

Title: Product Strategies for Emerging Economy
How Nordic outdoor firms can penetrate China

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Consumer Interviewees

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Wei Gu (Automobile User)

Zhiyin Peng (Outdoor Lover/Non Consumer)

Long Chen (Lead User)

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Abstract:

China would become one of the major economies in the world which has great market potential. The Chinese outdoor industry is on its rapid pace of blooming since Chinese people start to care about health and get to know more about various kinds of outdoor activities. Chinese outdoor market becomes a very attractive place for local and foreign outdoor firms to explore. However, China's situation is full of uncertainties due to government policies, unpredictable consumer needs and local social economic status. My thesis is concerning how Swedish/Nordic outdoor firms can see through the situation in China by looking into an analytical framework, and what strategies they can refer to according to the analysis result through this

framework. The Thule Group, which is a Swedish outdoor firm, will be looked into briefly in this academic thesis. Also, in the visual culture perspectives, the features of Swedish outdoor styles in the Chinese aesthetics context and how it can be compared to the Western will be discussed, which would lead to some productive result for Swedish firms as references in fitting into the Chinese visual identity.

1 Introduction

1.1 Motivation of the study

China is nowadays the biggest emerging economy and it attracts a lot of MNCs trying to enter the market with different strategies. Some of them are successful while some of them fail, because China has many complex internal and external situations including social, cultural and political issues, which create lot of uncertainties and risk for foreign companies to enter such a market. It would be interesting to give an overview to firms about what strategies they could mix and match in the drawer, according to their own backgrounds and approaches when they have to decide which market segments to enter in China. Thule Group is a Swedish company that offers solutions for bringing your gear with you, both on your car but also on your bike or when travelling. In my thesis, analyzing the automobile and outdoor market in China and how strategies should be implemented for Thule Group would be the case to investigate.

In order to investigate what strategies can be used for entering China, literatures related to different strategies, product development; government policies and visual culture would be reviewed. These literatures are selected in different context, for example Chinese market environment, automobile and outdoors trends in China, also there are some case studies of MNEs which are successful in China in terms of

Product Development and Market Entry, for example Haier, Nokia and Samsung. The visual culture literatures would help analyzing the differences between Swedish and Chinese aesthetics perspectives and provides inspirations on how to make Chinese people accept the Swedish products.

Moreover, looking into the experiences of these companies entering the China Market would give perspectives of understanding the characteristics of Chinese business environment. Also, the how the visual elements of Swedish outdoor products could strategically adapt to the Chinese aesthetics preferences will also be discussed. Finally, we will analyze what strategies combinations could be concluded for entry firms to localize and commercialize their existing products to fit in the Chinese Market.

The literatures show the observation and assumptions of the authors and successful/failed cases of certain companies. Also it shows the predictions of the trends, for example the potential numbers of certain types of consumer in the future, etc. However, since the Chinese market environment is changing so fast, and different parts of China could vary in terms of social and economic status and cultural perspectives, some of the assumptions of the literatures could be less reliable in some circumstances. To solve this problem we have to rely on the interviews with people inside the industries to validate the literatures and cases. For example there are not many literatures about the Chinese Outdoors Market since it is still in its early stage of development within the whole China, therefore I have to interview my contacts in the Chinese Outdoors Industry in order to get to know the perspectives and trends.

And although everyone is trying to predict trends, but it wouldn't be 100% accurate especially no one would know what the Chinese Government will react and plan,

therefore the application and how to implement the strategies into a practical model would be unknown from the literatures and this thesis will try to provide these aspects

1.2 Issue of Study

BA Outdoor within Thule Group- is facing the challenge of how to increase market share in China, despite the fact that they have already set up various marketing and sales channels. Since competition is fierce within the emerging market, in order to increase market share, the company has to identify the market needs or create the market needs for its product, or even come up with suitable strategies for localization and commercialization of more innovative products.

1.3 Research questions

What kinds of strategies and how these strategies can be practically implemented in order for firms to enter and make growth in the Chinese outdoor market? These strategies could be aware of and realized under the visual culture perspectives of Chinese people compared to the Western's

1.4 Purpose

The purpose of the thesis is to develop practical strategies which concern the characteristics of China's environment. These strategies could be used by Swedish outdoor MNEs as references to evaluate China under its rapidly changing characteristics from 2010 to 2020.

1.5 Possible contribution of the thesis

Providing the perspectives of Chinese market characteristics, analyzing the reasons behind, and set up a framework to explain what strategies could be practically

applicable in the region. Also, providing different visual and cultural and aesthetic perspectives between Sweden and China would help validate if the strategies are applicable in the Chinese context.

1.6 Method

Qualitative Research would be the main methodology for research.

1.7 Key words

Emerging economy/ Automotive/Outdoor/China/Strategies/Swedish outdoor firms/
Chinese outdoor market

Content of the thesis

2 Background

In this section an overview of Chinese automobile and outdoor industries as well as general concern of entering China will be introduced.

2.1 General consideration of entering China

There are five questions to be asked by firms which intend to enter China, according to Dr. Edward Tse¹

1. **How open and will be open of that industry in China?** It's not predictable for the openness of certain industries; firms have to keep an eye on the government's control, and try to establish connections with the related people to build up advantages. For example in the outdoors industry, it is still in the beginning of development but it's a good timing to enter now. First because the economy is good and the rate of employment is high; Second, when a group of consumer starts to emerge and get to know about the products through the trends of the activities; Third, the market is green, and there are not much competitors in this moment and therefore it's a good chance to create first mover advantage.

¹ "Is it too late to enter China?", Edward Tse, Harvard Business Review, April 2010

2. **What business model should be use?** Understanding the nature of product and business and what we can do for the Chinese consumer is essential for realizing a specific business model for the region. Foreign companies business model are majoring falling in Sourcing-Centric and Sales-Centric. Enterprises particularly in consumer electronics or mobile communication such as Samsung and Nokia would use the former. For the latter, industries that are fast-moving for example the automobile and consumer goods industries, which are more focus on the market.
3. **Can the firm live with China's uncertainties?** It's noted that the rapidly changing nature and the lack of information about the market. Also the policies, urbanization of population, etc makes China is so different from other market and should be deal with in a special case.
4. **How to integrate the China operations with the business elsewhere?** In order to keep cost down, company would have to integrate their China operations with their businesses in the other place.
5. **Can part of the value chain be moved to China?** For example many products that would be sold to nearby region like Southeast Asia would have the production in China, because China has the capabilities to make really mass quantity of products, which would achieve a very good economy of scale. The later stage could be incorporating the Chinese facilities into the global manufacturing and distribution networks, like SEC and Nokia do.

2.2 Automotive and Outdoor Market in China

Overview of Chinese Automotive Market

The automotive industry is considered one of the pillar industries by the Chinese government in China. Since more Chinese people are becoming wealthier, owning car

becomes trends to many people. China's vehicle sales reach 13.64 million units by the end of 2009 and become the largest market in the world, while in 2010 over 17 million units is recorded. In 2011, the growth of vehicle sales is slowing down rationally, in Jan and May, 777000 and 791000 units were recorded in sales respectively, which the growth rate is 32.44% and 32.37%, compared to the percentage in 2010 it was 52.4% and 49.19% less.² But still, this is a very large number since the economic crisis in 2008. Moreover, there are 71.2% of Chinese consumer in major cities would buy a new car within 5 years, according to SinoTrust, a Marketing Research Company in China.³

For the expectation of increase of needs in automobile, a commonly used benchmark to compare the development of the car industry across markets is cars per 1000 of population. On this measure China is in 107th place at 10 cars per 1000⁴, while US leads with 765 cars per 1000. Compared with other developing countries (Mexico with 138, Russia with 124, and Brazil with 81)⁵, this implies a lot of room for growth in China. Moreover, Global insight's base forecast anticipates growth in the passenger vehicle population from 10-153 million units from 2005 to 2030.

Overview of outdoor market

In order to catch the trends of the Chinese outdoors market, it is important to get an idea of the changing dynamics of the Chinese Outdoor activities now, and how Chinese consumer understands the concept of outdoor. In recent years, going to the wilderness becomes a trend in China. The trend is emerging from the fact that China has very good natural environment to develop Outdoor Activities, for examples the beautiful nature in the Southwest and Northeast of the country. Also, since people

² <http://www.ocn.com.cn/reports/2006132qiche.htm>

³ Sources: <http://auto.sohu.com/20080225/n255337393.shtml>

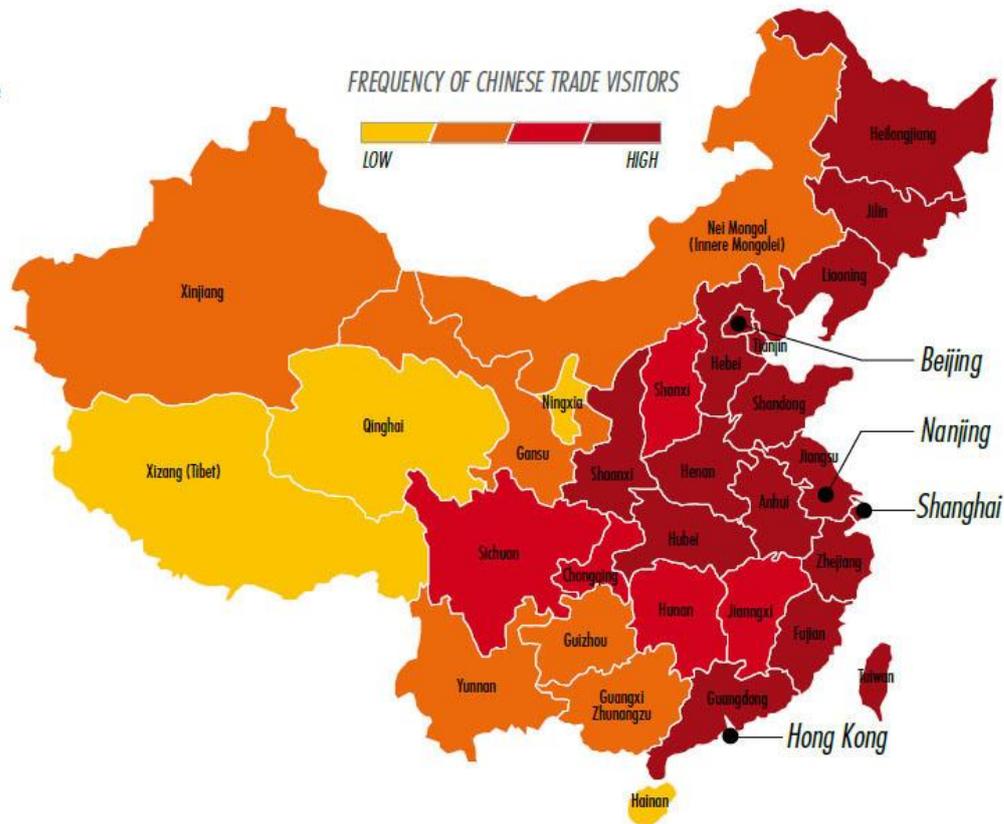
⁴ www.nationmaster.com

⁵ Russo, Tse, Ke and Peng 2009

are getting wealthier, also the economy and city lifestyle are developing, people start to realize the importance of health and believe that "health can be bought"⁶, therefore they are willing to spend more money on outdoor activities, which allows them to be far away from the cities. Because of that, needs emerge among these people for products and equipment that suits their new lifestyle and activities. However, Outdoor Market is not fully mature in China in this moment; more and more people are now starting to get to know various kinds of outdoor activities, for example rock climbing, skiing, etc.

International outdoor brands are entering the market, some of them succeed for example Columbia and The North Face, they become the bestselling brand in 2011 in the Chinese Outdoor and Sports Market, some of them have a failure, for example Merrall cannot survive in the Market and leave the Chinese Market eventually, as they haven't got a suitable distributor and wholesaler to promote their products, which is very important to do business in China.

⁶ 2011 年中國戶外行業大勢總評 (2011 Chinese Outdoor Industry Report)



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This map is obtained from the 2010 Beijing Expo Outdoor Industry Report and it illustrates the frequency of Outdoor Trade shows happening in China, which you can see the Tier 1 and 2 cities and the coastal areas have more related business activities going on. From here we could know what regions in China are getting more attentions from the outdoor MNEs and outdoor industries tend to cluster around these regions as well. We can see the outdoor market activities are more on the coastal region along China.

⁷ 2010 Beijing Expo Outdoor Industry Report

Total Market Volume 2010



Source: Market Research 2010 of Beijing German Messe Exhibition Consultant and Nanjing University Research

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The above graph was the market volume calculated from the Beijing Expo 2010 and illustrated the prospective growth of the Chinese Outdoor Market.

Swedish/Nordic outdoor firms in China

There are some Scandinavia outdoor brands that have entered China. For example Fjällräven, Haglöf, Helly Hansen, etc. However, one of the weaknesses of the Nordic brands is that their PR effect is not sufficient in China, probably because they are more small-medium brands that doesn't belong to any big cooperation, that Haglöf has been acquired by Asics. Another thing is these Nordic brands still need some time to capture the consumer tastes and needs of the Chinese consumer, which is experiencing unpredictable changes now due to the rapid development of the industry.

Visual culture characteristics of Swedish outdoor products

Swedish outdoor products tend to be more colourful with extreme contrast and detailed functions, compare to German's, which is also very strong in manufacturing outdoor goods. This is probably dual to the extreme environment in Sweden, therefore manufacturers tend to put use extreme colors and more considerate

⁸ 2010 Beijing Expo Outdoor Industry Report

features. (E.g more snowing) Also, the outdoor industry is also very much connected to Swedish fashion, which tends to be clean, simple, colourful and detailed. However, there are predictions from the Chinese outdoors insiders that more dark toned and earthy colors product would be popular in the region, such as the Fjällraven brand. In order to let Swedish outdoor firms to have a better perspectives of how Chinese perspectives work in terms of visual culture, the example of differences between the perception of red color and kitchen lifestyle will be illustrated in the late chapters.

3 Theoretical Framework

The following theoretical discussion is important for development a framework for different aspects in China and finally acquiring the appropriate strategies. The theory would cover Product innovation and strategies, Partnership, Government policies, industry trends and Consumer characteristics.

3.1 Product Innovation in Emerging Economy (EE)

Disruptive Innovation for Emerging Economy

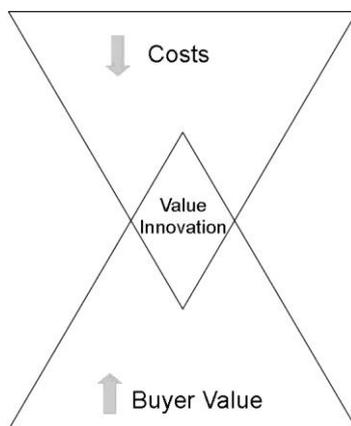
China as an emerging market, with comparatively low mean income levels, and high levels of economic mobility, has provided entrepreneurs with great opportunities and incentives for product innovation.

According to Christensen and Raynor(2003) suggestion, there are following indicators that a market is suitable to the disruptive innovation strategies:

1. Is there a large population of people that are lack of resources or skills to produce some product/service?
2. Are there non-consumers who could become customers and creating a new market?
3. Does the product help the potential market to get a job done that there is still no existing solution yet?

Blue Ocean Strategy

The key of Blue Ocean Strategy is making the existing competitions (Red Ocean Strategy) irrelevant, instead of beating the competitions. Blue Ocean Strategy also means to create uncontested market place and capture new demands. Moreover, it aligns the whole system of a company's activities in going for both product differentiation and low cost, while in Red Ocean Strategy, companies can only either create greater value for consumer at a higher cost or create reasonable value at a lower cost⁹



One of the advantages of Blue Ocean Strategy is it creates great barriers to imitation, because usually blue ocean strategy is about creating a new business model, which put the imitator into cost disadvantages. As imitation requires companies to make changes to the whole system of their activities, organizations, etc. For example it is not easy for certain brand to copy the business model of another as it may involve brand images, also, the success of implementing a blue ocean strategy help brands to earn reputation and a loyal following in the marketplace.

According to the theory of Blue Ocean Strategy, creating consumer out of non-consumer is probably applicable in the changing Chinese market. In my view, to implement this strategy is about realizing the core needs of the consumer, and how

⁹Kim and Mauborgne, 2004

to elaborate these needs with differentiation (Giving choices to consumer), while eliminating the elements/features with cost implication.

Identifying consumer needs is one of the strategies within Product Innovation in EE, according to Christensen's indicators. The following example is how Haier develop a successful product in China by solving non-consumer's problem and identify their needs.

Case Studies: Haier China "Mini Magical Child" washing machine

China obviously provides lots of opportunities for disruptive innovation due to its various consumer segments.

Haier is one of that local Chinese brands that become really successful in the market. It was originally a household refrigerator manufacturer. And now they are able to sell their products in developed countries and become one of the international home electronic brands. One of the most mentionable disruptive innovative products that Haier make is The Mini Magical Child washing machine. In China, sales of washing machine drop sharply because most families do not use it in the summer. In 1996, Haier tried to develop the non-consumer market by developing a small washing machine with the choices of high, medium and low water levels that could wash just one pair of socks in minimum.¹⁰ It uses concentric washing technology and it is low noise, saving water, electricity, weight and space compared to normal washers. This product is very successful in the Chinese market especially aiming at those singles who used to accumulate the smelly and sweaty summer clothing for a week, which this product would allow them to wash everyday. Later on Haier developed the XQBM, which is based on Mini Magical Child but with more features. XQBM has sold

¹⁰ Hang, Chen and Subramian, 2010

about 2 million in China and be exported to 68 countries all over the world.¹¹

From this short example of Haier we realize that paying awareness to user context is very important in identifying disruptive innovation opportunities.

3.2 MNEs Product Strategy in emerging market

Since the financial crisis in 2008, the economy growth of developed countries is slowing down, while the emerging market has become the new battlefield of the MNEs. According to the research by Global Insight in 2006, number of new consumers in BRIC countries will be 1 billion by 2015. Moreover, the marketing opportunities in the next 50 years will be on the remaining 86% of the whole world population, which would be on the developing countries.

Christensen(1997) categorized market as mainstream, secondary and emerging. He also further classified market based on consumer satisfaction fulfillment into three categories including undershot consumer, overshot consumer and non consumer market.

In typical emerging economy like China, people's wealth are starting to accumulate but the majority of the population cannot afford products that are for the developed world. Therefore, developing affordable and "good enough" products for these consumers in relatively low cost would be a challenge to the MNEs.

Price-Value Balancing Strategy

There are several characteristics of emerging market include particular consumer demand, diverse consumer taste, young customers ,limited income, weak infrastructure, underdeveloped technologies and rapid market change. ¹²With all these characteristics, these consumers are sensitive to sales price but not only on low-price, they will pay a reasonable price on the condition of good-enough product

¹¹ Hang,Chen and Subramian, 2010

¹² Mahajand & Banga, 2006

and service.¹³ Therefore, how to save and reduce sunk cost in the whole process in order to lower the sales price for consumer eventually is very important in these countries, especially China, since the characteristics and economy status of the population is so diverse. Some companies is very successful in implementing the Price-Value Balancing Strategy in penetrating emerging market such as China. For example Nokia, which has six R & D centers in China from 1998 to 2006 successively, which is a technology strategy of bringing together the R & D network within the region. In a product development perspective, firms probably would need to de-engineer the product, or using different material and cutting down the process in order to make product cheaper but still can fulfill the consumer needs. The car Nano developed by Tata Group in India is a good example, it fulfill most Indian families' needs of having a car, but the price is more or less than a scooter.

Emerging market demonstrates four constraints, which are wealth-related, skill-related, access related and time-related constraints.¹⁴

Wealth-related:

Are the products affordable for the consumer? How much they would pay for what quality of good or service?

Skill-related:

What kind of skills are needed to develop suitable products for specific consumer?

Access-related:

How do they reach most consumers by different sales or distribution channels?

Time-related:

How efficient is the value chain?

In order to achieve the Price-Value Balancing Strategy, the above 4 aspects have to

¹³ Chang and Horng, 2010

¹⁴ Chang and Horng, 2010

be considered when planning a business action in China. In the “Benchmarking Companies” part of the thesis, we would further talk about how Nokia identified the characteristics of consumers in emerging market and how they penetrate the Chinese market through optimized integrated supply chain.

Two-Product Strategy

The Two-Product Strategy requires a company to add a second, lower positioned product to the existing higher positioned brand product. This second product is targeted directly against the low-priced competitors. The goal is to weaken the competitors’ market position, or even to prevent them from entering the market and to help the higher-priced product to maintain its positioning.

There are majorly three entry points to protect low-priced competitors from invading the market, which are Branding, Price and Quality.

In terms of price, the price level of the lower positioned product should be significantly below the top product. The price difference should be around 30 to 40%. If the lower positioned product is under the same brand as the top product, then the second product’s price should be 10 to 15% above the low-priced competitor’s price.¹⁵

For the quality, the second product must be of lower quality than the top product but not below the quality of the low-price competitors. The performance in factors such as product life time, warranty, power, packaging, service, etc must be reduced. It is very important to achieve a sufficient differentiation between the 2 products. As for the brand, there are two choices between selling under the current brand or under a net brand name. There are both advantages and disadvantages of whether to share the visual identity of the brands. For example if the competitors have

¹⁵ Hilleke and Butscher

already invaded a significant share of the market, then the second product should be introduced under the current brand. The visual identity of the first brand must be strong enough to support this second brand. In this situation, the quality of the second product must be good enough, in order not to jeopardize the visual identity and value of the brand name and undermine the top product.

Introducing a different brand also help reduce the probability of competitive reactions. A good balance to the advantages and disadvantages of both strategies would probably use a second brand name but put the manufacturer's name as a bigger brand, for example the travel brand American Tourister is always mentioned with its top product brand Samsonite. Samsonite is much stronger than American Tourister in visual identity and brand name, the latter enjoy the benefit of the former's "visual influence" and therefore the design of the latter is detailed even though the style is less bold, less color choices compared to Samsonite and going for simple direction majorly, in order not to ruin the brand name of Samsonite. The advantage is that the company can be more flexible with strategies and the brands' visual image related to different consumer, while the influences between the two brands to each other will minimize.

3.3 Partership, Entry and Growing Strategies

The choices of international entry by MNEs include exporting, licensing, alliances and start-ups. Joint Venture(JV) would be most discussed in this thesis because it has been a dominant in most emerging regions (Beamish, 1985,1993)

Consideration of entry

There are majorly two aspects to consider regarding entry strategy, which are resource commitment to technology transfer and timing of entry. In the emerging

economy regions, managers of MNEs have to consider two aspects before making a decision.

Should a firm be the early mover to explore potential market opportunities and build up the brand or a late comer until the uncertainties are clear?

Should a firm opt for making core technology transfer or investing standard and less technology in the region?

The uncertainty of Chinese Market also comes from other factors, for example Intellectual Property Right (IPR), Innovation Policy of the government also alter the decision of the manager of the timing and how much resources spending in the market. However, many cases have shown that companies that put more R & D resources to the Chinese Market would have greater chance of success, partly because Chinese government offer more support to companies that are willing to invest in China. Another reason for their success could be the faster respond to the market. Samsung SEC, which would be discussed in later chapter, is a good example. In order to make profits in Chinese market, firms would have to commercialize products, and usually they have two options which would be very much depends on the nature of the product.

The first one is to transfer superior technological knowledge in China, this approach is more welcomed by the Chinese government as well. Technological knowledge here is defined as “Knowledge about how to produce a cheaper or better product at given input prices, or how to produce a given product at a lower cost than competing firms”¹⁶ Since a new technology often creates a new product yet diffuses slowly to competitors, and firms are often bound by already existed manufacturing processes and sunk costs and remain committed to technology that has been used for quite a

¹⁶ Caves, 1996:3

while, which are firms need to overcome in order to build a stronger competitive position in a local marketplace. Also, one of the concerns could be that the transferred technology may not always be successfully commercialized in that local market. Therefore how firms integrate their core technology into the systems of local production and commercialization are critical for the commercial success of a foreign market entry.

The second option is to enter a local market as early movers, which is usually better by shaping consumers' perceptions in visual branding. First, consumers may build a preference structure that favors the pioneer's position as they learn about its brands.¹⁷ Second, consumers may develop switching costs that create barriers to late movers. Finally, consumers may favor the early mover's product when it becomes the industry standard or dominant industrial design and thus allows compatibility with the largest base of external users.¹⁸ Especially Chinese consumers who are very particular about branding because they have not much knowledge about the product itself, it is easier for brands to enter earlier in order to build up the visual identity for products and brand knowledge. And usually local government in emerging market treats early foreign entrants more favorably. However, Lieberman and Montgomery(1988) suggested that late entrants can gain advantages over an early mover when they possess capabilities to acquire the same technology to produce better or cheaper products, capture shifts in consumers' taste more quickly. I think this could be working only if the nature of product itself requires lower technological or tacit knowledge, which means low technological barriers.

Besides, generally there are three factors that would affect the entry decisions as follows:

¹⁷ Carpenter & Nakamoto,1989

¹⁸ Tegarden,Hatfield, & Echols, 1999

Global strategic concern: This involves the primary focus and function of a firm's global strategy, and whether exchanges of resources and skills and learning take place between headquarters and the other subsidiaries. However, the entry strategy for each separate international market should be considered because the failure or success of the investment in one market will significantly influence other activities within the network.

Controlling power: MNEs may face the risks of leakage of its technology and know-how to an alliance partner. Inter firm spillovers of proprietary technology occur because partners often tend to acquire each other's core technology or skills, therefore alliance partners are viewed as potential competitors. MNEs and local firms have very different agendas for alliances. MNEs bring advanced technology to alliances and try to make maximum earnings and acquiring the local market information. While local firms try to access or acquire this technology and may seek the opportunities to use it to develop their own products in local or other markets. This often promotes opportunistic behaviors by a local partner and provides a strong incentive for a foreign partner to seek control over an alliance's operations.¹⁹ The relationship between MNEs and local firms is therefore always changing. MNEs at first is a learning model of the local firms, then become their potential competitors when local firms acquire some knowledge, and finally there would be opportunities to become partners if the local firms are strong enough. Beamish(1997) suggested that a local JV partner will possess greater bargaining power over and be less dependent on its foreign JV partner when the foreign partner possesses little knowledge of local market conditions. JV partners had a significant and positive impact on the financial performance of a JV when the parent firm had limited

¹⁹ Anderson & Gatignon, 1986

experience of the local market information.

Supporting infrastructures: There are three types of infrastructures that would affect firms performance. The first type involves complementary or “co-specialized” assets²⁰, for example distribution network that would allow a firm to commercialize the core technology for the local market. The second type is local human capital. Local managers have better access to local information than foreign counterparts in introducing products or service in the local marketplace. The final type involves the legal systems that guarantee the protection of IP. Lacking of these infrastructures would determine the level of commitment to technology transfer and entry timing of the MNEs.

In order to validate the above information related to entry timing and strategies, I decide to use how Thule Group BA Outdoor enter the German Market as a reference. Since Germany is the biggest market for Thule in Europe and Thule Group BA Outdoor has been very successful in Germany. David Stener, who is the former Sales Director of Thule Group BA Outdoor will be interviewed for the German Market was entered.

Awareness of the local visual culture perspectives

One of the key for success entry to China is to understand the essence of the Chinese visual culture. For example, there are huge differences between Chinese and Western visual culture such as the perception of red color. In the West, red represents danger, blood, warning, something that is of power. But in the Chinese culture, red means lucky and all the good stuff, for example everything will be decorated in red during the Chinese New Year, people would also wear a lot of red

²⁰ Teece, 1986

colour clothing when it is big and important date. Although Chinese consumer are more favour of the earthy colour tone in their clothing as mentioned, there are cases that these awareness of the local visual culture help in the business. One good example is the Samsonite Chinese New Year Special Edition Campaign in 2011. Samsonite had launched a special design for the Chinese market, which is a suitcase in “Chinese Red” with Chinese style crafting on the surface, and people can get a special offer in price for that suitcase if they purchase other goods in Samsonite. This campaign was very successful and in terms of branding, it brings the consumer closer to the brand by specializing their own culture in products in the visual perspectives.

Partner Selection

Searching for the right strategic alliance partners could help firms to leverage their resources. Partnership could share risk and resources, gain knowledge and obtain access to markets. The general intent of strategic partnership is to establish and maintain a long-term cooperative relationship in order to compete more effectively with firms outside the relationship.²¹

The agendas of partner selection between developed market firms and emerging market firms could be very different. For developed market firms, searching for partners with unique competencies and local market knowledge and access are most important. While for emerging market firms is the other way around, since, there usually be a technology gap between firms from emerging markets and firms from developed markets, therefore they are looking for opportunities to acquire such tacit knowledge and know-how from the MNEs in order to develop their own products. The table below shows the summery of partner selection comparison from MNEs and local firms perspectives

²¹ Jarillo, 1988;Walker & Poppo,1991

TABLE 5
Priorities in Selecting Alliance Partners by Market Type^a

Importance/Priority ^b	Emerging Market Firms	Developed Market Firms
Important and differential priority	(1) Financial assets (14) Technical capabilities (7) Intangible assets (10) Willingness to share expertise (9) Capability for quality	(3) Unique competencies (6) Market knowledge/access (12) Previous alliance experience (5) Cost of alternatives (4) Industry attractiveness (13) Special skills to learn from partner
Important and similar priority	(2) Complementary capabilities (8) Managerial capabilities	(2) Complementary capabilities (8) Managerial capabilities
Important but differentially lower priority	(3) Unique competencies (4) Industry attractiveness (6) Market knowledge/access (12) Previous alliance experience (13) Special skills to learn from partner	(1) Financial assets (7) Intangible assets (9) Capability for quality (10) Willingness to share expertise
Unimportant	(5) Cost of alternatives (11) Partner's ability to acquire skills	(11) Partner's ability to acquire skills (14) Technical capabilities

^a The rank order for each criterion in the corresponding model in Table 3 is in parentheses.

^b Importance indicates a statistically significant coefficient; priority indicates statistically different (stronger) coefficients.

²² Above is a table of comparison of priorities in selecting alliances between local firms and MNEs.

3.4 The Chinese government policies and IPR system

Many Westerners believe that where economic freedoms lead, political freedoms must follow, which would not be true in China. China will remain a communist nation in the near future.²³

In this chapter, two things related to government policies will be discussed. First is the government innovation policies would be reviewed. The second part would be the IPR system in China.

From the automobile trends analysis previously we could see that the government is trying to help the local automobile firms to acquire technological capabilities from the MNEs by “forcing” IJVs. For example, foreign carmakers are restricted to JVs in which their maximum stake is 50%, while this limitation is balanced by the possibility of selling products in the world’s largest automobile market and gaining unmatched economies of scale. Therefore, the significance for MNEs is not whether to go for a

²² Hitt, Dacin, Levitas, Arregle and Borza, 2000

²³ Edward Tse, “Is it too late to enter China?”, Harvard Business Review, April 2010

joint venture, but would be how to get more control within a JV.

Policies related to automotive industry

Chinese industrial policy places strong emphasis on developing indigenous R & D capabilities in the automobile industry. The industrial policy provides three strategic guidelines for MNEs in developing indigenous R & D capabilities. First, these companies should include 5 to 10 % of total reinvestment for developing or expanding their technological centers. Second, R & D spending should reach at least 2 to 3 % of sales within 5 to 10 years. Third, key component suppliers should apply 10 to 20 % of their reinvestment to set up R & D facilities and technical centers.²⁴

Innovation policy: Goal by 2020

Also, it's known that the Chinese government plans to make China the Innovation nation by 2020. The 2006 "Medium- to Long-Term" Strategic Plan for the Development of Science and Technology" aims to make China an "innovation-oriented" society by the year 2020. This new policy package is regarding to R&D and IPR, including enhancing R&D financing by public funding and extended tax incentives for S&T, and public funding to support the absorption of imported technology, etc. The only way to acquire this funding is to set up a joint venture with the local Chinese firms, which then the JV could get funding in developing technology/product that is for competing in the Chinese market.

To make science and technology a driving force for economic reform, the government decided to commercialize S&T. China started to transform its R&D system from a centrally planned one to a system that was more market-orientated, assuming that market forces could provide incentives for scientists (Baark, 2001: 2). The policies seem to be beneficial for big firms with international experiences, which

²⁴ A Dual Network Perspective, P.132

have resources to conduct research while accessing the large consumer market in China. And these big firms usually also have resources to bargain with the Chinese government, such as providing more jobs and a greater international perspective to the Chinese community, in return MNEs get more flexibility in policy related to their interest.

The Innovation Funds and the Science and Technology Promotion Funds administered by the Chinese government are noteworthy regarding the promotion of R&D activities. The R&D expenditure raises from 42.9% of total expenditure in 1997 to 66.8% in 2004. Therefore MNEs could have an opportunity to cooperate or merge with these firms, which would help the company in really understand and access the market as well as know-how about how to go beyond the bureaucracy, also training the local staff into people who fit into the model of the MNEs.

In 2004, the 863 Program, Key Technology R & D Program and 973 Program emerged as the biggest three funding programmes led by MOST²⁵ (Ministry of Science and Technology, which is having a high competence with regard to design and implementation of innovation policy in China) These programmes are targeted by various big firms such as the Volvo Group.

Chinese IPR system and MNEs strategies

Another aspect of looking into the government policies is through the recent reform of Chinese IPR system. By looking at the development of the Chinese IPR system and looking into its impact on innovative behavior of MNEs, we could see what strategy the MNEs take and evaluate its applicability. IPR generally offer the monopoly position on the technology deters other firms from trying themselves in invent “nearby”²⁶, and one should not grant IPRs when the costs are bigger than the benefits. IPR is also a

²⁵ Liang and Xue, 2010

²⁶ Sctchmer and Green, 1990

key issue between China and other foreign countries.

The evolution of the Chinese IPR system comes from two major reasons. First, the transition from a centrally planned economy to a market economy is a big drive. Second, the open of China's market for FDI and the increased success of Chinese products in the overseas market make the Chinese IPR system to gear up its development in order to meet the international standards. China also subscribed to fully implement the TRIPs Agreement after its access to WTO in 2002. Today, the scope and level of IP protection in China is substantially in line with international standards and practice²⁷

There are three stages for the IPR system and the third stage from 2001-2007 is closely related to the innovation policies. During this stage state-owned and privately owned enterprises were treated as equals for obtaining patent rights, while other amendments are for fitting in the WTO requirement, especially for TRIPs. The new national IPR strategy is directly related to the changing innovation environment in China. In 2006, China had an outline about the medium and long term plans for Science & Technology (S & T), while initiating the national strategy for building an innovation-oriented country through cultivating indigenous innovation capabilities²⁸ During the past 23 years, the patent filed by foreign applicants are majorly divided into 3 types, they are invention (86%), designs(12%) and utility models only account for 2%.²⁹ But since 2007, the invention and design applications have risen quickly. The total invention patents granted to foreign applicants are still higher than to domestic applicants, but the gap is narrowing quickly in the past 5 years.

²⁷ OECD, 2005

²⁸ OECD,2008

²⁹ Liang and Xue, 2010

3.5 Chinese consumer

The world population will be over 9 billion by 2050, and the rapid growth taking place in the developing world and the foreseeable needs of the up-rising 5.5 billion consumers, which about 2.3 billion in Asia within these countries. Annual spending of the middle-income consumers of these countries is 6.9 trillion(USD) and will grow to 20 trillion by 2020³⁰ However, this growth has reveal a very real problem of resource scarcity. The rapid rise of global food prices is a clear sign of rising demand.

Confrontations have been triggered between countries over lands and seas for exploiting more natural resources. Moreover, the world is still suffering from the after-effects of the economic crisis in 2008.

Probably you have already noticed the speeding up of product life cycles-brands try to encourage people to buy new products by making the product more fashionable and good looking while short life time. If you put this trend in China that would be a large problem since there are a large number of population and would create huge environmental problem. Therefore the government encourages MNEs to put consideration into environment when they decide to develop products in China.

Besides, most consumer-facing companies entering China would need to understand the economic societal and demographic changes of the region in order to get a more complete profile of the consumers. China is facing fast pace of growth and rapid changing of life style, and the vast economic and demographic differences across the country are also noteworthy.

We would look at Chinese consumer behavior in several perspectives in order to portray a better picture of the consumer characteristics.

³⁰ Court and Narasimhan,2010

The confident tendency of Chinese consumers

Generally Chinese consumers are confident about the financial prospects. The number of first-time buyer, which is the major driver of category growth in China is declining. This means branding effect is starting to emerge, more and more consumers are choosing their favorite brands.

According to McKinsey's survey, at the end of 2010, annual inflation in China was 4.6%, and it rises to 6.2% in August 2011, which is almost the highest level in three years.³¹ And this is affecting real growth in consumption, which fell to 8.5% in 2010, compared to 9.4% in 2009. However, 58% of interviewees said they expected their incomes to rise in 2011, compared with 39 % in 2010, indicate that Chinese consumer's confidence in finance

Also it is noteworthy that how consumers explain their higher spending, 50% of the consumers say the inflation as the main reason, while 35% say that they are buying more expensive products in a given category. However, only 5% of consumers say they are spending more because they are first-time buyers in certain product categories, down from 20% in 2009,³² which is an important indication of growing maturity of many product categories. Only in less mature niche categories, first-time buyers remain important. The penetration of products is higher in China's more economically developed regions, but there are plenty of consumer-shaping opportunities in the less developed areas.

Chinese consumers also value brands more than price or channel largely because they believe that branded products are safer and of higher quality. However it doesn't equal to brand loyalty, since average Chinese consumer now choose among 3 to 5 brands in any given category, while in some categories such as apparel, the

³¹ Atsmon and Magni, 2011

³² Atsmon and Magni, 2011

contrast could be very sharp due to popularity.

Companies have to strike a balance between satisfying the mass mainstream consumer and meeting specific needs of some consumer segments, which they have to identify the growth prospects considering product categories as well as different geographical regions. For example we could foresee a higher growth of outdoor market in the Northern part of China, because the geographical and environmental factors would create a lot of needs. The automobile market will continue to growth as the government is planning on more infrastructures such as highways.

3.6 Benchmarking Companies: Nokia and Samsung SEC

Nokia China has been very successful in performing Price-Value Balancing Strategy , not only on the high end market but also the remaining 75% of low end market in China. They perform manufacturing strategy on integrating supply chain and technology strategy on establishing R & D centers in China, channeling strategy of consumers in small towns and pricing strategy in response to low-end market³³Here will be briefly explain how Nokia succeed in these 4 aspects.

Manufacturing strategy on integrating supply chain

Nokia has a joint venture with Nanshin Industrial Development in 1995 to found a new company, in order to acquire a permit for domestic sales of GSM mobile phones. Nokia's integration of the R & D related activities and supply chain are very successful, for example they establish Beijing Xing Wang Industrial Park Co.,Ltd in the Beijing Economic-Technological Development Area(BDA) in order to bring suppliers around the world close by Nokia's assembly plant, so that problems such as remote supply chain, high inventory cost and risk and slow market response can be solved

³³ Chang and Horng, 2010

Establishing R & D centers as Technology Strategy

As mentioned before Nokia has established six R & D centers in China, especially the CDMA Research Center which explores the market to meet local technology, consumer and product demand, in response to the rapid-changing, diversified demand and low income market characteristics in China since 2004. There are three aspects to think about for setting up R & D Center in China, which are how much investment we would need to take care of market with such characteristics? What kind of new products would fit into this market criteria consumer requirement and make possible success? Also, what is the expected turn over for a certain time period (E.g a 5 year plan) assumingly?

Channeling strategy of consumers in small towns

Nokia is being successful in China because of its design and visual brand image of high quality and stable product, R & D model, quality control, low cost and effective production management. Its reformation of marketing channel is also a crucial factor

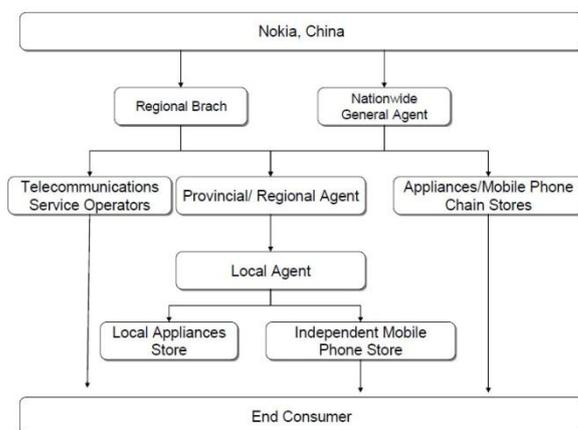


Figure 1: Marketing layout of cellular phones strategy by Nokia in China (Duan, 2007) ³⁴ Above is the marketing layout of

Nokia China

³⁴ Chang and Horng, 2010, P.41

After 1997, all sales of mobile phones in China by downstream channels can only be made through national wide sales agent. The advantage of this is a wide range of channels capable of selling mobile phones to major cities in most area rapidly. The disadvantage of that is quite a few wholesalers were involved from manufacturer to retailers therefore the sale cost would be high. Nokia begins to launch its national wide sales agent system to deal with the challenge of rapid growing lower tier markets. They seek out provincial sales agents and encourage transformation of few remaining national wide sales agents since June 2002.

After that Nokia make their steps from penetration of sales agent to Direct Marketing System. Nokia make connection with local appliances chain enterprises such as Gome Electronic and Suning Corporation, which become the emerging channels of mobile phones and reach 11% of sales with extensive retailer sites. After a while Nokia launch a Direct Retail Program(DRP) with these local appliances chain enterprises to launch direct marketing in 2004³⁵.

In one way, Thule BA Outdoor could also follow Nokia's path to build up their sales channel step by step. The first step is to identify and define the concept of the product, for example how does it related to outdoor lifestyle or automobile? Then decide what product can be further develop for the market or what existing products can be chosen from the portfolio for the launching, after that search out for existing or possible retail channel and enter the market with the awareness of how to integrate the channels and how to reduce the distribution cost, from Nokia's example of cooperation with Gome and Suning we notice that the capability of identifying the new trend of where people buy the products is very important.

³⁵ Chang and Horng, 2010,P. 40

Nokia continue to perform the concept of “direct provincial distribution” with mixed sales channel model³⁶ and this helps Nokia’s product to penetrate into small towns.

With such model Nokia was responsible for the communication with retailers whereas provincial distributors just responsible for logistics and finance.

From Nokia’s success we realize it is important to render a new business model in a specific market, and China is so special that it needed to be taken care of in with specific strategies.

Moreover, mobile phones with sales prices under 1000 and 500 RMB accounted for 75% and 23% of the market respectively³⁷, therefore we can see low price mobile phones have become main stream trend in China. And the sales of such consumer goods in the mainstream/value consumer market may sustain until 2020, since according to the data,

In short, there are several factors to support Nokia’s success along the High-Quality Low-Price characteristics in the Chinese Market, including their international branding, high quality R & D on products, inventory supply chain business model, strategy in reforming the channel and also the service package strategy with the local operators.

As mentioned earlier in the theory part, there are 4 constraints that foreign companies may face when they are entering the emerging market. They are wealth-related, time-related, access-related and skill-related constraints. To deal with the wealth-related constraints Nokia introduces very low price mobile phones to the market and integrates supply chain in order to lower the production cost. To solve the time-related constraints Nokia establish mixed market system from high-tier to

³⁶ Chang and Horng, 2010,P.41

³⁷ Chang and Horng, 2010, P.39

low-tier cities to acquire dynamic market information, also they put the major suppliers in clusters to reduce the time to market. Gradually Nokia launches Direct Marketing Program and reconstruct channels to solve the access-related constraints. And finally, Nokia establishes six R & D Centers in order to develop product and application that is suitable for local consumer needs and use its global supplier network to develop products suitable for local practice and price range, to deal with the skill-related constraints.

3.3.3 Samsung SEC: Being a late comer in China?

It's known that companies that wish to do business in China must understand the government's priorities and modify their strategies accordingly. The Korean business groups entered China in major scale only after the 1992 diplomatic normalization of Korea with China. However, the Korean MNEs are famous for being very successful late-comer in the Chinese Market in such a short time, for example Samsung, LG, Hyundai, etc. We will take a look into Samsung Electronics (SEC) and try to find out if there are any strategic approaches that could be learned for the late-comers. Since Beamish(1994) argued that joint ventures, the most common form of strategic alliance, are the dominant strategy used in emerging markets by MNEs. Therefore we would look into the case of Samsung Electronics's JVs activities in China, analyze the advantages and disadvantages in order to validate the statement.

Late entry of Samsung SEC

Although Samsung was a late-comer in electronics, it had a clear vision with 3 strategies emphasized to achieve "scale economy, vertical integration and R & D capability."³⁸ In 1993, Samsung introduce the famous "Samsung's New Management", which then establishing 5 HQs in 5 strategic regions: China, America,

³⁸ Samsung Group, 1998

Europe, Southeast Asia and Japan. It is interesting to note that South East Asia is one of the strategic region and its importance in high interaction with the Japan and China HQ. Southeast Asia could be a market for products that are developed in China and Japan.

Samsung had selected Tianjin, Suzhou and Dongguan-Shenzen as its three bases in China. Tianjin was selected as a strategic location because it is closed to Korea, also some part of the population there are of Korean-Chinese blood, which would help Samsung in R & D development as well. However, when Samsung tried to establish JV, there were few strong partners to cooperate with, because strong local firms had already been selected by early entrants- American or Japanese companies. Samsung cooperated mainly with the weaker SOEs eventually.³⁹ Samsung invested a large amount and helped many loss-making SOEs to turn around, which attracted strong trust from local governments⁴⁰ and is very essential in doing business in China. More than that, to make joint venture with a weaker partner could lead to stronger control by the MNEs. This happens when Toyota entered China with a weaker JV partner⁴¹, therefore this seems to be an advantage for Samsung in the end.

In the beginning, Samsung brought medium level technology to China and failed. At the request of Jiang Zemin, the president of China, Samsung brought in new and updated technology and aiming for the top 5% population in China, this is also an implication that Chinese government strongly prefers MNEs to perform technology transfer in China. And this could affect the performances of MNEs in China.

³⁹ Wang, 1996

⁴⁰ Wang, 1996

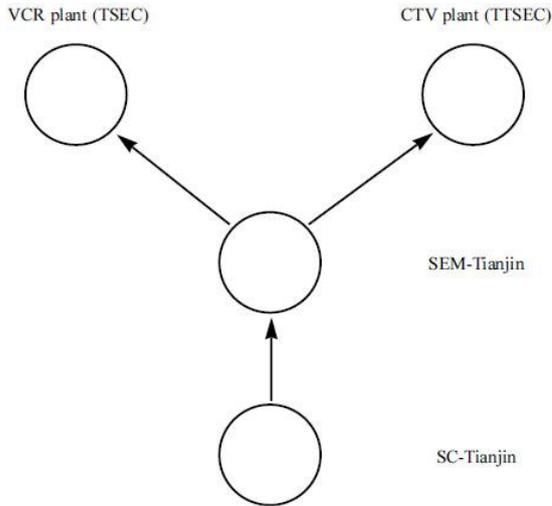
⁴¹ Tse, 2010

SEC's vertical integration and supplier networks

The SEC establishment of international production networks based in China is a strategic move because of the growing competition in Chinese market. First, SEC aimed to penetrate the local Chinese market, and serve the regional and global market from the Chinese production base. The use of intra-firm alliances is one of the competitive advantages of SEC's end product subsidiaries. SEC's international production strategy was well designed in cooperation with its affiliates. As a result, the China-based production networks operate quickly by transferring its technological capability in various consumer electronics, telecommunication and semiconductor products, for example sophisticated components manufacturing technology. These components were not only distributed to the local Chinese local market, but also sold to their global networks.

Second, SEC forms JVs with Chinese manufacturing firms which have certain production capability, so that the other subsidiaries were able to upgrade their production capability. However, the competitive advantages of these subsidiaries are from the product capability, but not product innovation capability.

FIGURE 1
SAMSUNG'S VERTICAL PRODUCTION NETWORK IN TIANJIN, CHINA

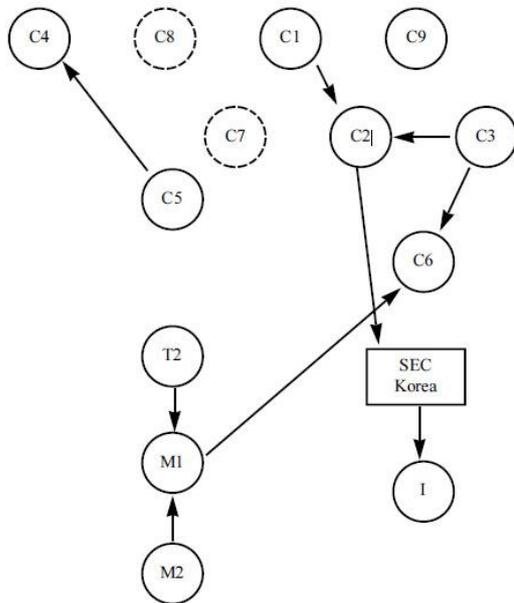


⁴²Vertical integration model of SEC

These related affiliates (SEC, Samsung SDI, Samsung Corning, etc) of Samsung Group entered China in a strategic sequence of timing, and secondly the Samsung had tried similar coordinated entry in other parts of world before China. From here we know that experiences in entering the other market would give input to how to access China. For the strategic timing part, it could mean the time schedules of what products should be launched to production on the markets, which is related to investigation on competitor's activities and how can these affiliates work with each other in a more effective way.

⁴² Kim, 2010, P. 92

FIGURE 2
SAMSUNG'S INTRA-FIRM COOPERATION IN CHINA AND SOUTH-EAST ASIA:
THE FLOW OF COMPONENTS AND PARTS



⁴³ Model of intra-firm cooperation in

Samsung

The success of TSED in the display market

Samsung's entry into China took advantage of vertical integration and network of resource sharing. The power of the Vertical Integration can be illustrated in the Display Market in China, in 1996 SEC established a new JV Tianjin Samsung Electronics Display Co. Ltd(TSED), where SEC held 80% while the Chinese side held 20% of the equity⁴⁴. In late 1999, due to the insufficient quota of CDT components, Samsung as high quality CDT suppliers have advantages over the other competitors because of its strong vertical integration and was able to produce at competitive prices.

SEC has two major types of competitors, which are local Chinese firms and established MNEs, SEC's competitive advantage in production capacity is challenged by those Chinese firms and the superior product innovation and development

⁴³ Kim, 2010, P.96

⁴⁴ Lee and He, 2006, P.25

capacity of established MNEs.⁴⁵ Since competition between firms is based upon the differential capabilities, and their capabilities to expand by the creation and replication of new knowledge faster than the imitative and innovative efforts of competitors⁴⁶

On the other hand, TSED has been successful in terms of product differentiation. TSED divided the LCD products into several segments, so consumers with different preferences could share the same technology. For example, the 151 series was separated into four styles: General consumer (151S), Commercial users (151B), Digital technology (151D) and Professional users (151P). The product life cycle in display was reduced from 10 months to 6 months, as TSED also divided the market into several segments and provide more differentiated and personalized products.

Weaknesses of SEC networks

There are two weaknesses with SEC's inter-functional cooperation. One, most resources and decision making power are controlled by the HQ in Korea. Therefore, the interaction between the subsidiaries and the overseas distribution channels are weak. And there was little feedback such as changing consumer needs related to design and development can be circulated. Therefore the innovation capabilities are weak. Second, compared to Nokia, less attention was paid to the expanding Chinese local distribution and service channels, which means the reluctance of both JV partners to invest in the transfer of more sophisticated technological capabilities.⁴⁷ It's important to note that all end product subsidiaries are JVs, and there are lack of access to sufficient foreign exchange for the Chinese partners, in here we could see that SEC tend to seek short term profits rather than long term growth out of its

⁴⁵ Kim, 2010

⁴⁶ Kogut and Zander, 1993:637

⁴⁷ Kim, 1998

subsidiaries. It also proves that SEC gain more controls over their Chinese partners.

What can be learned from SEC

SEC's case raises two important issues. First, foreign subsidiaries are essential to production innovation if they can respond quickly to local customers' preferences. This could create input for the local and regional market strategy, or even the global strategy network. Therefore, it's better to have research, design and product development facilities located near to the production facilities, in order to meet the needs for local and regional consumer. Latecomer MNEs' subsidiaries need to improve their product innovation capability in order to figure out their own business model to compete with the early entrants. Secondly, the Japanese firms which have a stronger brand identities in China have reduced their prices and will very likely to produce in China in cooperation with their Southeast Asian based R & D networks. Therefore, short term cost minimizing with dependence on the alliances without long term innovation strategies could be risky for SEC to maintain its competitive advantages.

The above results from benchmark companies will serve as examples to validate the strategies analysis in Part 6.

4 Methodology

4.1 Working Process

The literature above will be validated by interviews, fieldworks and consumer research. An analytical framework will then be built and be used to come up with strategies in Chinese context. These strategies could become a reference to Swedish outdoor MNEs which are preparing to enter the Chinese outdoor market.

4.2 Research Methodology

-Literatures, online business journals and articles

-Consumer Research

Personas Interviews is the main methodology of doing consumer research. We use personas as fictive representatives of user groups described in words and images that translate abstract data into human needs (Designit Consumer Research Toolkit, 2010, Denmark). This method makes abstract data easily understood and establishes a joint frame of reference for internal discussions of the users that are being targeted. On the other hand, it shows where and how value can be added to different target groups and stakeholders, which is very important in the development of new products and services.

-Interviews with industry insiders

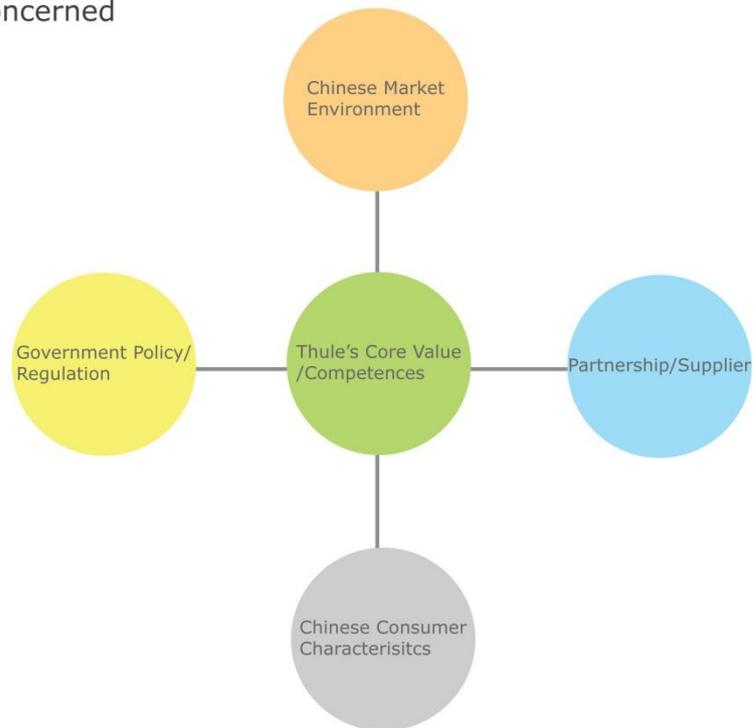
The advantages of using interviews as source of evidence is the result would be more targeted and insightful. However, the disadvantages are bias could occur due to poorly constructed questions, and there are risks that interviewee may give what interviewers want to hear. (Yin, 2003) To overcome these, the interviewing questions are set up by more than one person, also the questions are tended to be more open-ended in order to prevent the interviewees from guessing the agenda of the questions.

-Fieldwork

The field study was conducted on Mar 15 2012 in Thule group BA Outdoor 's Industrial Plants in Hillerstorp, Jönköping. The purpose of the trip is to inspect and understand the manufacturing process of the products. From this I could evaluate Thule in a more complete picture. I was guided by Innovation Manager Anders Nilvius and we inspect the product testing center.

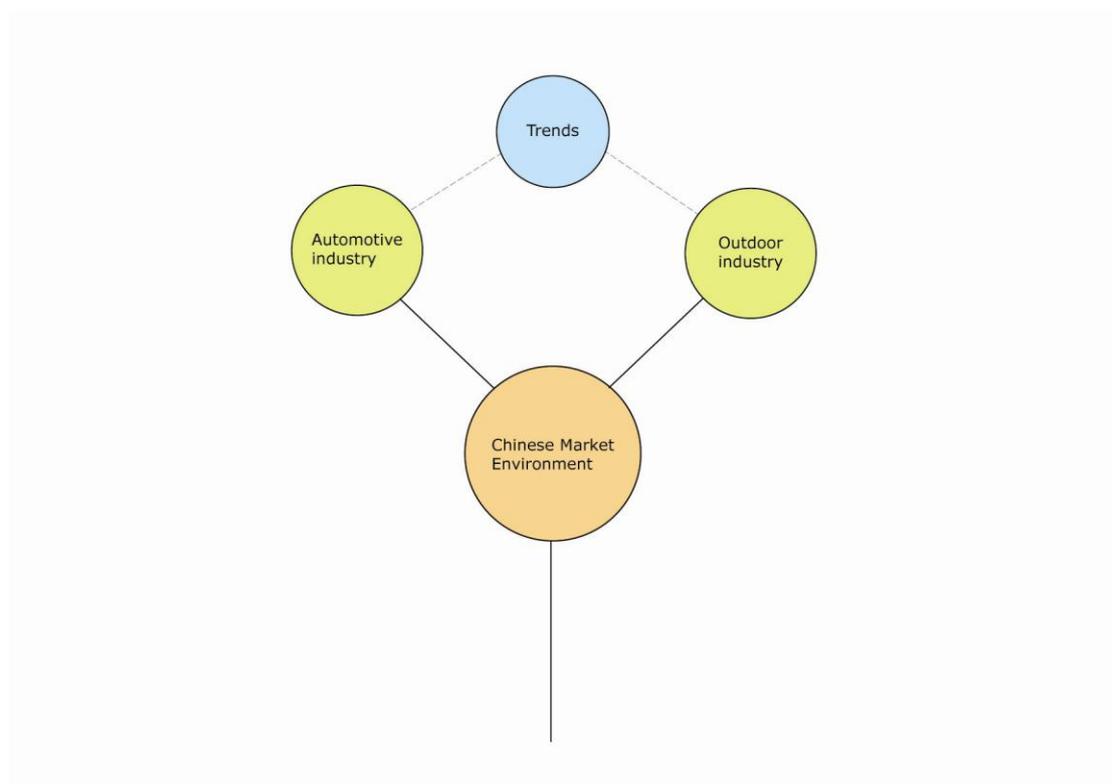
4.3 Development of an analytic framework

Framework of Thesis/
5 Forces concerned



Above are the general 5 forces that are concerning how firms like Thule BA Outdoor can relate to China's characteristics. We will look at each circle in more details in the following analysis; the main focus will be on how these factors would interact with the prospective outdoor industry in China.

Chinese market environment



This part is majorly focusing on the trends happening in the automotive and outdoor industry, which are as well affected by the general Chinese environment. Since Thule is both concerning automobile and outdoor and therefore these two parts will be looked into. However, I believe there The major trends that worth mentioning in the two industries are as follows,

For automotive industry:

1. **Acquisition between automobile manufacturers:** One of the disadvantages of Chinese automobile industry is that it is so fragment. As there are too many small manufacturers and only around 10 of them account for 83% of the total sales in China. This would cause problem in resources management and efficiency and therefore the government encourages the big firms to acquire the small firms in order to improve the situation
2. **Local Chinese firms acquiring foreign assets:** Chinese OEMs are weak and lack of capabilities of developing critical technologies for example safety and fuel economy,

while the MNEs need more money to perform the development of the technology, therefore the trends of local firms acquiring foreign companies emerge, for example Geely acquiring Volvo

3. **Chinese government investment on New Energy Vehicles (NEVs) and related**

infrastructure: Since the number of population that can afford vehicles are increasing and that would cause huge environmental impact, therefore the government encourage firms for example BYD to develop the NEVs and develop the related infrastructure to reduce the problem

4. **Brand-building for local vehicle brands:** The local firms are striving for

internationalization as well as building their brand name and confidence among the Chinese consumer. One of the approaches is to “force” the MNEs to form IJVs with the local firms by offering them benefits, which local firms can enhance their brand identity as well as quality through learning. Another is exporting the products to less-developed regions in the world.

5. **Hyper-competitions between product segments:** Since government offer reduction of 5% tax rate for rural consumer to buy small car with lower engine displacement, which is obviously in favor of the local firms; the MNEs starts to build small cars to enjoy the benefits and fulfill these first-time consumer. At the same time, the local firms are trying to build cars of the luxury segments in order to enrich their product portfolio and enhance their brand name. These activities offer Chinese consumer more choices and hyper-competitions appear.

6. **Growth of demand in lower tier cities and changing demographics:** Since government offer benefits for rural consumer in the policy in order to help the local firms, the sales of vehicles in these region record major growth. Also the urbanization of population, which the rural population has declined from 82% to 55% in 2008 (About 720 million

people)⁴⁸ will create a large number of prospective mainstream consumer in the future, which would be a huge market for automobile industry. The fact that 85% of all vehicles are sold to urban residents can prove this.⁴⁹

For outdoor industry:

The outdoor industry in China is on its way in rapid development and there are a lot of changes and uncertainties. Below are some trends that now happening in the industry.

1. **The fall of sports products and the blooming of outdoors products in sales growth:** For example the famous brand Peak has only 9.5% of growth in 2012 compared to 2011 at the same period, which is the lowest since 2009. However, in 2010 the total retails profits of outdoors product has reach RMB 71.3 billion, which has increase 47% compared to 2009.⁵⁰ Moreover, Tread, the largest local outdoors firm reaches a profit of RMB 4.3 billion for the first 3 quarters of the year, which is reported 68.77% of growth compared to last year. The North Face and Columbia are also reported annual growth of more than 70%.⁵¹
2. **Large cooperation acquiring different outdoor category brands:** Large numbers of human capitals and resources are developing the market. The evidences include n June 2011, VF Corporation (Which own The North Face) purchase Timberland for US 23 billion, and then in July, Black Diamond Equipment purchase Jack Wolfskin with 7 billion Euros, and in November, Adidas Group purchase Five Ten with US 25 million⁵², etc. These purchases by big corporations show that the development of outdoors will be enormous.

⁴⁸ Russo,Peng,Tse and Ke, 2009

⁴⁹ Russo,Peng,Tse and Ke, 2009

⁵⁰ 2011 年中國戶外行業大勢總評

⁵¹ 2011 年中國戶外行業大勢總評

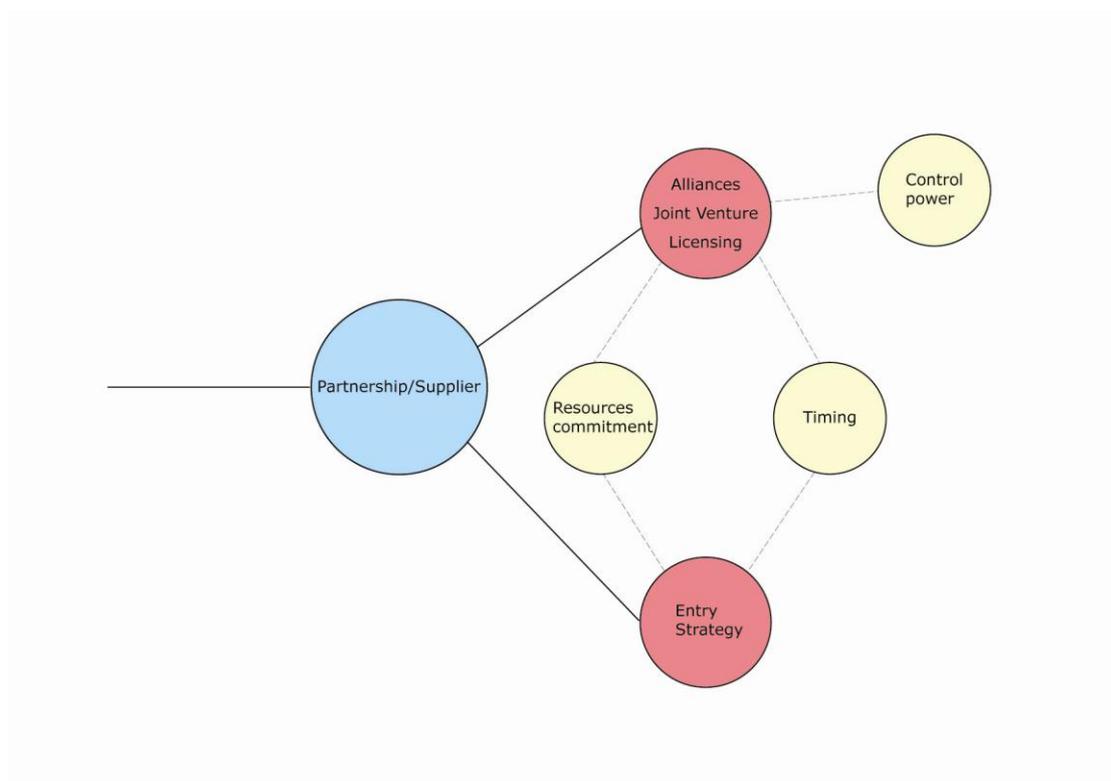
⁵² 2011 年中國戶外行業大勢總評

3. **Consumer strong preferences on branded products:** The consumers especially those are affluent don't care about the price very much but the brand name. For example, Adidas is very good at providing products with high Price/Performance Ratio, however this direction could be not appropriate for the Outdoors Market. It seems that the higher the price and the more popular of the product in the outdoor segment. For example the latest model of mountain shoe by LOWA costs RMB 3480 in the market and it is still very popular among the consumer. We can see that, how the perception of Western visual identity can affect the Chinese consumer taste. Many affluent consumer buy outdoors product in order to distinguish themselves with the mass consumer and to show their social status, therefore high-end outdoors products are visually considered as luxury goods for Chinese consumers. Among the consumer of professional outdoors products, only 20-30% are performing outdoors activities. Therefore compared to traditional sports products, it is not necessary to have new outdoors products coming out every season.
4. **The emerging of different segments in product and outdoor activities:** The industry is predicted to be separated into more product segments. The brands are predicted to be targeting different types of consumer, and there would be more segments in outdoors sports products and activities, for example skiing, rock climbing. And there would be more brands producing some more specific and professional products, for example sleeping bags, footwear, eyewear, etc.
5. **Multi-brand strategy of big cooperation:** There won't be a single outdoor brand that can target everything, like Nike and Adidas does. The leaders in the Outdoors Industry are mostly using the multi-brand strategy, for example VF Corporation owns The North Face and Timberland, Columbia Group owns Columbia, Mountain Hardwear and Sorel, etc. Although Outdoors Industry is still in its primary stage in Chinese, in the near future

it would be separated into various professional sectors. Therefore, it would be very hard to survive and develop with just one single brand, also the multi- brand strategy would also help the corporation to negotiate with department stores and the other market places.

6. **Lacking of product professionals and market information:** In this moment the industry is lacking professionals with sophisticated product knowledge, also it is very hard to catch the needs of the consumers since the market is still on its early stage of growing.

Partnership in Chinese outdoor context



Partnership is concerning majorly on different ways of cooperation and what strategies could be used when entering the market. When firms decide to enter the market, timing and resources are concerned, which would affect firm's decision on what kinds of cooperation with the local firms, e.g JV or licensing. The control power between MNEs and local firms is also of strategic concerned when there exists some forms of partnership. Below explain what outdoor firms should consider in terms of

these aspects.

Resource commitment: It mainly depends on the product nature of the outdoor firms, the policies of the regional government and whether the firms' strategies in China are long term or short term. For example Haglöfs may put more resources on China because of its strong back-up from the mother company Asics, which is more familiar with Asia and therefore more beneficial to run long term strategies.

Moreover, IPR system is one of the factors that would affect resource commitment decision. For firms that are more focus on fashion, IPR is less important because the products are seasonal and consumer tends to buy real product. If the products are more technology-based(e.g ski equipment) then whether the firms can adapt to China's IPR system is important, since the system is built recently taking references from other OECD countries, there may be some loopholes or bureaucracy during the process, and different regions may have their own understanding and procedures for specific case. Moreover, if the government is in favor of some industries and offering incentives and related facilities, for example science parks or cheaper import fee of equipment. Also, firms should consider whether China is a market or a strategic region within the product network according to the nature of its products, for example Thule BA Outdoor is more likely to see China as a market although they have some manufacturing in China, because they decide to be more consumer-driven in the product strategy. And obviously the government is more favorable to firms with technological capabilities to have a long term plan in China, as we see in Samsung SEC's case.

Entry timing: It depends on whether the market is green or mature in China. If it is a green market, firms should build up the first mover advantages by brand identity, because this means to educate the consumer about the products, and this would

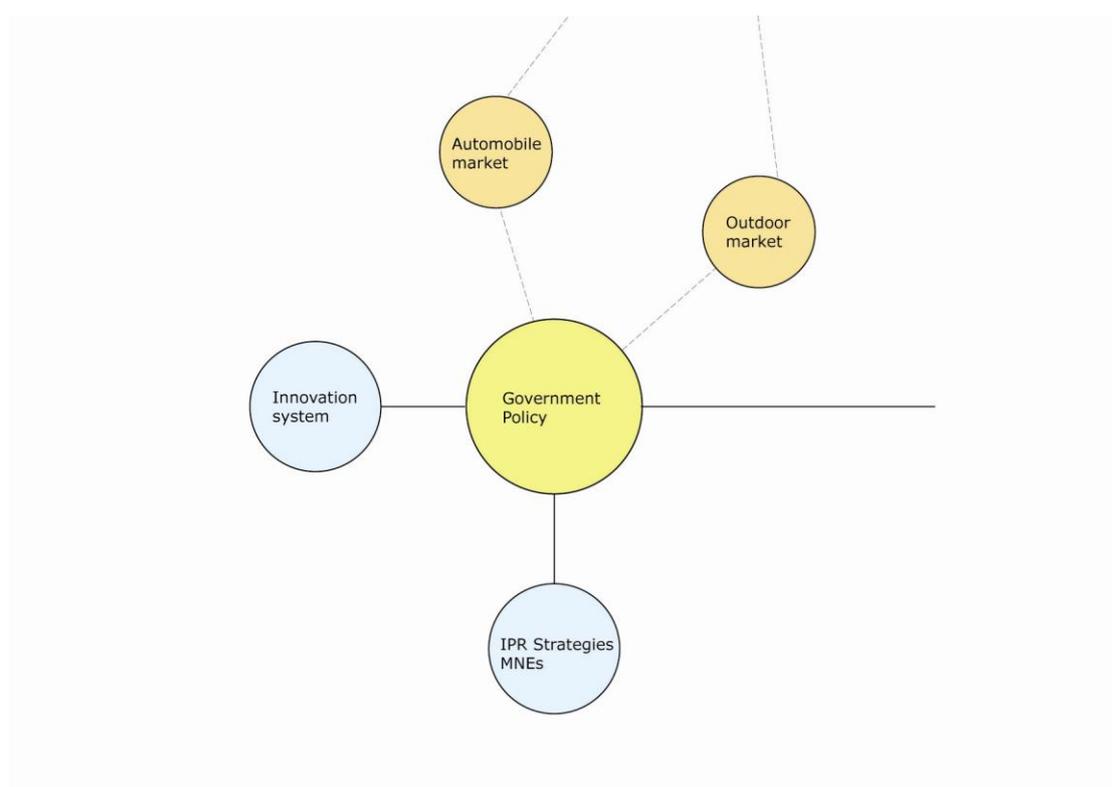
create barriers for late-coming competitors because the consumer will develop certain level of loyalty after a period of time. If the firms are late-comers, they should look at what their competitors are weak at in that specific market, or what qualities the products can make differentiation among the existing products, according to Jackie Chen. And since the penetration of almost all foreign outdoor brands in China is not very strong, the outdoor market is still considered green in China.

Control power: Joint Venture is almost a “forced” entry mode for getting into the China for automobile industry. As for the outdoor industry, this may also happen when the market segmentations are becoming more apparent. Since much professional outdoor equipment requires high level technological knowledge, and especially footwear, which firms still prefer to keep the design and development in their original places in this stage. The government would be likely to encourage Joint Venture if the market continues to grow. Moreover, the control power of the MNEs and local firms in an IJVs is worth mentioning. MNEs may get stronger control and learn a lot more if they cooperate with a relatively weaker local partner. For example Samsung SEC learn a lot about the Chinese market and make efficiency with good collaborations as the company has 80% control with its IJVs.

Another counter example is the French brand Decathlon, they makes direct entry and set up their own R & D center in China. One of their partners in Dongguan is strong with very high capabilities. This partner learns a lot from Decathlon even though Decathlon is trying to make stronger control, but because they are too good and many other brands want to make partnership with them, including The North Face, Columbia, etc. Therefore Decathlon can maintain certain limit of control power with this firm.

Types of partnership in Chinese outdoor industry: One of them is alliances, for example the multi-brand strategy by the alliances of LOWA and Northland, LOWA is a German footwear brand and it is bound with Northland in marketing and sales activities in China. For example they share the same concept stores which are designed by the same team of concept store designers in the Chinese department store. Licensing is another popular type, for example Northland is from Austria but its brand name is acquired by the BC Outdoor China, BC Outdoor has the full right of the operation under the brand name Northland and is responsible for all activities in China including R & D, marketing and sales, etc.

Government policies in outdoor perspectives



We have discussed the general Chinese innovation system in the literatures and here we would analyze if IPR strategies that are existed and used by firms would be effective in the prospective outdoor industry. The innovation policy system is actually more in favor of MNEs with high potential to develop R & D and perform technology

transfer. It benefits the automobile industry in its technological aspect but not for the outdoor industry, which is more consumer-driven in this stage. But since the trend of the outdoor products are moving towards more professional and smaller segments, for example, mountain footwear and more equipment-based products. These products (Especially footwear) are regarded as commercial secret with high technology in US and Europe, therefore the possibility of being support by the government would exist in the future.

There are 5 major types of strategic motives for patenting, which are protection, blocking , reputation, incentive and exchange(Blind et al., 2004). There are usually four strategic approaches that the firms use in China, they are large number patenting, Licensing, strategic timing for legal actions and alliance and standard strategy⁵³

Large number patenting: It's predicted that this would be a trend in outdoor industry in the future. Filing for a large number of patents is usually affordable by big firms and I think it may applicable in some outdoor products such as footwear, mountain sticks, etc which requires a lot of advanced technology for development. Moreover, since the industry is controlled by big cooperation such as VF and Black Diamond, these firms are big enough and have the abilities to file large patents for protecting their technologies when the Chinese outdoor market grows mature.

Licensing: Licensing of technology sees lower chances in this stage as most outdoor MNEs which have activities in China are still reluctant to make critical technology transfer in China, except for Decathlon, which has R & D Development Center in Shanghai and is going for the price-value strategy and the mainstream consumer

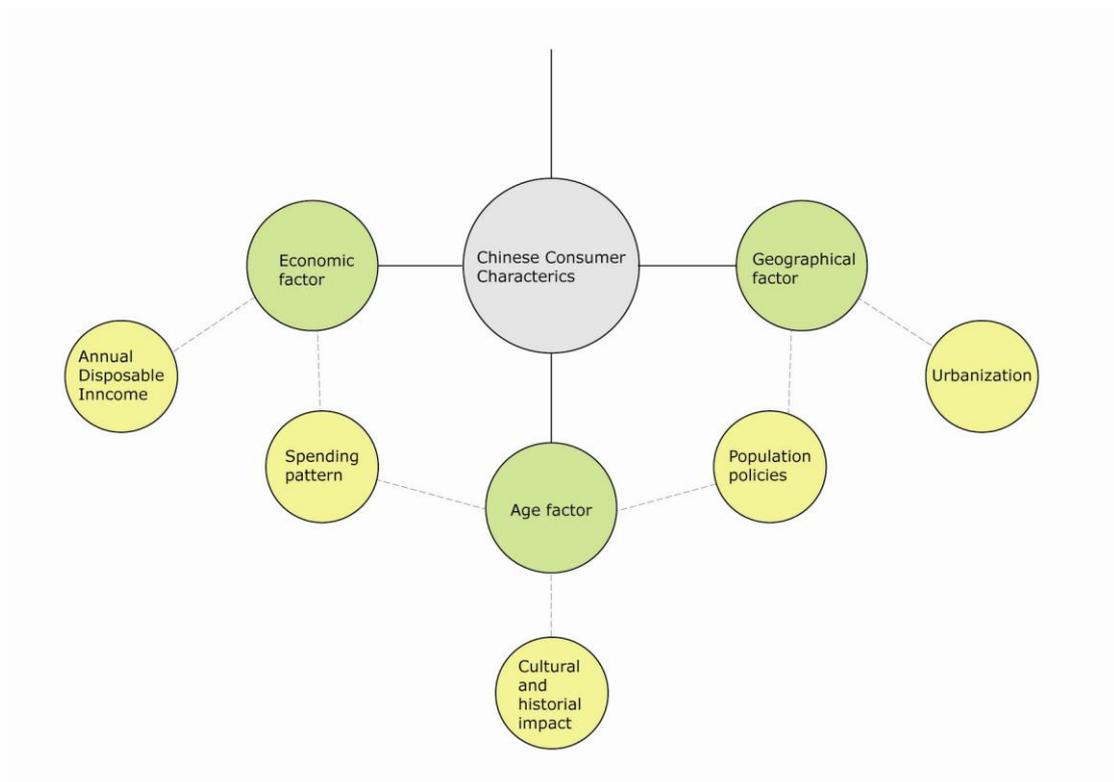
⁵³ Liang and Xue 2010

market. The reasons for the unpopularity of licensing in the outdoor industry are probably due to the loopholes of implementation of the IPR system and the “skill” and spend of low-cost imitator in the local market.

Strategic timing for legal actions: I think this would not be very effective for the outdoor industry, as most Nordic brands are so various and having their own unique styles, which are still on the stage of testing the Chinese market, e.g Håglöfs and Helly Hansen. Also, outdoor products are tending to be more seasonal and the only way that would trigger imitation is one specific model reaches very high sales consecutively. For example, The North Face Big Shot backpack is so popular that it was “roughly-imitated” by late-comer like Everest and Northland, wishing to capture the lagging/first-time consumers.

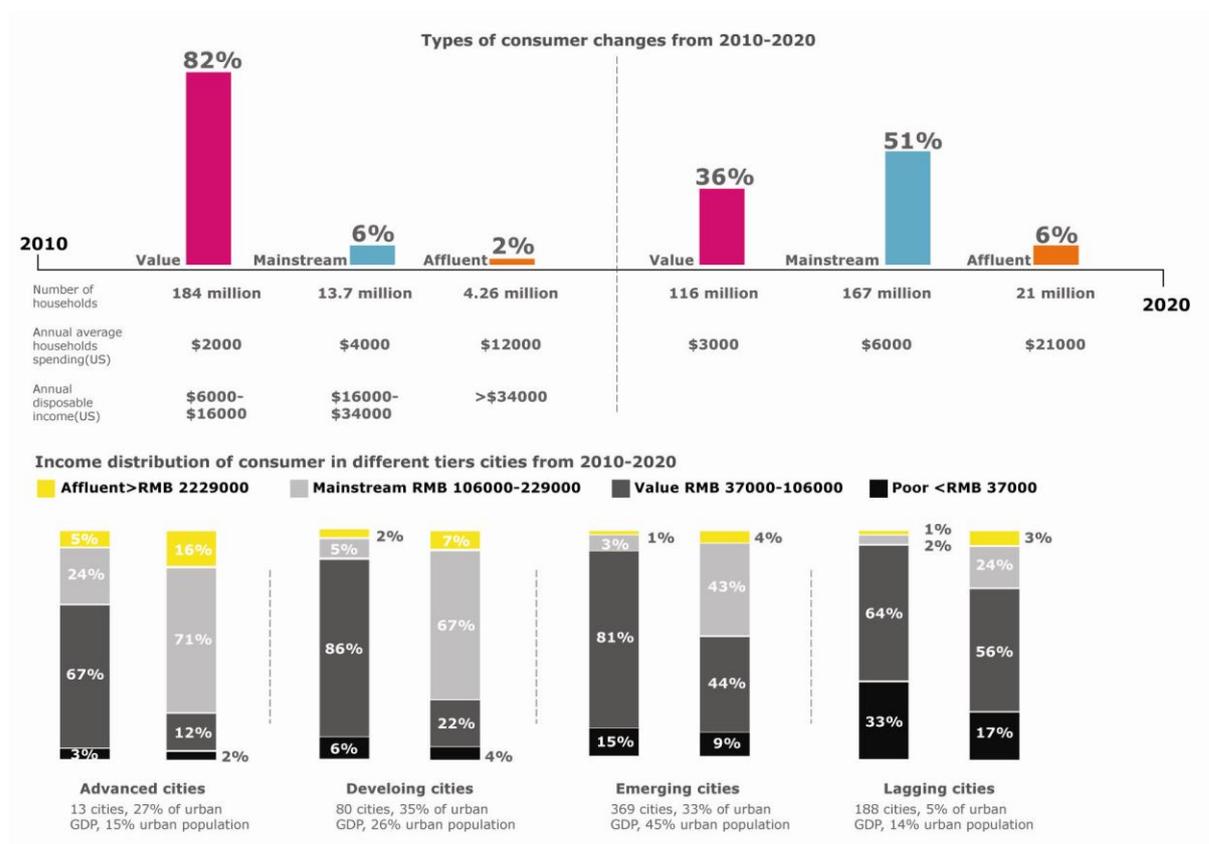
Alliance and standard strategy: This maybe extremely useful when the footwear and equipment market grow mature in the short future. As there are a lot of complicated technologies in footwear and equipment, it is predicted that many firms would register those standards or process in order to make impact potential competitors. The high return profits of footwear is also a major motivation for this strategic approach. For example, Northland has intended to register “a name” for the function of a footwear sole, which claims that it can prevent slipping when trekking in bad weather.

Chinese consumer characteristics



This part would be most important out of the 5 forces as identifying the needs of consumer is the majorly drive of pushing sales growth. It includes a general data proof by the McKinsey survey to explain the changes that are happening, and I would investigate how much it is relevant to the prospective outdoor industry.

General consumer segments from 2010 to 2020



Above I have summarized the result of McKinsey's annual consumer surveys in China.

Since 2005 and interviewing a total of more than 60000 people in upward of 60 cities.

The surveys tracked the growth of incomes, shifting patterns of expenditure and rising expectations.

One of the feature findings of the surveys is changing demographics, which is taking place in China now due to rapid industrialization: rising incomes, urban living, better education, postponed life stages and greater mobility. However there are also some unique factors, for example the government's one child policy and the obvious economic imbalances among different regions. It is predicted that the per-household disposable income of urban consumers will double between 2010 and 2020, from about \$4000 to \$8000.

Consumers are divided into three types within the country as following:

Value consumers: Households with annual disposable incomes between RMB 37000 to 106000, which is just enough to cover basic needs

Mainstream consumers: Households with annual disposable income of between RMB 106000 to 229000, which are fewer than 14 million and only 6% of the urban population in 2010.

Affluent consumers: Household disposable income exceeds RMB 229000, accounts for only 2% of the urban population, 4.26 million households.

Changing demographics of three types of consumer from 2010 to 2020

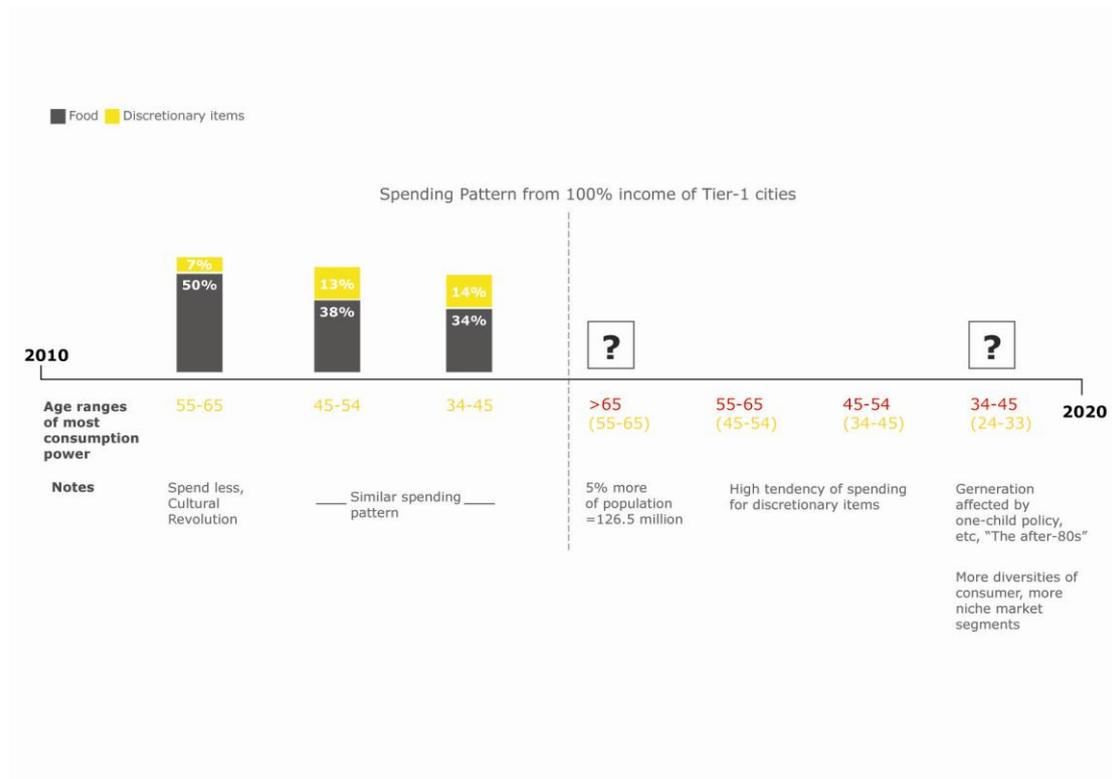
Firms could either opt for serving the affluent and mainstream consumer or the value consumer.

The former tends to go for the brand identity building up strategy, without a lot of de-engineering works for the products, and that would only targeting 18 million households, while the latter would be facing a huge market of 184 million households. In general products targeting this group would have to be cheaper and the business model would need to be restructured.

By 2020 many people in the value category will have joined the mainstream, which will then account for 51% of the urban population, they are capable of affording cars and branded products. Nevertheless, value consumer households which will fall to 36% in 2020 from 82% by now and account for 307 million people, they will still have huge needs for cheaper products,

Affluent consumers will reach 6% of the population in 2020, and would be about 60 million consumers. Some cities and regions are will be much wealthier than others.

What does consumer trends imply to outdoor industry by 2020?



About explains the spending pattern in 2010 related to age groups in Tier 1 cities(Left), while a prediction of what will be changing by 2020 (Right)

Spending pattern: New spending pattern will emerge in the next 10 years. The consumer are predicted to spend more of their discretionary income on better goods and services, and the growth of discretionary would be high, which is a very good sign for the outdoor industry. The emergence of a senior market is also expected, and this explains why Fjällraven is expected to be popular among the senior people in its apparel series, since its visual identity for example colour and price setting meet the taste of the senior consumer with high purchasing power. The discretionary categories are predicted to have a strong growth of 13.4% from 2010 to 2020, because these goods become affordable to the large growing number of mainstream consumers. Outdoor firms should keep an eye on the senior market as they are

expected to be the most spending consumer. The consumption model suggests that in 2010, average household spending for value, mainstream and affluent consumers was about \$2000,\$4000 and \$12000 respectively. These figures will jump to \$3000, \$6000 and \$21000 respectively by 2020.⁵⁴

Trade up of goods and service: Growth of market relies on consumer using their money on buying more expensive goods. Therefore, it is more wise for Nordic firms to work on delicate details on the products in order to provide enough differentiation to get into the luxury segments

More consumers would be affordable for the branded products. Younger brands would need to compete with established competitors belongs to big cooperation by offering premium products and working on premium brand image, as Nordic outdoor industry is constructed by would be the general direction of the Nordic small-medium outdoor product brands. Nordic brands should work together as a group to enhance their overall popularities in China.

Emerging senior market: It will have 5% points more people above the age of 65 in 2020, which is an extra 126.5 million citizens and would be a quite big market. The way of spending pattern of older people in 2020 will differ from those of older people now. The elderly by 2020 will be more willing to spend than those in 2010 now. Therefore outdoor firms should make promotion on emphasizing health and outdoor activities targeting these elder people.

Today's older consumers behave very differently from younger ones in China. For example today's 45 to 54 year old, which would become the older generation in 2020, have spending patterns similar to those of 34 to 45 years old, while the young consumer in their 20s today are mostly raised under the one-child policy. Therefore

⁵⁴ Atsmon and Magni, 2002

we could expect that the older people by 2020 will probably be more willing to spend on luxury product, while the young consumers in their 20s will be more willing and have greater ability to spend.

Implications for outdoor companies:

By 2020, outdoor firms would have to be more precise of their value propositions and try to connect with more consumer segments, while standing out from the other competitors. This could be achieved by multi-brand strategy, the multi-brands strategy could be interpreted in different ways. One example from Toread is to target the internet and lower tier consumers, which would not affect the high-end brand image of Toread, but help increase the sales growth. More of how to use this strategy will be explained in the strategy analysis part.

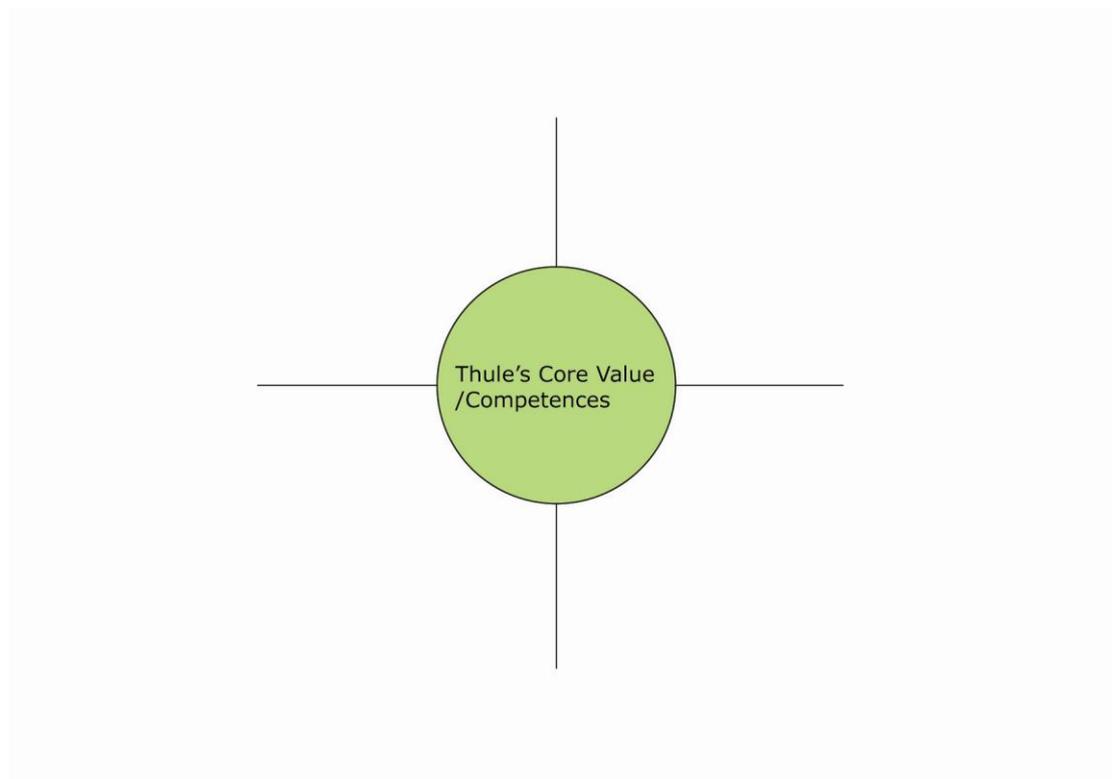
Case Studies: Visual and Functional perspectives of the Chinese and Western kitchen

It's worth mentioning that the Western kitchens always have all kinds of tools, and these tools are mostly very specific. For example, there are the masher and the testing needle only for making potatoes. Moreover, the Western cookbooks are always focusing on the visual effect as well, for examples there are always close shots of the texture of the food, and the food are considered as decorations in the cookbooks. In a way, how the food and tools look in a certain composition seems to be more important than how the food should be cooked.

The Chinese kitchen is the other way around, usually in a Chinese household, there are only a few knives and these knives perform all functions that are needed in the Chinese kitchen, including cutting, smashing, drilling. The Chinese cookbooks are also more focus on how the food should be cooked and done, rather than how to make the tools and food look nice together.

From there we could get an insight that Chinese people are more result-orientated, and they prefer to use things that are familiar and easy to handle, also compared to Western culture they have less awareness about the visual compositions of their living environment. Therefore, tools that are developed for the Chinese people should be more simplified and easy to handle from those of the original for the Western market, the visual compositions of the products targeting Chinese user should be more explicit and result-orientated as well.

Thule Group BA Outdoor's core value and competences



The Thule Group is with its strong consumer brands the world leader in products that make it easy for people to transport their equipment safely, easily and in style. Thule Group has about 3,100 employees at more than 50 facilities worldwide. In 2010 sales amounted to SEK 5,7 billion.

The Thule Brand is the biggest brand within the Thule Group. The company decides to be more consumer-driven in the future development. There, building up the brand name would

be of first priority in this moment. Thule Group has been building up sales facilities within China, but would like to expand their strategies and investment and enhance their brand image in the region. The possibility of building a new business model for China based on the existing one would be the major challenge. First, the commitment and determination of entering China would be an issue. Second, it takes time and resources to alter and adjust the existing process into the new environmental context, since the amendment of business model should not be taken lightly.

Characteristics of Thule Group

- (a) The company would like to be more consumer-driven in global strategy
- (b) Nature of products standing between more than one alternative markets: Automobile and Outdoor
- (c) Intention on capturing the local market information and establishing sales channel in the market
- (d) The R & D Center is far away from the Chinese market

Core competences of Product Development in Thule Group Business Area Outdoor

According to Greger Juhlin, Vice President of Product Development Business Area Outdoor, the following is the core competences of Thule Group Business Area Outdoor product development

Product development

- Sheet metal forming
- Vacuum forming of ABS / roof box manufacturing
- Welding and surface treatment of steel, mainly tubes, as well as assembly
- Engineering design of steel, aluminum and plastic parts incl. numerical simulation and design for assembly
- Roof racks development

- Bike carrier development
- Ski and kayak carrier development
- Roof box development
- Industrial design of products in focus

Process

- Well defined stage and gate model for product development projects

Features

- Smart solutions for the consumer

5 Consumer research and interviews

5.1 Consumer Research

The target consumer generally like to go outside and do different kinds of travel, which including backpacking, flash-packing, sightseeing, outdoors activities, etc. The possible transportation could be air flights, cars, ferries, etc.

The selection of consumer sample is majorly considering their ages and types, like which age groups and types of consumer would be most valuable and have the most potential to purchase the outdoor products by 2020.

Findings of 4 types of consumer

-Lead User

The characteristics of lead user: User that would buy the product because of their own thought and needs. These people are not affected by the trend, but would probably provide innovative ideas or usage to the products. The user that I find is of the wealthy class according to Chinese living standards; his family owns a SUV and goes outdoors once in a while, he has general knowledge about outdoor products and he loves travel in general. He is very particular about travel equipment and his

favorite brands are SAMSONITE and RIMOWA.

-Outdoors goer/Non-consumer

Outdoors goer/Non-consumer is defined as people that would go outdoors and generally enjoy outdoors activities, but not in a very regular or professional practice.

The user that I find is of the middle class according to Chinese living standards; she loves being in nature and outdoors due to her living environment

-Road Biker

The user that I am interviewing has 2 to 3 years experiences in road biking and will do it continually. He has professional equipment and he is aware of the policies and regulation from the government about outdoors as well. He is aware of developing personal skills through Road Biking, he express high interest in Thule's products.

There were 8 people in his family, It is notable that his brother get married very early, and this trend is happening a lot in China especially for people who are less educated and living in Tier 2, 3 cities. He owns a Giant ATX680, and it costs around RMB 1400 in net price. Normally he go road biking with the friends he knows from the Regional Sports Clubs, in one year he would have around 10 times of long biking trip (More than 50KM). He had a trip for 2 days for road biking 280KM, and one cross-province trip for 1000KM, he enjoys going to short biking trip for 1-2 days in weekends.

Normally he would purchase his equipment online through Taobao.

-Automobile Owner

The user that I am interviewing is a highly educated young professional and wealthy enough to own an apartment and car in Sweden. He is a single male and own a Hyundai i30. He is interested in biking in outdoor and he thinks Thule's product is still very green in Chinese market. But he thinks it would become more popular when people get to know more about outdoor activities and caring about health.

Other findings from the user research

The four typical users are more or less related to the lifestyle of automobile and outdoor. In general, except the non-consumer, the other users have basic understanding about automobile products for outdoor use. Most of them think the Thule's vehicle product won't be popular for Chinese consumer in this period, majorly because it doesn't fit the Chinese consumer life habit, but they think the products will see its market expanding in the coming 10 years as outdoor activities are becoming more and more popular in China. People in China nowadays, especially for the mainstream and value consumer, would prefer to take train and long-journey bus across provinces. Therefore if Thule Group wants to fulfill the mainstream and value consumer, new product concepts would need to be developed. Moreover, according to the road biking user, some invisible government regulations exist, for example not all the lakes in the Chinese outdoor is free to use by the people as the government may have register them for special purpose. Also, many scenic spots in China are managed by the government and people would need to pay if they want to get in certain areas. This also proves the literature that the government is putting a lot of resources in protecting the environment, therefore putting consideration of the eco-system during product development would expect to be very welcomed by the government. Another reason that people may not use car travelling in long journey is because there are a lot of fee tolls between large and small highways, which would be an extra costs for travelling.

User's review on Thule's products

The ergonomic design is generally fine with Chinese people's body sizes, however, the procedures of fixation may need to alter to fit the Chinese people, as Chinese people are generally less-trained in fixing something according to the user's reviews.

For example, many people in Sweden would more or less know how to fix a bike but this is not the case in China, because people would usually go for a bike shop or even buy a new one. Moreover, a user has mentioned that Chinese people don't have the habit of putting their belongings on top of a car.

5.2 Questionnaire and Interviews

The questionnaires are divided into different sets according to different agendas, and are performed with follow-up interviews with the interviewees. These questionnaires are pointing towards different perspectives, including:

- (a) Chinese Market Environment
- (b) Experiences of Market Entry and Partnership
- (c) Chinese Automobile Market
- (d) Chinese Outdoors Market
- (e) Validation of assumed strategies practices

Below listed the interviewees with the descriptions of agendas:

Question for Jackie Chen: Jackie has very good experiences in the Chinese Outdoors Market, he was the Head of R & D when I was working as an outdoors product designer in Northland China in Nanjing. Questions for Jackie are related to internal information of outdoor companies activities, the Chinese Market situation in a local's perspectives, also the Chinese consumer behavior.

Question for Barry Hung: B Barry is the Sales Manager in China for BA Outdoor within Thule Group, he used to be responsible for the East Asian market. There are two interviews with Barry by phone. The questions for Barry are about sales strategies.

Question for David Stener: David is the former Sales Director in Thule Group BA Outdoor. The questions for David are about how the German market was entered as

a reference.

Question for Tim Fletcher: Tim is the liaison officer for the US Government in the Industrial Design Industry. Questions for Tim are related to Product Design and Development, Design Innovation Strategies and Chinese Market Environment in MNEs perspectives

6 Analysis and results

6.1 Characteristics of Chinese market

The characteristics of the Chinese market can be summarized in the following:

1. **Low-price competitions among different market segments:** Many firms in China are more result-orientated and don't want to risk investing in products that they can't predict the profit returns, therefore they tend to imitate products that already proved to be successful in the market, and want to attract first-time consumer or consumer that are expected to spend less and this appears in many market segments
2. **Rapidly-changing social environment and economic status:** One of the noticeable is the changing demographics- urbanization of population, since government are buying lands from those who live in rural areas, a large number of people are moving from the rural areas to big cities, these people need product that could demonstrate and help them to adapt to the urban lifestyle. Also, more and more people are getting wealthy and by 2020 that would be 51% mainstream consumer in urban area, who can afford branded products
3. **Policies and improved system:** Government policies significantly affect the changing environment. For example people who are raised under the one-child policy would be expected to spend more, since their parents invest most of the resources to those one-children. The improvement of IPR system and regional bureaucracy are also something to be aware of in China.

4. **Diversity and dynamics of consumer tastes and behavior:** As mentioned the number of value, mainstream and affluent consumer will vary largely due to the urbanization of population, consumer needs could become so different across China's regions and therefore regional consumer insights would be important for strategic planning and decision making.

6.2 Visual culture differences between China and the West: What the Nordic brands should be aware of

The most active Nordic outdoor brands in the global context would be Fjellraven, Haglofs and Helly Hansen. The characteristics of these three brands can represent the major phenomenon of Nordic outdoor firms. Most Nordic outdoor firms nowadays are more like small-medium firms and they are mostly represented by the Scandinavian Outdoor Group(SOG) towards the international market. Haglofs was acquired by Asics Japan in 2010 and is predicted to be a major global player in the future, similar to the path of Columbia and The North Face. This is a smart move especially in terms of entering the Asian market since Asics has more resources and more familiar with the Asian market. Fjellraven is more of family business type, which is predicted to enter the Asian market with the senses of "A luxury foreign tradition", which is more like the direction of Timberland for example. While Helly Hansen is more representing a modern lifestyle developed from some professional sports.

Fjellraven is more dark and earthy in their apparel collections, while more varieties on colours on the sack collections. Haglofs products are highly professional, very detailed while very fashionable, since its brand is built up from high quality design studio. For Helly Hansen, which build up their brand from the fishing gear products and now wants to be more brand-driven in Asian market, it would take some time for H/H to penetrate the Chinese consumer with its culture. In terms of visual culture perspectives, the three brands generally give Chinese user the impression that

Nordic brands have so various colour combinations with a sense of high class taste, Nordic brands only need to keep this impression and working on the tailor-made aspects for Chinese user such as colour trends and details that is aiming to solve the Chinese outdoor environment, which would gradually distinguish Swedish brand from German brand in long run.

6.3 Application of strategies for the outdoor industry

From the literatures, we take reviews into other companies' cases and develop the 5 forces framework concerning Thule Group and the other four aspects related to China. We also look into the basic concepts of varies strategies MNEs implemented in China.

I have refined the meaning of some strategies mentioned in the literature from marketing, product strategies and visual culture, explaining how they can be applied in the Chinese outdoor industry from the assumed timeline of 2010 to 2020. They are IPR strategies in China's context, Market-shaping strategy and Multi-product/Product range strategy. The strategies are analyzed based on the characteristics of China and would be a reference for most Swedish outdoor MNEs to enter the market.

Strategy 1: IPR strategy in Chinese context

Strategy 2: Market-shaping strategy

Strategy 3: Multi-product/Product Range Strategy

Strategy 1: IPR strategy in Chinese context

In the framework we have discussed the IPR strategy that MNEs use in China and would it be applicable for the prospective outdoor industry. Here I would argument how IPR strategy should be implemented in China, with supports of the

characteristics observed in China.

1. **Strategy:** Having different intellectual properties or components of each in one product system, and let them made at different location or with different companies, so no one company understands the whole picture.

Argument: The fact that the imitating tendency and speed are very high in China, because many Chinese firms are too result-orientated, and imitation of the others is one of the fastest way to make money; at the same time, there are a large supply of engineers in China who are willing to produce/de-engineer these imitated products with low salary. Therefore, extremely low-cost imitators always emerge when new products are out to market in China. For example, The North Face and Columbia have their products made in more than one factory within the Guangdong and Jiangsu Province, in order not to let the other brands figuring out their latest model and product range strategies.

Is it applicable for outdoor products: It depends on the characteristics of product, in my experiences when I was working with local footwear companies, it is hard for them to imitate because ergonomics and material sciences are some of the core technology that Chinese firms are weak at. Otherwise, it is not so important for products such as packs and apparel as they are more seasonal. But for Thule Group, it would be relatively easier to imitate, Thule Group can use this strategy and split the manufacturing of each components in different places in China.

2. **Strategy:** Use a detective agency to collect information on the knock-off factories and then write a Chinese police report so that the Chinese police do not have to do that.

Argument: Although the Chinese government has improved the IPR system in order to convince the MNEs, China is too big and divided into different regions. Therefore, the implementation of regional governments could be diverse. Especially there could be

language barriers in lower-tier cities; hiring detective agency, which is more professional about the Chinese law and system could help a lot to over this and more efficient in solving the case.

Is it applicable for outdoor products: Definitely. Although Chinese consumer tends to buy real branded products, the imitation capabilities of the knock-offs factories are often very high. Since the outdoor industry is only in its beginning stage and many consumer buy the products because of showing status without the real product knowledge, they could buy the fake products without realizing it.

3. **Strategy:** Making products only available in some sales channels for example professional outdoor chains like Sanfu Outdoors or setting up concept stores in big department stores

Argument: This approach convey message to and educate the consumer gradually that real products can only be obtained in some certain places, which would reduce the chances of them getting fake products out of ignorance, Apple products can only be bought online and in Apple store is a good example. These outdoor chains can also help the brands to educate the consumer with their professional outdoor knowledge.

Is it applicable for outdoor products: Yes, since the consumer prefers to go for branded products in order to show their social status. They would be more than happy to get 100% guaranteed of the real products. Fake products always come out as outlet goods in a little bit cheaper prices intended to deceive the consumer.

Strategy 2: Market-shaping strategy

This strategy is part of a duo strategy with the Multi-product strategy in Stage 3 and they should be used together with the emerging economy like China. Teece et al. (1997) define dynamic capabilities as 'the ability to integrate, build, and reconfigure internal and external competencies to address rapidly-changing environments.

Market-shaping strategy is focusing on the formal competition with the other brands, which includes the following:

1. **Strategy:** Making connections with existing regional sport clubs in China by co-organizing activities, competitions and sponsoring products. If there are no such sport clubs existing yet, the firms should set up one through the regional professional outdoor chains, also building up good relationships with these professional sports chain stores

Argument: As found out in the consumer research, Hang Wang (The road biker) gets to know road biking by joining the sport club in his region, he also mention that a lot of road bikers are connected through these sport clubs. Therefore, getting the core people from the sport clubs to use the products is the first step. If there are no such sports club, it could indicate that the market is still green and it is a good opportunities to set up one and introduce the related activities to the user through regional professional chain stores, which is also a good chance to establish relationship with the customers and getting feedback from consumer rapidly.

2. **Strategy:** Develop product features that are unique to consumer based on the visual culture perspectives, and offer horizontal varieties based on these unique features in order to raise the product value and lower the cost. For example, Samsung has developed high quality LCD monitor, they categorize the end products into several consumer segments by product design, which are all surrounding this core technology and make great success

Argument: This is very useful especially when the firms are late-comer. Firms should focus on the differentiation of their products out of the others and develop it for several consumer segments. This could reduce the cost of making red-ocean competitions with the competitors, as firms only focus on the core competencies while seeking for more potential consumer in a relatively low cost approach. Since packaging core competences

into different appearances is much cost-saving than chasing for various technological advancement. Moreover, more product segmentations are expected in the Chinese outdoor industry due to the diversities of outdoor activities and consumer types, therefore targeting different consumer segments surrounding the core competences will be an important step to make it in the industry.

3. **Strategy:** Developing concept stores and online sales channel with various sales contents according to Chinese consumer's taste strategically, for example how the concept stores should be designed in regional department stores different from those stand-alone concept stores? It involves investigating the shopping habits and what consumer would expect in the specific stores. And companies should look into the visual culture perception of Chinese people. For sales content, what should be on the shelf in online store but not on the others? This is related to the needs of different consumer types.

Argument: Concept stores and online sales channel are the platforms for the brand to communicate its value and product information to the consumer, also where firms can get quick feedback. For example, Northland Design Team will have to go to different concept stores every three weeks and talk to the sales about consumer feedback, also giving comments to sales on how to organize the products, and then make a report to the R & D manager during the meeting. For sales content, Northland has an online service linked to Taobao, the biggest online shopping website in China. The products selling in this website are old models from LOWA and Northland Austria, which are different from those selling in stores. Northland provides special offer and free shipping within China to these products, which are shipped directly from the warehouse. Since these products are of good qualities but may not fulfill mainstream consumer, it's better to be sold online to target the niche market without interrupting the existing product strategy (which are those selling in concept stores and professional outdoor stores)

4. **Strategy:** Strengthening the Swedish visual element in product design, for example making Swedish flag on the small parts of the product. Real example could be the British outdoor brand Karrimor putting British flag on the buckles of the backpacks. Visual identity could be a very power tool to shape the connection between the product and the consumer.

Argument: The Chinese consumer recognizes European outdoor products as a whole, they can not distinguish the differences between the characteristics of German brands and Swedish brands for example. German outdoor brands are so far dominating the Chinese market out of European brands and they are more aiming for mass market, the qualities of the products are more standard. Therefore, Swedish brands have to make awareness to the consumer for example its delicate details on product, its stronger fashion touches than those of German brands, etc. British brands are very good at building up branding such as the recent Pantone crossover Queen series, which features the color tones of the Queen's costume in different activities, which could also be learned by the Swedish outdoor brands.

Strategy 3: Multi-Product/Product Range Strategy

On contrast with the Market-shaping Strategy, the Two-Product/Product Range Strategy is for dealing with informal competitions from the imitator and low-price competitors.

1. **Strategy:** Acquiring firms with similar product background to enrich the firm's product portfolio. For example Thule Group has acquired Chariot, and Case logic from Canada and USA respectively to enlarge its coverage in the travel range as well as penetrating the North American market.

Argument: This is coordinating with the multi-brand strategies between big cooperation that is happening in the outdoor industry. Since consumer with different needs and

more product segments are emerging the outdoor market, therefore one single brand will have hard time satisfying market needs and surviving. Therefore it's wise to acquire the other brands that the firm would have capabilities to develop those of the products. For example, Thule Group is good at steel and aluminum manufacturing; these competences could help develop the frame part of Chariot's products. Also, this strategy would also help firms to negotiate in market places and production factories since the quantity of products involved becomes bigger.

2. **Strategy:** Partner with brands that are of similar or different types of product as a mega-brands strategy. For example Northland partner with LOWA and LEKI and they appear together in the department stores and concept stores in China.

Argument: Since Chinese consumer are very particular about branding and there are consumer segments with different purchasing power as mentioned, this kind of partnership provides different consumer with different quality and price preferences; In footwear, LOWA is of a higher brand than Northland, made and designed in Germany, while Northland in China is an Austrian brand name acquired by BC Outdoor, affluent consumer can choose the LOWA footwear while the mainstream consumer could opt for the Northland footwear, which for them Northland is still a "good enough", "foreign" brand, which partly benefited from the partnership with LOWA. LEKI, which core competences are making trekking poles and was introduced in the Chinese market through wholesaling partnership with BC outdoor, in return offer BC outdoor the impression of various product portfolios to the Chinese consumer. This mega-brand strategy allows brands to benefit each other by enlarging consumer range with more coverage, which solve one of the problems that MNEs will face in China: the emerge of a lot of diverse consumer segments and the dilemmas of value propositioning.

3. **Strategy:** Shaping the product to consumer with different purchasing power by visual packaging/sales points without changing the product itself. For example Unilever offers small limited 2-3 times-consumed packages of high-price shampoo instead of those normal size package in the Southeast Asian market, and sell them in the grocery stores to reach the consumer with less purchasing power.

Argument: Instead of changing the content of the product ingredients and make it price-value, this strategy offer consumer with less purchasing power the same quality of product, while changing the visual packaging to balance the economy of scale and selling them in places that the target consumer feel comfortable with. This is a multi-dimensional penetration which can let less wealthy consumer to enjoy the good quality product. This strategy is very useful in the Chinese market as mainstream consumer will account for most population in urban area by 2020. The advantage of the strategy is it can reach the mainstream consumer with good quality products without undermining the brand positioning strategy. In the outdoor perspectives, firms can perhaps put their over-seasonal products for sales in some lower-tier sales points, the products are still of good quality and fulfill the consumer's needs with less purchasing power. For example online sales channel is probably a good one because these consumer don't feel "intimidated" by high-end shopping spaces. Firms could also provide special offers to attract more of these consumers.

7 Discussion and conclusions

7.1 Summary of findings

In the literature, we have looked into different strategies. Those are of most concerns and discussed are IPR-Entry-related Strategy, Blue Ocean Strategy, Two Product

Strategy and Price-value Balancing Strategy. The first three strategies mentioned are developed and discussed in the strategies analysis part (Part 6). Only the last one-Price-value Balancing Strategy, which is concluded from Nokia's benchmarking case hasn't been developed into further strategy for China. Here are the following reasons:

1. It doesn't fit into the foreseeable situation and needs of most outdoor brands: The trend of Chinese outdoor market is enhancing the brand identity, since most consumer prefer branded product without very much concerned about the price.
2. The price of the product doesn't have direct relation with the popularity of the product. For example, the reason for Chinese people that are buying expensive Nike running shoes even though they are not running very much, is because Nike has very good penetration to the consumer about their brands. Apple is also a good example since it is so popular in China as well.
3. Unless there are guarantee for high sales volume to balance the economy of scale, otherwise it would have to sacrifice product's quality in order to cut the cost, which would risk undermining the brand's global strategy and reputation

The findings of this thesis are majorly about how the characteristics of Chinese environment would affect the prospective of outdoor industry, which is affected by government policies, market and industry trends, consumer types and tendencies and other social-economic reasons. The three strategies are concluded related to the characteristics, which are IPR strategy in Chinese context, Market-shaping strategy and Multi-product/Product range strategy; and they will act as references for Nordic outdoor MNEs for their strategic planning for China.

Enclosed in the end are the two blueprints of Thule entering German market during the 70s and the Prospective strategies of entering the Chinese outdoor market, as for

comparison and references.

7.2 Limitation of the study

The strategies are supported by interviews with people with different backgrounds and experiences, which may have their own bias about the industry

7.3 Contribution and implications

This thesis interpreting existing strategies in the perspectives of the outdoor industry, and offer solutions on how Nordic outdoor brands can use them when intended to enter China outdoor market

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