying from more than one category is few.

BIK offers its customers both standard and custom-made products. The company is participating in number of quality standards, for instance the certifications of BSCI, SA8000, ISO 9001 and ISO2859.

The service that BIK offers is sourcing merchandise, product development, price negotiations, production monitoring, quality control, artwork design, packaging solutions and pre-shipment inspection.

In BIK's showrooms in Pudong Shanghai the product samples from suppliers are displayed and shown to the customers. It varies from small home wares to big outdoor furniture.

5.9 Competition

The competition in sourcing in China is fierce. The number of companies offering services in connecting buyers and sellers are high although the exact numbers can't be retrieved.

5.9.1 Porter's Five-Force Model

To analyse the industry the model of Porter's Five Forces will be used. In this model, which Michael E. Porter introduced, there are five forces shaping the competition.

As different from one another as industries might appear on the surface, the underlying drivers of profitability are the same. Even though rivalry is often fierce in commodity industries, it may not be the factor limiting profitability. (Porter, 2008).

5.9.1.1 *Bargaining Power of Customers*

In BIK's industry the bargaining power of customers is very high because it is easy to find another sourcing company and get price offers from them. In those instances where customers are looking for the lowest price they can get price quotes from various sourcing companies. It is therefore rather easy to choose to do business with the company offering the lowest price.

5.9.1.2 *Bargaining Power of Suppliers*

The same can be said about the bargaining power of the suppliers because they have possibility to offer their products to other sourcing companies. There are thousands of suppliers located in China. The performance of Chinese suppliers has improved in recent years with growing awareness of quality control among other managerial things. They offer better quality and have therefore more bargaining power. But because of higher production cost related to higher labour cost the prices have gone up at the same time. This diminishes in some way the bargaining power, as the sourcing companies could perhaps get better prices in another Asian country.

5.9.1.3 *Substitutes*

As for the substitutes it is easy for customers to change their behaviour and buy from another sourcing company. If they can get better prices or better products at other sourcing companies it is very easy to stop doing business with one sourcing company and start doing business with another. It is also easy for big retailer to open its own

sourcing company in China. For smaller retailer it could be costly to open an office and would therefore be more efficient to use the service of sourcing company.

5.9.1.4 *Entry of Competitors*

It is rather easy to start a sourcing company. The investment is not high because it only needs one man, a computer and a telephone. It is therefore relatively easy to start a business like this.

5.9.1.5 *Rivalry Among Existing Players*

The rivalry among existing players is high. Sourcing companies in China are many so the competition is rather fierce. The entry is easy in the sourcing market, it doesn't require high investments. The number of sourcing companies located in China is very high although the exact number can't be retrieved. There are many powerful sourcing companies that have years of experience and a great purchasing power.

5.10 Competitors

The management of BIK has identified the best firms in their industry and use them as a benchmark. There are five main competitors or companies that BIK benchmarks with. The companies are Source by Net, Tradepoint, Actona, Li & Fung and Interstil.

5.10.1 Source by net



Sourcebynet was founded in the year 2000. They define the company as "independent global sourcing company" and serve customers in 26 countries. They offer wide range of furniture, home decoration items, textiles and decorative construction materials at low prices. The emphasis is on using information technology and the Internet. The company is concerned about ethics and publish ethical standards on their website.

The company offers "a one-stop solution" which includes sourcing, price negotiation, testing and delivery assurance. Support services include range development, design, documentation and logistics. The customer base include retailers, cooperatives and wholesalers in Europe, North America, Middle East, Australia, Japan, Africa and South

America. They have customer communication channels always open located in their headquarters which are in Singapore.

The product categories are furniture, home accessories, textiles and building and they have online catalogue, which are supposed to be continually updated with new products. To get low prices they accumulate volumes for non-competing companies in different countries to get purchasing power.

The number of suppliers is more than 500 through 16 procurement offices and 13 sales offices. (Source by Net, 2011)

5.10.2 Tradepoint



Trade Point A/S is a trading company with head office in Odense, Denmark. They have more than 30 years of experience and offer know-how within indoor and outdoor furniture and accessories for the home.

Their customers are large international furniture chains and agents, which are able to take containers from all over the world. They offer service by team in Europe and production sites in the supplier countries. They have 4.900 sqm showroom in Denmark where customers can come and see the products. Their mission is to be innovative and put their ideas into action. The company is defined as an international trading company that deliver containers directly to the customers. (Tradepoint, 2011)

5.10.3 Actona



Actona Company A/S is a Danish company founded in 1981. Turnover is US\$220 million. The customers are located in Europe, USA, Australia and Asia. Product categories are chairs, dining and coffee tables, upholstery products, office and garden furniture, bedrooms and small furniture. The head office is in Denmark. Sales offices are located in England and Australia. They have production facilities in Ukraine, Turkey and China. The number of employees is 1.265.

Actona vision is “to be one of the worlds most attractive suppliers of home furnishing products”. The mission is to be “one of the most proactive partners within the furniture market”. The number of containers from far East is 10.000 in the year 2010. They operate 7.500 sqm warehouse in Denmark, 6.500 sqm in England and 5.000 sqm China. Production facilities are in Ukraine on 8.000 sqm, in China on 47.500 sqm and in Turkey on 10.000 sqm. The headquarters in Denmark are 71.500 sqm with 300 employees.

They offer customers to place orders 7 days a week through web shop with special login. Customers can download pricelists, find photos, download the latest product sheets and see the entire product range. EDI (Electronic Data Interchange) is used by the largest customers. They arrange fairs in Denmark in May and October and in China in March and September. They also take part in Guangzhou Fair in China in March, at SPOGA Fair in Cologne and Shanghai Fair in September. (Actona, 2011)

5.10.4 Li & Fung



Li & Fung Limited is a part of the Li & Fung Group, which was founded 1906. The Group operates sourcing, distribution and retailing and has an extensive global network covering 240 offices and distribution centres with 35.000 employees in 40 countries in America, Europe, Africa and Asia. The number of suppliers is 15.000. The headquarters are in Hong Kong. They have wide product range and offer to manage the entire supply chain, from product design and development, through raw material and factory sourcing, production planning and management, quality assurance and export documentation, to shipping control. They use information systems to ensure that all orders are delivered on time, on budget, and according to customer’s specifications. (Li&Feng, 2011)

5.10.5 Interstil



Interstil vision is to be Europe's best furniture trading houses. They intend to accomplish this by supplying the right product at the right price at the right time. The product categories are the living room, children's furniture and dining Room.

Interstil Group was created in its current form in 2005 through the merger of several trading companies. Employees are 180 in offices located in Denmark, Norway, Sweden and the Far East. They strive to be a pro-active partner and reacting quickly to new trends. They are experienced in the international furniture market. In offices in Hong Kong and China are 31 employees. They visit local factories and are in charge of quality control. Interstil has 1.500 sqm of showrooms. Administration, logistic and 36.000 sqm warehouse is located in Horsens in Denmark. (Interstil, 2011)

6 Interviews

The interviews that were conducted in China gave various information. After the interviews the answers were analysed and categorized. There was a lot of information gathered in these interviews and as a support for further decision making here are some of the manager's direct quotes related to different categories:

Customers

- "Select the type of buyers. Retailers & big shops are the best opportunities."
- "Pay attention to what type of clients we want to have."
- "It is better to have customers who is depending on you. Is the dialog with the customers right? Is BIK number 1 or number 10 on the list."
- "Not enough level for high end customers, BIK need to choose."
- "Invest too much in small customers, select customers better. Need to say to some customers "can't serve you"."
- "The customers think BIK is trustworthy."
- "Walk with the most valuable customers."
- "We need to offer more to our customers than not just low prices. The customers want more than price, want new development, design and collections."

Product categories

- "BIK need to focus on certain product categories. In which categories lies the strengths?"
- "Where are we good? Can't be strong in everything. BIK is confused on where we are strong."
- "Lot of products BIK can offer, but need to focus on those giving most money."
- "Lacking deeper understanding of products."
- "Too focused on low price products instead of getting more expensive products and higher margin."
- "Consider low cost products vs. high end."

LHP – BIK

- “With LHP supporting functions in finance, logistic, marketing, quality control we are saving money with that arrangement but slow down efficiency.”
- “LHP is more stable, BIK is not stable.”
- “LHP is stronger than BIK.”
- “Is BIK competing with LHP? Using same suppliers for different customers. Suppliers could feel pressure because of LHP and BIK.”

Employees

- “Employees have a lot of skills that are useful for the customers.”
- “The opportunities lies in the people, but they need to change their mind and widen their knowledge.”
- “There is uncertainty, employees are concerned about their future, could quit and find stronger company.”
- “BIK employees are doing great job on general, are improving.”

BIK future

- “BIK has opportunities because of the connections in different locations in the world.”
- “BIK is not strong in product development.”
- “Unlimited future for BIK, it is on the right track but need structure.”
- “BIK is on crossroad.”
- “BIK want to go everywhere, try everything and sees everything as an opportunity. There is a lack of focus. It is better to focus, be strong in something specific.”
- “BIK need sales-channel in Europe, it should start sales office.”
- “BIK is not strong financially.”
- “Need more business to become stronger.”
- “BIK is not structured enough.”
- “The quality standards need to be clear, BIK is not giving enough clear instructions to the suppliers.”

Based on the answers one can draw the conclusion that the management team is aware of lacking strategy and clear focus. At the same time it seems that the managers are willing to make the changes to be done to take BIK further into the future. There are different opinions on what needs to be done according to the different management positions but it seems to be consensus that there are many opportunities for BIK. That indicates that the management team could be motivated in the right direction.

The managers are concerned about the type of customers BIK should focus on and the importance of selecting customers that are not too small and not only seeking low price products. According to the managers BIK is offering too many product categories and should not only focus on low price products, rather focus on those categories that gives higher margin. The managers seems to be aware that LHP is financially stronger than BIK and some were concerned about the role LHP is playing with the supporting functions. Most of the managers talked positively about the employees but some were concerned that the employees could quit because of uncertainty in BIK future. The managers are interested in BIK future. They believe there are many opportunities for BIK to grow, even though there are challenging tasks to solve, the structure, product development, finance, quality standards, sales channels etc.

7 Analysis

7.1 SWOT analysis

The SWOT framework as can be seen in Figure 1 was used. The SWOT analysis is based on interviews with the managers of BIK. The interviews were conducted with a support of specific questionnaire but varied in duration according to the manager's answers. (Appendix 1). There was a lot of different opinion among the managers but some factors had more emphasis than others and were mentioned in most of the interviews.

The result of the interviews was analyzed to get a picture of BIK's strength, weaknesses, threats and opportunities.



Figure 14. The main strenghts.

In Figure 14 the main 12 strengths are listed. The strengths of BIK are the product range that is very wide, the relationship with high number of suppliers, the relationship with the customers that are estimated very good, the experience and knowledge of the employees which some of them have stayed long with the company, the competitive prices that BIK can offer to the customers, the opening of offices and representative in Vietnam, India and Indonesia, the delivery time of the products are estimated very good

and the products are overall of substantial quality. The management network is considered one of the main strengths and particularly those network that the CEO has, the showroom in the facilities in Shanghai is big so a lot of products can be displayed, the company is rather flexible because it is not so large and the operation has a history since 2004 compared to many sourcing companies that are newly established.



Figure 15. The main weaknesses.

In Figure 15 there are 15 main weaknesses listed. The weaknesses of BIK are that there are hundreds of suppliers but only few of them have some substantial business with BIK, although the number of suppliers could be a strength, the financial status of the company is rather weak because money is lacking, the employees are concerned and could quit because the future of BIK is not so clear, BIK is not structured enough, the margin need to be higher in many instances, sometimes BIK acts slowly because there is lack of hands, the marketing is not enough and lack focus, positioning and strategy is unclear. BIK is not proactive in selling, rather reactive, instead of active selling they are receiving orders. Also it is estimated that the standards for quality

control is not enough and the innovation and development is not strong enough. It could be a weakness that the company is relying on one customer for 40% of the income, if this customer decides to quit business with BIK it is substantial gap to fill in. The product range can both be categorised as strength and weakness because the focus is not clear enough.

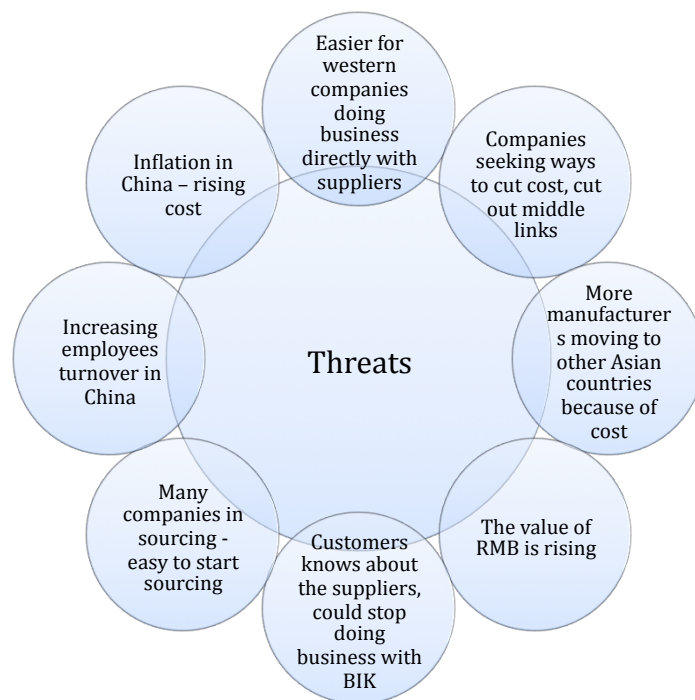


Figure 16. The main threats.

The 8 main threats are listed in Figure 16. One of the threats is that now it is easier for Western companies doing business directly with suppliers, among other things because of the Internet so they don't need the middle link. In a difficult economy most companies are seeking ways to cut cost and they can cut cost if they cut out the middle links. Also linked to cost cutting more companies are moving to other Asian countries because the cost in China is rising. The value of RMB is rising so it costs more for Western companies to do business with China. Because in some instances the customers know who the suppliers are it is easy for them to contact them directly and skip the business with BIK. There are many companies doing sourcing because it is easy

to start such a company, the investment is not high, it only needs a man, a computer and a telephone. In China the employees turnover have been rising so it is harder to get qualified staff. The inflation in China is rising so the cost of operating in China is getting higher in many aspects, salary, rent etc.



Figure 17. The main opportunities.

The main opportunities for BIK are listed in Figure 17. Two of the 7 opportunities is that the consumers want good products at the best prices and that Western retailers are seeking for products in good prices. The production in China has been improving so the products can be of the quality that the market wants. There is a growing demand for quality products where people want "value-for-money". It is positive that BIK has the connection to reliable suppliers that can deliver quality products in good prices. But there is also a demand for products from lower cost countries where BIK already has established offices such as Vietnam, India and Indonesia. Western companies are seeking for reliable sourcing companies because the stories are many that it is difficult doing business with Chinese manufacturers, for instance because of cultural differences. BIK has been operating in China since 2004 and with knowledgeable staff it can offer this reliability. It is also an opportunity the fact that the China's consumer market is

expanding very fast if BIK would like to get hold of that opportunity and also serving those focusing on the Chinese market.

7.2 Core competences

To be able to identify what BIK's core competences and values are, the managers were asked "what do you consider the main value for customers to do business with BIK? Why should they choose BIK?"

The answers varied but there seems to be considerable consensus about some of the factors mentioned. These are the main values the managers considered:

- One-stop-shopping; the customers can get all the services they need in one place.
- Good prices/better prices; often BIK can offer better prices than the competitors can offer.
- Good products/better products; overall the goods that BIK offer is of good quality and can be better than the competitors are offering
- Employees experience/knowledge; majority of the employees has experience from sourcing and are knowledgeable of how this industry works. Many of them are well connected to the suppliers and could therefore ask for better prices and/or better quality.
- Supplier base; BIK has a large supplier base even though the buying figures show that the business with majority of them are of small scale. But it can be valuable for the customer to have access to more than one supplier to be able to choose from according to prices and quality.
- On-time delivery; BIK deliver the products on time in most of the cases, which can be very valuable for the customers.
- Quality control; BIK is participating in many quality standards and offer inspection on products before they are delivered.
- Long history – good reputation; because BIK has been operating since 2004 in China it is considered a value for the customers who can therefore rely on knowledgeable staff.
- Flexible; because BIK is a small company the customers can get flexible service.
- Geographical coverage in Asia; with the opening of the representative offices in other parts of Asia, BIK can offer customers better prices and in some instances different products than can be found in China.

It seems that those companies that BIK benchmarks with are using the same “one-stop-shopping”. Therefore it could be questioned if this has become a standard procedure or a rule of standard and is therefore not a competitive advantage.

If BIK should choose from this list of values it seems that the sourcing and buying experience of the employees and their connection to suppliers could be valuable for the customers in getting better prices and/or more quality products. Because BIK is located close to the suppliers it is easier to conduct the quality control. Also the fact that BIK has representative offices in other Asian countries could be very valuable for customers seeking lower prices or different products.

Other sourcing companies can also offer quality control, on-time delivery, flexibility and a comprehensive supplier base. But many of the sourcing companies located in China have only been operating for few years but BIK can get extra credibility among customers because of their history and experience in operating in China for 8 years.

7.3 Image

In order to get a picture of what BIK stands for and the image that the company has among managers a projective techniques were used. Where respondents can be helped to express their impressions by being asked to relate the brand to other kinds of objects. (Levy, 1985).

In this case they were asked to relate it to car. The managers were asked two questions: “If you think of BIK as a car what type of a car would it be?” and “If you could choose, what type of car should BIK be?”

All the managers were able to answer these questions even though they thought it was a bit strange questions. Some managers needed some time to think but other answered with no hesitation.

The use of these methods recognizes that there is no single right way to ask a question, and that some questions might as well be fun, perplexing, challenging, at times even seem absurd. (Levy, 1985)

The answers were similar even though the mentioned type of car varied. The images that the managers have are that BIK is rather small, not very fast, rather old than new and not stable or strong. But also that BIK has potential of becoming something else.

These are the part of answers that the managers gave in the question of what type of car BIK would be:

- “Small car, not very fast, not very new.”
- “Mini Cooper, not driving very fast, not very stable car.”
- “Not a new car, not running so fast but has powerful engine.”
- “An old model but has good capacity, need maintenance.”
- “Small Japanese car, struggling not strong.”
- “Big car with a lot of room, not running so fast but has potential.”
- “Not so big, like Volkswagen Polo.”
- “Not so brand new, not so much capacity, but has potential, need to add more gas.”
- “Small car with good engine.”
- “Hundai from Korea.”
- “Volkswagen.”
- “Small Fiat, running not so fast.”

When asked the second question the image is that BIK should be of quality, rather big, new, drive fast, steady and strong. These are the answers from the managers:

- Big car that could drive fast
- New Toyota SUV
- Luxury car
- German car with strong body
- Steady car which you can rely on
- Mercedes
- BMW
- Quality car like Toyota
- Volkswagen

To follow these questions the managers were asked if they thought that BIK should change into different type of car what need to be done to make that transformation

take place. All the managers except one thought that BIK should change. That particular manager said that BIK was like Volkswagen and thought it should stay as Volkswagen.

The other managers came up with many suggestions on what needed to be done to make that transformation. Some of the suggestions were linked to the role each manager play in the organizational structure. In the suggestions the emphasis is on sales, marketing, development, structure, employees and cost. One of the suggestions were more active selling, BIK need to be more proactive instead of reactive. One idea is establishing sales network in Europe where potential retailers would be contacted. According to the managers, BIK could be more innovative and spend more money on business development and product design in co-operation with customers. The importance of acquiring new customers were mentioned but at the same time some basic issues in the operation need to be in order to keep current customers, for instance the quality control. There were suggestions related to the importance of finding the right products for the customers and even focus on one product category. The company needs to be structured and organized more efficiently. BIK needs to build stronger team and stronger company culture. As for the number of employees there were opinions that BIK needs to recruit more employees and some should be laid off. BIK need to support the employees, treat them well and train them to finish their tasks. One of the ideas was to improve inner communication, for instance with intranet. There were opinions on the need to invest more in marketing, including usage of Internet more with new webpage. Some of the managers pointed out that BIK needs more money to be more powerful but at the same time it need to be careful on how to spend the money. One manager suggested that BIK's office should be moved to other location because of cost increasing and other mentioned the importance of finding BIK's strengths and use them to move forward.

If BIK decides to make a transformation in the suggested direction, the tasks need to be priorities and then put in action.

8 Conclusion - Options for BIK International

In this research there are number of limitations. The main limitation is that this is a research on one particular company located in China, although there are many similar companies. This single case study is not enough for identifying the best global marketing strategy for a sourcing company located in China although it can be useful for the company the case study is aimed at. The nature of the study is not permitting any generalisation. The value of this research is mainly for the management of BIK. Its originality is linked to this particular company.

The result of the case study reflects the opinion and experience of the management team. The language could be a limitation in this study. Because no one in the management team is English it is possible that the English language is not as fluent as their mother tongue and could therefore hinder some understanding and expression.

The purpose of this research is to provide the owners and management of BIK International ideas and overview of options. It's obvious that the company is on crossroads and needs to define the best way ahead. It is important to analyze the situation and options. This research could therefore be valuable for the management.

It is important that BIK uses the resources available and focuses on acquiring new customers in the retail industry offering furniture and home accessories. Looking at areas, the countries that BIK should focus on are quite a few. But, because of the financial crisis, it should be a priority to focus on those countries not facing severe financial crisis. It is recommended that China should be one of those countries. Because of expected growth in consumption, many Western companies are targeting China. Retail sales and disposable income have been growing in China. BIK serving as a bridge in both directions gives the mother company, LDH BV, the opportunity to get its reasonable share of the growing Chinese market. The knowledge and experience of the employees is beyond any doubt among the strengths of BIK. If it emphasizes the build up and maintenance of business relationship it is very likely to pay off quickly. BIK should choose the hierarchical modes with a sales representative located in the market for the bigger countries, but as for a small market like Iceland, using export mode could be more appropriate.

8.1 Options

BIK has many options. Because of the lack of long term vision and goals it is necessary for the management to answer questions on where they want BIK to be in 3-5 year's time and what are the objectives and goals. Also the resources the company holds needs to be valued and enough to accomplish the objectives. The basic operational functions needs to be handled as the management pointed out, quality control, marketing, infrastructure, human resource management etc.

The vision and goals that will be put forward can include several strategies to choose from. It is necessary to priorities and have clear focus so the company have the possibility to reach those goals that will be set. The aim is to choose the best strategy and in this chapter there are suggestions of options that can contribute in the strategy decision-making. To reach the goals it could perhaps include changes in the employee skills and experience. Each employee needs to be valued according to his contribution, some are more valuable than others in reaching the goals that will be set.

Finding and keeping the employees who are capable of taking BIK towards the future could be a complex task because the difficulty in finding, hiring and retaining quality talent in the world's most populous nation has remained the top business challenge for US companies each year since 2006. (American Chamber of Commerce in Shanghai, 2011)

BIK focus is drifted among many different categories. Should BIK focus on selling more to current customers or acquiring new customers? Should BIK focus on specific product categories? Should BIK focus on specific countries? Should BIK focus on specific customer type? The answers to each of these questions can be diversified.

Although it is tempting to think of global strategy in universal terms, globalization is a highly company- and industry-specific issue. It forces a company to rethink its strategic intent, global architecture, core competencies, and entire current product and service mix. For many companies, the outcome demands dramatic changes in the way they do business-with whom, how, and why. (De Kluyver, Pearce II, 2006)

8.2 Current and new customers

It is obvious that current customer base is not enough if BIK wants to grow substantially although there are opportunities in selling more to those customers. Some of the

customers could possibly buy from other product categories that BIK can offer and some could buy more in the same product category that they already buy from. Focusing on selling more to current customers can limit the growth of BIK. Therefore the focus should be on acquiring new customers. There needs to be a study on who the potential customers are and how they should be targeted in the best way to guarantee acceptable result for the operation. According to Levitt (1983) the purpose of business is to get and keep a customer. That is the task for BIK.

8.3 Retailers – Manufacturers – Agents - Wholesalers

Because the retailers give the highest margin it can be argued that BIK should focus on acquiring new customers among retailers. By choosing to focus on retailers BIK has the opportunity to get higher margin because the value chain is shorter, instead of having an extra middle link as manufacturers, agents and wholesalers are.

As for the volume, it is more likely that retailers with many outlets buy higher volume than a small manufacturer, agent or wholesaler.

It is also valuable to have a direct contact with the retailer, it is important to build a good relationship with the buying team of the retailer. With such a relationship it decreases the likelihood that the retailer quit doing business if BIK is offering good products at competitive prices and gives a valuable service to the retailer.

Many of those potential retailers that BIK could reach already have business relations with sourcing companies and the bigger retailers operate own organizations in China. It is a challenge for BIK who needs to convince the retailers that they can offer products and services that are better or different from what the retailers are already familiar with. Therefore BIK should focus on acquiring customers in small or middle size retailers sectors. It could also be opportunity in selling the same products to retailers in different countries.

8.4 Product categories

Although the biggest product category is fabric there is only one customer behind that figure. It should be considered if it is possible to acquire more customers in this category.

Furniture is the second biggest category and the employees are experienced in that field. The third biggest category is garments but they are not particularly fashion connected. Therefore it could be questioned if the focus should be on that category. Home accessories is very varied category. Therefore it is possible to accomplish result in that field targeting different retailers.

Shop fitting is 4% of the total value and could be questioned if BIK should make effort in getting more customers in that category because it is very time consuming business and requires dedicated employees for a long time for one project until it is finished.

If BIK focuses and competes simply on price it could limit the possibility of acquiring those customers choosing quality. Therefore BIK could focus not merely on lowest price but target those retailers that are not only competing in the lowest prices. In a recession people seek “value-for-money”, not merely the lowest prices.

BIK strengths lies in furnitures and home accessories, therefore it should focus on those product categories.

8.5 Countries

The current customers are based in different part of the world, the two biggest customers are in Germany but the majority is in Denmark and Iceland. Iceland is a small country with only 311.000 inhabitants so the opportunity to sell large volumes is limited. Although Denmark is far bigger than Iceland, with 5.5 million inhabitants, the growth could be limited.

Because of the financial crisis around the globe it is possible to prioritise in the way that those countries that are not facing severe financial crisis should be targeted first. In Europe it could be Germany (81 million), UK (63 million), Sweden (9 million), Denmark (5.5 million), Finland (5.2 million) and Norway (4.7 million). In other continents it could be Canada (34 million), Australia (22 million) and China (1.300 million). US (313 million) could be an interesting target because of the population and the number of retailers and outlets in the country. If BIK could reach one retailer in US it could be worth the effort in terms of high volumes in each order. But US is facing financial problems, debt and unemployment. The president has encouraged Americans to buy American products because that creates jobs. It could affect importing products from other part

of the world. Perhaps it could make a difference that China is being the world's largest holder of US debts.

Russia (140 millions) and some other countries in East-Europe (152 million) could also be interesting targets. In those countries the number of affluent buyers are rising with growing number of retailers. The countries need to be valuated in terms such as the number of inhabitants and the number of retailers.

Because BIK has experience in Germany, UK and Denmark it should start finding retailers in those countries. At the same time China should seriously be considered as a target market.

8.5.1 Targeting China

It may seem surprising to recommend targeting China. But BIK could be defined in a broader way than just a link in one way between Asia and the Western world. There are sourcing companies that claim to be bridge between China and the Western countries in both directions.

There are many Western companies interested in getting market share in the growing Chinese market. BIK could offer service to those companies reaching the market. This is a different direction than BIK is heading now but it could be argued that the owner, LDH BV, could get its share of the growing Chinese market through BIK. This is a strategic decision that needs to be parallel to the goals of both LDH and BIK.

It is possible to use the knowledge, business relationships and guanxi of the BIK's employees. Targeting retailers in China and selling them products from Western companies. According to the increasing intra-Asian trade there are opportunities in selling products to China from those countries that BIK already has representative offices, Vietnam, Malaysia and India. Many of the biggest retailers in the world are already in the Chinese market but there is also number of Chinese retailers who want to reach the younger generation with products from abroad. It could be assumed that those retailers have expansions plans to reach the growing number of affluent people and meet increasing consumer spending. In a fast changing market with 1.3 billion people there are many opportunities.

The Chinese consumer is increasingly in the spotlight these days. A key reason is that the number of consumers is growing. China is forecasted to become the second largest consumer market in the world by 2015, not far behind the United States, with enough purchasing power to buy 14 percent of the world's products, up from five percent today. (Mussner, 2011)

Because BIK is on a crossroad there is an opportunity for the owner and management to take a different direction with the operation. Perhaps BIK could offer those products, which are sold in the stores of LDH and produced in other countries than China, to retailers in the Chinese market. There is turmoil in the world but BIK could take a different path and head for the fast changing Chinese market. This decision is related to the overall strategic issues BIK is facing and the resources available.

8.6 Entry Mode

Because BIK will be targeting countries that are different in size it is not efficient to use the same entry mode. In a small market such as Iceland the use of an agent could be most efficient (indirect export mode) for BIK. The control and risk is low but the flexibility is high. This involves rather low resource commitments. But in bigger markets such as Germany, Denmark and UK it would be more efficient to choose the hierarchical modes with a sales representative located in the market. By choosing this entry mode BIK can establish more contact with the markets. Sales representative could grow to be sales branch or sales subsidiary. With such operation BIK could have better control of sales activities. The control and risk is high even though the flexibility is lower than in export mode.

The decision on what mode is best depends on the resources BIK can use and at what speed the management wants the growth of the company to be. BIK's limited resources can affect the decision on suitable entry mode. Expected contribution to profit should be considered and the complexity of products offered affects the choice of entry mode. The more product differentiation the more suitable is higher control linked to hierarchical mode. That requires more commitment of resources. If the management is risk averse the export modes could be more suitable because they require lower resource commitment. Decision on these issues therefore depends on further study.

It is important for the owners and managers of BIK to make decisions according to the resources that are available in comparison to the options that are introduced in this thesis. That can be a challenge because there are many options to choose from although particular strategy is recommended in this thesis. Based on the research it is recommended that BIK use its strengths to focus on acquiring new customers among small and medium size retailers, starting in countries that they already have some experience in, such as Germany, Denmark and UK. It should be done by hiring sales representatives in each country. At the same time those countries that are expected to grow fast in consumption in the near future, such as China, should be seriously considered. It is recommended that the products that BIK offer those potential new customers should be in the furniture and home accessories categories. If the focus is clear in product range it is more convenient for the sales representatives to reach the retailers with specific offers, increasing the likelihood of acceptable result. When the first markets have been covered the experience acquired should be used to target other countries to enhance the growth of BIK.

8.7 Action Plan

In order to ensure success, an action plan has been set up as can be seen in Table 9. It is suggested that BIK should start in January 2012 by introducing new strategy to the management team to get consensus among them. It is recommended that a project manager or a project team will be established, also in January. This individual or team will be responsible for the action plan. In February finding potential sales representatives will start. The search will be in each of the three countries that will be initially targeted, Germany, Denmark and UK. Their qualifications should preferably be experience and knowledge in the retail sector. When those representatives have been hired after salary and fee negotiations, offices could be opened in April. The potential small and medium size retailers need to be listed and the product range selected in April as well. In May the promotional material will be created. Business cards and introduction brochures will be printed. The product range can be listed on BIK's website or in special paper folders, if the sales representatives will rather use printed material. As soon as the material is on hand potential customers can be reached to set up meetings and establish relationships. This procedure will be in May through October. If

these actions are not leading to acceptable results in the form of successful sales, it needs to be changed after detailed evaluation on the process in July.

If these actions will not lead to successful result as will be evaluated in November and December, the worst-case scenario is that BIK has to spend time and money approaching customers not leading to longtime business relationship. But since these actions needs to give return for BIK to prosper, it is necessary to gather information and evaluate the actions, to be able to meet the expectations of those potential customers that will be targeted in the following countries.

The managements' answer and the consensus that seems to be among them, about the necessary changes in BIK, indicates that the team can be motivated to take bold steps towards the future. It is necessary to make strategic decisions for the growth and prosperity of BIK. This research can contribute in the decision process and encourage the owners and managers of BIK to take new steps.

Table 9. Action Plan for BIK January-December 2012.

Action Plan January-June 2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Introduction/internal marketing	X											
Project manager/team selected	X											
Find potential sales representatives		X	X									
Negotiation on salary/fee		X	X									
Opening offices				X								
Listing potential small/medium retailers				X								
Select product range				X								
Create promotional material					X							
Product range listed on website/printed					X							
Reach potential customers					X	X	X	X	X	X		
Set up meetings/establish relationship					X	X	X	X	X	X		
Evaluate process							X					
Evaluate actions											X	X

References

- About. *China Population*. Retrieved August 16th 2011 from:
<http://geography.about.com/od/populationgeography/a/chinapopulation.htm>
- Ahmed Z.U., Mohamad O., Tan, B., Johnson, J.P. (2002). *International risk perceptions and mode of entry: a case study of Malaysian multinational firms*. Journal of Business Research, Vol. 55, p. 805 – 813.
- Amercian Chamber of Commerce in Shanghai. (2011). *Sell Local, Sell Global. China Manufacturing Competitiveness 2007-2008*. A study by Booz Allen.
- Anderson J., (2007). *Is China export-Led?* UBS Securities Asia Ltd. Retrieved August 24th 2011 from:<http://cercopdf.com/visualizza/aHR0cDovL3d3dy5hbGxyb2Fkc2xlYWw0b2NoaW5hLmNvbS9yZXBvcnRzL3ByY18yNzA5MDcucGRm>
- Andrews, K.R. (2003). *The Concept of Corporate Strategy*. Oxford University Press.
Retrieved September 1st 2011 from:
http://books.google.is/books?hl=en&lr=&id=Zj7JwMcMoY0C&oi=fnd&pg=PA52&dq=the+concept+of+corporate+strategy&ots=2rZLIqDonn&sig=2z-463lekxcC3VI43u5kkXsUnGY&redir_esc=y#v=onepage&q=the%20concept%20of%20corpora
- Berry, R.S.Y. (1999). *Collecting data by in-depth interviewing*. British Educational Research Association Annual Conference, University of Sussex at Brighton.
Retrieved January 8th 2011 from:
<http://www.leeds.ac.uk/educol/documents/000001172.htm>
- BCG - The Boston Consulting Group. (2007). *Sourcing from China. Lessons from Leaders*. The Boston Consulting Group, Inc. Retrieved June 30th 2011 from
http://www.bcg.com.cn/cn/files/publications/reports_pdf/Sourcing_China_Jul_2007.pdf
- Boyce, C., Neale, P. (2006). *Conducting in-depth interviews: A Guide for Designing and Conducting In-Depth Interviews for Evaluation Input*. Pathfinder International.
Retrieved January 7th 2012 from:
http://www.pathfind.org/site/DocServer/m_e_tool_series_indepth_interviews.pdf?docID=6301
- Brouthers, K.D. (2002). *Institutional, cultural and transaction cost influences on entry mode choice and performance*. Journal of International Business Studies, 33 (2), p. 203–221.
- Business Dictionary. *Global Sourcing*. Retrieved August 24th from:
<http://www.businessdictionary.com/definition/global-sourcing.html>
- Cai, S., Jun, M., Yang, Z. (2010). *Implementing Supply Chain Information Integration in China: The role of Institutional forces and trust*. Journal of Operations Management,

Vol. 28, (3), p. 25. Retrieved August 10th 2011 from:
<http://www.sciencedirect.com/science/article/pii/S0272696309000849>

Canaba, A., White III, G.O. (2008). *Entry mode research: Past and future*. International Business Review, Volume 17 (3), p. 267-284.

Chen, E., Bruniski, P. (2011). *SWOT Analysis*. Vancouver Island University. Retrieved September 1st 2011 from: <http://web.viu.ca/rtri/SWOT%20Analysis.pdf>

China Daily. 'Made in China' – but for how long? Retrieved October 10th 2011 from:
http://www.chinadaily.com.cn/bizchina/2010-07/19/content_10125806.htm

China Inflation Rate. *Trading Economics*. Retrieved January 1st 2012 from:
<http://www.tradingeconomics.com/china/inflation-cpi>

De Kluyver, C.A., Pearce II, J.A. (2006) *Strategy – A View from the Top, An Executive Perspective*. Pearsons Prentice Hall.

Erramilli, M. K., Raoi, C.P. (1993). *Service Firms' International Entry-Mode Choice: A Modified Transaction-Cost Analysis Approach*. The Journal of Marketing, Vol. 57 (3), p. 19-38.

Fang, T., Gunterberg, C., Larsson, E. (2010) *Sourcing in an Increasingly Expensive China: Four Swedish Cases*. Journal of Business Ethics. Volume: 97 (1), p. 119-138.

Faure, G.O., Fang, T. (2008). *Changing Chinese Values: Keeping up with Paradoxes*. International Business Review 17 (2), p. 194-207. Retrieved October 10th 2011 from: http://su-se.academia.edu/TonyFang/Papers/414653/Faure_and_Fang_2008_.Changing_Chinese_values_Keeping_up_with_paradoxes

Feng, T., Sun, L., Zhang, Y. (2010). *The effects of customer and supplier involvement in competitive advantage in China*. Industrial Marketing Management. Vol. 39, Is. 8, p. 138. Retrieved August 10th 2011 from:
<http://www.sciencedirect.com/science/article/pii/S0019850110000568>

Financial Times. (2010) *China's growth impressive but unbalanced*. Retrieved August 24th 2011 from:
[http://m.businessday.co.za/\(S\(1jyh0uew1s1pb43demxxhrq4\)\)/article.aspx?id=586020](http://m.businessday.co.za/(S(1jyh0uew1s1pb43demxxhrq4))/article.aspx?id=586020)

Gamer, R.E. (2008). *Understanding Contemporary China*. Lynne Rienner Publishers, Inc.

Gao, E., Fung, E., Fletcher O. (2011). *China Manufacturing Activity Declines*. Wall Street Journal. Retrieved August 23rd 2011 from:
http://online.wsj.com/article/SB10001424053111903461304576525350254978740.html?mod=rss_about_china
Ghazinoory S., Abdi M., Azadegan-Mehr M. (2011). *SWOT Methodology: A State-of-the-Art Review for the Past, A Framework for the Future*. Journal of Business Economics and Management. Volue 12, Issue1, p. 24-48.

- Gao C., Peng D. (2011). *Consolidating SWOT analysis with nonhomogeneous uncertain preference information*. Knowledge-Based Systems. Volume 24 (6), p. 796-808.
Retrieved August 24th 2011 from:
<http://www.sciencedirect.com/science/article/pii/S0950705111000517>
- Ghazinoory, S., Abdi, M., Azadegan-Mehr, M. (2011). *SWOT Methodology: A State-of-art Review for the Past, a Framework for the Future*. Journal of Business Economics and Management. Volume 12 (1), p. 24-48.
- Guion, L.A., Diehl, D.C., McDonald, D. (2009). *Conducting an In-Depth Interview*.
Retrieved January 8th 2012 from: <http://edis.ifas.ufl.edu/fy393>
- Hannibalsson, I. (2011). *Trade between Iceland and China – China's investments*. Lecture Þjóðarspegi 2011. University of Iceland.
- Hollensen, S. (2007) *Global Marketing*. 4th Edition. Prentice Hall. Financial Times.
- Holweg, M., Reichhart, A., Hong, E. (2011) *On risk and cost in global sourcing*. International Journal of Production Economics. Volume 131, 1, p. 333-341.
Retrieved November 20th 2011 from:
<http://www.sciencedirect.com/science/article/pii/S0925527310001234>
- Jiantang, M., (2011) National Bureau of Statistics of China. Retrieved August 11th 2011 from:http://www.stats.gov.cn/english/newsandcomingevents/t20100121_402615502.htm
- Kvale, S. (1996). *Interviews: An Introduction to Qualitative Research Interviewing*. Sage Publication Inc. Retrieved January 8th 2012 from:
http://books.google.is/books?id=IU_QRm-OEDIC&printsec=frontcover#v=onepage&q&f=false
- Kvale, S. & Brinkmann, S. (2009). *Interviews: Learning the craft of qualitative research interviewing*. Newbury Park, CA: Sage. Retrieved January 8th 2012 from:
<http://www.amazon.com/Interviews-Learning-Qualitative-Research-Interviewing/dp/0761925422>
- Kotabe, M. Murray, J.Y. (2010). *Global Sourcing Strategy: An Evolution*. Wiley International Encyclopedia of Marketing. Retrieved August 7th 2011 from:
<http://onlinelibrary.wiley.com/doi/10.1002/9781444316568.wiem06028/abstract>
- Levy, S.J. (1985) *Dreams, Fairy Tales, Animals, and Cars*. Psychology & Marketing. 2, 2, p. 67.
- Levitt, T. (1983). *The globalization of markets*. Harvard Business Review. Retrieved August 24th 2011 from: <http://www.vuw.ac.nz/~caplabtb/m302w07/Levitt.pdf>
- Longfield, K. (2004). *In-depth Interviews*. Retrieved January 8th 2012 from:
http://www.aidsmark.org/ipc_en/pdf/manual/14_Research-Toolkit-Ch6-In-Depth-Interviews.pdf

- Lu, M., Gao, H. (2011). *Labour Market Transition, income inequality and economic growth*. International Labour Review, Vol. 150, Issue 1-2, p. 101-126. Retrieved August 7th 2011 from: <http://onlinelibrary.wiley.com/doi/10.1111/j.1564-913X.2011.00107.x/pdf>
- Maltz, A., Carter, J.R., Maltz, E. (2011). *How managers make sourcing decisions about low cost regions: Insights from perceptual mapping*. Industrial marketing management, Vol.40(5), p.796-804. Retrieved November 21st 2011 from: <http://www.sciencedirect.com/science/article/pii/S0019850111000046>
- Ministry of Commerce People's Republic of China (MOFCOM). *China Statistic*. Retrieved August 14th 2011 from: <http://english.mofcom.gov.cn/aarticle/statistic/foreigninvestment/201101/20110107381641.html>
- Ministry of Commerce People's Republic of China (MOFCOM). *Indicators of Foreign Trade and Economy*. Retrieved August 14th 2011 from: <http://english.mofcom.gov.cn/aarticle/statistic/ieindicators/200901/20090105994207.html>
- Ministry of Foreign Affairs of the People's Republic of China (FMPRC). *The Trend Toward a Coordinated Economic Structure*. Retrieved August 16th from: <http://www.fmprc.gov.cn/eng/ljzg/zgjk/3581/t17862.htm>
- Ministry of Foreign Affairs of the People's Republic of China. *Major Cities*. Retrieved August 16th 2011 from: <http://www.fmprc.gov.cn/eng/ljzg/zgjk/3572/t17812.htm>
- Ministry of Foreign Affairs of the People's Republic of China. *Population*. Retrieved August 14th 2011 from: <http://www.fmprc.gov.cn/eng/ljzg/zgjk/3580/t17857.htm>
- Musser, E.S., (2011). *Gearing Up for the Chinese Consumer*. The American Chamber Commerce in Shanghai. Retrieved August 17th 2011 from: http://www.amcham-shanghai.org/AmChamPortal/PortalDefault.aspx?HLLink=Par_link_Homepage&Tb_Name=Home
- Nassimbeni, G. (2006) *International sourcing: Empirical evidence from a sample of Italian firms*. International Journal of Production Economics, 103, pp. 694–706.
- Nassimbeni, G., Sartor, M. (2006) *International purchasing offices in China*. Production Planning & Control, 17, 5, p. 494-507. Retrieved August 3rd 2011 from: <http://web.ebscohost.com/ehost/pdfviewer/pdfviewer?sid=4edfc6b8-f628-49dc-a148-1d401df6085c%40sessionmgr10&vid=2&hid=17>
- Nassimbeni G., Sartor, M. (2007). *Sourcing in China: a typology*. International Journal of Production Economics, 107, 10. Retrieved July 26th 2011 from: <http://www.sciencedirect.com/science/article/pii/S0925527306002453>

- National Bureau of Statistics of China. *China's Major Economic Indicators in the First Two Months*. Retrieved August 14th 2011 from:
<http://www.stats.gov.cn/was40/reldetail.jsp?docid=402626212>
- National Bureau of Statistics of China. *Brief Statistics on China's Import & Export in June 2011*. Retrieved August 12th 2011 from:
<http://english.mofcom.gov.cn/aarticle/statistic/BriefStatistics/201107/20110707641254.html>
- National Bureau of Statistics of China. *Consumer Prices for June 2011*. Retrieved August 14th 2011 from: <http://www.stats.gov.cn/was40/reldetail.jsp?docid=402738270>
- Park, D., Shin, K. (2009). *Can Trade with the People's Republic of China be an Engine of Growth for Developing Asia?* Vantar hér. No. 172.
- Park, D., Shin, K. (2011). *People's Republic of China as an Engine of Growth for Developing Asia?* Asian Economic Papers. Vol. 10, No. 2, p. 120-163. Retrieved August 7th 2011 from:
http://www.mitpressjournals.org/doi/abs/10.1162/ASEP_a_00086
- Petersen, K.J., Frayer. D.J. (2006). *An Empirical Investigation of Global Sourcing Strategy Effectiveness*. Journal of Supply Chain Management, Vol. 36, Issue 2, p. 29-38.
- Peng, M.W., Pleggenkuhle-Miles, E. G. (2009). *Current Debates in Global Strategy*. International Journal of Management Reviews. Retrieved August 25th 2011 from:
[http://www.utd.edu/~mwp059000/pdf/Peng09IJMRPleggenkuhle-Miles11\(1\)51-68.pdf](http://www.utd.edu/~mwp059000/pdf/Peng09IJMRPleggenkuhle-Miles11(1)51-68.pdf)
- Peng, M.W. (2009) *Global Strategy*. South-Western.
- Porter, M.E. (2008). *The Five Competitive Forces That Shape Strategy*. Harvard Business Review. Retrieved July 18th 2011 from: <http://hbr.org/2008/01/the-five-competitive-forces-that-shape-strategy/ar/1>
- Purchasing and Procurement Center. *Sourcing*. Retrieved November 14th 2011 from:
<http://www.purchasing-procurement-center.com/definition-of-sourcing.html>
- Roberts, D. (2008). *China's Factory Blues*. Business Week. Retrieved August 23rd 2011 from: http://www.businessweek.com/magazine/content/08_14/b4078078846220.htm
- Spence, J.D. (1999). *The Search for Modern China*. W.W. Norton & Company Ltd.
- Tan, J., Yang, J., Veliyath, R. (2009) *Particularistic and system trust among small and medium enterprises: A Comparative study in China's Transition Economy*. Journal of Business Venturing. Vol. 24, Issue 6, p. 544-557. Retrieved August 11th 2011 from:
<http://www.sciencedirect.com/science/article/pii/S088390260800061X>
- The American Chamber of Commerce in Shanghai. *Executive Summary 2010-2011 China Business Report*. Retrived August 17th 2011 from: <http://www.amcham->

shanghai.org/NR/rdonlyres/E3337DDB-28FD-457D-96B7-2C77E21A2A90/13742/CBR_20102011_execsummary.pdf

US-China Business Council. *China's Economic Statistics*. Retrieved June 30th 2011 from: <http://www.uschina.org/statistics/economy.html>

Webber, G.R., Byrd, S.E. (2010) *In-depth interviews*. Sloan Work and Family Research Network. Boston College. Retrieved January 8th 2012 from: http://wfnetwork.bc.edu/encyclopedia_entry.php?id=16783&area=All

World Bank. (2011) *Five Year Plan*. Retrieved June 30th 2011 <http://www.worldbank.org/en/country/china/overview>

World Bank. *China*. Retrieved June 30th 2011 from: <http://www.worldbank.org/en/country/china/overview>

World Factbook. *China statistic*. Retrieved July 26th 2011 from: <https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html>

World Trade Organizations. *China*. Retrieved October 10th 2011 from: <http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=CN>

Zarathustra (2011). *10 Reasons To Short China*. Also Sprach Analyst. Retrieved August 24th 2011 from: <http://www.alsosprachanalyst.com/economy/10-reasons-to-short-china.html>

Zeng, A.Z. (2000). *A Synthetic Study of Sourcing Strategies*. Industrial Management & Data Systems. 100, 5, p. 219. Retrieved August 5th 2011 from: <http://proquest.umi.com/pqdlink?Ver=1&Exp=08-03-2016&FMT=7&DID=115926278&RQT=309>

Zhao, S. (2011). *China vs. Vietnam as the Future Workshop of the World*. China Briefing. Retrieved October 10th from: <http://www.china-briefing.com/news/2011/05/20/china-vs-vietnam-as-the-future-workshop-of-the-world.html>

Zhao, X., Flynn, B.B., Roth, A.V. (2007). *Research in China: Current Status, Opportunities, and Proposition for Research in Supply Chain Management, Logistics, and Quality Management*. Decision Sciences. Vol. 38., no.1.

Sharma, V. M., Erramilli, M. K. (2004). *Resource-based explanation of entry mode choice*. Journal of Marketing Theory and Practice, 12, p. 1–18.

Sungarden. Retrieved July 1st from: http://www.sungarden.de/article,en,our_company,32.html

The Pier. Retrieved July 1st from: <http://www.pier.is>

Jysk Nordic. Retrieved July 1st from: http://www.jysk.com/frontpage/about_jysk.htm

BIVA. Retrieved July 1st 2011 from: <http://www.biva.dk/om-biva/>

Rúmfatalagerinn. Retrieved July 1st 2011 from:
http://www.rumfatalagerinn.is/rl/um_okkur/

Skemman. Retrieved July 1st 2011 from: <http://www.skemman.fo>

ILVA. Retrieved July 1st 2011 from: <http://www.ilva.dk/historie/>

BHS. Retrieved July 5th 2011 from: <http://www.bhs.co.uk/mall/bhsstore/>

Larsen Retrieved July 5th 2011 from: <http://www.larsen.de/>

MB Shop Design Retrieved July 5th 2011 from
http://www.mbshopdesign.se/MB_COM/bussiness.html

Kozmoz. Retrieved July 5th 2011 from: <http://www.kozmoz.be/>

Source by Net. Retrieved June 29th 2011 from:
<http://www.sourcebynet.com/EN/Company/>

Tradepoint. Retrieved June 29th 2011 from: <http://www.tradepoint.dk/profile>

Actona. Retrieved June 29th 2011 from: <http://www.actonacompany.com/>

Li & Fung. Retrieved June 29th 2011 from: <http://www.lifung.com/eng/global/home.php>
Retrieved June 30th 2011 from:
<http://www.irasia.com/listco/hk/lifung/annual/ar71758-e00494.pdf#page=6>

Interstil. Retrieved July 4th 2011 from: <http://www.interstil.dk/>

Appendix 1

RESEARCH – MANAGERS

In-depth interviews

Regarding BIK what do you consider the main strength the company holds?

The main weaknesses?

What do you consider the main opportunities for BIK?

The main threats?

Who do you consider the main three competitors?

If you choose one of these three what is their main strengths & weaknesses?

If you think of BIK as a car what type of car would it be?

If you think of BIK as an animal what type of animal would it be?

Do you consider in relations to the fact that the owner of BIK is a retailer that customer see it as disadvantage?

Have you heard that customers are concerned about this?

Why are they concerned?

Do you look at it as a problem?

If it is a problem what do you think is the best solution?

What do you consider the main value for customers to do business with BIK? Why should they choose BIK?

