

**ENTERING THE CHINESE MARKET  
CASE STUDY: KONECRANES PLC (CHINA)**



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Degree Programme  
in Business Management  
Thesis  
November, 2009

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Year	2009	Pages	38
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The purpose of this thesis was to discuss the foreign market entry strategies and business relationship in the Chinese market for the case company. China is developing faster than before, a large quantity of foreign companies are establishing branch companies in China. The objective of this thesis was to give suggestions to foreign lifting businesses entering the Chinese market. Konecranes is a successful case company concerning Chinese market entry and which was presented in the thesis.

In order to create a theoretical background, the thesis includes studies on the concept of international market entry, processes of internationalization, advantages and special conditions in the Chinese market.

In the empirical section, a personal interview and a questionnaire have been used. The structure of this thesis is planned to evaluate the current market strategies implemented by the case company firstly and provide a new vision as a solution for the whole lifting world companies improving their foreign market entry strategies in order to obtain success in entering foreign markets.

The qualitative research method has been used in this thesis and that includes the personal interview and the questionnaire related to Chinese market, entry strategies, communications and experiences.

Keywords: International marketing strategy, Chinese market entry strategy, Business relationship in China

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## 1 INTRODUCTION

International business has become one of the most attractive topics in the world. While the business environment is being internationalized regularly, the internationalization of companies is becoming more common than before.

“Last 10 years, the economies of developing countries have been sharply increased. China is the biggest developing country, holds the fifth of the world population and broad boasts market. The Chinese economy has been one of the most significant growth developments for the global economy. China’s economy is huge and expanding rapidly. In the last 30 years the rate of Chinese economic growth has been almost miraculous, averaging 8% growth in GDP per annum. The economy has grown more than 10 times during that period, with Chinese GDP reaching 3.42 trillion US dollars by 2007. In Purchasing Power Parity GDP, China already has the biggest economy after the United States.” (China Economy. 2007) After 20 years of reform and open to the outside world, the Chinese economy and China’s overall national strength have grown substantially with an ever-expanding market. Many companies discover opportunities to choose a suitable target market. More and more foreign investors enter the Chinese market.

### 1.1 Scope of the Study

A large number of companies are looking forward to entering a foreign market during recent years. The study focuses on analyzing international marketing and seeking for market entry strategies in China. After entering international markets, there are a variety of factors which should be considered such as costs, diversified cultural issues, risks and competitors. Companies request different market entry strategies by entering different marketplaces with different market demands. This thesis discusses the Chinese market entry strategies and a sample of Finnish company Konecranes, which has already entered the Chinese market.

### 1.2 Choice of Research Context

The case company, namely Konecranes, provides an opportunity to research the issue concerning Chinese market entry strategy and the previous interning experience of the author in the case company can be utilized. The rapid economic growth rate and the cultural differences of China will add more value on the significance of the selection of the international market entry strategies especially for foreign enterprises should like to develop businesses within China.

### 1.3 Purpose of the Thesis

Studying the foreign market entry strategy is a prerequisite for successful business in the global market. The purpose of this thesis is to investigate which strategic factor could be adapted by the case company for the Chinese market entry and go international. The main research problem is to discover how to strengthen Konecranes's processes of internationalization in China. The main reason to compose to help the case company optimize internationalization processes.

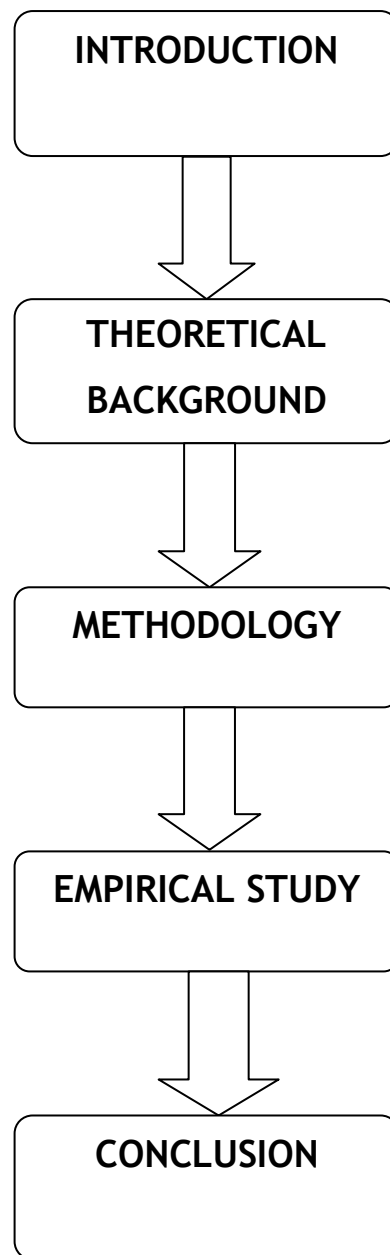


Figure 1. Structure of the study

## 1.4 Structure of the Thesis

The structure of this study contains five sections (See Figure 1). The first section is the general introduction about the international market, and the presentation of the purpose of the study.

The second section is the theoretical background of related studies and this section will also be of assistance for readers to understand knowledge on the theory of international marketing strategy, important factors about entering foreign markets.

The third section focuses on choosing the research method, which analyzes the study problems of the research approach.

The fourth section is the empirical study which includes a discussion of Konecranes's Chinese market entry strategies and problems in the Chinese market.

The final section is the conclusion of the research results and suggestions to the case company's future development.

## 2 THEORETICAL BACKGROUND

### 2.1 Overview on International Marketing

International business is increasingly featured by competitors that are operating on a world-wide basis, and it has resulted in nations becoming economically interdependent. Marketers will be required to cope with global competition in a variety of industries. Concerning International marketing, because international competition has intensified and become global, the international marketing becomes significant gradually which means that any nation which fails to participate in the global market-place may have a reduced economic influence and possibly suffer from declining living standards. (Chee & Harris 1993, 237)

According to Doole and Lowe (2004, 5), managers around the globe are recognising that developing the skills, aptitudes and knowledge, which are exceeding required for competing effectively in international markets, is crucial for enterprises and organisations. The emergence of a more open world economy, the inter-dependency and inter-connections of national economies in the globe is being augmented by the globalisation and homogenization of consumer tastes and the construction of global electronic channels. The need for managers to develop the skills to respond to these pressures affects companies of all sizes.



### 2.1.1 International Marketing

International marketing is considered as the application of marketing principle. International marketing includes the company made one or more marketing mix decisions across national boundaries at the simplest stage. At its most complexity, it involves the company in establishing manufacturing facilities overseas and coordinating marketing strategies all over the world. (Doole & Lowe 2004, 5)

According to Doole, Lowe and Phillips (1994, 8), “the coadjutant global economies featured by efficient communication, transportation and capital flows, all of which are creating new opportunities and challenges on marketing issues must either response the challenges originated by this new environment, or acknowledge and admit the long-term results of failure.” Small and medium-sized enterprises in local niche markets gain more chances to survive since the rapid changing of the market basis competition and high pressures of the international circumstance. That is the reason why the international marketing orientation is developed on purpose in both product and service markets by many enterprises now, they just want to survive.

### 2.1.2 International Marketing Environment

International marketing involves a variety of nations. Diversified traditions and different lifestyles reflect what international marketing circumstance is.

According to Doole and Lowe (2004, 7), the international business environment can be analyzed by adopting the SLEPT approach which includes social/culture, legal, economic, political and technological segments. Each nation has its own legal system, cultural, socio-economic infrastructure; political and technological (see Figure 2).



Figure 2 The Environment Influences on International Marketing (Doole and Lowe, 2004)

### 2.1.3 International Marketing Research and Opportunity Analysis

#### 2.1.3.1 The Role of Marketing Research

Marketing research plays a role as the systematic gathering, recording, analysis, and interpretation of data on problems associated with the marketing of products and services. The role of research acts as an aid toward decision-makers. It is a tool that can be of assistance for alleviating the risk in decision-making caused by the lack of knowledge in external markets. (Doole I, Lowe R&Phillips C. 1994, 124)

#### 2.1.3.2 Opportunity Identification and Analysis

The multinational cooperation is difficult to resource market development in all of the world countries. Thus the first task for the researcher is to analyze markets identifying which country has the potential growth. At the analyzing stage the researcher is required to identify countries in which marketing opportunities exist. To identify those opportunities, preparing an assessment of their viability for further investigation is the precondition. There are three types of markets: existing markets, latent market and incipient markets. (Doole et al. 1994, 129)

### 2.1.4 International Marketing Mix-4Ps

Kotler and Armstrong (2006, 50-51) indicated that there are four factors called: product, price, place and promotion which exist in a traditional marketing mix. Product is the package of the goods and services the company offers to the target market. The amount of money which customers pay to obtain the product is the price. Place means the activities of making the product available for target consumers, and promotion is the approach which is utilized to convince the target customers to purchase products.

Diversified elements in a coherent program require based on the type of product or service being offered, the stage of the product's life cycle (a new product versus one that is being revived), and resources available toward the marketing effort (capital and personnel), and the type of customer at whom the marketing efforts are directed as well. (Czinkota and Ronkainen, 2004, 19)

#### 2.1.4.1 Product

All the elements which originate the good, services or idea that is offered by the marketer can be associated with products. All possible tangible attributes (such as the core product and

packaging) and intangible features (such as branding and warranties) are included in a product. Various products are combinations of a physical product and the accompanying services. (Czinkota and Ronkainen 2004, 19)

Kotler (2001) stated that there are three different essential aspects of products that should be considered by marketers in order to meet consumer needs and wants. These aspects include product benefits, which are the elements consumers perceive as meeting their needs and providing satisfaction through performance and image; product attributes, which are considered as factors that are most associated with the core product, such as features, specifications, styling, branding and packaging; the marketing support services which are the additional components to the core product which offer satisfaction, and include delivery, after sales service and warranties. (Doole and Lowe 2004, 253)

#### 2.1.4.2 Price

Costs of the product to the customer point somewhere between the floor (the lowest price) created by the costs to the enterprise and the ceiling (the highest price) depends on demands will be totally determined by pricing policy. A significant consideration of pricing policy is pricing within the channel of distribution; margins made by the mediums which assist in the marketing effort must be accounted. Discounts to mediums include functional, quantity, seasonal, and cash discounts, as well as promotional allowances. Price is the only revenue-generating element of the marketing mix. (Czinkota and Ronkainen, 2004, 19)

#### 2.1.4.3 Place

One variable and two components consist of the core of 'place'. The marketing mix is the variable, and two components are the channel management and logistics management. The set up and operation of the contractual organization is the main concern of channel management. Mostly the contractual organization consists of various types of middlemen, such as wholesalers, agents, retailers, and facilitators. Logistics management concerns the availability of offering product at appropriate times and places in the marketing channel. "Place is the long term of all the marketing mix elements as well as the difficulty changing in the short term." (Czinkota and Ronkainen, 2004, 19)

#### 2.1.4.4 Promotion

Communications policy uses promotion tools in order to interact with customers, middlemen, and the public entirely. Advertising, sales promotion, personal selling, and publicity are the

components of marketing communication tools. The purpose of all communications is to persuade. (Czinkota and Ronkainen, 2004, 19)

## 2.2 International Market Entry Strategies

According to Bennett and Blythe (2002, 8), economies of scale is one of the factors which will induce enterprises to start operating internationally; and also the existence of profitable markets in foreign countries which are not available in the domestic market; and domestic market saturation and the response to incoming competitive activity is another key factor. The challenge for the majority of companies is how they enter a new market and developing market entry strategy will affect the company for decades.

Planning the method of delivering goods or services to a target market and distributing them there are called market entry strategy. When services are imported or exported, market entry strategies will be utilized to establish and manage contracts in a foreign market. (Market Entry Strategy, 2008).

### 2.2.1 Internationalization

#### 2.2.1.1 Internationalization motives

According to Hollensen (2004, 30-36), when the enterprise expands its research and development, production, selling and other business activities into international markets, this expansion can be considered as the beginning of the process of internationalization. The fundamental reason for exporting is obtaining benefit. In the majority of business activities, one factor alone rarely accounts for any given action. It is a mixture of elements resulting in enterprises taking two steps in a given direction. The major internationalization motives can be defined as the proactive and reactive motives.

Proactive motives refer to the strategy change and based on the interest of the organization concerning utilizing unique competence or market possibilities. Reactive motives indicate that the organization reacts to pressures or threats in its home market or in foreign markets and adjusts passively to them by having its activities altered over time. (Hollensen 2004, 31)

#### 2.2.1.2 Internationalization of SMEs

Doole and Lowe (2004, 141) indicated that small and medium enterprises (SMEs) have been considered as significant creators of wealth and employment in domestic economies, but a less powerful force outside their domestic territory at the same time because of their limited

resources. Small and medium enterprises are facing new opportunities and challenges caused by the fast-growing commercial competition.

Exporting is the traditional model of internationalization for the SME which means products are manufactured in one country and transferred physically to buyers in other countries, a number of SMEs are involved in a broader range of international marketing activity. (Doole and Lowe, 2004, 141)

#### 2.2.1.3 Networking model

The network differs from the market with regard to relations among actors. The actors are linked to each other through exchange relationship. A fundamental assumption in the network model is that the individual enterprise relies on resources under other enterprises' control. These external resources will be accessible for companies through their network positions. A enterprise's relationship in a domestic network can be utilized as a bridge connect to other networks in other countries. The process of internationalization of the enterprise will often proceed more quickly as the enterprise enters into the network. (Hollense, 2004, 60-61) The network model also has consequences for the meaning of internationalization of the market, for instance, a production net with a high degree of internationalization implies that there are numerous and strong relationships amongst the different national sections of the global production net. A low degree of internationalization means that the national nets have few relationships with each other. (Hollense, 2004, 62)

Interorganizational networks include supplier and marketing or distribution networks, technological-innovation and product-development networks, and different competitive coalitions used. Net strategies can be divided into three sections, namely improving operational efficiency, improving the leverage of existing capabilities and developing new capabilities. In a large quantity of strategic nets, business operations will be generally involved, either in an integrator role (hub enterprise) or in various partnering roles for other hub enterprises (e.g. technology partner, component supplier, distributor partner). A hub enterprise should also be able to evaluate these and the innovation competences in its partner. (Möller and Svahn, 2003, 201-226)

#### 2.2.2 Market Entry Methods

According to Doole and Lowe (2004, 218), concerning international market entry modes, enterprises will focus principally on six distinct modes of entry, namely exporting, international licensing or franchising, foreign Investment, joint venture, acquisition and contracting.

### 2.2.2.1 Exporting

#### 2.2.2.1.1 Definition

Exporting is considered to an instant whereby a company sells its products and services in some countries other than where it is located, and gets support from the original location as well. Exporting products and services are known as two aspects of exporting (Baker, 1999, 624). Export is considered as a common way to start an international business. Example could be receiving an order from a foreign buyer, or a customer desiring to expand business operations worldwide. Therefore, in considering international markets and growth, potential customers should be taken into account by the company. (Hollensen 2002, 293)

The export channels can be set up by dividing work for external agents and enterprise itself. The indirect, direct and cooperative export marketing groups are the three main types when the enterprise is handling the export channels itself. (Hollensen 2003, 294)

#### 2.2.2.1.2 Modes and Channels

Exporting is flexible since it can be either direct or indirect. Companies usually take direct exporting, which means selling of products to another country, as their first international step, since it can minimize the risks of financial loss. Indirect export means selling products to independent organizations in domestic country which exports the products themselves. The company involved in the domestic sales with regard to indirect exporting, should consider the management of exporting issues in other companies (Hollense 2004, 293). Cooperative export is referred to as collaborative agreements with other enterprises (export marketing groups) which also concern the performance of exporting functions. (Hollense 2004, 302)

### 2.2.2.2 International Licensing and Franchising

Based on Czinkota and Ronkainen's (2004, 237) statement, All types of companies or enterprises can adopt licensing and franchising alternatively. The flexibility they offered can reflect the enterprises' needs in the international market. They can also be considered as additional opportunities for market expansion.

#### 2.2.2.2.1 Licensing

According to Cateora and Graham (1999, 327) with a licensing agreement, the licensor, permits its intellectual property to be used by another, in exchange for compensation

designated as a royalty, and the 'licensee' is granted to the recipient enterprise. The property includes: patents, trademarks, copyrights, technology, technical know-how, or specific marketing skills. Example could be an enterprise developing new packaging for liquids cans which permits other enterprises abroad to use the same process. Therefore, exporting and importing intangible goods are generated by licensing. (Czinkota and Ronkainen, 2004, 237)

#### 2.2.2.2.2 Franchising

Franchising is an approach in which a parent company (the franchiser) grants another, independent entity (the franchisee) the right to operate business in a specified manner. (Czinkota and Ronkainen, 2004, 240) It includes: selling the franchiser's products or using its name, production, preparation and marketing techniques, or its business approach. Normally, the franchising has three major forms, which are manufacturer-retailer systems, manufacturer-wholesaler systems, and service enterprise-retailer systems. The emphasis of franchising is how to operate business. It is helpful with the international market expansion.

#### 2.2.2.3 Foreign Manufacturing Strategies with Direct Investment

Foreign direct investment, which is to invest within a foreign country, can realize the foreign market development. Companies may benefit from low price of labour forces, avoiding high import taxes, reducing the transportation costs, gaining access to raw materials and so forth. (Cateora and Graham, 1999, 331)

Foreign direct investment has become a major avenue for foreign market entry and expansion. It was made to create or expand a permanent interest in an enterprise and they imply a degree of control over the enterprise. (Czinkota and Ronkainen, 2004, 422)

##### 2.2.2.3.1 Joint Venture

"The joint venture means a company shares ownership of a new enterprise which is joint owned with partner for marketing and manufacturing" (Doole and Lowe, 2004, 239). Joint ventures bring three main advantages for companies. Firstly, more direct participation in the local market gain a better understanding on operation of the business; secondly, common business activities generate more profits; thirdly, more comprehensive master over the joint venture operation.

In collaboration of participating partners, there are sharing of costs, assets, risks, and profits, and also contributions of funds, technology, know-how, sales organizations, or plant and

equipment. The partnerships also cost troubles for joint venture. The problems of implementing the concept and maintaining the relationship are the disadvantage of it. (Czinkota and Ronkainen 2004, 430-431)

#### 2.2.2.3.2 Strategic alliances

Strategic alliances were defined in terms by at least two companies, namely Bronder and Pritzl. They combine value chain activities for competitive advantage. "One of the most significant aspects of strategic alliances has been that it has frequently involved cooperation between partners who might in order circumstances be competitors." (Doole and Lowe, 2004, 242)

#### 2.2.2.3.3 Reciprocal ownership

Reciprocal ownership can create basis for companies to share expertise, or provide opportunities for further business relationship, like merger. (Doole and Lowe, 2004, 242)

#### 2.2.2.4 Acquisition

The company acquisition could help a company to speed up the pace of earning short-term profits, since it is easier way to get the foreign market involved with existing product and markets. "This entry can take an amount of time to search and evaluate possible acquisition targets, to integrate the acquired company into the existing company." (Luostarinen & Welch 1990, 159)

#### 2.2.2.5 Management Contract

According to Doole and Lowe (2004, 229), in international trade, management contract is the part of direct exporting. The growing importance of services, business skills and management expertise as saleable commodities are the focusing areas. Management contracts involve not just selling a method of doing things but involve actually doing them. For example, to sell a processing plant, a management team should be provided by the enterprise to set up and run the plant for the first few months of operation, and then train the local team to take over. (Doole and Lowe, 2004. 229)

#### 2.2.2.6 Services

In international marketing, there are four major important services from products. Intangibility is the very first one. It means something like insurance and education which



provides no physical contact. The second is perishability which simply means that services cannot be stored. The third heterogeneity means services are different from each other, because they involve interactions between people. The final one is called inseparability. Since the services are created by sale, they are closely connected. (Doole and Lowe, 2004, 250)

### 2.3 The Chinese Market

Chinese market offers a number of business opportunities not only due to the rapid economic growth and huge market, but also as market data inappropriation, entry strategy lackness, and sales channels unaccessibility, and cultural differences.

Nowadays, China becomes world's fourth largest economy. In 2002 China's GDP reached a 9% increase over 2001 and 9.1% increase in 2003, so that it is believed that China will be the strongest economy in the world soon. China has huge business potential for telecommunications, network and enterprise implementation technology. Accession in the World Trade Organization will bring a wave of foreign companies' investment. (Chinese Market Entry 2005)

#### 2.3.1 The Chinese Trade Environment

China's GDP is evaluated to be around USD1, 200 billion and has a current growth rate of 9.9%. By 2030 it will even beyond the US, become the world's largest economy. Someone even predicted that China's economy would have achieved this about ten years earlier.

In 2007, China's GDP achieved 11.9% GDP growth rate increase, reached USD 3,565 billion (see figure 3: China GDP and real GDP growth rate from year 1978-2007). The rest of the world economy was about 3.3% growth rate on average during the same period. China had also estimated itself to become the world's fourth largest economy and third largest trader.

The growth curve shows China's growing potential of the Chinese market (see Figure 3). Changes in China's business economy will be caused by the GDP growth as investors move along with China's economic development.

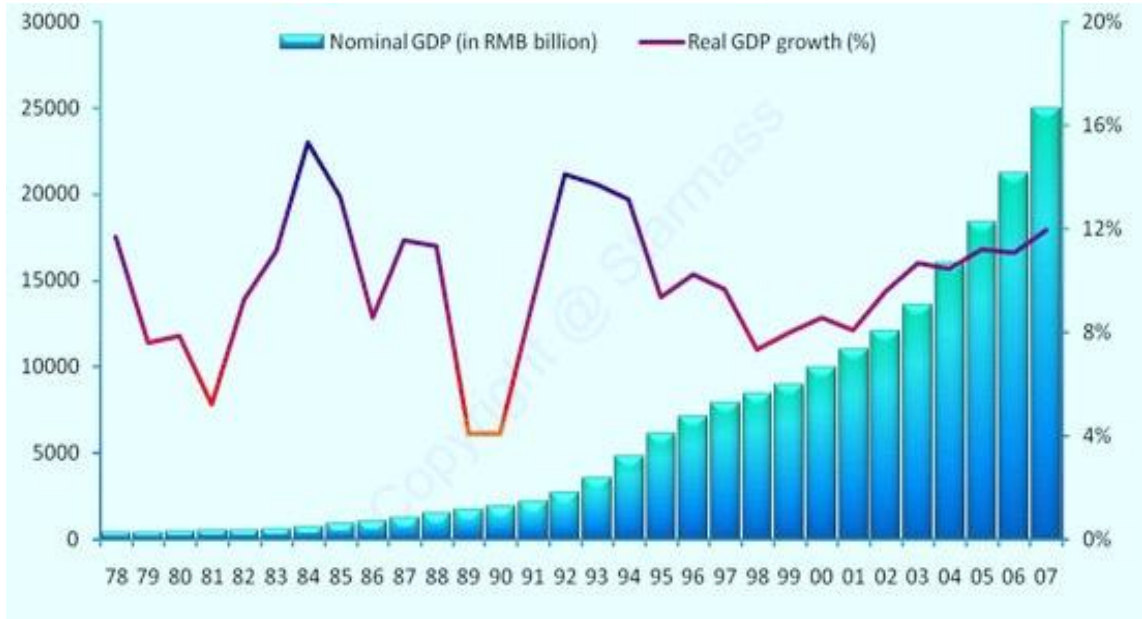


Figure 3: China’s GDP from Year 1978-2007  
(China GDP Trends, 2007)

2.3.1.1 China Trade Relation

According to preliminary statistics of Customs, China maintains a surplus, which has increased over 500% from \$16.7 billion in 1995 to \$101.8 billion in 2005 with the majority of its trading partners and has run an overall trade surplus for more than 10 consecutive years. (China Trade Relation. 2005)



Figure 4: China’s Top Trade Partners 2008(\$ billion) (Top Ten Trade Partners. 2008)

The biggest trading partner of China is Europe, it shares 16.4% of China's total volume of trade; The United States in the second place with 12.9% is followed by Japan (10.3%). The followings are ASEAN (9.1%), Hong Kong (7.9%), Republic of Korea (7.4%), Taiwan (5.2%), Australia (2.3%), Russia (2.2%), and India (2.1%). The other partners include the smaller members of Asia, Africa, and South American shared 24.2% of China's total volume of trade (see Figure 4).

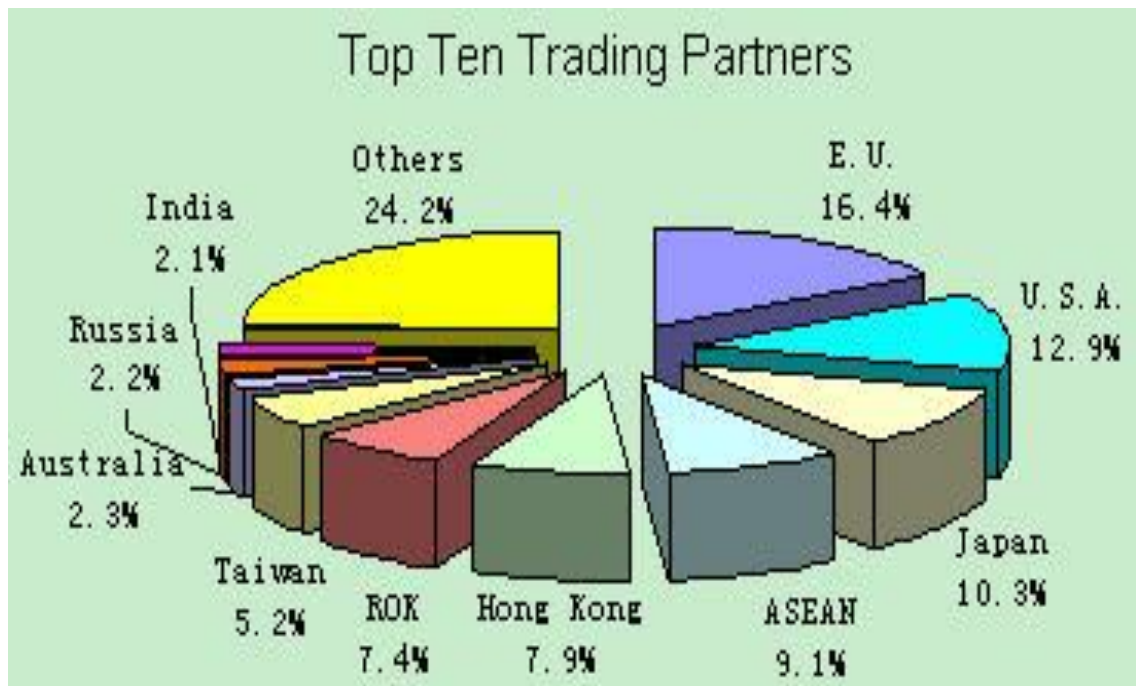


Figure 4: China's Top Trade Partners 2008(\$ billion)  
(Top Ten Trade Partners. 2008)

#### 2.3.1.2 Export in China

Since 1978, both import and export has experienced rapid growth in China. Foreign trade dependence degree kept increasing during these years, and in 2001 reached decreasing a peak of 44%, included an export degree of 23% and import degree of 21% (Ken. 2006).

The foreign direct investment in China from 1986-2007 is illustrated in Figure 6. Total amount of the FDI in China was 75 billion in 2007 and reached an increase by 19% from 2006. Utilizing official funds on foreign investments and promoted service industry are the main reasons that attracted the FDI. The improvement on quality and quantities is still necessary for China's products and services. (Evaluation of China's Marketization of Foreign Trade, 2003)



**Figure 6. Total Amount and Trends of FDI in China (1986-2007)**  
**(Total Amount of Foreign Direct Investment (FDI) Used in China. 2007)**

#### 2.3.1.2.1 Lower Customer Tariffs and Standard Deviation of Tariffs

Customs tariffs can somehow reflect the level of market economy of a country. China has adjusted the customs tariffs for several times. More than 200 goods' import duties were lowered at the beginning of 1992. Meanwhile, average tariffs decreased to 43.2%; the next year, about 3300 items of imports tariffs were reduced, also drops the average tariffs down to 36.4%; In 1995, almost five thousand items were modified and over 75% tariffs were decreased, and reached 17% average tariff declining. (Evaluation of China's Marketization of Foreign Trade. 2003)

#### 2.3.1.2.2 Diversification of Foreign Trade Operators

A significant symbol for the marketization of foreign trade is trading entities' diversification. It indicates that the control of country on foreign trade is relaxed. Economic system and trade system's reformation provide opportunities to engage in import and export. The monopoly can be overcome by utilizing some professional foreign trade enterprises. After 1992, foreign trade dealers shall no longer be state-owned enterprises, since towards market economy, Chinese government decided to reform the state economic system, privatized and foreign invested entities which took ever-growing amount of shares in the foreign trade fields. In 2001, the export volumes of state-owned enterprises, foreign invested enterprises, collective enterprises and other companies were respectively US\$113.234 billion, US\$14.223 billion and US\$5.462 billion. (Evaluation of China's Marketization of Foreign Trade. 2003)

According to Cateora and Graham (1999, 326), exporting is sensed as a common approach for the mature international company as well as the small company in the early stage. Exporters supply foreign customers with products/services from their home location and they are usually several steps removed from foreign customers. A sales and supply separation results and provides a major challenge for exporters. (Baker, 1999, 624)

### 2.3.1.3 Foreign Investment

Since the capital flows injected into manufacturing, real estate and service sectors one year earlier, foreign direct investment (FDI) has increased over 12% in the first half of 2007 in China. The ministry statistics also indicated that these are the major draws for foreign investors. High value-added manufacturing sectors and service industries are welcome to invest now in China, especially in western and central part of China.

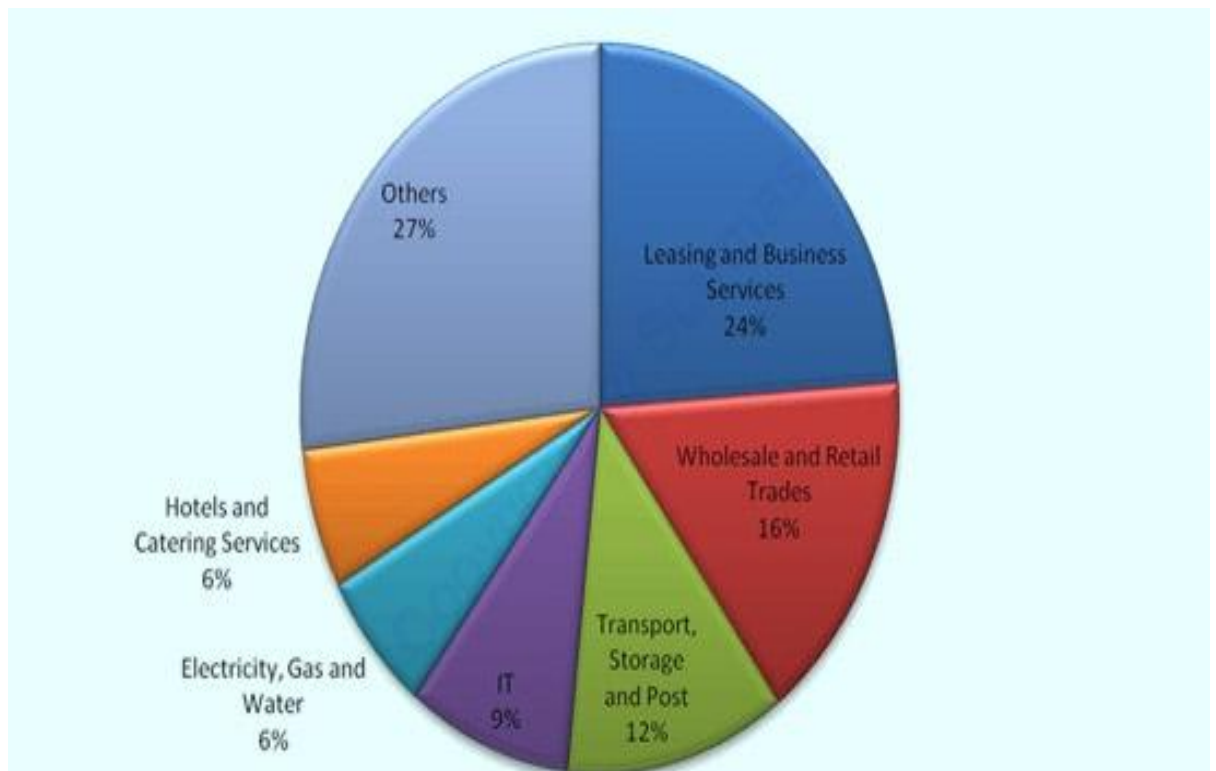
Country/Territory <sup>Ⓐ</sup>	Number of Projects <sup>Ⓐ</sup>	Used Value <sup>Ⓐ</sup>
Total <sup>Ⓐ</sup>	5716 <sup>Ⓐ</sup>	9709300 <sup>Ⓐ</sup>
Hong Kong <sup>Ⓐ</sup>	2287 <sup>Ⓐ</sup>	2952630 <sup>Ⓐ</sup>
Macao <sup>Ⓐ</sup>	113 <sup>Ⓐ</sup>	103060 <sup>Ⓐ</sup>
Taiwan <sup>Ⓐ</sup>	529 <sup>Ⓐ</sup>	212980 <sup>Ⓐ</sup>
Thailand <sup>Ⓐ</sup>	13 <sup>Ⓐ</sup>	4580 <sup>Ⓐ</sup>
Singapore <sup>Ⓐ</sup>	171 <sup>Ⓐ</sup>	510510 <sup>Ⓐ</sup>
Japan <sup>Ⓐ</sup>	329 <sup>Ⓐ</sup>	701080 <sup>Ⓐ</sup>
Republic of Korea <sup>Ⓐ</sup>	528 <sup>Ⓐ</sup>	612010 <sup>Ⓐ</sup>
Germany <sup>Ⓐ</sup>	82 <sup>Ⓐ</sup>	104940 <sup>Ⓐ</sup>
France <sup>Ⓐ</sup>	31 <sup>Ⓐ</sup>	52490 <sup>Ⓐ</sup>
Italy <sup>Ⓐ</sup>	58 <sup>Ⓐ</sup>	43470 <sup>Ⓐ</sup>
Netherlands <sup>Ⓐ</sup>	34 <sup>Ⓐ</sup>	59910 <sup>Ⓐ</sup>
Belgium <sup>Ⓐ</sup>	4 <sup>Ⓐ</sup>	4620 <sup>Ⓐ</sup>
United Kingdom <sup>Ⓐ</sup>	70 <sup>Ⓐ</sup>	125390 <sup>Ⓐ</sup>
Sweden <sup>Ⓐ</sup>	12 <sup>Ⓐ</sup>	9300 <sup>Ⓐ</sup>
Canada <sup>Ⓐ</sup>	110 <sup>Ⓐ</sup>	51690 <sup>Ⓐ</sup>
USA <sup>Ⓐ</sup>	432 <sup>Ⓐ</sup>	448350 <sup>Ⓐ</sup>

**Table 1: Foreign Direct Investment 2007 Jan-Feb by Country or Territory  
(Foreign Direct Investment. 2007)**

Table 1 shows the foreign direct investments in China in the early 2007.

The foreign direct investment has several sector of industry in China. (The Figure 5 shows the main sector of FDI in China)

Figure 5 shows largest foreign investments in China is the Leasing and Business Services industry which accounted 24% in the total amount of the FDI followed by Wholesale and Retail Trades (16%). The followings are Transport, Storage and Post (12%), IT (9%), Electricity, Gas and Water (6%), Hotels and Catering Services (6%). 27% foreign direct investments were included in the smaller sectors of education, sanitation, food and so forth.



**Figure 5. Total Amount of Foreign Direct Investment (FDI) 2007 in China  
(Total Amount of Foreign Direct Investment Used in China By Industry, 2007)**

### 2.3.2 The Chinese Lifting Business

“China is the world’s largest container market and turnover is increasing at 25% to 30% a year.” (Interviewee Mr Ho). By the end of 2005, 292 out of 587 lifting equipment enterprises in China are private-owned companies and the total sales volume are 6.6 billion Euros.

Figure 8 shows the sales of Chinese lifting Business from 2004 to 2007. During 2004 to 2007, the lifting equipment business sales growth increased from 5.4% to 47.98%.

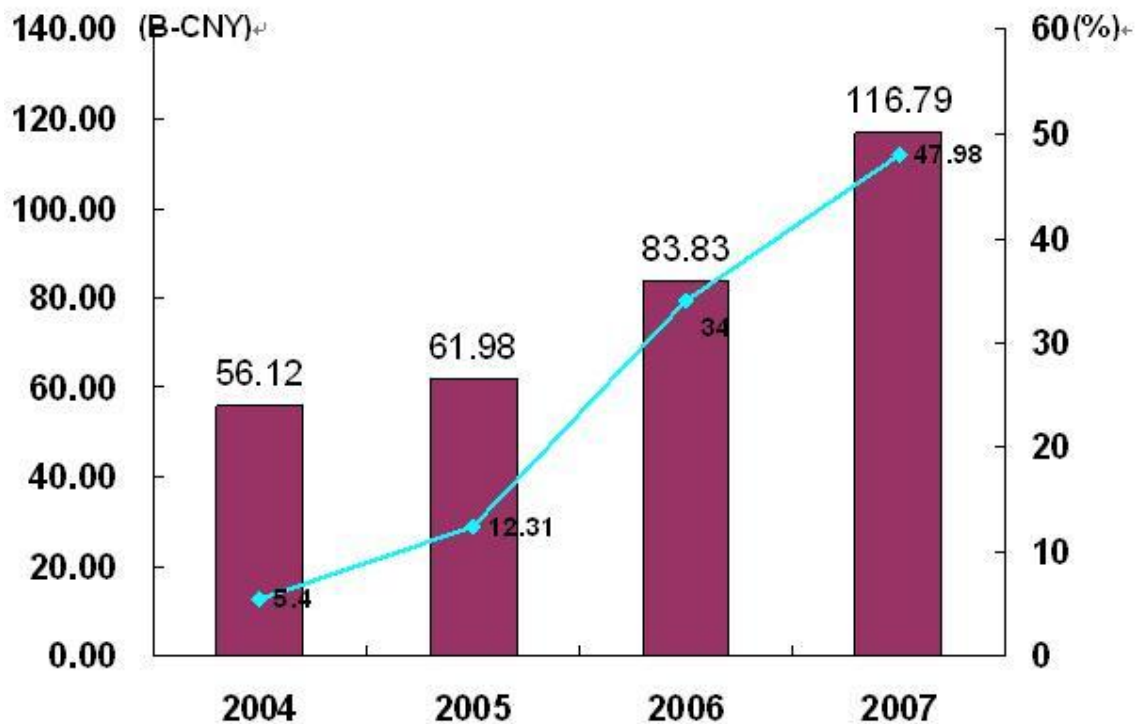


Figure 8. The Chinese Lifting Business Sales from 2004-2007 (China Lifting Business Market. 2007)

### 2.3.3 Business Relationship in China

Strides has been made by Chinese government toward a market economy in all aspects where includes its foreign trade during the reform and opening-up. China has been consistently adapting its foreign trade administration to the market economy in order to improve the system on duty drawback as well as other systems of trade and services such as finance and export insurance, to expand the range of convertibility of RMB under the current account, to achieve the formation mechanism of RMB exchange rates, and to strengthen the level and capability in administrating foreign trade by market-oriented approaches. (Ken. 2006)

A large amount of foreign companies are attracted to China by its economic potential. However, foreign investors need to understand that China as a “nation” economically and culturally. Companies in other cultures are objectively required to fully understand the Chinese cultural and economic attributes before entering the China market.

#### 2.3.3.1 Culture

Culture is learned, shared, and transmitted from one generation to another. Culture is also multidimensional, consisting of a variety of common elements that are interdependent.

Culture is considered as an integrated system of learned behaviour patterns that are distinguishing features of the members of any given society. It includes the group mind-set, says, does, and makes-its customs, language, material artifacts, and shared systems of attitudes and feelings. (Czinkota and Ronkainen, 2004, 59) Culture can be either a challenge or an opportunity toward marketing success. According to Czinkota and Ronkainen (2004, 84), there are several rules of culture to ensure marketing success. Embracing local culture is the first one. The second rule is building relationships. Each market has its own unique set of constituents and need to be identified and nurtured. Establishing and nurturing local ties at the various stages of the market-development cycle will expand business relationships. Gaining cultural knowledge by employing locals is the third rule. The way to understand a market is to grow with it by developing human resources and business partnerships along the way. The fourth one is building mutual understanding between the employer and employees. Employing locals give a marketer a valuable asset in market development. Adapting products and processes to local markets can be considered as the fifth rule and adapting includes global, regional, and purely local products. The sixth rule is coordinating by region.

China is ethnically and culturally diversified. The dominant cultural tradition has been heavily influenced by Confucianism and Taoism, but within that tradition there are various different subcultures. The spoken language also alters from region to region.

Cultivating, maintaining, and developing connections (*guanxi*) are highly advocated by majority of Chinese people, at the same time they are highly sensitive to face (*mianzi*) and afraid of lose it. These social values are keys to understanding Chinese social behavioural patterns and their business dynamics which are shared by Chinese people living not only in the People's Republic of China but also by those living in Taiwan, Hong Kong and in overseas Chinese societies all over the world. (Business Culture Throughout China. 2004)

“*Guanxi*” and “*mianzi*” are significant components in Chinese business culture. In China, “*Guanxi*” makes all the difference in ensuring how business will be operated. By obtaining the right “*Guanxi*”, the organization can minimize the risks of frustrations and disappointments when operating business in China. In Chinese business, among various parties that cooperate together and support one another, the network of relationship used to be found. Saving people's face is a quite significant concept in China which means when dealing with Chinese business partners, the appropriate respect according to rank and seniority should be sensed by them. When purchasing gifts for an initial contact, better gifts used to be presented to senior managers instead of buying similar gifts across the board. (Living in China. 2008)

#### 2.3.3.2 Relationship in China



Chinese business relationship can be defined as a social relationship. Sharing with partners, including family, hobbies, political views, aspirations will be sensed as the mutual trustfulness and will tighten up the business relationship. Relationship does not always have to be based on money. It starts with the trustworthiness on the individual or the company. If a company made a promise and delivered as promised, the company represented trustworthiness and the Chinese partner would be inclined to operate business with it again. Being dependable and reliable definitely strengthens the relationship, it is just like being friends, and friends can count on each other whenever in good or tough times. An example is related to the political instability in China in 1989. Companies that stayed found their relationship with the Chinese strengthened as they were viewed by the Chinese as friends who did not abandon the Chinese partners when they needed friends. Frequent contacts with each other foster understanding and emotional bonds and the Chinese often feel obligated to do business with their friends first. (Business Culture in China, 2003)

Achieving relationships with high rank officials is crucial for operating business in China, but as the political and administrative interference in business have declined, this is not as applicable as before to some extent. More and more companies can rely on themselves without government subsidiaries. If they are not expecting any assistance from the government they will be reluctant to be influenced by government officials. So government "Guanxi" may have less influence with these companies. (Ken, 2006)

Since the relationship could be used as an information network, having higher performance than companies with little or no relationship with the Chinese officials can be expected by those who with wide relationship networks. (Ken, 2006)

#### 2.3.3.3 Consumers in China

China has 1.3 billion people with ever-growing aspirations and desire on products and services. China's retail sales of consumer goods have increase 9.5% times during last two decades. That was the consequence of the government's efforts in increasing domestic demand and establishing more repaid economic development. Meanwhile, China's living standard has increased over the years. Furthermore, more and more Chinese consumers can afford consumer goods. (Annual Chinese Consumer Survey, 2008)

According to a report (Annual Chinese Consumer Survey, 2008), China is likely to be the world's second largest consumer market by 2015 and this report is based on a survey upon 4,258 consumers in 13 Chinese cities conducted from February to March 2007. The report indicated that Chinese consumers are experiencing unprecedented wealth growth, 3 to 5

times faster than what developed countries experienced in the past 50 years and majority of Chinese consumers plan to spend more in near future to fulfil their family dreams.

Chinese consumers also put more faith on brand. Believing famous brands represent sound quality, safety, effectiveness and durability. To enter the Chinese market, local consumers' acceptance on products is significant as well as understanding customers' wants and needs.

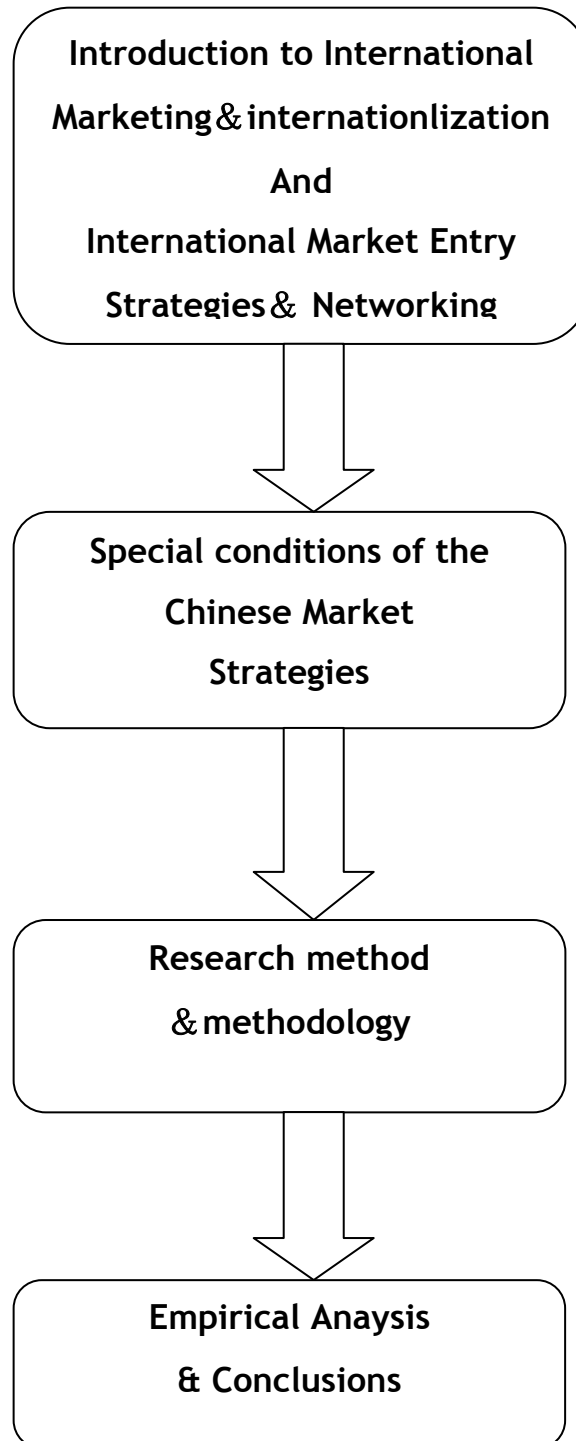


Figure 7. Structural Framework

## 2.4 Structural Framework

This thesis presents suggestions on how to entry foreign market. The theoretical and empirical aspects of the study are showed in Figure 4 below.

In the theoretical section, definition of international marketing, internationalization, international market entry, networking model and special conditions of the Chinese market sectors are presented and the relevant issues relating to the topic have been discussed.

In the empirical analysis section, it refers to research method, methodology, empirical analysis and conclusions.

## 3 RESEARCH APPORACH, DESIGN AND METHOD

### 3.1 Research Problem

“Marketing research is the systematic design, collection, analysis and reporting of data relevant to a specific marketing situation facing an organisation. Companies use marketing research in a wide variety of situations.” (Kotler and Armstrong 2008, 333) According to Kotler and Armstrong (2008, 333), marketing managers and researchers must work closely together to define the problem because managers understand the decision for which information is needed and researchers obtain knowledge from on marketing research and how to obtain the information. Defining the problem is often the difficulty in the research process.

In this thesis, the main research problem is to discuss how a Finnish lifting company strengthen processes of internationalization in the Chinese market and confront the opportunities and challenges. Therefore, the result of this research is important to be valuable material for further studies in the area of the Chinese lifting business, as well as in the area of the Chinese market.

### 3.2 Research Methods

The main research method consists of qualitative research and quantitative research. According to Malhotra and Birks (2006, 131), qualitative research plays the major role in supporting marketing decision-marketing, primarily as an exploratory design but also as a descriptive design. Researchers may undertake qualitative research to help define a research problem. Qualitative research differentiates from quantitative research in which a large group of respondents provide data that are statistically analyzed. (Silverman 2006, 41)

The Qualitative research method has been adapted in this thesis in the form of personal interviews. Interviews are used extensively by the mass media and professional services (consulting, counselling, and therapy) as well as by practical and academic researchers. (Jaber and James, 2002), the method of interview research is face-to-face in this thesis.

### 3.3 Validity and Reliability

Cooper and Schindler (2006, 318) indicated that validity and reliability are considered as two criteria for evaluating a measurement tool. Validity is “the extent to which a test measures what we actually wish to measure.” In the research literature, a validity has two forms: external and internal validity. The external validity of research findings is “the data’s ability to be generalized across persons, settings, and times.” Internal validity is “further limited in the discussion to the ability of a research instrument to measure what it is purported to measure.”

Official data and vast theories have been utilized to insure the validity of the thesis. International marketing entry strategy has been analyzed from different viewpoints in order to collect correct understandings.

A measure is reliable to the degree that the supplies consistent results. Reliability is “a necessary contributor to validity but is not a sufficient condition for validity. Reliability is concerned with estimates of the degree to which a measurement is free of random or unstable error. Reliable instruments can be used with confidence that transient and situational factors are not interfering. Reliable instruments are robust; they work well at different times under different conditions.” (Cooper and Schindler, 2006, 321)

The objective of the thesis has been introduced to the case company concerning the market entry strategies in order to create understanding. Interviews are the main methods of collecting data. Face-to-face communication with key persons, namely the CEO and the technology transfer manager in the case company, makes the result reliable.

## 4 EMPIRICAL STUDY

The purpose of the empirical analysis is to understand the research objective of the case company and how to improve the entry strategy of the case company, which has used market entry methods in the Chinese market. In this section, all the contents which related to the case company are based on the theoretical section.

#### 4.1 The Background Information of Konecranes in China

According to the interview with Mr Ho (CEO of Konecranes Shanghai), Konecranes Plc gained a variety of trade experiences in Europe before entering China and by operating cross-border business in European countries the case company can complete the research upon the target market. The necessary market research is the first step to be adopted in order to determine whether this targeted foreign market would be feasible. Also, the case company set up a subsidiary in China. In this case, the focus is to offer a new suggestion on how to optimize the processes of internationalization of the case company in China.

#### 4.2 The Situation of Interviews

The result of the interview is essential to understanding the situation and problems of Konecranes in the Chinese market. In this thesis, the interview focuses on defining problems and discovering solutions on how to strengthen the processes of internationalization toward the Chinese market of Konecranes.

The author interviewed key persons within the case company and the company's major supplier. Interview with Michael Ho, namely the CEO of Konecranes (China), and Kisto Helle who is the technology transfer manager of Konecranes(China), have been interviewed. The questions of the interview concerned how to enter the Chinese market and problems with which would be necessary to deal during the Chinese market entering processes. During the interview with the case company's major supplier, the author understood about the situation between the supplier and Konecranes. Through the interview, the author discovered problems of case company during the Chinese market entry.

Interview with Michael Ho, the CEO of Konecranes (China) indicated that local competition is intense in the crane industry and Konecranes not only deals with global competition but also local competition. A large quantity of local competitors are stronger than before, such as ZMPC(Shanghai Zhenhua Heavy Industry Co.Ltd) and L&H(Electric Hoist Overhead Type Crane). In China, local companies offer low prices but not well-designed products to customers. The interviewee was wrong about the price of logistics. According to the interview with the supplier of Konecranes, the interviewee indicated that the company has the intention to establish a local office or factory in China.

#### 4.3 SWOT Analysis

The overall evaluation of a company's strengths, weaknesses, opportunities, and threats is called the SWOT analysis. It is a way of monitoring the external and internal marketing environment. (Kotler and Keller, 2009, 89)

#### 4.3.1 Strengths

The case company has several strengths in the competitive market. The high quality of products and raw materials is the main strength. According to the safety and quality standard of the EU, regular raw materials are applied by the case company, because the main resource of supplier comes from Finland. The human resource strategy of the case company supports the Group's business strategies in China. The case company offers the well-paid and bonus for employees, at the meantime, the foreign employees of the company working in China and the company offers benefits and compensation for employees.

#### 4.3.2 Weaknesses

The logistics processes require improvement. High quality requires high logistics costs to support and a new process strategy for the company is necessary. Increasing the number of local employees is needed in the case company because local employees would understand the local policy and increase effectiveness in the case company.

#### 4.3.3 Opportunities

According to the interview of the case company and the supplier, the company has a opportunity to develop a the new local factory with components and the company can also cooperate with Finnish suppliers in new markets.

#### 4.3.4 Threats

Local competitors are major threats. Entering a new market will be faced with different culture and cheap labour in developing regions.

#### 4.4 A Problem Exists in the Chinese Market

The case company's problem is linked to the logistics process. The core of the case company is the efficient supply chain. Konecranes is transforming from a regional buy-make-sell model to a global buy-move-make-move-sell anywhere model. Konecranes expands in markets such as Asia and Eastern Europe and offers opportunities to improve competitive advantages. After the interview, Mr Helle stated that D&E Trading Oy is one of the important supply partners of

Konecrans and it supplies parts or components to Konecranes. In that case, Konecrans pays high logistics costs for the shipping transfer in order to enter the Chinese market. This sort of export has squandered time and money. The case company under takes high transportation costs of goods by air or ship. The ships arrival time can be affected by different weather situations. Konecranes has suffered heavy losses due to the shipping delay.

#### 4.5 One of the Important Partners of Konecranes--D&E Trading Oy

D&E Trading Oy is one of the partners in Konecranes and it is the northern European leading supplier of slide bearings. D&E Trading Oy and Konecranes have long-term cooperation. "D&E Trading Oy is most important supplier of Konecranes". (Kisto, Interview 20 Jan 2008)

##### 4.5.1 The Networks between D&E Trading Oy and Konecranes Plc

According to the interview with an employee of D&E Trading Oy, D&E Trading Oy is also interested in the Chinese market and intended to develop businesses in China but D&E Trading Oy has only cooperated with Konecranes in Finland. An employee of D&E Trading Oy stated that labour forces and raw materials at a high price are major problems in the management process. In the case of a supplier, the first level of internationalization can be cooperation with the local components' company or Konecranes in its new market.

## 5 SUGGESTION

According to the facts and analysis of the case company, the following suggestions are made in order to improve the case company's business status in the Chinese market. The idea of the suggestions is to discover how to strengthen Konecranes internationalization process in China. The internationalization process of the case company will proceed efficiently by this disquisition.

The suggestion to reduce logistics costs of Konecranes. In China, a large quantity of Finnish companies have the fixed "Finnish Quality Standard" and in their opinion, products made in China are not as superior as Finnish products, this explain why the majority of Finnish enterprises in China would prefer to purchase from Finland rather than buy from the local enterprises. For Finnish companies in China, the costs of logistics will be directly augmented by purchasing from Finland. In the empirical section, an employee of D&E Trading Oy indicated that this enterprise has the intention to develop in China and this can be considered an opportunity for Konecranes to control the costs of logistics by cooperating with D&E Trading Oy in China. On one hand, as a Finnish enterprise, in order to maintain the qualified status of products in China, D&E Trading Oy will apply its own quality standard to control the

producing processes and make products that can satisfy customers' needs, and on the other, Konecranes can reduce the costs of logistics by purchasing products directly from the local branch of D&E Trading Oy in China without the suspense of quality problems and shipping delays.

Another way to reduce the cost of logistics for Konecranes is to employ a quality inspection company in China. For example, Konecranes cooperate with quality inspection office in China, which will apply the inspection of products and quality control as well as other professional services. At the meantime, the inspection company will assist the company by selecting right suppliers and securing the safety of production from China. In that case, the logistics costs would be lower.

Moreover, the business relationship also can be built via various ways. One method is building the relationship with business partners. Good social activity is crucial as well as a business management education for employees. An internationalized company requires employees with an understanding of business management because highly business-related educated employees would think more from the market's perspective, and strengthen effectiveness in the market entry strategy. Effective management of human resources and a reward system can be utilized to recruit talented people to the company.

## 6 CONCLUSION

Based on the theoretical background and the research, this thesis focuses on the market entry strategies of foreign lifting businesses in the Chinese market because a variety of foreign lifting companies discover that they are lacking in foreign entry strategy and preparation when unexpected problems appear compared with certain companies that entered the foreign market successfully by an appropriate market entry strategy and sufficient preparation. The key to the introduction is the lifting business market entry strategy and using a networking model to strengthen the processes of internationalization of Konecranes in China. The purpose of this thesis is to suggest how the efficiency of networks can be improved, how to be competitive as a global network and how to analyze the most acknowledged theories on international marketing entry and discover a strategy that can be tested on companies in order to see the applicability in the target market the Chinese market. Networking is an important aspect in the establishment process and one of the significant keys of market entry strategy.

### 6.1 Implications for Management



According to the facts and analysis of the case company, the thesis explains how to strengthen the processes of internationalization in the case company namely Konecranes in China. After analyzing the literature and case company, an understanding on the processes of internationalization and business strategy in China is important for the business success.

China is considered to be a rapidly growing economy but undeveloped modern market. The entry strategy is affected by factors such as cultural, political differences and requirements of clients. The case company should analyze the foreign market entry strategy and obtain sample of companies would like to enter China during the next decade. Konecranes would be of assistance toward the lifting business in the Chinese market in future.

In China, the machinery industry and cranes equipment market is considered one of the most significant industries. China is an important market for Konecranes. The market entry strategies have been discussed in the past few years due to the high level of risk in investments. The research on market entry strategies for the lifting businesses in China will be valuable.

## 6.2 Recommendation

This thesis can be recommended to other researchers for further research topics, related to processes of internationalization and entering the Chinese market. The case company will help other related topics in the future.

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## APPENDIX 1

## Interview Konecranes Company's employee question

1. What are the main products in your company? When your company entry Chinese market?
2. Why you company choose entry Chinese market?
3. What are your company's main strategies in China?
4. Which is the important method of strategy to entry Chinese market?
5. How about your company's competition in Chinese market? Who are the main competitors in Chinese market?
6. What is your product advantage to competition?
7. How is your company's status now in China?
8. Do you have any experiences about the strategies to entry Chinese market? What is your company focus on the Chinese market entry?
9. Do you have any problems in Chinese market now?
10. What level of control over their international business your require?
11. What's your company culture in foreign market?

## Interview supplier of Konecranes (D&amp;E Trading Oy)

1. What is your company's business area?
2. What do you supply to Konecranes?
3. What is your company's advantage better than other local companies or foreign companies?
4. What are the key future plans?
5. Do you think your company have opportunities to open Chinese market?