

KEEPING UP THE LEGACY
- interactive teaching in marketing and international business.
Cases in honour of lecturer Martti Salo

Niina Nummela (ed.)

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PREFACE

In an old Finnish TV commercial there was a slogan "What did we do before we had Flora?" and the message was to bring up the long and successful history of the brand. In a way also the Turku School of Economics (TSE) possesses brands in the form of distinguished, experienced faculty members. These brands are very valuable for the university, both in recruiting new students and in committing the alumni to their alma mater. I would argue that one of its strongest brands in teaching is lecturer Martti Salo of International Business.

A strong brand is a combination of quality, credibility and trust; and it is a result of a long term investment. It is also positioned in the minds of people in a positive way. Martti Salo has done a remarkably long career at the TSE – 34 consecutive years – and during this time he has collected a huge amount of expertise that he has always been happy to share with others. Without any exaggeration we can say that thousands of students have been able to learn valuable business skills at his lectures. Furthermore, many junior colleagues in the faculty appreciate Martti's mentoring and transfer of tacit knowledge which he has always provided with ever-lasting patience and conviviality. During the years many things have happened and changed at the university and Martti has faced all this turbulence with astonishing calmness and sometimes with a faint smile; probably having a *déjà vu*, as if having lived this through already earlier.

It is probably the pleasant personality, trustworthiness as well as the strong feeling of solidarity which have made Martti a very popular member of our academic community. His constructive feedback and wide-ranging proficiency have been very welcome in the numerous committees he has participated in the past years.

Dear Martti, we wish you all the best for the future, and on behalf of the personnel of the Department of Marketing and International Business, we give you our heartfelt thanks! As a concrete sign of our gratitude and also to prove that your legacy will be well preserved and appreciated, we have compiled this book. It is a joint effort of your colleagues, friends and former students – with the invaluable help of Auli, we were able to pull it together. It contains tools and thoughts for current and forthcoming teachers of Marketing and International Business, thus transferring some of the knowledge we have

learned from you. Let it work like a baton in a relay – passing on your legacy to the next generation of teachers.

To conclude, in hope of building new brands based on your legacy we greet you with the words of Auld Lang Syne:

*Tiet kauas voivat loitota, jää muistot sydämiin.
Siis vielä kiitos kaikesta ja terve näkemiin!*

On behalf of the authoring team,

Niina

MANAGEMENT OF AN INTERNATIONAL VALUE CHAIN – CASE: SOLVTECH OY

Taina Eriksson and Niina Nummela

Mr. Jari Jokinen had recently taken up his new position as Managing Director at SolvTech Corporation. He was excited about the job and the challenges it offered him. The company had a long history and had established itself as a market leader in its niche. The management team was proud of the technological capabilities of the firm as well as the global partner network they had built. However, some changes were inevitable as the market was changing.

Jokinen had experience of various organizations in technology intensive sectors, so he knew the type of business SolvTech was in. He would be able to utilise his know-how from the IT sector as well as his extensive experience of working with marketing and sales channels, although he had previously worked in large companies. So working in an SME was also a personal challenge for him; he would need to learn how to run the operations of a global small firm.

1 The company and its products

SolvTech Corporation is an SME that operates in the technology-intensive sector of education. The company employs less than 100 people. Its headquarters are located in Finland, but it serves customers in over 100 countries. Its first product was manufactured in the 1960s when SolvTech was part of a bigger organization. In fact, the company is the result of a series of mergers and acquisitions, so the SolvTech brand is actually built on a number of strong brand names.

The company offers a combination of hardware and software, but hardware production has been completely outsourced to a trusted partner. During its long history, the company has undergone several major technological transformations and the current product range utilizes multiple different technologies. The company was the first in the world to introduce a virtual product that could operate on normal PCs. SolvTech has a very competent in-house

technology team. However, it also collaborates with multiple partners in technology development.

2 Managerial challenges

During his first weeks at SolvTech, Mr Jokinen had many detailed discussions with his new colleagues and learned a lot about the market and the way operations had been run. Rapid technological change has typically been associated with rapid changes in the market as well. However, he soon learned that change in the market is not as fast as in many similar markets, because the introduction of new technology tends to be rather slow in educational institutions. Therefore, the end users need to rely on relatively old technologies. Moreover, many teachers are actually reluctant to incorporate new technologies into teaching, mainly because they are afraid of technological failure during lessons. However, the other group of end users, namely the students, are young and typically eager to utilise new technologies. They are not afraid to try new things. Nonetheless, it is the teacher who decides on the methods used in classroom and their decisions are limited by the equipment available. Jari was somewhat puzzled by this combination.

From his colleagues, he also learned more about how SolvTech products are sold. First and foremost, SolvTech sells through a global partner network. The company has some 200 partners around the world. The sales channel partners are quite a heterogeneous group including firms ranging from very small installers of hardware to multinationals offering extensive solutions for learning. Secondly, the company also sells directly to customers that acquire large installations. For example, the Ministry of Education in some country may decide to equip all schools in certain region or the whole country with SolvTech products. In such large projects, SolvTech is directly involved in bringing together the partners contributing to the delivery. The third and final sales channel is through its own international offices, the number of which has been slowly rising during the past few years, but remains low. For example, in the UK SolvTech sells exclusively through its own sales office. Mr. Jokinen understood that SolvTech's roots run through the sales channels and that their operations, through international sales partners, are essential for the company's global reach. He discovered that SolvTech had developed important skills for managing its internationally expanding partner network. Nonetheless, based on the comments of his colleagues, he also knew that some of the existing partners would not be up to the challenge of selling advanced software-based products.

Hardware-based products have indeed played a very strong role in the SolvTech portfolio. They continue to generate considerable income, but the share is gradually declining. Software-based products are more complex, hence they require different kinds of know-how from the sales partners; the partner needs to be able to advise the customer on the required hardware, etc. The problem seemed to be that many of the relations with existing partners were long-standing and had been productive in the past, but were unlikely to make the necessary adaptations to cope with the ongoing change in software-based products. However, it was clear that SolvTech must have done a lot right, because it has been able to build an extensive sales partner network and make global operations a reality. In addition, Jari was told that the share of large project sales had been slowly rising and that trend was likely to continue into the future.

Jokinen had already familiarised himself fairly well with the other members of the top management team, many of whom had been working at SolvTech for quite a long time. They knew the company and the market inside out. He also noted that they had a pretty good understanding of how SolvTech products are used in classrooms. On the one hand, he was very happy to be surrounded by this competent group of managers; on the other, he was slightly worried about how they would react if he introduced reforms in the company.

Moreover, he was quite content with the organizational structure of the company. The size of the technology team was relatively small compared to the sales and marketing team. He knew that the product development engineers were highly competent and that, in collaboration with partners, the team could handle the development work. Nevertheless, running a sales partner network of more than 200 requires many hands, so he was happy that the sales team was large relative to the size of the firm. He had learned from his earlier experience with sales channels that frequent contact with partners is important.

He also knew that partners' motivation is crucial to the success of any partnership. In sales partnerships, it's especially important that in addition to product related know-how, the partner has a sufficient incentive to sell the products in question. However, the challenge was to apply this knowledge to the partnerships of an SME. As a small operator, SolvTech did not always have much leverage in its relationships and the personnel in the sales team needed to find innovative ways to motivate the partners to work in ways beneficial to SolvTech.

3 Summary of the current situation

The new Managing Director was facing a challenge, and he liked it. Now he was in charge of an SME that was a global leader. The company had a long tradition, which he saw as both as a strength and a weakness. The strategies that had worked well in the past and made the company a global leader were beginning to become outdated, and renewal was necessary to grow and maintain SolvTech's leading position. At his second Board meeting, he would need to tell the members of the Board about his plans for the future of the firm. So he decided to pause for a while and think *what had made the company successful* in managing its internationally expanding value chain and *what would it require in the future as the market was slowly changing*.

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PERHE JA PERHEYRITYS – KASVUN DYNAMIIKKA ULLAN PAKARISSA

Leila Hurmerinta ja Eriikka Paavilainen-Mäntymäki

Elettiin 1910-luvun alkua, kun yritys otti ensiaskeleitaan. Ullan isoäiti myi uunituoretta leipää kylällä jo tuohon aikaan. Vetovastuu siirtyi omalle pojalle tultaessa 1950-luvulle. Ovelta ovelle- ja torimyynti onnistui sutjakkaasti ison lapsikatraan hoitaessa myyjän tehtäviä. Lapsista Ulla otti isältään yrityksen vetovastuun, nimesi yrityksen Ullan Pakariksi ja siirsi sen pois pienestä kyläpiiristä suurempaan kaupunkiin 1980-luvun alussa. Omistautuminen laadukkaan leivän leivontaan on pysynyt perheessä ja siirtynyt äidiltä pojalle, isältä tyttärelle.

Kaupunkilaiset ottivat niin yrityksen kuin sen tuotteetkin pian omakseen. Yritykselle oli alusta lähtien tärkeää säilyttää äitien ja isien perintö, niin tuotantomenetelmissä kuin tuoteresepteissä ja -nimissä. 1990-luvun alusta lähtien yritys on toiminut nykyisissä leipomo- ja myymälätiloissa. Matkan varrella on perustettu pienet myymäläpisteet kauppahalleihin, kotikaupungin lisäksi myös toiseen kaupunkiin. Vuonna 2008 tuli jälleen aika siirtyä yritystarinassa askel eteenpäin: yritys siirtyi äidiltä pojalle ja tyttärelle, toimitusjohtajuus isältä pojalle – Heikille, jo neljännessä polvessa.

Alalla, jossa neljännessä yritystä lopettaa toimintansa vuosittain ja kokonaisuus on laskussa, menestymiselläkin täytyy olla oma reseptinsä. Heikin toimitusjohtajakautena yritys on kaksinkertaistanut liikevaihtonsa ja laajentanut toimintaansa tarmokkaasti.

1 Hyppäys suuriin saappaisiin

Heikki kouluttautui kauppatieteiden maisteriksi, ja jo opiskeluaikana hänelle annettiin mahdollisuus perustaa perheyritykselle pienimuotoinen myymälä opiskelupaikkakunnalle. Johtamisoppia tuli neljän alaisen johtamisesta kuuden vuoden ajalta. Toimitusjohtajan saappaisiin annettiin siis kasvuaikaa. Siinä tuli nähtyä yrityselämän arki pienessä mittakaavassa. Siirtyminen koko perheyri-tyksen johtoon oli kuitenkin iso muutos.

Esa-isä on ollut aina perheessä se, joka on kehitellyt tuotteita ja ideoinut uutta. Silti isä on ymmärtänyt vanhan säilyttämisen arvon. Yritys ei mennyt mukaan alalla jo 1970-luvulla valtaa saaneeseen tuotannon tehostamiseen automatisoinnin avulla, vaan luotti perinteiseen käsillä tekemiseen: *”Annan kaiken kunnian isälle, että hän on ymmärtänyt jo alusta alkaen sen, että me emme tee taikinoita koneita varten, vaan me tehdään ne suuta varten.”* Tuotannon koneellistaminen on otettu käyttöön siellä, missä se on ollut mahdollista, mutta tuotteen mausta tinkimättä. Vaikka leipä mielellään pakataan tätä nykyä muovipussiin säilyvyyden lisäämiseksi, perinteisin menetelmien valmistetut leivät matkaavat myyntitiskeihin edelleen paperipusseissa.

Heikki kuvailee mielellään isäänsä innovatiiviseksi. Hanna-sisko, tuotannosta vastaavana, on taas samanlainen kuin isänsä: *”Siis se on semmonen tosi innovatiivinen ja junailee nuo tuotantopuolen jutut”*. Tuotantopuolelle on kehitetty muutaman viime vuoden aikana *’ihan mielettömiä juttuja’*, perinteet silti säilyttäen. Hanna etsi omaa alaansa aikansa, aina yliopistoja myöten, mutta löysi lopulta oman työnsä perheyrittäjien sisästä: *”Tätä se rakastaa”*. Hanna myös vastaa tuotannon organisoinnista ja resurssoinnista. *”Isä on taas tosi kova tuotekehittäjä, ja visionääri... ja minä yritän tässä näyttämällä kahden visionäärin ja taiteilijan kanssa sitten jotenkin ’handlata’*. Heikki näkee oman roolinsa kokoavana: hän pitää *’lankoja käsissään’* ja kirjoittaa ja vie yrityksen tarinaa eteenpäin: *”Mulla on tosi mahtava tiimi tässä ympärillä, kaksi tämmöstä... isä kun on visionääri, ja Hanna taas semmonen kehittäjä ja organisoija.”*

2 Minä, isä, äiti ja sisko – perheyrittäjä

Yritys työllistää kaikkiaan 24 henkeä, joista suurin osa työskentelee tuotannon puolella. Vaikka yrityksen sukupolvenvaihdos tapahtui jo kolmisen vuotta sitten, ovat isä ja äiti edelleen vahvasti toiminnassa mukana; työn tekemisen palo ei ole hiipunut. *”Isä on hallituksen puheenjohtaja, mä olen toimitusjohtaja, ja Hanna on – mikäs se on se hieno titteli – tuotantopäällikkö... ja äiti... äiti on niinku kone. Se on 16 tuntii leipomos, sit se tekee viel ruuan, ja... Siis se ei oo ihminen ollenkaan, me ollaan tultu siihen tulokseen, mut se rakastaa sitä. Hanna on tullut siihen; mieletön, mieletön työkone mutta lisäksi innovaattori”*. Perheessä on kolmaskin *’taiteilija’*, vielä peruskoulua käyvä pikkusisko, joka on ehdottomasti kieltäytynyt tulemasta perheyrittäjäksi töihin. *”Tää on kuitenkin näin läheinen perhepiiri, missä tää toiminta tapahtuu, ja meidän ruokapöytä, me käydään joka päivä äidin ja isän luona syömässä ja keskustellaan siellä. Pikkusisko vaan sanoo, et ’etteks te ny voi jostain muusta keskustella ku leipomosta, ku aina leipomosta’.*”

Heikki näkee perheen voimavarana ja turvana, joskin myöntää sukupolvenvaihdoksen aiheuttaneen myös stressiä: *”Kun uus polvi tulee, uudet tavat, toimintatavat, aina tulee niitä ristiriitoja. Ei tässä nyt ihan, ihan kuivin jaloin oo selvitty.”* Jokainen on kuitenkin löytänyt oman paikkansa, jossa voi hyödyntää omia vahvuuksiaan. Mutta ainahan siellä on pientä säpinää: isän ja pojan, äidin ja tyttären välillä. Uusi sukupolvi tarttui ihan ensimmäiseksi työn organisointiin. Vanhempien tapaa omistautua yritykselle lähes 24 tuntia vuorokaudessa haluttiin hieman höllentää: *”Ei näin voi elää elämäänsä”*. Sukupolvenvaihdos ei kuitenkaan tuonut ehkä kaikkienensa sitä, mitä siltä odotettiin: *”Isä ja äiti on kuvitellut, et he voisivat jo pikkuhiljaa jäädä eläkkeelle..., mutta nyt kun toiminta on paisunut niinkun pullataikina, niin ei he oo päässykkään, et he on tehnyt ihan hulluna duunia, niin ehkä se luo tiettyä kitkaa.”* Pienyritystoiminta tuntui istuvan vanhempien elämään, eikä isällä ole koskaan ollut mitään maailmanvalloitus suunnitelmia. Siskollekin riittäisi nykyinen mittakaava. Heikillä kuitenkin itää halu saavuttaa jotain enemmän: *”Kyllä isälläkin sitä on, mutta isällä ei ole ollut ehkä enää paukkuja niin paljon...”*. Yrityksen kasvaessa haasteeksi nousevat pienen, paikallisen perheorganisaation rajat. Jo nyt yritys on ulkoistanut markkinointia uuden tuotantoyksikön suunnitelmien myötä: *”Se on vähän vierasta noille, että... kaikkee ei voi tehdä itse.”* Markkinointiin panostaminen onkin uusi alue yritykselle, ja jos kasvu jatkuu, voi yritys joutua ennen pitkää palkkaamaan henkilön hoitamaan myös asiakassuhteita ja tuotepromootiota.

3 Huimaa kasvua ja haasteita

Yrityksellä on tätä nykyä positiivinen ongelma: leipiä menisi kaupaksi enemmän kuin ehditään leipomaan. Markkinoidakaan ei voi, kun joudutaan jo nyt tarjoamaan 'ei oota'. *”Isä ja äiti olivat luoneet sellaisen markkinakolmion kolmen keskisuuren kaupungin välille, että kun minä tulin toimintaan mukaan, niin siitä ne kolmion sakarat ovat venuneet suurkaupunkeihin pääkaupunki-seutua myöten.”* Markkinoiden kasvu on ollut huimaa. Palvellakseen asiakkaitaan paremmin, yritys on päättänyt rakentaa uuden tuotantopisteen lähemmäs uusia markkinoita. Hallinto pysyy kuitenkin edelleen kotipaikan leipomon takahuoneessa. *”Sinne muuttaa semmonen nelissäkymmenissä oleva naisihminen perheineen tuotantopäälliköksi. Hän on osoittautunut meillä tosi päteväksi. Mutta tottakai me, Hanna ja minä, käydään varmaan viikottain siellä. Et tavallaan, tää Elina, se tulee niinkun meidän perheeseen sitte...”*. Alun perin Elina palkattiin Hannan varamieheksi pari vuotta sitten, jotta Hanna voisi keskittyä 'isompiin asioihin'; mutta yrityksen huima kasvu viekin nyt varamiehen muualle. Mitä muuta osaamista sinne tarvitaankin, kuten

kuljetuksista vastaavia, voi kaiken sen ostaa ulkopuolelta. Avoimuus ulkopuolisten tahojen kontakteille ja ideoille on tärkeää, jotta sieltä voidaan ammentaa mahdollisuudet, jotka vievät yritystä eteenpäin. Uuden tuotantopisteen osalta on mielenkiintoista nähdä, miten Elina tehtävänsä tuotantopäällikkönä pystyy naisvaltaisessa työyhteisössä hoitamaan. Tähän asti tuotantopäällikkönä on häärännyt aina omistaja, äiti tai Hanna.

Kilpailu kiristyy toimialalla vähenevän kokonaiskysynnän myötä, mikä ajaa yritykset etsimään uusia markkinoita. Paikallisuus ja lähiruokakäsitys venyvät ääri rajoille. Myös Ullan Pakarin markkinat laajentuvat. Samalla perheyrittäjien organisatorinen kasvu aiheuttaa kasvukipuja.

Heikin tavoitteena on pitää organisaatio mahdollisimman kevyenä välttämällä keskiportaan johdon kasvattamista. Mitä ei ole, se voidaan ostaa talon ulkopuolelta. Samat henkilöt hoitavat yrityksessä niin toimistotehtäviä kuin myymälää. Myös toimitusjohtaja osallistuu yrityksen toimintaan monipuolisesti: *”Meillä on ihan hirvee hyvää porukkaa ja nähdäkseni kauheen hyvä henki. Ehkä se tulee myöskin sitä kautta, kun mä oon siellä jakoavain kädessä, jos joku kone menee rikki ja mä oon siellä pakkaamassa, jos tarvitaan. Näinhän se ei voi silti enää jatkua tulevaisuudessa.”* Tällaista yleismies-Jantusta tarvittaisiin ehkä myös tulevassa uudessa tuotantopisteessä. Suurimpana uhkana nuori toimitusjohtaja näkeekin sen, mihin oma aika jatkossa riittää; johtaja ei voi enää tehdä aivan kaikkea itse, muttei lasikopissa summerin takanakaan istuminen innosta. *”Kyllä se yrityksen kasvu lähtee siten, että omaa työpäivää ruvetaan ensiks pidentämään tyyliin ’kyllä mä hoidan nämä jutut’. Noi tunnit on paukkunut jo ajat sitten, et ei oo enää yhtään tunteja vuorokaudessa käyttää.”*

Perheyrittäjien johtajuus on yhteenpelaamista jokaisen työntekijän kanssa. *”Mä en tunne olevani toimitusjohtaja, mä oon yrittäjä.”* Olisi tärkeää, että työntekijät tunsivat olevansa osa tätä yritystarinaa, ei vain työntekijöitä. Asian merkitys lisääntyy, kun yrityksellä on jatkossa useampi tuotantoyksikkö: *”Miten sitä tosiaan näkee muut jatkamassa yhdessä sitä samaa tarinaa, samaan suuntaan... kun yritys lähtee kasvamaan, niin sen tarinan häviäminen...”*. Yrityksen kasvun johtaminen on jatkuva haaste.

4 Sekoitus nuoruuden intoa ja kokemuksen rintaääntä

Heikki aloitti perheyrittäjien toimitusjohtajana melkoisen nuorena, mutta on katsonut nuoruudesta olleen monessa mielessä myös hyötyä. Yhteistyökumppanit ja asiakkaat ovat valmiita antamaan pienet ’mokat’ anteeksi ja toisaalta mahdollisuuden nuorelle kaverille. *”Ne suhtautuu muhun nuorena yrittäjänä vähän silleen, että ’no, oppirahat on maksettava’. Kyllä mä uskon, että on vahvuus olla nuori tällä alalla, ja semmonen innokas.”* Yrittämiseen

vaaditaan kaiken kaikkiaan tietynlainen persoona, jolla on 'draivia'. Mutta se ei yksin riitä. *"Mä oon sopivasti nöyrä. Ja itsekunnioitus, sekin on tärkeä. Ja kyllä se varmaan tietty kunnianhimonkin... toisaalta, mä oon turvallisuus-hakuinen. Mulla on pieni ristiriita siinä kyllä."* Siinä, missä isä ja sisko ovat impulsiivisia – *"ne saattaa yhtäkkiä käydä sataa ja sit nolaa"*, on Heikki rauhallisempi ja harkitsevainen. Jos jotain puolta Heikki haluaisi itsessään kehittää, niin kykyä olla visionäärinen johtaja, nähdä, mihin yritys on menossa: *"Mä ehkä näkisin tän, et tää olis perheyritys, ja meillä olis kaikilla oma rooli, ja olis kiva tehdä ja kirjoittaa tätä tarinaa eteenpäin niin, et se on vielä kannattavaa."* Toiveena on nähdä yrityksen jatkuvuus ja kehittyminen. Sadan vuoden yrityshistoria velvoittaa nuorta toimitusjohtajaa kirjoittamaan yritystarinaa *"hyvin ja pätevästi"* eteenpäin. Pieni ja paikallinen perheyritys-historia elää kuitenkin nyt murroskautta uuden toimitusjohtajan vedossa. Vaikka profiloituminen 'pieneksi pakariksi' on kilpailuetu, voi se myös rajoittaa yritystoimintaa.

Isä toimii 35 vuoden yrittäjäkokemuksellaan pojalleen hyvänä sparraajana, hänelle voi aina soittaa ja kysyä: *"Kyl se niinku turvaa luo. Mut jossain vaiheessa sit mun täytyy... mennä askel eteenpäin, jossain vaiheessa se henkinenkin valta vaihtuu. Se, tilanne ei oo vielä tullu. Enkä mä oo sitä yrittänykään... se tulee, sit ku tulee. Aika näyttää."* Vaikka toimitusjohtajuus siirtyi paperilla jo vuosia sitten, on isä-poika-asetelma edelleen vahva – myös yrityksen sisällä. Näkemys ja uskallus tehdä päätöksiä ovat kuitenkin kasvanut vuosien mittaan samalla, kun oma rooli on kasvanut. Äidin ja Hannan roolijako oli selkeämpi alusta lähtien, eikä vastaavaa henkistä sidettä ole siellä enää näkyvissä. Vastuukenttä yrityksen sisällä on heillä eri tavalla rajattu. Suurista päätöksistä kuitenkin keskustellaan aina yhdessä, joko ruokapöydässä tai sitten säännöllisissä palaverissa.

Keskustelut ovat pitkää päivää puurtavalle yrittäjälle hyvä sparrausalausta, henkireikä. Tähän kuuluvat perhepiirin lisäksi myös lähialueen yrittäjäkollegat, joita tapaa erilaisten alan yhdistysten ja järjestöjen kautta. Monasti ongelmat ovat myös yhteisiä, jolloin kehittämisprojektit voidaan ulkoistaa järjestövetoisiksi. Matkat kansainvälisille alan messuille yhdessä isän kanssa ovat myös todellisia irtiottoja arjen kuvioista. Yrittäjäenergiaa ja 'draivia' täytyy myös tarkoituksella ylläpitää: *"Mä yritän pitää kiinni siitä, että mä liikkuisin joka viikko. Ja sitte mulla on hyvä parisuhde, se on ihan hirveen iso voimavara. Ja melkeen joka päivä, ollaan perheen kanssa tekemisissä. Et kyl ne voimavarat on ihan näin simppeleissä asioissa – oikeesti."*

Kysymyksiä pohdittavaksi:

- Minkälaisia eri rooleja voi perhey yrityksessä olla? Miten ne muuttuvat yrityksen kasvaessa?
- Mikä motivoi perheenjäseniä perhey yrityksessä?
- Miten toimia tilanteessa, jossa toisaalta halutaan säilyttää perhey yrityksen perintö ja toisaalta olla kasvuhakuinen?
- Perhey yrityksen kasvaessa, milloin perhe lakkaa olemasta perhey yrityksen kantava voima?

BEEFING UP THE MEAT MARKET

The HK Ruokatalo – Swedish Meats acquisition¹

Lotta Häkkinen and Mélanie Raukko

1 Introduction

It was finally declared official on January 29th, 2007. Finland's HK Ruokatalo had won the bidding contest for Swedish Meats, the largest company in the Swedish meat industry. HK Ruokatalo had made its initial bid on November 10th, 2006. However, the negotiations took an unexpected turn at the end of November when Atria, another major player in the Finnish meat business, submitted a competing bid. Ultimately, Swedish Meats' assembly of delegates voted 46–26 in favour of HK Ruokatalo's bid. The Finnish company was to pay a total 329 M€ for its acquisition, which comprise Swedish Meats' debt of 185 M€. The new company was named HKScan, and Magnus Lagergren, former CEO of Swedish Meats, was appointed CEO of HKScan's Swedish division. While the successful closure of the deal was being officially announced to the media and the companies' personnel, the integration manager was pondering where to start his job.

¹ This case was written by Lotta Häkkinen and Mélanie Raukko. The integration manager is fictitious and the case does not represent the views of the Chair or any of the members of the Board of Directors, or managers of the former HK Ruokatalo, or HKScan. The case is based entirely on secondary sources and freely available market information. References are cited at the end of the case. This case is intended for use as the basis of discussion in a teaching environment rather than to illustrate either effective or ineffective handling of a management situation.

2 Putting flesh on the bones

2.1 The meat market²

The food and drink industry is the fourth largest industry sector in Finland by gross value of production, after the metal, forest and chemical industries. The gross value of production is 10.6 billion euros (2.3 billion euros value added) and exports amount to 1.4 billion euros, while imports stand at 3.3 billion euros. The three largest business fields are the meat industry, dairy industry and bakery industry. These represent half of the gross value of food industry production. The food industry employs 34,500 people, and the whole food and drink chain from agriculture to processing and sales employs some 300,000 people in Finland. In Europe, the food industry is the largest industry sector and employs 4.3 million people. In Finland, the three biggest retailers (S-group, K-group and Tradeka) share 85% of the market. The biggest food companies in Finland are Altia, Arla Ingman, Atria Plc, Fazer Group, Oy Hartwall Ab, and HK Ruokatalo.

All of the biggest companies (except Fazer) are owned by their producers. Fazer and Saarioinen are family owned businesses, while companies such as Hartwall and Sinebrychoff are owned by foreign players. The large proportion of owner-producers has sometimes been seen as a problematic issue, hindering growth and the company's business ambitions for its future. For example, the Board of Directors of Valio, a dairy company, is composed of the CEO and farmers. Valio's CEO resigned suddenly in November 2006 due to disagreements with the Board related to Valio's strategy regarding internationalisation.

Approximately 390 million kilos of meat are produced in Finland annually. The volume of both the production and consumption of poultry has doubled in ten years. Finns eat an average of 35 kg of pork, 18 kg of beef and 18.5 kg of poultry per person per year. The meat industry is the largest in the food and drink sector. Around 300 companies operate in the industry, of which 20 represent more than 90 per cent of gross production. The largest meat industry companies are Atria, HK Ruokatalo, Saarioinen, Snellman, Järvi-Suomen Portti and Pouttu. (see Appendix 1).

The meat industry is described as highly competitive and companies suffer pressure related to growth and cost effectiveness. One of the major changes in

² This chapter represents the year 2008

Sources: <http://www.hkscan.com/portal/english/hkscan/history/>; <http://www.etl.fi/www/fi/elintarviketeollisuus/index.php>; <http://www.foodforlife.fi/finnish/toimijat/elintarviketeollisuus/68-lihateollisuus>; <http://www.lihakeskusliitto.fi/lihalehti/lihateo/liha-alanABC.pdf>; <http://www.talouselama.fi/uutiset/article161234.ece>; <http://www.talouselama.fi/uutiset/article156670.ece>; <http://www.atriagroup.com/atria-konserni/AtriaBaltia/Sivut/default.aspx>

the meat industry was in 1995 when Finland joined the European Union. This was in fact the most dramatic change in the post-war history of the Finnish meat industry; prior to 1995 it was a closed sector, and was suddenly open to competition. Consequently, meat prices fell by more than 20 per cent, which affected turnover to the same degree.

The meat industry has been hailed as a Finnish forerunner in internationalisation. Especially Atria and HK Ruokatalo have been growing in Sweden, the Baltic States and Russia. Atria is the biggest meat industry company in Finland, with a 30 per cent market share, and operates in Finland, Sweden, Denmark, the Baltic States, and Russia. Although HK Ruokatalo Oy and Atria Oy are fierce competitors, in Finland they collaborate in beef slaughter and turkey meat production in order to enhance profitability.

2.1.1 *HK Ruokatalo*³

HK Ruokatalo has a long history dating back to the beginning of the 20th century, when a slaughterhouse cooperative, nowadays better known as LSO Osuuskunta, was founded by some 20 cattle farmers in 1913 in south-western Finland. The area was traditionally strong in agriculture, and cattle farming and food production were part of everyday life. The company was initially engaged in extensive wholesale operations and started to export meat to Sweden at the end of 1910s. Later, in the 1930s, it exported bacon to Great Britain, and beef to Central Europe. The company changed its name to HK Ruokatalo in 1997 and was listed on the Helsinki stock exchange.

HK Ruokatalo has a strong domestic presence and has expanded to neighbouring countries such as the Baltic States and Poland. The company grew first through domestic acquisitions. At the beginning of the 1990s, HK Ruokatalo bought Helsingin Kauppiaat Oy and the poultry division of Kariniemi Oy. These acquisitions strengthened HK Ruokatalo's position in the consumer market. In 1998, HK Ruokatalo ventured abroad by acquiring a majority stake in Estonian company AS Rakvere Lihakombinaat. It made another acquisition in Estonia and bought AS Tallegg in 2001. In 2002, HK Ruokatalo acquired a minority holding in Sokolów S.A. in Poland, which led to strategic cooperation with Danish Crown in 2004. Finally, in 2006, HK Ruokatalo acquired Sokolów's entire share capital.

In 2006, over half of its turnover i.e. 608 M€ came from Finland. The Baltic States, i.e. Estonia, Latvia and Lithuania, accounted for nearly 14 per cent of

³ Sources: <http://www.hkscan.com/portal/english/hkscan/history/>;
http://www.hkscan.com/portal/suomi/suomi/hk_ruokatalo/

turnover (130.8 M€), and Poland 21.6 per cent of total turnover (203.6 M€). Figure 1 below illustrates the geographical distribution of revenues prior to the Swedish Meats acquisition.

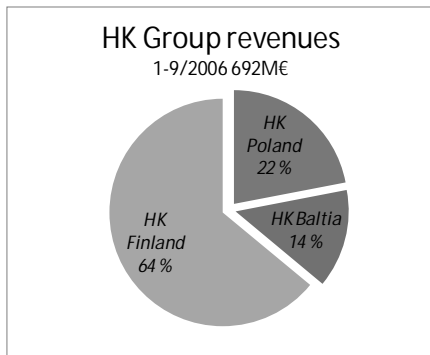


Figure 1 The geographical distribution of HK Group's revenues.

HK Ruokatalo in Finland comprises HK Ruokatalo Oy and LSO Foods Oy. HK Ruokatalo runs the industrial operations, sales, marketing, logistics and transport. LSO Foods produces pork and beef for HK Ruokatalo, which in turn manufactures and markets meat, processed meat and convenience foods; products range from sausages, cold meats, ready cut raw meat, ready seasoned and marinated meat, and convenience foods. They also produce a wide range of chicken and turkey products.

Accordingly, operations are divided into four parts: meat, poultry meat, processed meat, and convenience foods. The core process starts from identifying consumer needs. The activities comprise raw meat procurement, slaughter, cutting, production, sales, distribution and marketing. This process is integrated with the business and support functions (see figure 2). HK Ruokatalo Oy's brands in Finland are HK and Kariniemi.



Figure 2 The core process of HK Ruokatalo Oy in Finland (source: HKScan.com http://www.hkscan.com/portal/english/finland/hk_ruokatalo_oy/core_process/).

Although revenues and operating profit were growing (see Appendix 2), growth in Finland was very modest in 2006. Targets were met in Poland, while the most substantial growth came from the Baltic countries. HK Ruokatalo launched a domestic restructuring program, which was made public in January 2006, and as a consequence of which, during the two year program, 500 jobs were shed and two plants with an industrial heritage were closed. The aim of the program was to centralise most of the processed meat production in Vantaa, the value added processing of fresh meat in Forssa, and logistics in Vantaa. The Turku processed meat factory was closed, as was the Tampere meat processing plant and distribution terminal. The number of industrial plants was reduced from eight to six. The primary goal was to rationalise the Finnish business and enhance cost competitiveness. Estimated cost savings amounted to around 15–20 M€ during 2007 and 2008.

HK Ruokatalo's CEO, Simo Palokangas, retired on March 31st, 2006 having served the company for twelve years, and Kai Seikku was appointed in his place. The chairman of HK Ruokatalo's Board is currently Marcus Borgström since 1995. HK Ruokatalo and Swedish Meats shared connections at multiple levels. Lars Danell, the producers' representative at Swedish Meats, was one of its founders, and had also been a member of HK Ruokatalo's Board of Directors for more than five years. Even though HK Ruokatalo is a listed company it is strongly in the hands of Finnish, Swedish and Danish producers, for example Danish Crown, another Nordic food industry player, is a major shareholder in HK Ruokatalo.

2.1.2 *Swedish Meats*

The Swedish Meats cooperative is the largest player in the Swedish meat industry, with a 65 per cent share of slaughter and 40 per cent share of meat processing activities. Its main consumer products are sausages, sandwich fillings, bacon, packaged meats and convenience foods. The company's Scan brand is the domestic market leader and third most recognised consumer brand in Sweden. Its second key brand, Pärsons, was recently acquired and is also one of the country's most recognised food brands. Scan was registered on 15th December 1934 and Swedish Meats has spent around fifty years building it into a strong brand. The first advertising campaign got straight to the point: "Eat pork". Since then, Scan has been profiled as tasty, Swedish, fun and innovative.

In 2005, Swedish Meats' turnover amounted to 964 M€ delivering an operating profit of 7 M€. The cooperative is owned by 22,500 Swedish livestock farmers and the organisation has 17 production plants and some 3,500 employees in Sweden, Denmark and Poland. In 2006, turnover grew to 1.1 billion euros and operating profit to 18 M€ (see Appendix 3)

Exports represent 10 per cent of sales and are channelled through Danish Crown. Sweden and Denmark have a long history together in pork exports. At the beginning of the 19th century, Swedes exported a huge amount of pork that even outweighed domestic consumption. At the time, the Danes also ran a highly successful pork export operation and controlled a large part of the southern Swedish market. Unfortunately for Swedish farmers, profits often went to Danish butchers and middlemen.

Swedish Meats has since 1999 implemented a number of organisational measures to realise cost savings and reduce overcapacity. After taking over in summer 2006, the new CEO Magnus Lagergren estimated that only a few of the company's production plants were truly viable – the others were either too small or employed outdated technology. One of Lagergren's main tasks as CEO has been to find an appropriate partner for Swedish Meats.

3 Competing bids, expectations and sealing the deal⁴

On November 10th 2006, HK Ruokatalo Group announced its intention to acquire the entire business of Swedish Meats at a price of around 113 M€. In

⁴ Sources: http://www.talentum.com/doc.ot?d_id=369608; http://www.talentum.com/doc.ot?d_id=374970; http://www.talentum.com/doc.do?f_id=1073010; http://www.talentum.com/doc.ot?d_id=377524; http://www.talentum.com/doc.ot?d_id=386665

addition, HK Ruokatalo would take on Swedish Meats' debt which amounted to some 185 M€ A further payment of around 9 M€ was to be made over the following five years predicated on certain membership loans being repaid to Swedish Meats during that time. The acquisition would result in a group operating in eight Northern European countries with a turnover of around 2 billion euros. The arrangement would bring the number of the new Group's production plants to 36 and its workforce to some 10,200 employees. (see Appendix 4)

At the press briefing, the rationale for the deal was supported by a long list of arguments. According to CEO Kai Seikku, the larger company size would boost competitiveness and market leadership in the Baltic region. The new company would be able to provide a more versatile and efficient service to the retail trade and consumers alike. The companies had no geographical overlaps, and synergy benefits would be sought across national borders, particularly in raw material and materials purchasing ("Finland and Sweden can be considered as one market"), production ("optimizing joint production capacity in Finland and Sweden"), new product development and product innovation ("R&D cooperation and leveraging the Scan brand"), commercial activities ("sharing best practices") and the integration of administration and support functions. Reorganisation was planned for 2007 and 2008, during which time investments and one-off expenses might be expected. Kai Seikku commented:

"The formation of HKScan is a major step for HK Ruokatalo Group. The measures to increase efficiency already set in motion by the owners and management of Swedish Meats together with a very strong market position and the strong Scan brand put us in an excellent position to deliver profitable performance in the near future. Moreover, the arrangement creates a strong player that can pursue further growth in Northern Europe also through acquisitions."

In order to enhance the transaction process, Swedish Meats would incorporate as Scan AB (limited company), whose share capital HK Ruokatalo would acquire and Scan AB would then become a wholly owned subsidiary of HK Ruokatalo. The deal would be subject to the approval of the decision-making bodies of both companies.

On November 28th, the process took a new turn. Finnish meat company Atria put in a bid for Swedish Meats' processed meats operations. The stated aim was to merge Atria's Swedish meat processing operations with those of Swedish Meats. The offer consisted of 94 M€ in cash, the issue of 2.3 million new A-shares in Atria, and 396,000 non-listed Atria K II shares. Consequently, Swedish Meats would hold 10.8 per cent of Atria's shares and 5.6 per

cent of the voting rights. The value of the bid amounted to approximately 144 M€

Atria CEO Matti Tikkakoski commented:

“We have been involved in the meat processing business in Sweden for 10 years and want to expand this aspect of our operations in particular. I believe that this offer presents better synergy benefits than the competing one. The Swedes will keep control over their own key activities – slaughtering and cutting operations.”

Atria is by net sales the second largest player in the Swedish meat products market, operating under the Lithells and Sibylla brand names. According to Atria, the proposed arrangement would result in an even stronger presence in the Swedish markets. The turnover of joint operations would amount to over 600 M€

The CEO of Swedish Meats, Magnus Lagergren, announced the same day that they were surprised, and viewed Atria’s offer as a hostile bid. On December 11th, Atria adjusted the content of its bid, increasing the voting rights offered to Swedish Meats to 11 per cent. The board of Swedish Meats later announced that they would only consider Atria’s bid if HK Ruokatalo’s was rejected.

The media reported that the majority of Swedish Meats owner-producers opposed selling Swedish Meats to HK Ruokatalo, and considered the monies offered far too low and the voting rights too small. The farmers are reported to have approached the management of Swedish Meats appealing for the bid to be rejected. In their view, Swedish Meats needed a partner that would open up sales channels in southern Sweden. Swedish Meats had also been approached by Dutch-German company Vion Food.

Nevertheless, on December 13th the assembly of the Swedish Meats cooperative accepted HK Ruokatalo’s bid by a vote of 46–26. Later in December, the deal was sealed at a second meeting of the assembly and by HK Ruokatalo’s shareholder meeting. The acquisition was formerly executed on 29th January, 2007, and the new trading name HKScan was adopted later in the spring (see Appendix 5).

The acquisition of Swedish Meats was regarded as an important step in westward internationalization. The company size would double, and there would be an important shift in the division of the Group’s net sales. In 2007, Finnish operations would account for approximately just 30 per cent of Group revenues. HK Ruokatalo Group became one of the largest food companies in Northern Europe. The parties were considered a good fit as HK Ruokatalo was stronger in meat production and Swedish Meats in slaughtering. However,

HKScan faced the daunting challenge of turning Swedish Meats business performance around.

In his statement following the assembly meeting, Marcus Borgström, chairman of HK Ruokatalo's board, said he was delighted and the deal would improve the company's abilities to handle deliveries and remain competitive. Magnus Lagergren, Managing Director of the newly formed Swedish Meats AB, declared himself satisfied – he had put more than six months work into closing the deal. He felt that the top managements' chemistries had clicked and the two companies shared similar values and visions. Elsewhere, the acquisition was welcomed with mixed feelings. In January, three members of Swedish Meats' Board resigned and two other persons elected to positions of trust decided to renounce their posts.

The deal was completed on January 29th, 2007. Markus Lagergren was appointed CEO of Swedish Meats AB. HK Ruokatalo Oy would carry through the two year domestic restructuring plan and turn Swedish Meats around to make it a profitable business. The integration manager from HK Ruokatalo didn't have much time to start his work, as he was supposed to make a welcome speech at Swedish Meats the next day, and hold a meeting with their managers in two days time to kick things off.

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Appendix 1

The key financial indicators of the key players in the Finnish meat market

2006	Personnel	Net sales M€	change from 2005	Operating profit M€	Equity Ratio	ROI%	International operations
Atria	5740	1103.3	+12.9%	33.5	42.80 %	-	Finland 60%, Sweden 30%, Russia & Baltic countries 10%
HK Ruokatalo	4418	934.3	+5.75%	41.8	43.70 %	10.10 %	Finland 64.5%, Baltic countries 13.9%, Poland 21.6%
Saarioinen	2240	307.5	+5.2%	14.1	53.40 %	10.20 %	Total exports 3.6M€ Baltic countries, Sweden, Russia, Germany
Snellman	590	126.7	+16%	3.6	32.20 %	7.30 %	Finnish family owned business, mainly domestic
Järvi-Suomen Portti	453	99.8	-1.7%	-3.4	-8.50 %	neg.	Exports: Russia (St Petersburg and Moscow)
Swedish Meats	3500	10038MSEK	13 %	116MSEK	27 %	-	Exports 10% through Danish Crown

Appendix 2

HKScan's Financial indicators 2002–2006

HKScan Key Financial Indicators

	2006	2005	2004	2003*	2002*
Revenue, EUR million	934.3	883.3	680.4	647.4	633.4
Operating profit/loss, EUR million	40.4	24.1	35.7	27.5	32.7
- % of net sales	4.3	2.7	5.2	4.2	5.2
Profit/loss before tax, EUR million	33.6	20.3	32.6	22.2	26.5
- % of net sales	3.6	2.3	4.8	3.4	4.2
Return on equity (ROE), %	11.9	7.7	14.6	10.7	15.3
Return on investment (ROI), %	10.1	7.4	12.3	9.8	12.6
Equity ratio, %	43.7	44.7	49.3	41.2	41.9
Gross investments, EUR million	82.6	59.7	52.3	64.7	33.4
- % of net sales	8.8	6.7	7.7	10	5.3
R&D expenses, EUR million	8.5	8	6.4	6.1	5.2
- % of net sales	0.9	0.9	0.9	0.9	0.8
Employees average	4418	4541	4713	5034	4882

* The figures for 2002-2003 are shown in accordance with Finnish Accounting Standards (FAS)

(Source : HKSan Annual Report 2006, 29)

Appendix 3

Swedish Meats financial figures

Swedish Meats -group

million SEK	2005	2006
Revenue	8872	10038
Operating profit/loss	61	116
Net financial expenses	-28	-54
Profit/loss before tax	33	62
Profit/loss for the financial year	32	17
Total assets	3350	4001
Equity ratio, %	31	27

Source: <http://www.hkscan.com/portal/suomi/hkscan/tiedotearkisto/?id=1096>

Appendix 4

The new HKScan in figures

New HKScan: key figures 2005 and 1-9/2006

2005	Swedish Meats	HK Finland	HK Baltia	HK Poland	HKScan total
Revenue, EUR million	964	589	114	188	1.847*
Operating profit, EUR million	7	19	7	4	36
- % of net sales	0.7%	3.2%	5.7%	2.0%	1.9%
Personnel	-3800	2530	1779	2367	10476
offices (no)	13	8	4	7	32

1-9.2006	Swedish Meats	HK Finland	HK Baltia	HK Poland	HKScan total
Revenue, EUR million	788	445	98	154	1480*
Operating profit, EUR million	8	16	8	5	37
- % of net sales	1.0%	3.6%	8.1%	3.2%	2.5%
Personnel	-3500	2401	1766	2485	10152
offices (no)	17**	8	4	7	36

* includes HK Ruokatalo's inner sales

** includes acquired sites in 2006 (SLP Parsons and Skånekött)

(source: www.hkscan.com/attachments/20061110hkrqsm_final_fin_.pdf page 21)

Appendix 5

Excerpt from the HKScan's Stock Exchange Bulletin on the Swedish Meats deal (source: http://www.hkscan.com/portal/english/hkscan/stock_exchange_releases/?id=1083)

Stock Exchange Bulletin Jan 29, 2007 4:15 PM

“Corporate arrangement between HK Ruokatalo Group and Swedish Meats executed - Scan AB launches operations in Sweden. The acquisition by HK Ruokatalo Group of the entire business of Swedish Meats was executed today.

HK Ruokatalo Group's Swedish subsidiary Scan AB has officially launched operations. Scan is the largest meat industry company in Sweden. Its entire capital stock is held by HK Ruokatalo Group. HK Ruokatalo Group is thus expanding into a food company with a turnover of some two billion euros and active in eight Northern European countries.

In this context, the Board of HK Ruokatalo Group has on this date decided to exercise the authorisation granted to it by the Extraordinary Meeting of Shareholders on 22 December 2006 to decide on the directed share issue to Swedish Meats and its terms and conditions. The 4,843,000 series A shares in HK Ruokatalo Group offered to Swedish Meats as part of the purchase price have been subscribed on this date.

...

In addition to the share consideration, the purchase price consisted of a cash consideration in the amount of ca. EUR 76 million (SEK 692 million). A further element of the deal was HK Ruokatalo Group assuming liability for Swedish Meats' debt amounting to a net value of some EUR 171 million or SEK 1.6 billion. The rise in cash consideration from the figure stated when the deal was announced on 10 November 2006 (SEK 557 million) is largely due to a reduction in the amount of debt assumed from Swedish Meats. The sum of some EUR 7 million (ca. SEK 66 million) will be paid over the next five years in additional purchase price, conditional however on the repayment to Scan AB of certain Swedish Meats' membership loans of equivalent value. The final acquisition price according to share prices and currency exchange rates at the time of execution (Enterprise value) thus comes to ca. EUR 329 million.

...

Magnus Lagergren has been appointed Managing Director of Scan AB. He previously served as the CEO of Swedish Meats.

In connection with the financial statement bulletin to be issued on 27 February 2007, HK Ruokatalo Group will present pro forma information on the enlarged Group and specify the value of the goodwill arising from the transaction.

HK Ruokatalo Group Oyj

*Kai Seikku
CEO ”*

MAKE OR BUY DILEMMA IN BUILDING VALUE-ADDED SERVICES SOLUTIONS

Jussi Hätönen¹

1 Issues meeting – Spring 2004

It was late spring 2004 in Turku School of Economics and Business Administration, as it was formerly named. A young master's student Jussi Hätönen had just finished his spring exams and enrolled to the master's thesis course starting in September the same year. He had purposefully selected Mr. Martti Salo for his master's thesis instructor and supervisor. Mr. Salo was known in the school to be firm and demanding, yet a fair teacher. Some of Jussi's friends commented on his choice as he could have selected someone who was not so demanding, perhaps providing an easier pass for the thesis. However, and thanks to his spurge of ambition, the choice turned out one of the better choices he made in his studies.

Although the thesis course was not beginning until the fall, Jussi wanted to start working on it already during the summer break, a choice which he had made in the lack of relevant summer job. He had requested a meeting with Mr. Salo to discuss the topic and approach of his thesis. Knowing the appropriateness of Mr. Salo, Jussi knocked on his door and greeted him with a slightly over-polite manner. He sat down unknowing, despite numerous courses including bachelor's thesis course he had with him, what was Mr. Salo's overall opinion and impression of him. Later it turned out that despite the trendy beanie and slightly saggy jeans, ripped from the knee of course as it was the latest trend, Mr Salo saw hidden potential in this young student.

After typical Finnish 10 second small-talk, Jussi started to explain that he had contacted Mr. Matti Miettunen, a CEO of Frans Maas Finland Oy, for a potential master's thesis assignment. Mr. Salo was already familiar with Mr. Miettunen, as he had been, despite a long and established career in the industry, a recent student of the school. The assignment, Jussi continued, is

¹ The background and the case reflect to a real life story. The author is a former student of Mr. Salo, and currently working for the European Investment Bank (EIB). The case nor the views presented in this do not reflect the views of EIB.

about building and productizing a value-added service package for Frans Maas Finland, while showing a one page overview of the assignment agreed with Mr. Miettunen. Mr. Salo read carefully through the document while listening as he always did. After reading, he tilted his seat backwards, took his reading glasses off, and said “Looks good, there is nothing else but work from now”, simultaneously biting the arm of his glasses. With these short yet allinclusive words of encouragement, of course followed by a moment of silence, Jussi thanked and left the office with relevant summer greetings and started with the background analysis of the assignment.

2 Koninklijke Frans Maas Groep N.V.

Koninklijke Frans Maas Groep N.V. was established in 1890 and it is a leading pan-European logistics service supplier. With an extensive package of services and products, the company can offer every business customer a customized solution at local, pan-European and intercontinental level: from international freight forwarding to complex supply chain management projects in which Frans Maas assumes all or part of the customer's goods flow management. The company has a well-developed network of 214 locations in 32 countries with approximately 7,500 employees. In 2003 Frans Maas achieved a net turnover of €1,021.4 million and a net group profit of €11.5 million. The company's growth objective is approximately 10% yearly through autonomous growth and acquisitions, translating to a growth target of 100% in a 5-to-7-year period. Frans Maas' operations rely on two main business areas that are international freight forwarding and value-added logistics.

Although Frans Maas is a pan-European logistics provider, it still possesses global presence. In Europe Frans Maas possesses a wide network, covering nearly all the countries in Europe. In 2004 Frans Maas expanded to Croatia (Zagreb) and through the establishment of a subsidiary they now have a full presence throughout the former Yugoslavia. Although Figure is not an exact representation of Frans Maas' pan-European network, it gives a general understanding of the spread of the network.

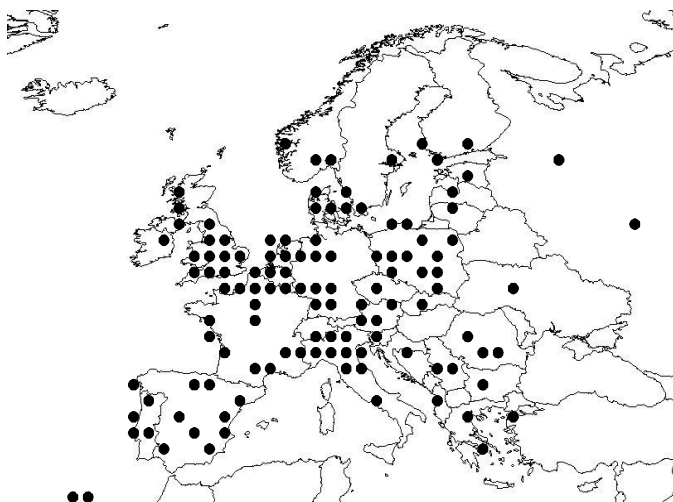


Figure 1 Frans Maas' representation in Europe (Frans Maas 2004)

In order to provide services outside Europe Frans Maas has signed a partnership agreement with an international freight forwarder Capital Distribution Services Ltd. (CDS). This contract covers air and sea freights as well as integrated solutions in Asia. CDS works already in cooperation with another Frans Maas' partner FedEx Trade Networks, which operates in the United States. CDS and FedEx Trade Networks have managed North American and Asian transportations, but they have not yet operated in Europe. Together with Frans Maas, CDS will develop door-to-door services in air and sea freight. For customers that operate in these three continents, integrated triangle services will be offered. CDS headquarters is in Hong Kong and its network consists of 31 positions in 11 different countries: China (9), Indonesia (4), Malaysia (2), Singapore (1), Philippines (2), Taiwan (3), Thailand (1), Vietnam (1), Japan (2) and Australia (3). CDS has representatives in New Zealand and Korea.

In addition to Asia and North America, Frans Maas has also signed a franchise agreement with an international freight forwarding company in South Africa that will introduce Frans Maas' intercontinental services to South Africa. The company consists of 40 professional air freight and sea freight forwarders that were part of Airborne Express (South Africa) Pty Ltd until its recent acquisition by DHL (Deutsche Post). Frans Maas has concluded a franchise and exclusive alliance agreement and acquired 10% of the shares in the company, which will operate under the name Frans Maas (SA) Pty Ltd. There are currently no plans to increase the interest in the future. Frans Maas South Africa Pty Ltd is located in Johannesburg, Durban and Cape Town and will soon open a location in Port Elizabeth.

In addition to securing global presence with a number of partnership agreements mainly with CDS and FedEx, Frans Maas has also established partnerships in Europe in order to provide customers with a wide range of solutions. Mainly these partnerships or subcontract agreements concern transportation because that is where Frans Maas network has its limitations. Table 1 illustrates the ownership of different components of Frans Maas for providing logistics solutions.

Table 1 Frans Maas' management and control (Frans Maas 2004)

	Own	Lease	Rent	Subcontract
IT	X			
Terminals/Warehouses	X	X	X	
Line Haul			X	X
Collection/Distribution				X

Although Frans Maas is a generic logistics provider, i.e. there are several companies from several different fields of industries that are provided with logistics solutions, there is a special focus on three markets which are the high-tech, automotive and chemicals. For those markets Frans Maas has built special teams, including people from those industries who design solutions for customers in those markets. The number of very large customers in other sectors, however, indicates that Frans Maas, with its European network and advanced logistics solutions, is also a leader in many other sectors. Glass, pharmaceuticals and plastics are among the industries in which Frans Maas has experience in, and they offer customized solutions to a highly divergent range of customers. Despite the generic nature of the business, Frans Maas has concentrated on packed chemicals, automotive and high-tech.

From competitive perspective, on the one hand they compete with the global providers such as DHL, Schenker and Exel but on the other hand Frans Maas has to face the competition from the strong local providers, or the niche players in each market. Companies such as DHL and Schenker operate on global scale, which gives them the advantage that they can offer one solution globally. However, the smaller local players may sometimes be able to make a better proposal to a customer or tailor a solution for a specific situation. In addition to those two competitor groups, they still have to face the competition within their level, which comprises the pan-European logistics providers.

3 Frans Maas Finland Oy

Frans Maas Finland Oy is a subsidiary of Koninklijke Frans Maas Groep N.V. and it offers mainly services for importing and exporting components and finished goods to and from Finland. 60 percent of its volumes derive from exporting and 40 percent from importing. Frans Maas Finland can be considered a true 3PL provider², i.e. apart from 15 truck-tails it does not own practically any transporting equipment. It uses its network of partners and subcontractors to handle transportation deliveries. The 3PL factor can be seen also in their mission statement. According to Mr. Miettunen their core competence is two-folded: firstly and more importantly, they manage information flows and secondly, marketing. The optimizations that Frans Maas Finland seeks in their business are fill-rate, utilization rate and unnecessary transits. This means that the transportation equipment, mainly trucks, are generally full, utilized properly and most efficiently as well as they do not do any unnecessary driving. In Frans Maas Finland there are several employees trying to maximize these factors in order to operate in the most cost efficient way. The optimizations also bring cost savings and value to the customer.

Frans Maas Finland uses its wide network of partners and subcontractors to execute their transports. Generally it imports as well as exports components and finished goods by ship through Germany. Through the shipping route Travemunde-Helsinki and Travemunde-Hanko, Frans Maas imports approximately 65 percent of their imports. Approximately 35 percent of imports come from Tallinn-Helsinki route. Through Sweden Frans Maas operates only in some occasions. It uses and utilizes the following sea freighting companies: Transfennica (60%), Finnlines (30%) and Superfast Ferries (10%) for importing to the Finnish harbors located in Hanko, Turku, Helsinki and Rauma. Hanko is the most frequently used harbor by Frans Maas Finland. For sea transportations to and from Estonia it uses the freighting company Tallink for 80 percent of its transports. Other sea freighting companies cover the rest 20 percent. For air freighting Frans Maas Finland uses providers in order of importance KLM, Finnair and Lufthansa. At the moment Frans Maas does not use railways for transportation in Finland but if they decide to do so there is only one possibility due to the monopoly of VR. Frans Maas Finland is lacking warehousing as well as distribution capabilities for providing full-fledged value-added logistics in Finland.

² "...the services offered by a middleman in the logistics channel that has specialized in providing, by contract, for a given time period, all or considerable number of the logistics activities for other firms" Virnum's (1993, 17)

4 Overview and current trends in logistics

Logistics is defined as the process of planning, implementing and controlling the efficient and effective flow and storage of goods, services and related information from the point of origin to the point of consumption to meet customer requirements (Council of Logistics Management 2004). In a wider perspective logistics include activities such as procurement, production, distribution and recycling, support services, warehousing, delivery, customer service and relations (Karrus 1998, 13–14). Accordingly, logistics essentially refers to the management of supply chains and incorporates the movement and storage of goods and their associated information flows, from source to customer.

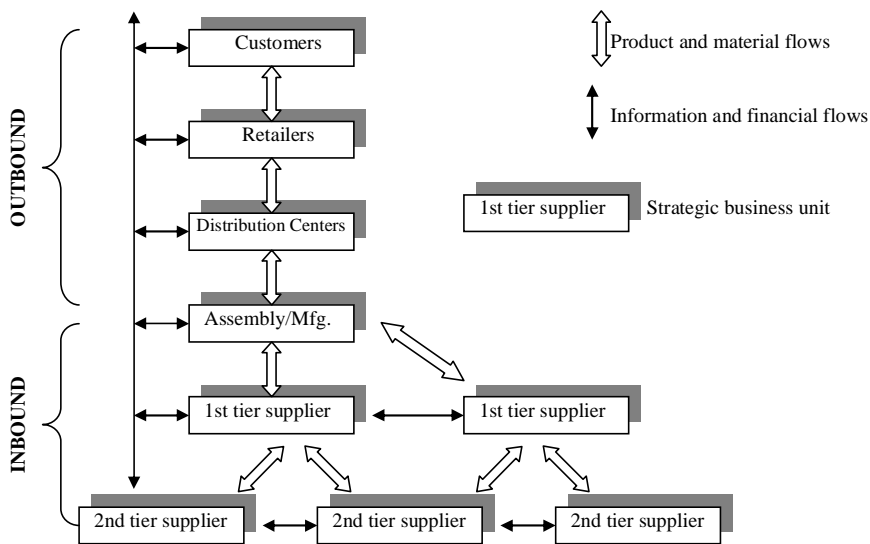


Figure 2 Integrated supply chain model (Handfield & Nichols 1999)

The logistics of a company can be divided into inbound and outbound logistics. Inbound logistics, again in this case the examination base is a manufacturing business unit, is concerned with the flow of materials, raw materials, parts and other unfinished products and related information and financial flows to them. Outbound logistics is concerned with the flow of finished goods.

In the recent years moving towards outsourcing has been one of the strongest and most sustained trends in the area of logistics. The Association of Logistics Outsourcing IWLA (2004) found in their recent studies that 80 percent of Fortune 500 companies outsource at least one logistics function,

which is the largest number ever. In Europe this trend is even stronger. A study conducted by Cap Gemini Ernst & Young (see *Logistics Today* 2003, E64) stated that among the 439 European respondents to that survey, 94 percent were using logistics providers. Companies outsource logistics functions mainly in search of lower costs. A survey conducted by a global management consulting firm A.T. Kearney and the European Logistics Association stated that logistics costs today are 65% lower than in 1987. The study also found that the bottom of cost reductions has been reached. Due to increased globalization, the growing complexity of business and the trend of customers demanding increasingly value-added service levels from their suppliers, the costs of logistics are anticipated to increase. This kind of movement challenges logistics providers to stay competitive. (see *Logistics & Transport Focus* 2004, 11.)

5 Finland as a logistics market

In a study conducted by the consulting company Accenture on outsourcing in Finland, they found out that Finnish companies outsource their functions most of Nordic countries. 88 percent of the respondents stated that they outsource their functions, the same percentage in Norway being 50. These outsourced functions included services such as training, transportation, logistics and information systems. The study also discovered, that even with the high number of outsourcing companies, the outsourcing of entire business processes is lowest in Finland when compared to the other Nordic countries. (STT 2004.) Logistics is an important market for logistics service providers, as the logistics costs on average account for approximately 10% of the annual turnover of a Finnish company. With increasing scale and scope of outsourcing taking place, this will present logistics service providers new areas of growth opportunities.

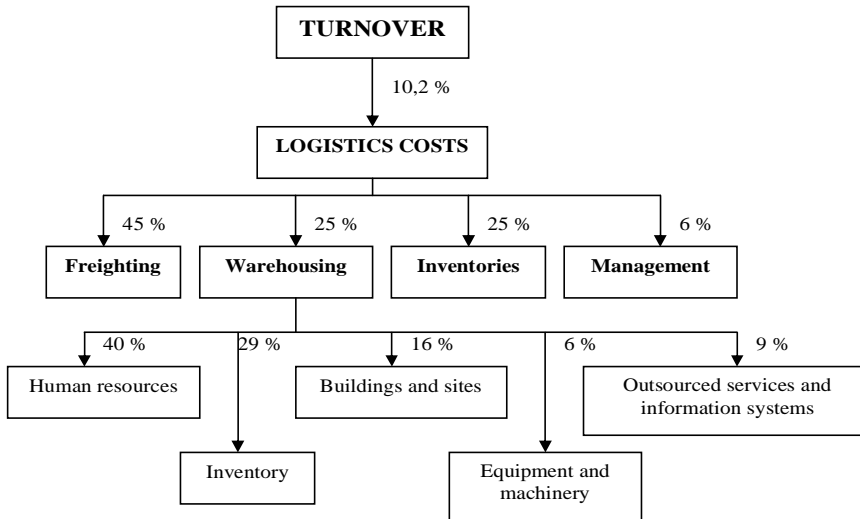


Figure 3 The spread of logistics cost of a Finnish company (Hinkka 2004)

Finland can be geographically thought to be a logistics island, i.e. the most efficient way to export and import is via sea. Although the nature of the product generally legislates the choice of transport mode, in Finland the geographical location is the decisive factor. Considering Finland and its geographical location and shape, excluding Russia, it is most efficient to export and import goods, parts and raw materials by sea or by combined transport of ship and truck. Characteristics of a product further on influence the usage of air transport instead of a ship from and to Finland.

The most used transportation mode for exporting in the year 2003 was sea transport, by approximately 70% in value and 90% when measured in weigh. In terms of imports, sea transport accounts for 72% of the total value and 69% in weigh. When measured in value air freight is the second biggest transportation method both in importing and exporting, but measured in weigh road transport is the second biggest mode of transport in export and rail in import. Following figures illustrate the spread of import and export values by mode of transport.

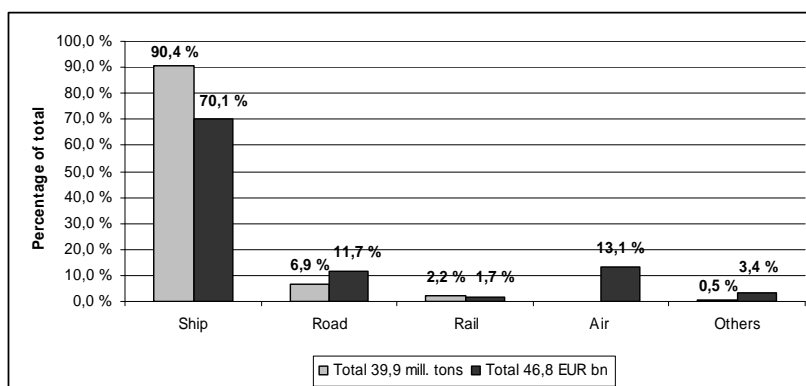


Figure 4 The spread of Finnish export values by percentages of mode of transportation in 2003 (National Board of Customs 2004)

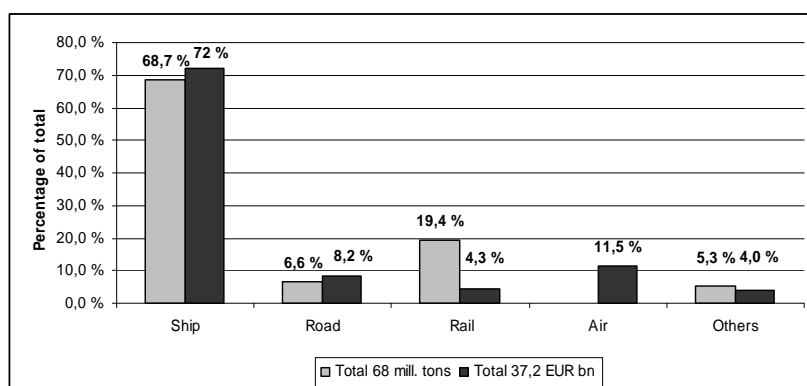


Figure 5 The spread of Finnish import values by percentages of mode of transportation (National Board of Customs 2004)

The difference in the amounts exported and imported by rail can be explained through the fact that Finland is used for transit traffic to and from Russia. This is reflected especially in terms of transportations by rail, because Finland, unlike several European countries, uses the same rail gauge as Russia. Transit traffic through Finland to and from Russia is based on intermodal transportations mainly in the form of ship-truck and ship-train. In terms of imports by rail, Russia covers over 93 percent of the total.

Overall Finnish external trade, especially in imports is concentrated on Europe. Almost 92% of the total import weight in 2003 was caused by importing from Europe. In exports the share of the total weight of Europe is approximately 79%. Although 92% of the total imports come from Europe when measured in weight, the percentage is approximately 78 when measured in value. The percentages for other areas than Europe increase when the

imports and exports are measured in value. For instance when measured in weight, Asia accounts for 9.1% of exports and 3.2% of imports of the total weight, but when measured in value Asia accounts for 13.7% in both counts.

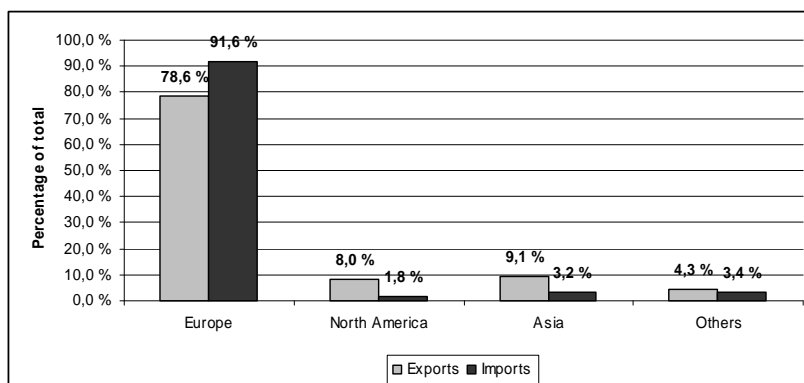


Figure 6 Finnish exports and imports by geographical areas in weight (National Board of Customs 2004)

Germany as a single country has been Finland's main trading partner for a long time. As for the total imports in 2003 in value, Germany accounts for 14.9% and 11.8% for the exports. Two other main trading partners in terms of imports are Russia and Sweden. These three account for approximately 38% of the total imports in value. In terms of exports, the dividend between countries is more even. However, the biggest exporting countries after Germany, measured in value, can be identified as Sweden, the USA, the UK and Russia. These five together account for just over 45% of the total exports.

6 The beginning of the master thesis course – Fall 2004

After working for the summer to get a grasp of the problemacy of the assignment, with constant communication with Mr. Miettunen, it was a day in early September when the first meeting of the master's thesis class took place. Mr. Salo, on time as always, began the course by saying that the master's thesis is your "driver's license to the business world". While in the group of some 10 people some had started to work on their thesis already, some had not even selected their topic yet. However, nothing but a suspicious mind was required at this point – noted Mr. Salo.

Mr Salo started the course with a "tour de table", where everyone would say their status regarding the thesis. Jussi, when his turn came, explained that he had basically finalized his overview on the context and had consequently

selected exploratory case approach as the most suitable research method. He continued that next he will contact selected persons from Frans Maas through video conferencing method. The persons selected together with Mr. Miettunen were Frank Verhoeven, Pieter de Greef and Thomas Hoffman - all high level directors responsible for the development of the value-added services at Frans Maas on a global level. The idea was to interview them on how they had designed and consequently implemented value-added service solutions in Europe, and to what extent these practices could be introduced in Finland. In addition to interviewing internal persons, Mr Miettunen had suggested that Jussi would also interview Pekka Orne and Antti Aaltonen from Logistiikkatalo – a Finnish warehousing services provider which could be a potential partner for Frans Maas Finland in providing value-added logistics services. This was regardless of the fact that Frans Maas Finland had not yet decided whether it would seek to partner or build its own infrastructure, which was also one of the aspects to be looked at in the thesis. These altogether, he concluded, would form the basis of the empirical research.

Mr. Salo, having read the progress report, provided some short comments and suggestions, but overall seemed to be quite satisfied with the way the work was progressing. After commenting, he turned to Jussi and said “Looks still good, but still some work left to be done”. With these short words of encouragement – again - Jussi turned to his empirical research and interviews of the selected person from Frans Maas and Logistiikkatalo.

7 Value added logistics at Frans Maas in Europe

In Frans Maas, as defined by Mr. Verhoeven, a value-added service is basically everything which goes beyond transportation from A to B or storing material in a warehouse. Mr. De Greef described a value-added solution as more than simple picking, packing and shipping. Even though Mr. Verhoeven advised to be cautious when making the statement about adding warehousing and freight forwarding to complement each other in a way of value-added service package, the packages or solutions nearly always contain some sort of warehousing and some sort of transportation. The core service of a value-added service package might include elements such as simple warehousing and distribution from there, warehousing with postponement amendments and distribution, freight forwarding and merge in transit, freight forwarding and in-house operation etc. The extraordinary administrative services are value-adding but they are not necessarily included in a value-added services solution. He lists value-adding activities such as quality inspections, in-line

sequencing, just-in-time deliveries, cutting and bending of steel, repacking, co-packing and all of those activities one can think of.

Due to the fact that Frans Maas has operated greatly with large customers offering them dedicated warehouse solution as part of the package, the core product has been almost fully tailored to the customers' needs. As de Greef stated, "The customer can get what it wants." But the company's future strategy is to focus more on shared-user logistics, their preference is to grow towards a more standardized solution. However, due to the variety of customers and the variety of products with different requirements, de Greef said that there will always be a tailor made part. They take standard components and out of them tailor the solution to the customer. Mr. Hoffmann described this as making a menu for the customer. He added that although the customer can freely choose the components from the menu, the provider, or Frans Maas in this case, has the role of a type of a moderator. That means that Frans Maas recommends to the customer a certain solution out of certain components from the menu for specific needs.

Inbound and outbound transportations are covered through Frans Maas' international freight forwarding operations and rely closely on Frans Maas' own depot and terminal networks, between which they have built day-to-day transportation services (line haul). The depots accept the products and distribute them via local networks. The services of international freight forwarding include truck, air and sea freighting. The functions of international freight forwarding includes the collection and delivery of general cargo, part loads and related activities, including storage, and customs and administrative settlement.

In road transport Frans Maas offers groupage, FTL (Full Truck Load) and LTL (Less than Truck Load). Mainly this means that regardless of the size of the shipment, Frans Maas is able to transport it, although they state that below and above certain weight per shipment the Frans Maas network has its limitations. The transports are mainly provided under Frans Maas' directions by independent transport companies in all parts of Europe. These transports include general logistics as well as distribution.

In addition to road transports, Frans Maas provides a one-stop-shop model for companies looking to deliver their product by sea. These services include a fully integrated door-to-door service option, local collection and distribution, local customs management, export documentation control, consignment tracking and confirmed proof of delivery. Frans Maas' ocean freight services to and from worldwide locations are facilitated by a network of joint ventures and alliances. Frans Maas has an alliance with FedEx Trade Networks Transport and Brokerage Inc. (FedEx) USA for door-to-door air and ocean forwarding services between Europe and North America.

In many countries Frans Maas is a registered IATA (International Air Transportation Association) agent, providing its clients with local air freight representation at key airports in Europe. The air freight services of Frans Maas include the following services: a local collection and distribution, full and part charters, local customs management, import and export consolidations, worldwide door-to-door courier services, dangerous goods handling, priority clearances and consignment tracking.

Transportation functions are basically seen as the basic functions of the solution. For instance, dangerous goods handling in air freighting might be value-adding, but from a customer's perspective transporting such goods it is a necessity rather than a value-adding function. In general, two value-adding functions of transportation can be identified: merging in transit and reverse logistics.

In logistic warehousing Frans Maas is responsible for the receipt, warehousing and order picking of goods, including a wide array of added value services. The latter activities include making goods customer and country specific in a form of postponement or delayed customization for larger companies that source or distribute on a regional, European or global scale. Accordingly the added value services of warehousing provided by Frans Maas more relate to the customization function of a warehouse rather than related to movement, storing or information transfer. Mr. Verhoeven stated that traditionally value-added service is warehouse customization related where amendments to the physical product which is in stock or in transport is made. These amendments can be for instance repacking from a bulk pack into small packages, it can be the configuration of copiers and printers to country specific which are kept as a generic products on the shelves. These customizations can be either country or customer specific. In a country specific customization for instance a printer is amended with a right country specific power supply. On the other hand, if a customer wants three trays in his printer, that requires customer specific customization – Mr. Verhoeven stated. In dedicated warehousing Frans Maas offers: order processing, picking/packing, kitting, subassembly and pre-installation, stock & flow management, return collection and customize to order.

Frans Maas' European Network consists of 214 sites, most of which offer public warehousing, usually as part of a freight forwarding service. Frans Maas provides its clients either dedicated or shared-user-based warehouse solution. Frans Maas' sites operate state-of-the-art management information systems to match supply with demand. Frans Maas' wide range of warehousing activities include: warehouse management, inventory management (VMI), order processing, picking/packing, added value activities, customs documentation, and network distribution. Although the general

strategy of Frans Maas has been operating their own warehouses, although leasing or renting the physical facilities, Mr. Verhoeven stated that with a good business case partnering could be an option.

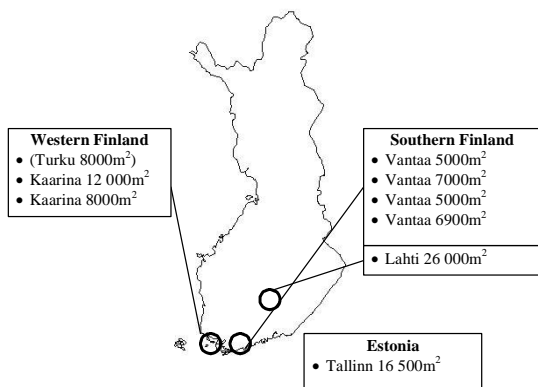
Increasingly, medium sized producers and commercial firms are outsourcing their logistic operations to Frans Maas. Those that do not need fixed, dedicated warehouse space can benefit from the flexibility of using different warehouses close to their end customers. For these clients Frans Maas operates shared-user or multi-customer warehouses that are especially geared to their specific needs. According to Mr. Verhoeven, flexibility is the main advantage in using shared-user solution. In shared-user environment all the costs are shared and also in the need of more or less space, shared-user solution is able to meet those needs. He also states as a disadvantage that it might get costly for the customer when the need for warehouse space increases. For instance, if a customer needs 15 000-20 000m² of warehouse space, it might be worth considering to shift to a dedicated operation. This kind of situation might be harmful for Frans Maas as well. In a situation where a single client occupies 15 000m² out of a 20 000m² warehouse is not good for the ones occupying the other 5000m².

Value-adding services concerning administration and information flow in the chain can be seen as everything that goes beyond the basic information transfer and invoicing between Frans Maas and the customer. The information flow within a warehouse is a warehouse related function although the line between these is very thin. Mr. Hoffmann stated that for every larger customer they have something such as a central control desk put in place which controls and steers the environment. This kind of central control desk can operate as a value-added customer service or as a part and service support for customers as well as their customers. Administrative services can also include services where, for instance, the provider receives sales orders directly from its customer's customers. Also Frans Maas can offer solutions for enhancing the financial flows of the customer. Frans Maas can receive and processes the order and take care of the invoicing on its customer's behalf. Although value-added services have mainly been concerned with the physical aspects, Mr. Verhoeven added that more and more emphasis is given to the administrative services as value-adding.

8 Logistiikkatalo as a potential partner for Frans Maas Finland

Logistiikkatalo Oy was established in 1996 and their first facility was located in Kaarina Finland. In the year 2001 Logistiikkatalo expanded their operations to Turku and in 2002 they started their operations in Helsinki area covering

Helsinki and Vantaa. In the year 2003 Logistiikkatalo expanded into Lahti, where they rented a large facility. In the year 2004 they expanded into Estonia, where Logistiikkatalo formed a partnership with Smarten, a similar company as Logistiikkatalo in Estonia. At the time, a logistics center in Hamina is being planned as well.



In the summer of 2004 Logistiikkatalo made some organizational restructuring due to the fact that there were several separate organizations in their organizational group. Now all of them are in full ownership of Logistiikkatalo. At the same time Nordea Capital came to the picture as a capital investor of Logistiikkatalo. Nordea Capital purchased 25 percent of the stocks of Logistiikkatalo. This investment according to Mr. Aaltonen gave Logistiikkatalo some elbow room, i.e. the basis for future investments is no more so much the statement of account. The growth of the company has been significant. In the year 2000 their turnover was approximately 1.5 million €, whereas in 2003 it was approximately 10 million €. The turnover in 2004 was 13 million €, with an outlook of steady growth of 15% per annum. The number of employees of Logistiikkatalo has grown in proportion to their facilities and they employ at the moment around 200 people, half of whom come through their personnel service.

The business idea of Logistiikkatalo is to provide services to selected customer industries. Their customers represent four main branches: electronics, daily consumer goods, building materials and spare parts industry. Measured in volume, the biggest customer group builds from the daily consumer goods. Logistiikkatalo has approximately 170 customers, around 30 of them cover 80% of the total turnover. They cover 90 percent of their customers' distribution in Finland, but only 10 percent of their exports and imports.

Financially the future goal for Logistiikkatalo is also to maintain a profitable growth which can be achieved by numerous means. Mr. Orne stated

that logistics as a line of business is one of the fastest growing so companies will outsource their logistics functions in the future as well, which in turn, assists their goal of steady growth. From operational perspective the future visions of Logistiikkatalo were to expand their network by partnering, especially with freight forwarders. This was caused by the fact that although they cover a large percent of their customers' Finnish distribution, they lacked the global network to cover their customers' import and export services.

While the key operational area and core competence of the company lies in managing warehouse logistics, Logistiikkatalo is capable to offer its clients a comprehensive menu of logistics solutions. This menu includes services such as co-ordination, warehouse logistics, in-house logistics, transit services, transport and shipping, logistics consulting, construction logistics, and administrative value-adding services.

The *co-ordination* of logistics is a solution offered by Logistiikkatalo where they take care of the client's whole logistics process and the duties linked to it in accordance with the contract. The solution package might include services such as warehouse logistics, import transportation, export transportation and invoicing and other possible value-adding services. The processes are controlled by information systems which enable real-time monitoring at all stages. The solution of co-ordination of logistics means that clients outsource their whole logistics process to Logistiikkatalo.

In *warehouse logistics* they produce the services needed for goods handling as well as warehousing cost-efficiently in accordance with the contracts made with the clients. The services of warehouse logistics can be divided into three activities: inbound activities, warehousing and outbound activities. The inbound activities include check-in and checking of goods. The warehousing activities include shelving, warehousing and storing. The outbound activities of warehouse logistics include collecting, packaging and sending, packaging in this sense not meaning individual packaging which is considered to be a value-adding service. Logistiikkatalo also provides diversified value-adding services such as packaging services including manufacturing of different types of sales packages, labeling, small-scale assemblies and installations, and order processing.

The *in-house logistics* service of Logistiikkatalo is for situations where a client's warehouse contracts restrict the outsourcing of logistics into their warehouses. In in-house logistics the client transfers personnel and equipment to Logistiikkatalo. Logistiikkatalo takes care of the client's warehouse contracts or rents the warehouse from the client.

The *transit service* is a service where Logistiikkatalo manages the clients' transit traffic. Logistiikkatalo is a partner of several companies importing goods to Russia. Its warehouses have customs warehouse rights and they

function as important nodal points of transit traffic to Russia. Products can be cleared through customs and stored in the logistics centers of Logistiikkatalo from where they can be transported to the Baltic countries in a day and even to Moscow in two working days. The information systems of Logistiikkatalo enable firstly that the client is always on top of the situation and secondly that the goods are transported on time.

In respect to *transport and shipping*, Logistiikkatalo is a company independent from transport companies. Logistiikkatalo functions in cooperation with several Finnish transport companies as well as international transport and shipping companies. All the import and export transportations and shippings are managed through a wide variety of partners. Logistiikkatalo has around 10 freight forwarding partners, and in addition to that, it uses subcontractors. For some customers Logistiikkatalo acts as a transportation partner because they have signed the freight contract but uses their partners or subcontractors for the physical transportation, i.e. in these cases they operate as an LLP (Lead Logistics Provider) of the solution towards the customer. The largest operation besides warehousing that Logistiikkatalo manages is the distribution in Finland.

Logistiikkatalo also offers *logistics consulting* as one of their services. Logistics consulting means analyzing a client's logistical processes and finding solutions to develop and improve the client's logistical chain. This service is generally a pre-stage of larger-scale logistics co-ordination, because Logistiikkatalo is ready to implement these improvement solutions. In building a larger scale relationship this can be seen as a necessity, because the very basis for building efficient solutions for the customer is understanding the existing supply chains and making reengineering decisions based on them.

Construction logistics is a business function of Logistiikkatalo. This function serves construction companies, constructors and construction material importers, wholesale and retail as well as transit traffic to Russia. In construction logistics Logistiikkatalo receives the full delivery of construction materials and after that delivers product components directly to the building site.

In *administrative value-added services* Logistiikkatalo for instance takes care of the invoicing on behalf its customer, it collects payments from the customer's customers and forwards these payments to the customer.

9 Today six years after the project – March 2011

Now looking back the time the young master's student embarked on this problemacy a lot has changed. Both of the companies in this case, Frans Maas and Logistiikkatalo, have been acquired since by large multinational

companies and do not exist as such, which was not envisaged at the time. Also Mr. Salo is now happily retired. Whether Frans Maas and Logistiikkatalo ever initiated a partnership is unsure. However, and although the events presented in this case seem outdated, the problemacy of value-chain integration and make-buy-partner dilemma prevail across all industries, for which case presents a good illustration. What really happened after the time this problem was embarked upon is irrelevant, as there is no way of doing comparative assessment of choices. All we know that managers are constantly faced with such decisions and need to assess the situation using all information available at the time.

To Martti Salo, I am grateful for your help and support!

Questions and discussion points

1. Define the concept of value-added service solution. Discuss the key elements and success factors of a value added service solution. Reflect the concept also to other industries.
2. Is there a demand for value added logistics solutions in Finland? What would be the rationale, key elements and how would this fit into overall group competencies and strategy of Frans Maas?
3. Discuss the suitability of Logistiikkatalo as a partner for Frans Maas Finland in providing value added logistics services. Reflect to the FIT criteria for partnering.
4. Is partnering the best option for Frans Maas Finland in extending its service portfolio? In the light of make-or-buy literature, provide a SWOT analysis for the partnering option. Outline the key risks and their mitigants as well as possibilities.
5. Discuss, in the light of relationship building literature, what sort of partnering option, if any, would be most suitable to be formed given the industry, service, potential customers, nature of cooperation etc? Propose concrete actions for Frans Maas in forming the partnership.

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ENTERING INTERNATIONAL MARKETS – CASE: KAANI OY

Niina Nummela

It was early March, 2010 and the Managing Director of Kaani Oy, Mr Esko Niinikorpi, sat in his office and re-read the e-mail he had just received. The message had a friendly tone; a university professor was contacting him to find out whether the company would be interested in collaboration. Some students were interested in making a plan for the internationalisation of Kaani. A very interesting idea indeed – a thought he'd played with before. He knew Kaani had good products and that there was interest from abroad, so internationalisation might be a very wise move, although he didn't quite know how.

1 The Finnish furniture industry¹

Furniture manufacturing is concentrated in a few countries – the USA, Italy, Germany, Japan, Canada, the UK and France – and they are responsible for almost half of the world's furniture production. The industry also has a significant role in the European economy, despite the increase in imports from outside Europe, particularly China. Generally, European furniture manufacturers are often highly specialised, in other words, it is typical that a company focuses on a few products or product groups (kitchen fixtures, bedroom furniture etc.).

On a European scale, Finland is a small player, both as a market and as a producer. The Finnish furniture industry is dominated by family-owned SMEs. The 20 largest companies are responsible for more than 50 per cent of the turnover, but of the approximately 1500 companies, 85 per cent employ less than 10 persons. Furniture manufacturing in Finland is definitely not a gold mine – in 2008 the average operating margin in the industry was around six per cent.

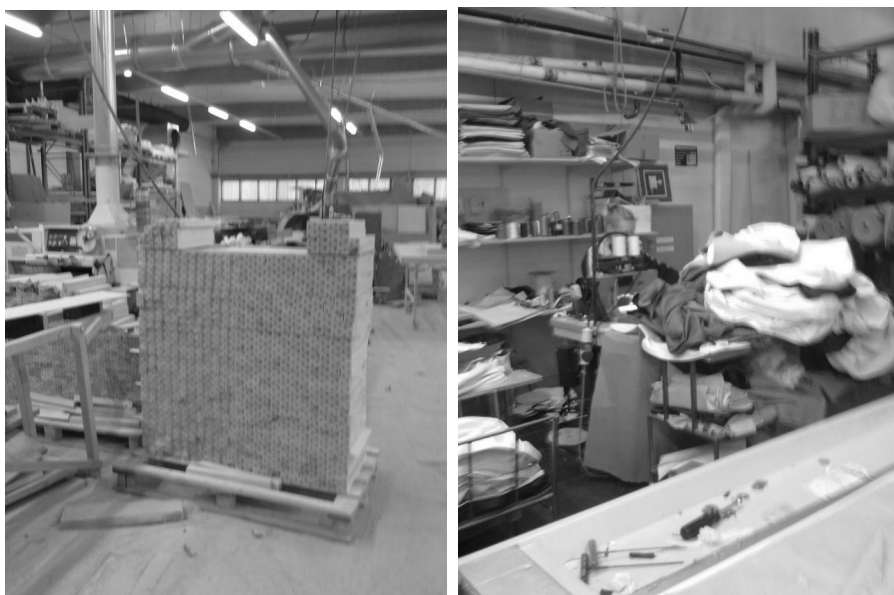
¹ The description of the industry is a summary based on the report of Loukasmäki (2009).

The SMEs' main markets are domestic, and only a few of them run any international operations. The main sales channels in the domestic market are dominated by a few large distributors and specialized department stores. Less than 20 per cent of Finnish furniture production is sold in international markets. Exports are dominated by a relatively small number of large players who manufacture and sell furniture to European consumer markets. Surprisingly, Sweden – the home of IKEA, which is often thought to provide the main challenge to Finnish furniture companies – is the key market for Finnish furniture. Also, exports to countries outside the European Union, particularly to Russia, have increased recently. However, compared to Swedish furniture exporters, the international growth of Finnish companies has remained modest.

2 Company background

Kaani Oy is a small furniture manufacturer, located in Southwest Finland. In 2009, the company's turnover stood at MEUR 1.5, but it aims to increase that to MEUR 3.0 by 2012. Kaani was established in 1991 by its current Managing Director, Esko Niinikorpi, and he is still the sole owner. Mr Niinikorpi started his career as an entrepreneur in the late 1970s as a woodworker, carving and designing classical furniture for households interested in antique replicas. Gradually, his design became more modern and the business became more professionally led.

The company has a factory in Piikkiö, where all the woodwork and upholstery for the furniture is done. Some finishing (e.g. painting) is done inhouse and subcontractors are also used. All metal components are purchased from suppliers with whom the company has a long-term relationship. In manufacture and assembly operations, the company embraces ecological values; waste in production is minimised and some of it is utilised to heat the factory.



Over the last few years, the company has experienced periods of growth, which have had a negative impact on its financial situation; profitability is satisfactory and its solidity and liquidity adequate (for details, see table below).

MEUR	2008	2007	2006	2005	2004
Turnover	1.24	1.47	1.14	1.02	0.63
Profit before taxes	0.07	-0.005	0.09	0.04	0.006
Net profit	0.05	-0.006	0.07	0.03	0.004
Operating margin (%)	14.2	7.8	20.5	18.2	18.5
Gearing ratio (%)	21.0	18.9	19.3	14.6	14.1

3 The products

Kaani is a furniture manufacturer focused on high-quality products with an emphasis on modern, Scandinavian style design. Its main products include chairs, tables, sofas, armchairs, bar stools, shelves and beds. The company has recently added other products to its range, such as bags. The main product group is sold under the brand name 'Jazz' and it includes tables, chairs and drawers, among others. Mr Niinikorpi continues to be the lead designer, but others have also been involved e.g. the well-known Finnish designer Ristomatti Ratia.



In 2002, Kaani introduced the Jazz collection which proved to be the turning point in the domestic market. The product family won Kaani the Federation of South-Western Entrepreneurs ‘Product of the Year’ award in 2009. However, other Kaani products are equally important to the company, for example, Finns are probably more familiar with the ‘Daydream’ sofas and other furniture used to furnish the Finnish Big Brother house.

4 Sales and marketing

Customers include both consumers and companies; although the majority of the turnover comes from sales to households, business-to-business customers presently account for 20–30% of annual sales. Currently the main marketing channel for the company’s products is the Finnish furniture chain Isku, with whom collaboration is well established and will grow in importance in the future. For example, it is planned that in 2010 and 2011 Kaani will introduce its own shop-in-shop in Isku stores (each about 200–300 m²), which is expected to increase Kaani’s sales considerably. Prior to this partnership, Kaani products were sold through the furniture chain Vepsäläinen but this collaboration has now ended.

In addition, products are sold in individual, private shops specialised either in furniture or, more generally, in interior design. There are more than 60 retailers in Finland, but most of the outlets are quite small. The company also has a bricks-and-mortar store in Helsinki and a store outlet in Piikkiö. The products are sold via the Internet, too.

Kaani has only limited resources for marketing. However, various trade magazines are important communication channels – not necessarily for advertising but because they feature stories and photographs of Kaani products.



5 Internationalisation to date and plans for the future

The company's internationalisation has consisted primarily of small-scale exports based on projects. Export operations have been sporadic and initiated mostly by inquiries or other external stimuli. So far, isolated deliveries have been made to Russia, Sweden, the Baltic States and Central Europe. In addition, traditional markets for Finnish furniture, such as the UK, Germany and Japan, represent potential.

International growth is seen as viable only through partnerships with local companies. Kaani has had experience of working with an agent in Sweden. This worked well in the early 2000s, but unfortunately ended due to health problems and the business has since trailed off. The company has also been asked to participate in export circles (collaborative projects between Finnish companies aiming to export) but their potential has not been attractive enough.

Currently, Kaani's production facilities are not running at full capacity, so if internationalisation were to succeed, the company would be able to meet increased demand. Additionally, Kaani's production is flexible enough to offer individual pieces and to manufacture longer series, if needed.

Compared with its competitors, Kaani products occupy the middle range in terms of pricing. They are not high-end products, but are not the cheapest on the market, either. With their Swedish agent, the company offered its products ex works and those are the terms of delivery it would like to continue with.

However, internationalisation would require additional investment in human resources. At present, nobody in the company has any experience of international business and the personnel's language skills are limited – although it's helpful that two employees speak Russian, the company's English skills would need improvement. Furthermore, the skills required for internationalisation and growth would require investment in management.

6 Summary of the current situation

After a few hours thought, Esko Niinikorpi decided to take action. He replied to the enquiry: “Yes, we’re interested in collaboration. It would be exciting to hear the students’ suggestions for internationalisation. In any case, it would give us food for thought and force us to proceed with the process.”

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LAUNCHING BURANA AS AN OVER-THE-COUNTER PAINKILLER: HOW TO CAPITALISE ON FIRST-MOVER ADVANTAGE?¹

Elina Pelto and Eeva-Liisa Vahtera

It was a sunny winter day in early 1986, and Sten-Olof Hansén, the president of the Farnos Group Ltd. (Farnos), was sitting in his office in Turku, in Southern Finland, with a smile on his face. He had just received good news from the Finnish National Board of Health: Farnos' drug with the trademark 'Burana'² had finally been given a trading license for over-the-counter (OTC) use.

Since 1979, Farnos had produced Burana, a painkiller with ibuprofen as an active ingredient, as a prescription medicine. Ibuprofen is an analgesic (pain relieving), anti-pyretic (fever reducing) and anti-inflammatory medicine, developed by the Boots Group in the United Kingdom and patented in 1961. The patent on ibuprofen expired in 1985 and it had been legal to sell it without prescription in the UK from 1983 and from 1984 in the US. That had inspired Farnos and some of its competitors to apply for OTC permission for ibuprofen in Finland. However, Burana's path to the non-prescription market was not easy. In 1986 it was not common to give OTC permission to a previously prescription only drug. The first attempt to obtain permission for OTC sales of ibuprofen was declined by the Finnish National Board of Health, after which Farnos' competitors withdrew their applications. However, Farnos was determined to get permission for its product and kept providing the National Board of Health with numerous studies on ibuprofen's safety. Finally, the board was convinced, and the second attempt to obtain OTC permission for Burana paid off.

Sten-Olof Hansén was happy yet thoughtful. He saw the decision of the National Board of Health as a unique opportunity for Farnos, because

¹ This case is prepared solely in order to provide teaching materials for class discussions. The case is based on interviews with Sten-Olof Hansén as well as on public source material.

² Farnos merged with Orion in 1990. Today Burana is one of Orion's best-selling pharmaceutical products with sales of EUR19.9 million in 2009.

competitors had withdrawn their applications. Thus, Farnos' Burana 200 mg³ would be the only ibuprofen product on the OTC market in March 1986. This created an extraordinary chance for building a strong brand based on Burana within the consumer market, a chance that should be fully taken advantage of. *But how to do it? The problem was informing the public and educating them about this new type of painkiller that would become available as a self-care medicine.*

In 1980's, before the launch of Burana as an OTC drug, there were only a few options for self-care painkillers for consumers. The pharmaceutical market had recently recovered from a substance called *phenacetin*, an analgesic used since 1887. It was a common substance in both prescription medicines and OTC drugs in the 1960s when it was linked to bladder and kidney damage, and later banned from general use. In the 1980s, *acetylsalicylic acid* (e.g. Aspirin, Disperin) in tablets and powder form was a commonly used painkiller in the OTC market. It had been on the market since 1899, but had been connected to gastrointestinal side effects, especially in higher doses. A competing and more stomach-friendly substance available OTC in Finland since 1976 was *paracetamol* (e.g. Panadol, Para-tabs). However, it lacks the anti-inflammatory effects present in acetylsalicylic acid and ibuprofen; a feature that consumers seemed to want. Thus, there was a real need for a new self-care painkiller in the Finnish pharmaceutical market. However, the benefits of the new product, soon to be available without prescription, had to be effectively communicated to the public, and Sten-Olof Hansén felt that traditional marketing methods, such as advertising in newspapers and sending brochures to pharmacies, might not be enough in this unique situation.

In Finland, the selling and marketing of pharmaceuticals are strongly controlled by a number of laws and regulations. All medicines, including OTC drugs, can only be sold through pharmacies. The marketing of pharmaceutical products to consumers is only allowed for OTC medication, whereas the prescription drugs can only be advertised to doctors and pharmacists. The advertising of OTC drugs is, in principle, more like the advertising of other consumer goods. However, there are detailed requirements on, for example, the minimum information required for all drug advertisements. A pharmaceutical advertisement cannot imply that the effects of a medicine are guaranteed or that the medicine could improve a person's normal health.

³ Initially, Burana could only be sold without prescription in packages of 20 tablets containing 200mg of ibuprofen. In June 1989, a package of 10 Burana 400mg tablets was allowed for OTC use. At the time, the sales were regulated to a maximum one package per day. Burana 400mg in packages of 20 and 30 tablets was allowed in OTC use as late as March 2008.

Furthermore, all radio and television advertisements have to be inspected and approved by the authorities beforehand.

Due to his background, Sten-Olof Hansén was well aware of the selling and marketing pharmaceutical products at grass-roots level. He had worked in a pharmacy as a trainee during the first part of his pharmaceutical studies. After graduating as a pharmacist from the University of Helsinki in 1963, he worked for almost four years as a medical representative for a Swedish pharmaceutical company in Finland. In 1967, Sten-Olof started his studies on economics and business administration at the Business School of Åbo Akademi University. He completed his Master's degree in 1970, and began his career with Famos the same year, serving first as a marketing manager, later as plant managing director, and finally as head of the Pharmaceutical Division. In 1982, while also working for Famos, Sten-Olof defended his Ph.D. thesis on the internationalisation of the pharmaceuticals industry. Sten-Olof Hansén became President of the Famos Group Ltd. in January 1984 at the age of 45.

The Famos Group Ltd., originating from Lääke Oy, began its activities as a pharmaceutical company in 1947, which is when it started to produce pharmaceuticals for the Finnish market. Over the years, the company grew and diversified, and in the 1980's its product range included pharmaceutical products, raw materials for the pharmaceutical industry, diagnostic products, consumer technochemicals and agrochemicals. Having relied on selling products under license, the strategy of Famos began to change in the early 1970's when a team of young managers was recruited. The company started to focus on a smaller number of products that could be sold in many markets. It started to build up its technical expertise in pharmaceuticals and agrochemicals by investing in research and development activities and it aimed to expand beyond the small Finnish market. The new strategy proved to be successful: the first Finnish original pharmaceutical product, *Domosedan* (an animal sedative), was developed by Famos and launched in Finland in 1983. Since then, its use has spread around the world.

At the time Sten-Olof Hansén became president of the Famos Group Ltd. it had sales of almost \$100 million, 1450 employees, and it consisted of four product divisions: pharmaceutical, agrochemical, diagnostics and consumer goods. The pharmaceutical division was the largest division, accounting for approximately half of the consolidated group sales, and thus making Famos the second largest pharmaceutical firm in Finland. It developed, manufactured, and marketed human and veterinary drugs for both domestic and foreign

markets. The most important export markets were the CMEA countries,⁴ accounting for up to 50% of the Group's overseas sales. The Soviet Union was an especially significant market for Farnos and ibuprofen, as a raw material, was also exported there.

Sten-Olof was convinced that being able to sell Burana as the only prescription-free ibuprofen on the Finnish market, would lead to the significant strengthening of its position as one of the most important pharmaceutical products made by the company. Now that Burana could be advertised directly to consumers, it should be positioned against acetylsalicylic acid, as a product of the 20th Century; something that is both effective and can be safely used for mundane pain. However, advertising Burana to consumers was considered to be not enough. Having worked in a pharmacy, Sten-Olof Hansén knew the influence pharmacists can have on their clientele. Therefore, he felt that it was extremely important to integrate the distribution channel – the pharmacies – into the marketing of the new self-care painkiller. *Thus, the job of Farnos' marketing department was to plan for the launch of Burana 200mg on the OTC market, and find the best ways of getting pharmacies and their employees involved.*

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⁴ The Council for Mutual Economic Assistance, also Comecon, refers to the then-socialist countries of Central and Eastern Europe, namely the Soviet Union, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, Albania and East Germany.

Appendix 1 Ibuprofen and Burana

Ibuprofen is a non-steroidal anti-inflammatory drug (NSAID) and like other drugs in the category, it works by inhibiting the enzyme cyclooxygenase, which in turn leads to inhibiting prostaglandin synthesis.

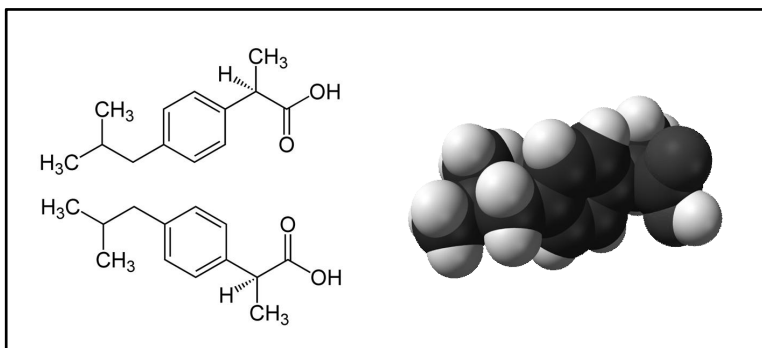


Figure 1 Ibuprofen molecule

Ibuprofen seems to have the lowest incidence of digestive adverse drug reactions of all the non-selective NSAIDs, but only at lower doses. Thus, in general, only 200mg – and in some countries 400mg – preparations of ibuprofen are allowed in over-the-counter use.

In Finland, ibuprofen was launched on the OTC market on March 17th, 1986 by the Famos Group Ltd. under the trademark Burana. Today, Burana is one of Orion's best-selling products. It is also sold OTC as Burana 400mg tablets, Burana Caps 400mg capsules, and Burana pore 400mg effervescent tablets for adults, as well as for children in 60mg, 125mg and 200mg suppositories and as 20mg/ml oral suspension. Burana, like other ibuprofen products in OTC markets (e.g. Ibusal, Ibumax, Ibumetin, Iboxin in Finland; Nurofen in e.g. the UK and Australia; Advil in the USA), can be used to relieve temporary pain and fever, such as symptoms of influenza, muscular and articular pain, headaches, rheumatic aches, menstrual pain and dental pain.



SELECTION OF TARGET MARKETS AND PLANNING FOR MARKET ENTRY: CASE METROTAIFUN¹

Birgitta Sandberg and Peter Zettinig

It was a dark and stormy night in Southern Finland. Olivia Smith sat in her new office at MariMatic Ltd's Head Quarter in Vantaa, Helsinki Metropolitan area, and had no intention to leave from work for the next couple of hours. This was her first work day as a Marketing Assistant in MariMatic and what an interesting day it had been! She had got to know many new faces and had walked around the head quarter building.

Olivia had met the Managing Director Hans Schneider and he told her how he appreciates independent attitude and open communication. Since the company was rather small (around 20 people) operating in such a challenging and rapidly evolving field, it was important that everyone would have the right kind entrepreneurial attitude: "If we don't know yet, we're still willing to try and figure out how we're going to do this. So it's not like pharmacy, where you have the right solution for everything ready on the shelf. Here you have to think for yourself and talk with the people and then you can come up with solutions."

From the brochures and Internet pages Olivia had already learned quite a lot about the company. MariMatic Ltd is specialised in designing, manufacturing, marketing, selling and supplying vacuum technology based waste management and conveying solutions. In addition to manufacturing, installing and maintenance, it also provides customers with consulting and design services. It has specialised in Taifun vacuum conveying technology since 1983 and it has supplied over 600 vacuum conveying systems to customers in various business sectors (such as *poultry processing plants, fish processing plants professional kitchens, and other industries*) operating in more than 30 countries. Consequently, it has become the market leader in automated waste collection systems with daily capacity of more than 525 tons.

¹ The case is prepared solely to provide teaching materials for class discussion. Unless otherwise stated the case is based on the interviews made in MariMatic and in the information published in the company's Internet page (www.marimatic.fi). Hans Schneider and Olivia Smith fictitious.

Olivia knew that the vision of MariMatic is “to be the market leader in automated waste collection systems worldwide within a short period of time”. She also remembered that in the vision statement it was emphasised that their superiority is based on smart technology, solutions, know-how and continuous R&D. The importance of R&D became very clear when Olivia visited the nearby vast plant – the first in the world to include the city-sized indoor waste collection system – designed to conduct research and product development. And there, behind the pipes and tubes, he saw a man with a bright smile stooping over a machine. It was indeed, Göran Sundholm, the inventor himself. Officially he was the Chairman of the Board of MariMatic Ltd – unofficially titled as the Heart and Soul of MariMatic.

In Finland Göran has the reputation of being able to turn imaginative ideas into lucrative business. He has well over 1000 international patents and patent applications. Most of his innovations are related to pipes, hydraulic systems and vacuum technology. 40 years ago, he set up his first company at a young age with small initial capital. Since then he has set up various companies, make them grow with innovations and then sold them with considerable profit. For example, in the 1990’s he invented and launched the world’s leading waste mist-based fire protection system, HI-FOG. He has been publicly recognised and received numerous awards for his innovative and entrepreneurial activities. Today, he is still keen on setting up new businesses and making new inventions. One of these is the MetroTaifun™ Metropolitan Waste Collection System – the most ambitious invention of MariMatic (see Appendix 1).

As the day went on Olivia had become more and more enthusiastic about MetroTaifun. It relies on MariMatic’s industry-leading pneumatic conveying expertise and brings the advantages of Taifun waste conveying to urban environments. The growing amount of waste all around in the world is rapidly creating business opportunities for systems designed to collect, sort out and process the waste. MetroTaifun concentrates in the waste collection. Traditional waste collection has various problems. It is labour-intensive and results in high operating costs. Increasing amount of waste causes higher amount of heavy traffic and bigger number of overfilled waste bins. This creates severe problems related to pollution, noise, hygiene and odour. Especially in large cities, the growing waste problems require novel solutions.

Besides direct benefits for citizens, also regulatory pressures enforce waste management to become cleaner and more environmental-friendly all over the world. Hence the general interest towards underground automated waste conveying systems is growing steeply. In fact, automated pipe collection systems have been around for decades, but they rely on energy-guzzling technology developed almost 50 years ago. Pipeline-based systems are very flexible and do not get congested even at peak times, such as Christmas.

MetroTaifun system relies on new patented inventions and consumes only 1/3 of the energy compared to conventional pipe collection solutions, and even up to 40% less than what is consumed with the traditional garbage truck and container based collection. Conventional solutions are single-line systems, in which the pipeline network forms a tree-like layout; the waste inlets are located along the branches and the waste station is at the root of the tree. MetroTaifun uses a new ring line technology, where the main pipeline both starts and ends at the waste station. It uses both underpressure and overpressure to transport waste, which brings many advantages. Besides considerably lower energy consumption, it is also cleaner and quieter and it allows for automatic removal of blockages. MetroTaifun system utilises special durable bends which allow for the conveying of glass and metal waste which conventional systems cannot handle. With the ring-line type construction they have also been able to reduce the pipe diameter from 500mm to 200mm. The pipe size reduction is being made possible through the development of the MetroTaifun formator, which re-shapes waste bags to fit into a smaller pipe. The smaller pipe size enables fast and economical installation, and allows the system to be retrofitted into the existing city or community structure. Furthermore the use of intelligent waste bag stickers, RFID (Radio frequency identification) tags, placed on the waste bags can be used to identify the waste and users. This allows for both effective sorting of different waste types and distribution of waste handling costs based on the actual usage.

The system is particularly suitable for both new urban areas and for urban with existing city infrastructure, e.g. underground network. An example of the former is Vuores district in Finland. Pirkanmaan jätehuolto Oy, a Tampere region waste management company, ordered MetroTaifun system supply for Vuores. The Vuores joint district is designed to connect cutting-edge technology with the nature. Vuores future residents will move into an environment which pioneers a future residential model in Europe. By the year 2015 the joint district will be equipped with housing for more than 13 000 residents and other facilities for 3.000–5.000 employees. The waste management company, the Pirkanmaan jätehuolto Oy's new subsidiary company, shall be established to manage the Vuores joint district waste collection. The company shall build and own the automated pipe collection system. There are currently similar projects being developed around the world. The trend to incorporate automated waste collection systems into new housing development projects is rising, particularly in Europe and in Asia.

Selling a MetroTaifun system would require lengthy negotiations. The value of one system may be from 5 million up to 100 million euros, or even more, and the delivery may take 10–25 years. This would require dealing with local political decision-makers and having local partners, e.g. companies

involved in construction or infrastructure building. Local partners would provide credibility and take care of the installation.

All in all, the potential of MetroTaifun seemed huge and Olivia was very happy to have been selected as a member of new Marketing & Sales Team whose target was not less than making MetroTaifun a worldwide success. Since marketing and sales activities were of paramount importance at this stage, when the MetroTaifun system was ready to be launched, the team was led directly by the Managing Director Hans Schneider.

The team had altogether five members and although Olivia was the least-experienced of all, Hans had emphasised that her opinions as a new recruit would be appreciated, since as a new in the field she may tackle the issues with novel and open-minded approach. This was particularly suitable time for contemplating new ideas, since more systematic approach in evaluating prospective markets was under development. Thus, Hans had asked her to prepare a presentation for the next month's Marketing and Sales Team meeting. *Her task was first to plan a criteria to be used for screening international target markets and identify potential markets. Second, she would need to select one of the potential markets as 1st entry market, justify the selection and make concrete plan on how to enter to that market.* Olivia was all up to challenge. She would start to prepare a plan right away.

Appendix 1 Description of MetroTaifun system (Honkio 2009; www.marimatic.fi)

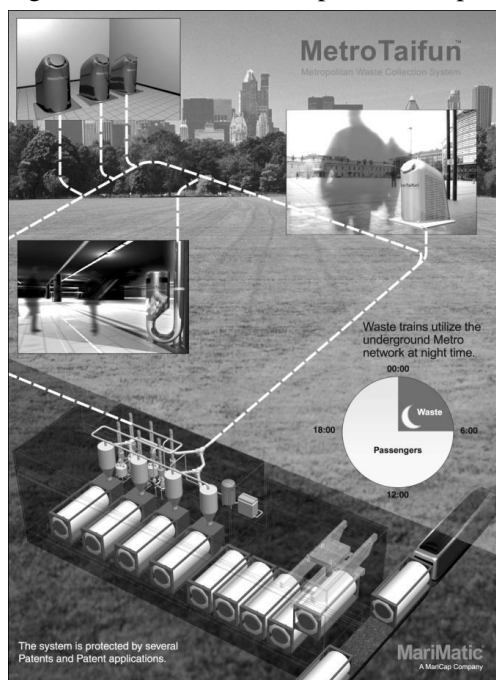
Users deposit their refuse into waste inlets, located around the chosen operating area. Waste collection points are placed outdoors or indoors and are accessible 24 hours a day. There is one waste inlet for each type of refuse. The refuse is temporarily stored by the waste inlets until the next emptying cycle.



The refuse is then transported along the pipelines to a waste station. Here, the refuse is fed into containers and, when full, they are transported to recycling centres for further processing. The transportation may utilise trucks or, for example, the city's existing underground railway network. Thus, the system can be integrated into the existing infrastructure and use public transportation rail network to carry containerised waste at night after normal passenger services have shut down.

The system is remotely monitored at the waste station. Some staff is also needed to handle the system maintenance. No personnel are needed in the actual collection and transport of waste to the waste station. In addition to cost savings, the system has various environmental benefits, such as less fuel emissions, less traffic, cleaner and safer environment.

While the initial investment cost for a pipe collection system is higher than in traditional methods, the operating cost of the old system is usually considerably higher. The estimated payback period for a pipe collection system is 10–12 years, and after that it becomes considerably more economical than the old one. The system life cycle depends on several factors, such as the amount of collected waste, the climate of the operating environment and ground conditions, but



MetroTaifun system (pipeline and waste inlets) is designed to last for at least 60 years.

Honkio, Katariina (2009) The future of waste collection? Underground automated waste conveying systems, *Waste Management World*, Vol. 10, No.4, <<http://www.waste-management-world.com/index/display/article-display/368646/articles/waste-management-world/volume-10/issue-4/features/the-future-of-waste-collection-underground-automated-waste-conveying-systems.html>>, Published 1.7.2009.

COUNTRY IMAGE AS A NATION-BRANDING TOOL

Ulla Hakala and Arja Lemmetyinen

1 Introduction

In fall 2008, Foreign Minister Alexander Stubb appointed a high-level delegation to lead efforts to develop a nation brand for Finland. The delegation was charged with the creation of a nation brand for Finland that will enhance the international competitiveness of the country. In order to create and enhance a positive brand image one needs to examine how the potential visitors perceive Finland, i.e. what the country image is like.

Country image is a multidimensional construct; no single measure is equivalent to country image (Roth & Romeo, 1992). According to Nagashima (1970), one of the first ones to study country image, the image is created by products, national characteristics, economic and political background, history, and traditions. Parameswaran and Yaprak (1987), as e.g. Han (1989), view country image as reflecting consumers' general perceptions about the quality of goods and services from a particular country.

A country image stems from people's previous knowledge, beliefs, and experiences, or is based on stereotypes of its people and the social, political, and economic conditions. Knowledge is referred to as the cognitive evaluation of a place whereas the personal experiences of tourists and other visitors are crucial in terms of image formation and feelings of loyalty. National images are often created through stereotyping. The stereotyping may be planned or unplanned, and the fact that it is a dynamic, fluid process indicates that it is possible to manage the images (Freire, 2009). Knowing where images stem from contributes to the planning of marketing activities.

The idea of this case study is to make students examine the country image of Finland in various countries. The established images will operate as a beneficent tool in nation branding. The questionnaire to be used for this purpose has been developed using previous country-image studies. Moreover, the measuring scale has been complemented by adding the dimension of information source, where the respondents give information whether their

perceptions are based on knowledge, experience or stereotypical view of Finland.

2 Nation branding and country image

The concept of a nation as a brand is of interest to both academics and practitioners. The extent to which nations can be branded, and the differences between branding products and nations are subjects of intense debate. Despite large volumes of research on countries of origin, little is known about nation branding (Fan, 2005).

In general, both academics and practitioners agree on the need to market places; some say that increased competition for tourists, businesses, investments, and talented people makes it essential (Konecnik & Gartner, 2007). The image of a place is considered a key factor in the traveler's investment and decision-making process (MacKay & Fesenmaier, 1997). Competition is global, and in order to succeed places must be distinctive and enhance their image, in other words they should brand themselves.

Country images are important extrinsic cues in product evaluations. They elicit associations and they can influence purchase decisions. A country image can lend a positive reputation to a whole product category. Countries themselves can be products, and preferably, brands.

Previous country-image studies

One stream of country-image studies has focused on the match between the country image and the perceptions of quality for products made in the country. According to Roth and Romeo (1992), consumers' evaluation of a specific product from a country is based on the match between the product and the country. However, the country-image perceptions may vary across product categories, which imply that country image is specific to the dimensions being measured. Furthermore, country-image perceptions may vary depending on the consumers' nationality. Consequently, research that investigates country image needs to consider the perceptions of consumers in more than one country (Roth & Romeo, 1992).

The nationality of a product conditions its perception (Gallarza, Saura & García 2002); a product's national origin may act as a signal of product quality, perceived risk and value as well as likelihood of purchase. A product-country match occurs when important dimensions of a product category are also associated with a country's image (Roth & Romeo, 1992).

Sources of country-image perceptions

Previous experience with a country and/or product category may influence the c-o-o effect (Johansson, Doulas & Nonaka, 1985). Moreover, a nation's brand image is not based upon people's experiences only, but also upon previous knowledge and beliefs, as well as on stereotypes of its people and the social, political, and economic conditions (see Beerli & Martín, 2004) of the place itself, its companies and products, its people and culture, its national characteristics, history and traditions (Knight, Spreng & Yaprak 2003; Agarwal & Sikri, 1996; Nagashima, 1970), and its intangibles (Kotler & Gertner, 2002).

Knowledge, referred to as the cognitive evaluation of a place (see e.g., Beerli & Martín, 2004), is obtained via official information (e.g., authorized Web sites), news reports, articles and commentaries in the media, commercial propaganda, WOM and, increasingly, eWOM. The personal experiences of tourists and other visitors are crucial in terms of image formation and feelings of loyalty. Good experiences enhance the image, but one bad experience may destroy it.

National images are often created through stereotyping, in other words by placing nations and their people in categories – frequently with negative undertones. Although superficial, stereotypes provide mental shortcuts to attitudes and intentional orientations. The stereotyping may be planned or unplanned, and the fact that it is a dynamic, fluid process indicates that it is possible to manage the images (Freire, 2009). Accordingly, the building of an effective nation brand may well start from the stereotype, countering what is potentially damaging and reinforcing the positive aspects.

3 Learning/teaching objectives

This case is meant to be a learning process for students in the Quantitative market research course (MAS2). It aims at increasing the students' knowledge of international business, cultural differences, the role of image in place/nation branding, and the sources of image formation as well as at conducting surveys in an international context.

4 Suggested student assignment

In groups of 3–4, the students should develop a sampling plan, collect the data online by using the appended Webropol questionnaire, analyze the data and finally report the findings. Tables, diagrams and charts should be used in presenting the results. To avoid overlap and to cover a wide range of countries,

the student groups should choose the target country as well as the survey population in coordination with the other groups in class. Cross-cultural comparison and analysis of the potential reasons of the differences between countries will make the research procedure more comprehensive.

5 Case analysis and reporting

To communicate the results of the empirical research clearly and effectively the students may find the following general outline useful:

1. Background and introduction (setting of the scene and description of the wider context of the research problem as well as the statement of the objectives)
2. Methodology (survey as a method, target population, sampling)
3. Analysis of findings
4. Discussion (implications of the research findings)
5. Conclusions (summary of the facts and arguments presented).

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Dear student,

This is a survey to find out what you think about Finland. To measure this, we kindly ask you to answer the questions below. Please, remember that there are no right or wrong answers. We are only interested in how you perceive Finland.

First, please, locate Finland on the world map:



What countries, outside your own country, have you visited before? _____

In the following, please, rate your view of Finland against a series of descriptors by circling the number (1–5) that best reflects your judgment. Please, indicate whether your view is based on a) personal **experiences** (visit to Finland; meeting Finnish people) b) previous **knowledge** (e.g. news reports, advertising, Internet) or c) **stereotypic view** of Finland. Please choose one of the three choices, the one that is your most important source of information. After each statement, there is additional space for your free comments regarding the statement. We highly appreciate your own thoughts.

Please circle the number that best reflects your judgment.

	Strongly disagree					Strongly agree	Don't know
	1	2	3	4	5		0
1. Finnish people are well-educated	1	2	3	4	5		0
My view is based on	Comment(s):						
a) personal experiences <input type="checkbox"/>	_____						
b) previous knowledge <input type="checkbox"/>	_____						
c) stereotypic view <input type="checkbox"/>	_____						
Please, mark one, the most important source.	_____						
2. Finnish people are hard working	1	2	3	4	5		0
My view is based on	Comment(s):						
a) personal experiences <input type="checkbox"/>	_____						
b) previous knowledge <input type="checkbox"/>	_____						
c) stereotypic view <input type="checkbox"/>	_____						
Please, mark one, the most important source.	_____						
3. Finnish people are creative	1	2	3	4	5		0
My view is based on	Comment(s):						
a) personal experiences <input type="checkbox"/>	_____						
b) previous knowledge <input type="checkbox"/>	_____						
c) stereotypic view <input type="checkbox"/>	_____						
Please, mark one, the most important source.	_____						

	Strongly disagree				Strongly agree	Don't know
4. Finnish people are friendly	1	2	3	4	5	0
My view is based on	Comment(s):					
a) personal experiences <input type="checkbox"/>	_____					
b) previous knowledge <input type="checkbox"/>	_____					
c) stereotypic view <input type="checkbox"/>	_____					
Please, mark one, the most important source.	_____					
5. Finnish people are talkative	1	2	3	4	5	0
My view is based on	Comment(s):					
a) personal experiences <input type="checkbox"/>	_____					
b) previous knowledge <input type="checkbox"/>	_____					
c) stereotypic view <input type="checkbox"/>	_____					
Please, mark one, the most important source.	_____					
6. Finnish people are good organizers	1	2	3	4	5	0
My view is based on	Comment(s):					
a) personal experiences <input type="checkbox"/>	_____					
b) previous knowledge <input type="checkbox"/>	_____					
c) stereotypic view <input type="checkbox"/>	_____					
Please, mark one, the most important source.	_____					
7. Finnish people live an urban city life	1	2	3	4	5	0
My view is based on	Comment(s):					
a) personal experiences <input type="checkbox"/>	_____					
b) previous knowledge <input type="checkbox"/>	_____					
c) stereotypic view <input type="checkbox"/>	_____					
Please, mark one, the most important source.	_____					
8. Finnish people live a peaceful rural life	1	2	3	4	5	0
My view is based on	Comment(s):					
a) personal experiences <input type="checkbox"/>	_____					
b) previous knowledge <input type="checkbox"/>	_____					
c) stereotypic view <input type="checkbox"/>	_____					
Please, mark one, the most important source.	_____					
9. Finnish people speak fluent English	1	2	3	4	5	0
My view is based on	Comment(s):					
a) personal experiences <input type="checkbox"/>	_____					
b) previous knowledge <input type="checkbox"/>	_____					
c) stereotypic view <input type="checkbox"/>	_____					
Please, mark one, the most important source.	_____					
10. Young Finnish people are internationally oriented	1	2	3	4	5	0
My view is based on	Comment(s):					
a) personal experiences <input type="checkbox"/>	_____					
b) previous knowledge <input type="checkbox"/>	_____					
c) stereotypic view <input type="checkbox"/>	_____					
Please, mark one, the most important source.	_____					

	Strongly disagree				Strongly agree	Don't know
11. Finland participates actively in international affairs	1	2	3	4	5	0
My view is based on	Comment(s):					
a) personal experiences <input type="checkbox"/>	_____					
b) previous knowledge <input type="checkbox"/>	_____					
c) stereotypic view <input type="checkbox"/>	_____					
Please, mark one, the most important source.						
12. Finland is known as a peace negotiator	1	2	3	4	5	0
My view is based on	Comment(s):					
a) personal experiences <input type="checkbox"/>	_____					
b) previous knowledge <input type="checkbox"/>	_____					
c) stereotypic view <input type="checkbox"/>	_____					
Please, mark one, the most important source.						
13. Finland is known as a dutiful partner	1	2	3	4	5	0
My view is based on	Comment(s):					
a) personal experiences <input type="checkbox"/>	_____					
b) previous knowledge <input type="checkbox"/>	_____					
c) stereotypic view <input type="checkbox"/>	_____					
Please, mark one, the most important source.						
14. Finland is politically stable	1	2	3	4	5	0
My view is based on	Comment(s):					
a) personal experiences <input type="checkbox"/>	_____					
b) previous knowledge <input type="checkbox"/>	_____					
c) stereotypic view <input type="checkbox"/>	_____					
Please, mark one, the most important source.						
15. Finland produces high-quality products	1	2	3	4	5	0
My view is based on	Comment(s):					
a) personal experiences <input type="checkbox"/>	_____					
b) previous knowledge <input type="checkbox"/>	_____					
c) stereotypic view <input type="checkbox"/>	_____					
Please, mark one, the most important source.						
16. Finland produces highly technical products	1	2	3	4	5	0
My view is based on	Comment(s):					
a) personal experiences <input type="checkbox"/>	_____					
b) previous knowledge <input type="checkbox"/>	_____					
c) stereotypic view <input type="checkbox"/>	_____					
Please, mark one, the most important source.						
17. Finland is known for design products	1	2	3	4	5	0
My view is based on	Comment(s):					
a) personal experiences <input type="checkbox"/>	_____					
b) previous knowledge <input type="checkbox"/>	_____					
c) stereotypic view <input type="checkbox"/>	_____					
Please, mark one, the most important source.						

	Strongly disagree				Strongly agree	Don't know
18. Finland is a mountainous country	1	2	3	4	5	0

My view is based on

a) personal experiences

b) previous knowledge

c) stereotypic view

Please, mark one, the most important source.

Comment(s): _____

19. Finland provides good opportunities for sun bathing	1	2	3	4	5	0

My view is based on

a) personal experiences

b) previous knowledge

c) stereotypic view

Please, mark one, the most important source.

Comment(s): _____

20. Finland provides good opportunities for winter sports	1	2	3	4	5	0

My view is based on

a) personal experiences

b) previous knowledge

c) stereotypic view

Please, mark one, the most important source.

Comment(s): _____

21. Finland is famous for its many lakes	1	2	3	4	5	0

My view is based on

a) personal experiences

b) previous knowledge

c) stereotypic view

Please, mark one, the most important source.

Comment(s): _____

22. Finland is a clean country	1	2	3	4	5	0

My view is based on

a) personal experiences

b) previous knowledge

c) stereotypic view

Please, mark one, the most important source.

Comment(s): _____

23. Finland is a safe country	1	2	3	4	5	0

My view is based on

a) personal experiences

b) previous knowledge

c) stereotypic view

Please, mark one, the most important source.

Comment(s): _____

24. Which of the following products/brands do you think are originally Finnish (please circle):

- | | | |
|---------|------------|--------------|
| a) Ikea | c) Nokia | e) H&M |
| b) Audi | d) Iittala | f) Marimekko |

25. Have you heard of the Finns mentioned below? If yes, please write from what context (music; politics; business; sports)?

- | | | | | | |
|----------------------|-------|---------------------|-------|-------------------|-------|
| a) Esa-Pekka Salonen | _____ | d) Martti Ahtisaari | _____ | g) Kimi Räikkönen | _____ |
| b) Karita Mattila | _____ | e) Tarja Halonen | _____ | h) Jorma Ollila | _____ |
| c) Ville Valo | _____ | f) Teemu Selänne | _____ | i) Paavo Nurmi | _____ |

Your age _____ Gender _____ Nationality _____

Your major at the university _____

Thank you for your contribution!

MARKETING RESEARCH TASK: AN ANALYSIS OF SUPPLIERS' VIEWPOINTS ON CATEGORY MANAGEMENT COLLABORATION IN THE FINNISH GROCERY GOODS SECTOR

Rami Olkkonen, Juha Panula and Arto Lindblom

1 The Studied Phenomenon and the Research Context

1.1 Efficient Consumer Response and Category Management

Efficient consumer response (ECR) was recognised in the early 1990s in the United States and was characterised by the emergence of new principles of collaborative management along grocery supply chains, i.e. between suppliers, retailers and consumers (Corsten & Kumar 2005). Since then the ECR concept has also attracted attention in many European countries and in Australia (e.g., Harris et al., 1999). It has developed into a comprehensive initiative comprising many different ECR practices organised within the following three major areas of manufacturer-retailer collaboration: (1) demand-side management, or collaborative practices to stimulate consumer demand by promoting joint marketing and sales activities; (2) supply-side management, or collaborative practices to optimise supply, with a focus on joint logistics and supply-chain activities; and (3) enablers and integrators, or collaborative information technology and process-improvement tools for supporting joint relational activities. ECR could be defined as a cooperative value-creation strategy whereby retailers and suppliers jointly implement collaborative business practices with the ultimate objective of jointly fulfilling consumer wishes better, more quickly and at less cost (Corsten & Kumar 2005; Lindblom & Olkkonen 2006).

Nowadays there are national and international ECR programmes around the world, and retailers and suppliers have invested heavily in terms of training, infrastructure and processes. Many of its proponents among logistics and marketing researchers claim it is one of the most influential strategic and collaborative initiatives within the grocery industry. Its aim is said to be to invert the traditional model and to break down non-productive barriers (“from

manufacturer and retailer push to consumer pull”). Probably the best-known ECR-related business process is category management (CM), which is stated to be an antecedent of successful ECR (Dapiran & Hogarth-Scott 2003).

CM is a collaborative process between suppliers and retailers, the aim of which is to manage whole product categories (instead of single brands), producing enhanced results by focusing on delivering consumer value. A product category is a distinct, manageable group of products that consumers perceive to be interrelated and/or substitutable in meeting their needs (Nielsen 2006). Examples would be dairy goods, prepared foods, and pet foods. Retailers attempt to offer a balance among variety (number of categories), depth (number of stock-keeping-units SKUs within a category), and service level (the number of individual items of a particular SKU). Categories are managed as small strategic business units within the retail store and differentiated according to the characteristics of local or regional markets to increase customer loyalty (Desrochers and Nelson 2006; Dupre and Gruen 2004).

CM forms a platform for channel partners (manufacturers/suppliers–retailers) to jointly develop marketing strategies and tactics so as to provide mutual benefits and strengthen the competitive advantages of individual firms. The most important marketing activities to achieve these goals, proposed in the previous CM literature, are the development of assortments based on consumer needs and preferences, optimization of promotions, and introduction of new products (e.g., Nielsen 2006; Dupre & Gruen 2004; Kurnia & Johnston 2003; Dapiran & Hogarth-Scott 2003; Dewsnap & Hart 2004; Hyvönen et al. 2010).

Partnerships are said to be the basis of effective CM (Dewsnap & Hart 2004; Kurnia & Johnston 2003). Although retailers may practice CM without input from suppliers, it is assumed that the results are enhanced through the collaborative pooling of complementary knowledge to meet the needs of consumers. For reasons of resource constraints, for example, it is difficult for retailers to build partnerships with all suppliers. Generally, it could be stated that supplier-retailer relationships are situated along a ‘relationship continuum’ (see e.g., Grönroos 1994; Webster 1992). At one end of it are the purely transactional market relationships in which retailers and suppliers focus on short-term economic exchange, and at the other end are long-term-oriented partnerships involving more cooperative interaction strategies between retailers and suppliers. According to the basic tenets of the inter-organisational relationship approach, it could be argued that suppliers in CM collaboration positioned at the partnership end of the continuum are usually capable of providing more input than those positioned at the opposite (transactional) end.

CM seems to bring many positive elements to supplier-retailer interaction – e.g., continuous collaboration instead of repeated competitive biddings, and knowledge sharing instead of knowledge withholding. It is argued that through CM suppliers and retailers can serve consumers better, more quickly and more cheaply by working together with trading partners. As stated earlier, CM is generally based on the idea that instead of managing individual brands with each relevant supplier it is better for retailers to manage entire product categories as strategic business units in cooperation with the most significant suppliers. According to Dewsnap and Hart (2004), CM is successful when suppliers and retailers can genuinely collaborate in understanding consumers and fulfilling their needs via a joint process of category planning. However, CM's nature cannot be understood without understanding the roles of the collaborating suppliers.

1.2 Suppliers' (Manufacturers') Roles in CM Collaboration

Partnership thinking is one of the cornerstones of CM. However, since the number of categories and the number of brands within each category is usually high in the retailing business, retailers are not able to develop partnerships with all of their suppliers. They thus usually build closer relationships (partnerships) with only some of them, usually the influential ones, and maintain more distant relationships with others. Thus, in this kind of supplier network the supplier's role is pivotal. According to the literature on business-to-business relationships, role refers to the relative importance of the firm in its business net, i.e. in relation to other firms, measured by size or other correlates of power and influence (Johanson & Mattsson, 1994). In the context of CM collaboration, the role of each supplier could be defined in relation to other competing suppliers in a focal category, as in the four alternatives listed below:

- Role 1: the supplier's role in CM collaboration is greater than that of its competitors;
- Role 2: the supplier's role in CM collaboration is equal to that of the competing suppliers;
- Role 3: the supplier's role in CM collaboration is weaker than that of its competitors;
- Role 4: the supplier has no explicitly stated role in CM collaboration.

There may be a risk that suppliers with a strong role in CM collaboration may act in an opportunistic manner, i.e. they may promote their own brands at the expense of weaker suppliers within the same category - although this is not in line with ideal-type CM practices. It is known, for example, that CM

collaboration may involve category-captain arrangements—whereby certain suppliers, i.e. category captains, take a significant management role, which also includes managing the brands of competing suppliers in the category (see e.g., Desrochers et al., 2003; Kurtulus & Toktay, 2004). Category captain arrangements are said to significantly improve the performance of an entire category (Kurtulus & Toktay, 2004). By way of explanation, it is assumed that category captains have superior information about the consumer market and its trends, and highly trained specialists to analyse it (Dewsnap & Hart, 2004). On the basis of this knowledge they are able to enhance consumer value and improve the sales and profitability of the whole category. However, it is possible that the category captain may also use its role to exclude rivals, or otherwise to increase significantly their costs of competing. The restriction of competition among rivals may harm consumers, i.e. it may lead to higher prices, less variety and choice, and reduced rates of innovation (Desrochers et al., 2003). Also Dupre and Gruen (2004) state that an exclusive CM relationship with one large manufacturer can weaken relationships with other manufacturers. This can decrease a retailer's capacity to combine the expertise of several manufacturers in producing value for consumers. Thus, it is important for retailers to consider whether to entrust all their category decisions to one category captain or to several manufacturers.

1.3 The Elements of CM Tactics and the Effects of CM

The elements of CM tactics are divided here into: (i) assortment planning; (ii) pricing; (iii) space allocation; and (iv) in-store promotional activity. Retailers are usually assumed to be in charge of these four areas of CM decision-making. CM tactics are crucial for suppliers because the success of their brands depends on in-store availability, and in order to secure this they therefore try to influence the tactics. It has been argued that these competing interests – of the suppliers (who seek to increase the share of their products in a given category) and of the retailers (who seek to increase the performance of the overall category) – create a tension that hinders the genuinely collaborative development and implementation of CM (Gruen & Shah, 2000).

Recent surveys have shown that the majority of practitioners who work with CM believe that it improves turnover, profitability, market share, inventory levels, trading relationships and consumer understanding, product visibility and product launch (Dewsnap & Hart, 2004). Moreover, it is generally considered to yield benefits for all partners within the supply chain, including added value for consumers through improved category benefits and reduced marketing and distribution costs for suppliers and retailers (Dupre & Gruen,

2004; Gruen & Shah, 2000). However, the ideal ‘win-win-win’ collaboration in which all parties – manufacturers, retailers and consumers - benefit is quite difficult to attain in practice. As stated in the previous section, in cases in which some suppliers have more significant roles than others, the stronger ones are usually able to manage the brands of the weaker when it comes to CM tactics (i.e. assortment planning, pricing, space allocation and in-store promotional activity). Consequently, the effects of CM have provoked some discussion, especially regarding the division of its benefits between those with more significant roles and those with weaker roles (or no roles at all) in the collaboration. (e.g., Kurtulus & Toktay 2004; Desrochers 2004; Lindblom & Olkkonen 2006; Hyvönen et al. 2010).

1.4 Manufacturers’ Power Bases: How Can Manufacturer Companies Influence the CM Tactics?

Power refers to one marketing channel member’s ability to influence and control marketing decision variables of another firm in a given channel. Power can be exercised in various ways, as suggested by those who operationalize power usage as a power source, based on French and Raven’s original typology from 1959 (e.g., El-Ansary & Stern 1972; Gaski 1986). French and Raven (1959) classified the exercise of power into the following five power sources which have stood the test over time:

- reward power – based on the ability of one channel member to mediate rewards and positive outcomes, and to remove or decrease negative outcomes received by another;
- coercive power – rests on the ability of one channel member’s ability to punish other channel members for non-compliance;
- legitimate power – based on the belief of one channel member that another has the right to prescribe behaviour; legitimate power has two sources: legal and traditional;
- referent power – results from the willingness or desire of one channel member to be associated with another; and
- expert power – based on formal or specialised knowledge about particular issues or activities within an organization and in a marketing channel

Earlier CM studies indicate that manufacturers and retailers tend to rely on persuasive and other indirect means of influence – noncoercive power – rather than on coercion in guiding and administering joint activities and processes (Aastrup, Grant, and Bjerre 2007). For example, expert or information power can be used as a substitute of coercive power (“take-it-or-leave-it attitude”) in

cooperative relationships (Dapiran and Hogarth-Scott 2003). Thus, when it comes to CM collaboration manufacturers' influence strategies are assumed to be related to expert power, information power, referent power, and to some extent also legitimate power. Consequently, suppliers/manufacturers are able to increase their control over CM tactics by bringing certain resources to the relationship. These resources bestow power on their holder. Although retailers have access to EPOS data and other types of data, only a minority have the resources to conduct detailed consumer research at the category level (Dewsnap & Hart, 2004). Manufacturers can potentially fill this gap by providing the necessary resources. Armed with CM expertise, proprietary consumer data and syndicated market-level data, manufacturers can thus increase their control over CM tactics (Gruen & Shah, 2000). Such superior market and consumer knowledge possessed by manufacturers relates to the concept of expert power (as discussed above).

In addition, if manufacturers are able to bring strong brands to the relationship, they can increase their control over CM tactics. There might, therefore, be a balance of power between retailers and major brand manufacturers – whereby strong manufacturer brand loyalty offsets retailer power (Ogbonna & Wilkinson, 1998). Furthermore, manufacturers who are concerned with developments in retail branding and who seek congruent goals with retailers are able to enhance their position in relation to retailers (Ogbonna & Wilkinson, 1998). Manufacturers' ability to bring strong brands and goal congruence to the relationship can be related to the concept of referent power (as discussed above). By using these expert and referent power bases, manufacturers are indirectly able to control CM tactics (Dapiran & Hogarth-Scott, 2003). In addition, the use of reward and legitimate power bases may increase manufacturers' possibilities to influence decision making related to various elements of CM tactics. In the context of CM, reward power can be defined as the manufacturers' ability to mediate rewards in terms of competitive prices, superior discounts, favourable terms of trade and payments, superior financial support, and incentives; legitimate power may refer e.g. to body of competitive law, formal contracts and institutionalised codes of conduct regarding the roles of manufacturers and retailers affecting the nature of CM collaboration.

2 Marketing Research Task

2.1 Objectives of the marketing research assignment

The task of the teams consisting of 3–4 students participating the advanced quantitative marketing research course is to conduct a marketing research

regarding CM collaboration in the Finnish grocery goods sector. All phases of the marketing research process - questionnaire design, sample considerations, data collection, data analysis and interpretation as well as preparation of a formal marketing research report - will be covered during the course.

The objective of the focal marketing research assignment is to analyse suppliers' viewpoints on category management collaboration in the Finnish grocery goods sector. The specific research questions of the study are as follows:

- How do suppliers perceive their role related to their competitors in CM collaboration?
- How do suppliers perceive their ability to influence the joint decision making related to specific elements of CM tactics?
- How do suppliers perceive the effects of CM collaboration?
- How do suppliers perceive the importance of various power bases as a means to influence CM decision making?
- Are there any differences in the above issues in the sub-groups of suppliers (e.g., supplier's market position in the product category, size of the supplier company, nature of the product category represented by the respondent)

2.2 Instructions for the phases of the research process

- 1) Based on the various issues and hints presented in Section 1.1 of this case assignment as well as on the research objective and research questions presented above, *each team prepares a Webropol questionnaire* to be utilised in the subsequent data collection phase. The question structure, question wording and the utilized scales should be well-grounded (these issues are discussed in the lectures/seminars and in the course book, see Malhotra & Birks, 2007). Also previous studies on CM collaboration can be utilized in designing the questionnaire (see the reference list of this case assignment). *Based on each research team's suggestions and discussions in the seminars, the final questionnaire will be designed. The data will be collected by using this final questionnaire.*
- 2) ECR Finland's membership register will be used as a sample frame of the empirical study (email addresses of supplier companies' category managers). Each team should consider various sampling-related issues (sample size, probability or non-probability sampling technique, etc.) and make a grounded suggestion on the sampling procedure to be utilized in this study (these issues are discussed in the lectures/seminars

and in the course book). *Based on research teams' suggestions and discussions in the seminars, the sampling method will be selected. After that the final questionnaire will be sent via Webropol to the category managers included in the sample (lecturers of the course will do this).* Two reminders will be sent in order to ensure a sufficient rate of response.

- 3) *Each team codes the final questionnaire into the statistical analysis software SPSS. The collected data will be imported from Webropol to SPSS.*
- 4) *Each team analyzes the data in order to answer the research questions presented above. Various statistical methods should be employed in this task. Issues related to statistical analysis and tests are discussed in the lectures/seminars and in the course book. Related to the statistical analysis phase, two special sessions will be arranged in which the teams can ask for advice from the lecturers.*
- 5) *A formal marketing research report is prepared by each research team. The use of tables and diagrams is recommended in order to make the report as concise and readable as possible. The central message(s) of each table and diagram should be also expressed in the text. Also the statistical tests should be communicated sufficiently (if needed; this may depend e.g., on the sampling type). The features of a good marketing research report will be discussed during the lectures/seminars. The marketing research report can be structured e.g. as follows:*
 1. Introduction (a brief description of the Finnish grocery and retail market, description of the studied phenomenon, purpose and the research questions of the study, description of the structure of the report)
 2. Research process (questionnaire design, sample, data collection, analysis, reliability and validity of the study)
 3. Suppliers' viewpoints on CM collaboration in the Finnish grocery goods sector
 - 3.1 Description of the empirical data
 - 3.2 Results related to research question 1 (+ comparison between various types of companies)
 - 3.3 Results related to research questions 2 (+ comparison between various types of companies)
 - 3.4 Results related to research question 3 (+ comparison between various types of companies)
 - 3.5 Results related to research question 4 (+ comparison between various types of companies)

4. Conclusions (a concise summary of the central findings, implications for suppliers, for retailers, and for consumers)
5. References
6. Appendices

The marketing research report should include a cover sheet (indicating the title of the study and the names of the authors), a list of figures and tables, and a table of contents. The well-finished final report should be left to lecturers by May 1 (in a hardcopy format).

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A CASE FOR INQUIRY LEARNING: INTOPIA – IT ISN'T A GAME¹

Peter Zettinig and Birgitta Sandberg

It was the 3rd November last year, five minutes before midnight. The lights at the Computer Industry Association's (CIA) Headquarters were still on. Teachers were busy calculating the quarterly results of ten newly formed computer industry firms for business period II. At that time of the day, having had four hours of lectures and exercises and four hours of calculating, simulating and reporting of business results, questions formed in the teachers' minds: *'Isn't there an easier way to make a living?'*

Intopia is an international business simulation game developed by Prof. Thorelli and it has been in use and development since 1963. At Turku School of Economics (TSE) it has run since the early 1990s under the leadership of Lecturer Martti Salo for which he received the national award for teaching achievements in 2003. In brief, Intopia creates an environment in which students learn to establish a firm, which gradually internationalizes, competes and cooperates within the setting of the computer industry. Students get equipped with 20 million Swiss Francs in founding equity capital to start a company related to computer hard and software. They then form a strategy and execute it over eight business periods in response to consumer demand, development of business-to-business relationships and an ever increasing complex and changing business environment. The goal for students is to manage successful firms which internationalize their value chains to different geographic markets including Europe, the United States and Brazil. The challenge is to balance the financial processes of the firm with plans and actual developments in the firm and its environment. At TSE Intopia has been used for a capstone course to facilitate student's knowledge integration across many different subject areas, most prominently strategy, management and finance but also with significant effectiveness in terms of cross-cultural communication, inter-personal capability development and negotiation skills, to name a few. The nature of the

¹ This case is a case for inquiry-learning in complex management settings. It can serve the teaching-oriented scholar to discuss the advantages and shortcomings of action and experiential learning designs.

course KV5 which is implementing Intopia is one that builds on an inquiry-learning (IL) approach. It allows students' not only to find answers to questions but takes their learning further in that it forces students to identify the relevant questions, too. An action setting is created which is not only based on rational calculus and adaptation to changing environments but it provides the playground for students to also experience how it feels to run a multinational enterprise with all its ups and downs.

The IL approach to learning can be positioned on the opposite end of a continuum, substantially different from the traditional guided instruction approach (GI), where lecturers 'transfer' knowledge through frontal lectures. Zettinig, Mockaitis & Zander (2010) discuss the pedagogic debate between the two approaches. Proponents of the guided, or direct, instruction (GI) approach argue that the GI approach results in more learning than unguided instruction (e.g., Mayer, 2004), such as IL, while in particular for the more novice learners, because of the higher cognitive load imposed upon them, the latter may result in less learning (Kirschner, Sweller & Clark., 2006). On the other hand, methods such as inquiry learning (IL) and problem-based learning are argued to be more effective, when student learning is 'scaffolded'. Scaffolding involves reducing cognitive load on learners by giving advice and feedback as well as coaching to assist in structuring complex problems without explicitly providing students with a final answer to the problem (Hmelo-Silver., Duncan & Chinn, 2007).

The implementation of Intopia within a capstone IB course has provided scaffolding for students by teaming them up in heterogeneous teams, which in most effective iterations of the course consist usually of more senior students working with earlier career students. Further there is an emphasis to develop teams that are composed by students with different major subjects, mixed genders, and especially multi-cultural backgrounds. This creates on one side a human resource-base and creative problem solving ability which can answer many of the challenges Intopia creates during the evolution of a simulation. On the other side it creates the welcomed effects of task, relationship and process conflicts (cf. Mockaitis, Rose & Zettinig, 2009) which become part of the cross-cultural learning experience. Sandberg & Vincze (2010) point out that such inter-cultural competencies are critical challenges in today's management realm and a scaffolding approach such as applied in Intopia provides an affective support mechanism to develop such capabilities in a safe environment.

Instructors observe in real time how management teams develop and how inter-firm negotiations proceed in the evolution of a conflict-laden and increasingly complex environment. When issues emerge instructors actively interfere to help detect potential problems which might only become emergent at a

later stage of the game using different communication outlets (e.g. a periodical called 'Gossip' which discusses actual and rumored events and developments). Instructors also run different consulting and business services (e.g. market research and banking) which allow direct influence in student teams' decision making facilitating different reflective processes which might otherwise be done with fewer rigors. In case students run into hard-to-overcome conflicts within teams or across teams then the instructors facilitate arbitration services against pay, or if that cannot be resolved by such means, also organize court sessions which result in irrevocable decisions, as for instance in extreme but very rare cases 'firing' a manager who at the same time fails to complete the course. In sum this course provides a number of tools, which become part of the game, to help students to understand the nature of international business and management of complex operations and which force students to go beyond knowing how business functions and how to analyze it but provide students with the opportunity to experiment by implementing their own theories about business.

In addition the course integrates knowledge which is very often perceived by students to belong to different silos that are not obviously connected. For instance, student teams need to think about and formulate a strategy for their company in response to a complex macro- and meso-economic environment encompassing different sense-making processes about peer student teams' more or less hidden goals and strategies. They learn that while a strategy might seem feasible at one point it requires adaptation or complete new-orientations should the environment change dramatically, which over eight periods of Intopia it frequently does. As such this course provides an excellent way to illustrate that strategy is not a static analysis but requires constant evaluation and consideration.

Further it shows that plans and implementations are equally significant for the development of a firm. On management-level students are put in a situation where they need specializing in tasks and functions and to coordinate their activities in order to be successful. While this is usually easily understood in a theoretical context we can see that in fast-paced experimental designs like Intopia it surprises students, because it very often goes beyond optimization tasks and rationalization but involves emotional stress and judgments based on limited information. In most student teams this goes beyond intra-team management but they learn how firms develop power bases vis-à-vis their cooperation partners along the value chain, which they then need to utilize for their own firms' benefits. In sum a course, like run by Lecturer Martti Salo for almost 20 years, provides many IL approaches, which help students to acquire new knowledge, integrate known knowledge, show limitations of theories and frameworks and above all allow students to experience how it must feel to run

a multinational corporation in a dynamic and complex global business environment.

From a pedagogic point of view we like to compare the use of Intopia in a sophisticated inquiry-learning setting with the education of medical doctors. In medical programs students practice scientific inquiry and pose questions, gather and analyze data and construct evidence-based arguments (see discussion in: Zettinig, Mockaitis & Zander, 2010). What you ultimately expect from your physician is not to treat your symptoms but to treat your illness at cause root. Is this not also what we expect from our graduates when they start to take charge of our organizations and economy?

In response to the first posed question, whether there is an easier way for a teacher to make a living, we like to induce discussion. Are complex scaffolding techniques used in IL courses worthwhile to engage students to become effective actors in multinational firms?

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BUILDING NETWORK-BASED BUSINESS MODEL(S) FOR EXPLOITING GEOTHERMAL ENERGY

Esa Stenberg

1 Introduction and problem setting

The market for shallow (max 300 m deep from the earth's surface) geothermal energy for heating and cooling is expanding, especially in built-up environments, which in Finland account for 40 percent of energy use and one third of greenhouse-gas emissions. The building cluster, together with the energy and environment clusters are in a key position to promote this energy form. Sustainable communities constitute a global business opportunity and there is a high demand for new service concepts and business models.

The case companies in this chapter are currently operating separately in the geo-energy market. Of course, besides these companies, there are tens of other operators in this field. The geo-energy business model configurations of the described companies are presented as attachments. However, in order to rapidly develop this energy form, more network-based or other joint business models would be needed. The question is: Should the companies continue operating separately or develop network-based or other joint operations in exploiting the geo-energy?

2 Background

Finland as a member of the European Union is committed to the EU goals of increasing the share of renewable energy by 20 percent, reducing greenhouse gas emissions by 20 percent, and improving energy efficiency by 20 percent by the year 2020. The EU's objective is to have cleaner, more secure and more competitive energy in the future. Among the EU-27 the current share of renewable energy of all energy consumption is 8.5 percent, hence the performance gap to be filled is 11.5 percent. The targets vary by member state, depending on the country's starting point and income level. The national target of Finland is to increase its share from 28.5 percent in 2005 to 38 percent by

2020. The development of a market for renewable energy sources and technologies will support national, regional and local development, export prospects and employment opportunities, especially among small and medium-sized undertakings and independent power producers.

It seems obvious that political and social demands for renewable energy will continue to increase, and the increasing costs of traditional generation and the potential price of carbon will make it increasingly attractive. However, different tariff regimes and levels of political backing will result in different levels of growth in different countries. Moreover, there are several barriers impeding the wide-scale deployment of renewables: relatively high costs, performance validation and experience, market inertia and risk adversity, and infrastructure limitations (Peterson, 2008). Heating and cooling represent the largest energy market in Europe, larger than electricity and transport. Approximately 50 percent of the EU's primary energy consumption is used for heating and cooling in buildings, domestic hot-water supply, and heat for industrial processes and the service sector, whereas the respective figures are 20 percent for electricity and 30 percent for transport (Renewable heating, Action plan for Europe, European Renewable Energy Council, EREC, 2007). Renewable energy sources currently account for only 10 percent of all heating and cooling. Renewable heating and cooling technologies (solar thermal, biomass, geothermal) could replace significant amounts of fossil fuels and electricity.

Renewable energy sources (RES) used for heating and cooling purposes have attracted relatively little attention compared with those used to generate electricity and produce transport fuels. This is surprising because the demand for heat consumes the largest share of primary energy supply, and RES could offer a practical alternative to fossil fuels in many cases. The potential to increase the use of solar, geothermal and biomass sources for renewable-energy heating and cooling is therefore large (Jurczak, 2006). The specific focus of this chapter is on the increased exploitation of geothermal energy in Finland. By definition, geothermal energy is energy stored in the form of heat beneath the earth's surface (EGEC, 2009). It is a sustainable, renewable, practically infinite energy source, and is available all over Europe. The long-term goal (2030) of the geothermal sector set by the EGEC (A geothermal Europe, 2009) is to contribute five percent of the total electricity production in Europe, and 3.5 percent of all heat generation.

On the human timescale, geothermal heat is an inexhaustible source of energy. Market growth was highest in the late 1970s. It started to decrease in the early 1980s, resulting in a more stable state until the revival of interest from 1995 onwards (Renewables for heating and cooling, International Energy Association, IEA, 2007). Geothermal systems are classified as deep, enhanced

and shallow, the focus in being on shallow systems. The ambient heat stored at shallow depths (<300m) could be an essential component of energy-efficient heating and cooling systems in buildings. Shallow geothermal technologies have not yet reached a sufficient level of maturity to compete in the mass market without some form of support mechanism. Typically they attract a relatively low level of government support, the aim being to encourage further R&D with a view to creating favorable technological and economic conditions and thereby reaching the mass market. Ground-source heat pumps have the largest installed capacity, accounting for about 50 percent of the Europe-wide use and capacity (Sanner and Boissavy, 2007).

In European terms, Sweden and Switzerland are the leading countries in the markets for geothermal energy. It accounts for 10 percent of the total energy consumption in Sweden, whereas the corresponding figure in Finland is only one percent, although both countries have similar geological environments. This difference suggests that there is much potential to develop the exploitation of geothermal energy in Finland. The fact is that there is a great deal of knowledge in the fields of geology and energy and construction technology in the country, but the challenge lies in integrating these knowledge areas and commercializing geothermal energy use. There is therefore also a need for complementary knowledge concerning innovative, networked-based business models.

Geo-energy solutions require closer customer relationships than traditional energy forms, and in larger commercial and industrial applications in particular, the structure of customer energy consumption must be well understood. As with all new technology commercialization, the building up of customer relationships takes more time and effort than when the technology is well known and well used.

From the business point of view the information acquired and the capital intensity of investments in renewable energy are key sources of competitiveness over traditional energy forms. The resources are, in most cases, site-specific, as in the exploitation of geothermal energy. The entrepreneurial risk in any renewable-energy business is also relatively high given that it is all relatively new to the market, and the business infrastructure is less developed than in traditional energy production. The buying decision is also more difficult for the end user because of the upfront costs and less-extensively tested technology.

There are energy-specific costs inherent in all energy forms, specifically investment and life-cycle costs. These need to be analyzed in order to assess and compare the different options in terms of profitability.

Geo-energy technology, in fact, has been extensively tested in various implementations as compared to other renewable energy forms. However, one

investment barrier may be that, as a fast developing area, the current technology will prove to be inefficient within a few years. Still, the risk associated with rapid technological development in geo-energy is considered to be lower than in solar or wind energy, for example.

The measure used most frequently to illustrate the advantage of geo-energy is payback time: obviously, the shorter it is, the more attractive is the investment. However, payback time in itself is insufficient, and must be confirmed by other more traditional means in which interest is included.

In terms of public incentives, the Finnish Ministry of Employment and the Economy may grant financial support for climate and environmental projects that enhance the adoption of renewable energy and promote energy savings. In the case of geo-energy there may be support for pilot projects aimed at developing new technology and solutions that improve energy efficiency. The role of public incentives in the business model can be evaluated only on the basis that the major part of the financing comes from public sources and the participating companies' share is rather limited. In practice, the participating companies acquire a great deal of technological and geological knowledge at a very reasonable cost.

3 The case companies

Bergans Kiinteistöt Oy is a family-owned company and has 6.5 hectares of land for a planned dwelling area in Espoo, close to Helsinki. The area is called Eko-Vermo, for which the city plan is not yet completed. There are three other landowners apart from Bergans: Siemens Oy (7 hectares), Sponda Kiinteistöt Oy (3,2 hectares) and the city of Espoo (3 hectares). Later on, Siemens sold its land property to a joint company of two construction companies (SRV and SATO) and an insurance company (Ilmarinen). There was interest from building companies in buying the land but instead of selling the land the family members wanted to add value to their property by developing it in accordance with their own values. Their overall goal was to make Eko-Vermo the biggest ecological dwelling area in Finland. However, they did not wish to take on the role of a building firm. The business idea of the company is "to develop sustainable solutions for the planning of societies, dwelling areas and buildings". It is possible to 'productize' the knowledge created during the business process based on this definition. The demand for this kind of product is growing internationally at the same time as the values and ideas of sustainable development are strengthening.

The owners of the company know that Bergans cannot implement its business idea alone. They decide to participate in a national development

project, in which one of the renewable energy forms, geothermal energy, is developed. The project participation also offers an opportunity to build networks with companies having similar type of business ideas. Another way of implementing the business idea was by “taking into consideration the needs of the dwellers based on their hobbies and ways of life in the planning of dwelling areas, buildings and dwellings”. The company strives to identify future dwellers as early as possible and to involve them in the planning of the area and the buildings. The main methods used include various net-based tools and the social media.

In accordance with its views, as described above, the company decided to adopt geo-energy as the source of heating/cooling energy. Obviously, the building company makes the final decision. How to convince it to adopt the same views and commit to them is ‘a good question’. The value added for direct customers (the building companies and the developers) comes from the fact that the area is already known to support positive values, and potential end customers are identified at an early stage. The indirect customers (final customers) are obviously the people who finally buy the dwellings for their own use. The value added elements for them are the pro-environmental aspects and the stability of the energy costs. Also the image of the area is a potential value-added factor. Eko-Vermo is already a brand well-known in the Helsinki area, which is the prerequisite of any brand. Bergans’ geo-energy business model is described in Appendix 1.

Fortum is the biggest energy company in Finland. It is a system supplier and administrator in the geo-energy market. Fortum combines the existing knowledge held in various companies into a total solution and then operates the system. In fact, the essence of its business idea is to plan, own and operate different energy solutions. In terms of the geo-energy business it has built up a network of audited partners with the ability to implement projects, and sends invitations to tender to them at the beginning of each project. The main rule is that there is a competitive bidding process. Fortum’s geo-energy business model is described in Appendix 2.

Hartela is a traditional privately owned building company that has decided to utilize geo-energy in its new dwelling area in Espoo. The area has been an outdoor recreation area for the people of Espoo. In that sense, there was a good match between the “green thinking” and the energy solution. The question of administering the system was considered in Hartela. The options were: a dwelling-based system, a regional energy company, an energy cooperative, and an outside energy company. The most probable solution is that the housing corporation will co-own the geo-energy system. The upfront costs in this model are added to the long-term loans of the housing corporations participating in the system. The target group consists of people in the Helsinki

metropolitan area who place high value on ecological solutions. The planning of the dwellings and buildings is based on a typology of families whose preferences are taken into consideration as far as the dwellings are concerned. For Hartela, offering geo-energy as a renewable energy source is merely a way of testing people's willingness to choose new things. In fact, the barrier against adopting radically new solutions is high: people tend to avoid the cost and image risks. It is therefore important to test the geo-energy technology in a few cases beforehand and hence to lower the barrier. Hartela's view is that the biggest pressure to install geo-energy or alternative renewable energy sources in buildings comes from the end customers. The public discussion about energy efficiency and carbon-dioxide emissions has had an impact on people's preferences. The company also considers that the offer of ecological living is a competitive factor even now, and will be more so in the future. The image of social responsibility is important for the company. Hartela's geo-energy business model is described in Appendix 3.

Senaatti is a public real-estate investor. It has decided to adopt the geo-energy solution to its public rescue education centre in Kuopio, Eastern Finland. Senaatti as a public investor paid special attention to ecology in the planning and realization of the building. The focal points have been low energy, durability of the structures, life-cycle advantages and environmental aspects. The public interest in this case is obviously bigger than in the other three cases. Senaatti has a national role in implementing the nation-level goals of low emission in Finland. Senaatti's business model is described in Appendix 4.

4 Business models

The business models of the case companies differ quite strongly, and thus it is not easy to find common features or to make generalizations. However, the importance of reliable partnership networks is emphasized in all of them. The quality of the final geo-energy system depends on the quality of each member of the network. For example, inexact measurements of energy needs or energy fields, or failures in system installations, can cause serious problems to the heating or cooling of the dwellings. Of the case companies, Fortum has built up a group of audited suppliers in order to minimize this risk. Of course, building up such a network carries extra costs. The other case companies have not introduced similar systems due to the uniqueness (Bergans) or the first-trial nature of the project (Hartela and Senaatti).

Figure 1 below defines the various activities in the business-model configuration and differentiates the activity-based and financial flows (modified from Osterwalder (2007)).

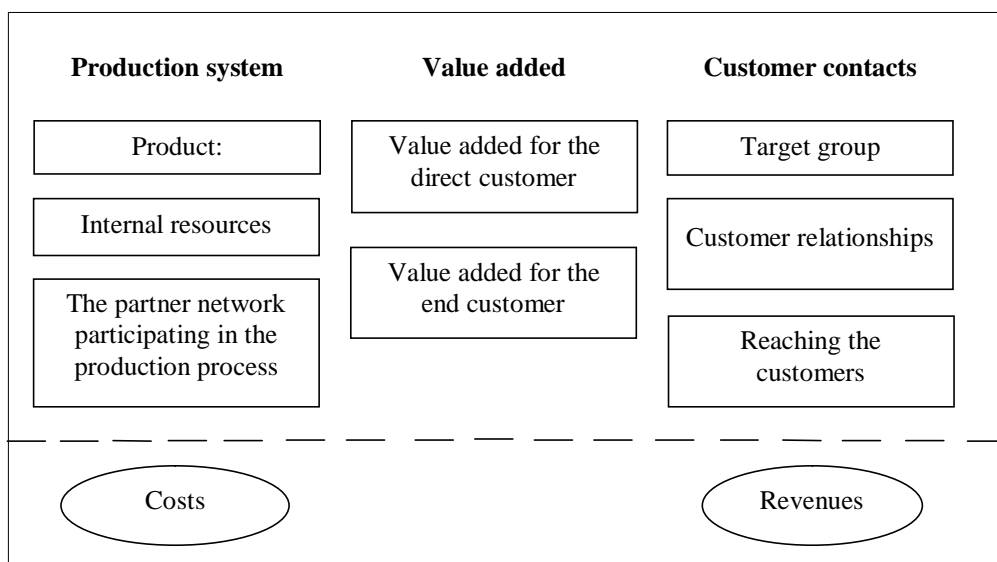


Figure 1 Business model (Monified from Osterwalder 2007)

This model is applied in the descriptions of the case companies' business models (appendices 1–4).

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Appendix 1 Bergans

Product: a dwelling area based on the principles of sustainable development (Eko-Vermo)

- Internal resources**
- land property
 - personnel; their visions and enthusiasm

The partner network participating in the production process

- the city of Espoo as the city planner (officials and politicians)
- other landowners in the area
- future builders and developers
- future dwellers and people interested in sustainable city planning

Added value

Value added for the direct customer (building companies and developers)

- readily planned, well known and interesting area
- some future dwellers known

Value added for the end customers (dwellers)

- Connected with geo-energy
- environmental values
 - stability of energy costs
 - strengthening of the self-image
- Connected with the “Bergans model”
- living in line with needs based on hobbies and the ‘way of life’
 - environmental values
 - strengthening of the self-image under the Eko-Vermo brand

Target group

- potential dwelling buyers in line with the profile of the planned area, in the planning stage
- the city planner, in the planning stage
- building companies

Customer relationships

- at the early stage tight planning cooperation with the potential future end users (dwellers) and the city planner
- at a later stage cooperation with the building companies that eventually build the area

Reaching the customers

- early identification of the future dwellers and involving them in the planning of the area
- use of various net-based tools and social media (e.g., the area’s own net sites and Facebook)
- utilizing the local media interest

Costs

- seeking partners to join the cooperation team and fostering a positive attitude towards the project
- planning costs

Revenues

- Income from the sale of the planned area - higher than for the unplanned area - plus a potential premium for branded and sustainable development

Product: outsourced energy service (geo-energy as a central component)

Internal resources

- financing, sales and marketing
- system planners
- repair and maintenance

Outside resources

- soil mapping; GTK and private operators
- well-hole-drilling companies
- earthmoving companies
- warming-tube companies
- heat-pump companies

Added value

Value added for the customer, as compared to other solutions

- Connected with geo-energy
- environmental values
 - stability of energy costs
 - strengthening of the self-image
- Connected with the 'Fortum model'
- easy and hassle-free operation for the developer and the housing company
 - Fortum as a low-risk partner; as a big energy company able to plan and implement multiple types of projects including those with high upfront costs

Target group

- building companies at the building stage
- housing corporations at the stage of ready-built houses
- housing corporations considering the renovation of their energy solutions
- developers of public buildings
- real-estate investors

Customer relationships

- at the planning and building stages co-operation with the developer company
- at the stage of ready-built houses a clear producer-client relationship with the energy consumer

Reaching the customers

- traditional channels of business communication
- direct informal contacts

Costs

- seeking and auditing partners
- building a suitable network for each project: competitive bidding and negotiations
- planning costs
- sub-supplier costs
- financing costs
- fixed costs

Revenues

- fixed payments covering investments in energy wells, equipments and networks
- energy payments based on consumption
- income from potential value-added services

**Product: geo-energy for dwelling houses
Infrastructure/partner network participating in
the production process**

Option 1

Hartela does the building itself. The operational mode is quite similar to that in projects using traditional energy sources. The familiar building network is complemented by geo-energy specialists. Once in operation, the housing corporations own the geo-energy system.

Option 2

The previously described energy company produces the energy solution and administers the partner network (Hartela and Fortum define the operative interfaces). Fortum owns and administers the geo-energy system.

Other partners

- the city of Espoo as the city planner and the issuer of permits
- building planners and architects

Added value

**Value added for the customer,
as compared to other solutions**

- environmental values
- hassle-free
- self-sufficiency
- advantageous and stable energy costs
- strengthening of the dweller's self-image
- attractive regional totality

Target group

- people who consider the value-added elements of geo-energy important

Customer relationships

- rather traditional relationship at the decision-making and building stages

Reaching the customers

- reaching different customer segments through various channels and arguments based on market research

Costs

- costs of building the network for the implementation of the project
- higher planning costs compared to traditional solutions
- contractor costs
- high upfront costs of the geo-energy system

Revenues

- higher sales price compared to traditional dwellings
- shorter sales time compared to traditional dwellings

Product: The utilization of geo-energy primarily in state-owned premises

Infrastructure/partner network participating in the production process

- planners of the buildings
- planners of the energy solution
- soil mappers
- well-hole-drilling companies
- building companies
- earthmoving companies
- tube manufacturers
- heat-pump manufacturers

Added value

Value added for the customer, as compared to other solutions

- environmental values
- hassle-free
- self-sufficiency
- advantageous and stable energy costs

Target group

- various operators in the state administration: ministries, defense administration, research organizations

Customer relationships

- the customers are various units of the state administration with long-term leasing agreements

Reaching the customers

- through the state administration

Costs

- building the network implementing the project
- higher planning costs than in traditional solutions
- the costs of using various contractors
- the higher upfront costs of the geo-energy system

Revenues

- lower carbon dioxide emissions
- lower energy costs

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