

CHINESE MARKET ENTRY BASED ON LOOV ORGANIC

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# **Chinese market entry based on Loov Organic**

Master's project

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I have written this Master's project independently. Any ideas or data taken from other authors or other sources have been fully referenced.

Mihkel Paasma, 24.05.2021

## Introduction

Enterprises operating in small countries with limited internal market often face a struggle to increase their sales. To raise production numbers, at first you need to have the demand and as the internal market in smaller countries is quite limited the only logical step is outwards.

Business cycles tends to have a similar pattern – if company's expansion or growth has nearly stopped and the firm itself is not redirecting activities to another field to pursue ensuing growth they are likely shrinking if not even perishing. Therefore, pivotal for companies is to keep up opportunities of expanding their business activities abroad or moving to a new field for further growth. One of the one of the first possibilities for onward growth comes from local market. It is the closest one to the firm, with already known regulatory aspects, consumer preferences and established connections.

Expanding abroad frequently stands for navigating to markets with a stronger outlook. Therefore, it is crucial for firms to go abroad, to internationalize. Estonia example embraces the case – it is highly dependent on export, according to the January 2021, the size of export was nearly 1,2 billion and roughly 99% of all firms in Estonia are SMEs (Stat, 2021).

Researches about Estonian firms' internationalization are essential due to our small and limited market which usually offers constrained growth opportunities. According to European Commission, small and medium enterprises (SMEs) are companies with staff less than 250 people, turnover under 50 million and/or an annual balance sheet total not exceeding EUR 43 million. Likewise, in Estonia, statistically 99% of EU's firms categorize as SME's (European Commission, 2021a).

According to studies and tendencies a new era in production and consumption has started to prevail. Products which represent the labels like ecofriendly, sustainably manufactured, organic, and healthy have a high possibility to succeed in foreign markets. Specially in markets that are growing by size and purchasing power and Chinese market fits in that equation perfectly (Paddock, 2017; Hovhannisyan & Devadoss, 2020).

Internationalization nowadays is greatly facilitated by the information accessibility from Internet and the shift towards way comfortable solutions, i.e. even setting up your store online, while selling goods to overseas location you previously had no access to.

Newer studies suggest that firm founders background and merits play tremendous role in ventures' location decisions, strategic decisions associated with foreign market expansion and exploitation of key resources and capabilities (Cock et al., 2021). From the perspective of flourishing e-commerce research highlights the need for substantial initial investments in e-commerce systems and risk appetite for companies to develop capabilities relevant for international e-commerce (Tolstoy et al., 2021), but despite that e-commerce still offers exceptional possibilities.

This masters project is mainly based on actual market entry of a specific Estonian small gap company and does not solely analyze and contrast the downsides and upsides of different strategies. It rather applies a compatible strategy to a specific project after different issues are defined and aspects are taken into consideration.

Master's project aims to develop an exporting plan for Loov Organic OÜ based on academic literature, and information about the firm and about the Chinese market.

Project is divided into two parts. First one is the academic transcript part which involves theoretical part and time specific description of the making of this masters' project.

Theoretical part is based on variety of previous researches which have analyzed different aspects of internationalization. Upon that, this project estimates how previous research is compatible to Loov Organic. Theoretical part includes researches of different scholars, for example Johanson & Vahlne and their developed Uppsala model (Uppsala Internationalization Model), which is widely used and one of the most famous models describing internationalization.

As Loov Organic is SME (small-medium size enterprise) the theoretical part focuses mainly on SMEs internationalization process. Though somewhat explanations and theory about general internationalization process is included. Theoretical part aims to compare and contrast previous knowledge (and theory) to give a focused perspective to Loov Organics Chinese market endeavors. Most of the data in theoretical part originates from databases and scientific websites like EBSCO Discovery, JSTOR, ResearchGate, SpringerLink, Science Direct etc.

The second part, practical task, is executed through the composition of a business plan which aimed to help facilitate Loov's Chinese market entry plans. Business plan is connected to theory, but also associated with statistics, perspectives, and real-life estimations of market

developments. Practical task is supported by newspaper articles, analysis from Chinese market specialists and information gathered from related webpages.

S186 International trade

S190 Business management

Keywords: China, e-commerce, export, economic growth, SME

## **1. Academic transcript**

The first part of masters' project represents the academic transcript. This chapter starts with theory part, which draws on scientific literature and starts with the definitions of internationalization. It is a process which has been studied for more than a half a century. Different approaches by various of scholars have concluded similar but on the other hand distinct outcomes, concluding quite frequently even contrary results. The changed circumstances and most importantly changed eras are the main culprits in that sense.

Afterwards key concepts of the internationalization process are given, additionally decision logics are discussed. Academic transcript involves setting up a compatible framework for empirical part and concludes with an overview of the findings of compatible earlier empirical research is given. All in all, this chapter concentrates on theoretical description of foreign market entry, determining the facilitators and establishing how enterprises can benefit from stepping to a distinct market.

Transcription includes a detailed and time-specific outline of how the task was accomplished, it also contains a critical analysis of each stage and activity indicating main difficulties and accomplishments, which are followed by a general description of the results.

Academic transcript in turn, is ensued by practical task which is represented in the form of a business plan and is executed in the second part of this master's project.

## **1.1 Internationalization: definitions, reasons, benefits, and challenges**

Like briefly mentioned above, internationalization is relevant and extremely vital for many enterprises, especially for smaller ones. To discover the insight and see what makes internationalization so essential, it is vital to determine the concept and notion of internationalization. Followingly different approaches of internationalization by various authors are highlighted.

According to Melin (1992) internationalization can be described as a process of increasing involvement in international operations over borders and they involve both changed perspectives and changed standing points. Calof & Beamish (1995) meanwhile went more detailed when defining internationalization as a process of fitting firm's operations (strategic, resources, etc.) to international medium.

Calof & Beamish (1995) treatment of internationalization term is somewhat supported by Paul et al. (2017) who marked that internationalization can be defined as business operations alignment accordingly to the requirements of the international market meanwhile imposing transactions in other countries. Acs & Terjesen (2013) in turn have defined that both choices - to go international and how to accomplish that are strategic decisions which are based on long discussions and considerations.

Jones & Coviello (2005) have wrote that internationalization is something of a dynamic innovation process, while they stressed internationalizing firms need to notice new possibilities and grasp them, but also cope with arising challenges in unknown markets.

International experience stands a crucial role in internationalization decisions, it is the knowledge and involvement in foreign operations. Li et al. (2012) have concluded that, as small enterprises may lack this knowledge, they could be in a position where is more profitable to hire people with previous knowledge and experience, so firm's owners could concentrate on innovation. Bell et al. (2001) as a counterweight to Li et al. (2012) marked that vital component in internationalization is executive management's international orientation and the fact that changes in management can actually be the contributor aiding internationalization.

Bell et al. (2001) idea of internationalization as the management's international orientation is endorsed by Vuorio et al. (2020) as they also mentioned particularly SME internationalization as an act of entrepreneurial orientation or something of an expansion strategy for entering new markets, seeking growth opportunities.

Additionally to Bell et al (2001) and Vuorio et al. (2020), Zahra & George (2002:262) more specifically determined international entrepreneurship as “the process of creatively discovering and exploiting opportunities that lie outside a firm’s domestic markets in pursuit of competitive advantage”.

Internationalizes are not always the biggest companies which have huge resources and capabilities. According to Li et al (2012) smaller companies may be even more effective as the speed of their decisions and reactions is faster. Meanwhile it is easier for them to change strategies compared to bigger companies.

Li et al (2012) findings are probably encouraging for most SMEs lacking the eagerness to seek foreign market expansion, due to their limited capabilities. Ability to reshape and be flexibility especially highlights the era of changed perspectives and more importantly the ever-growing rise of opportunities waiting to be strived. What should also facilitate SMEs endeavors is scholar’s agreement that a positive impact of internationalization on companies’ performance is visible. As illustration, Lu & Beamish (2001) who support Vuorio et al. (2020) idea by saying that internationalization truly helps the SMEs to perform better.

## **1.2 Internationalization reasons, benefits, and challenges**

Secondly when discussing firms and mainly SMEs internationalization, it is crucial to determine various reasons why companies internationalize.

SMEs operating in small open economies are often faced with limited domestic markets, which forces them to internationalize. Madsen & Servais (1997) have established internationalization as a harsh process, which has many risks and requires exploiting notable resources, though according to them these are necessary for increasing foreign presence.

Another widely diffused issue involving SMEs internationalization is their extrusion from local market. Wu & Den (2020) have determined that mainly SMEs may head abroad if state owned enterprises (SOEs) push them out, as institutional rules or obligations could impede companies from fulfilling their goals. Wu & Den (2020) also marked, that additionally to the domestic institutional obstacles, firms are motivated to venture overseas, for seeking options outside their home country which are more suitable to firm’s strategies and business needs. An example

which supports Wu & Den (2020) notion is Witt and Lewin's (2007) who found that Germany firms increasingly invest abroad as response to the local market failure of fulfilling the needs of companies.

Bell et al. (2001) in turn have found that internationalization process is not a linear path, rather incremental. According to their finding's firms may hold domestic focus for years before making the decision to rapidly internationalize. *Vice versa*, firms may de-internationalize and focus on the domestic market.

When discussing important factors for a successful internationalization, two factors highlight – according to Vuorio et al (2020) innovativeness, ability to take risks and proactiveness are prerequisites for expansion into international markets. Studies highlight that the ability to identify and utilize opportunities in foreign markets is more common in companies which possess an innovative culture and capabilities (Vuorio et al, 2020).

Autor of this project deduces that challenges tend to be prevalent in process of foreign market entry. Like previously mentioned, internationalization process is a prolonged, complicated strategic decision, though frequently vitally important which requires a lot of planning and assessment. As it regularly tends to be a path with variety of outcomes, i.e. failing in foreign environment or not fulfilling preliminary plans, following subchapter takes under consideration the challenges and constraints which may occur during internationalization.

Kaynak, et al. (1987) found in their research that small exporting firms tend to have five common problems. They can be dive into internal and external. Most common of the internal ones are liable distributor and communicating with customers. While the external ones - foreign currency restrictions, governmental barriers and political crisis are out of company's decision-making power.

For contrast to Kaynak, et al. (1987) few decades later Baykal & Gunes (2004) reported that according to their study, export problems of SMEs are lack of knowledge of foreign markets, lack of workers with enough information or experience about foreign markets, and the misunderstanding that SMEs will struggle with too high demand in the foreign markets.

It tends to be quite common for firms to decide to postpone or even cancel foreign market entry. Petrou et al (2020) study found that suspending decision to internationalize is usually caused by the inability to utilize emerged possibilities in foreign market. One another important factor specially concerning SMEs is that high information processing requirements of the decision-

making processes have a negative impact on accelerated internationalization (Petrou et al. 2020). Approach that every business needs to adapt and develop in order to persist is strongly supported by Vuorio et al. (2020) findings that whether SMEs will succeed in foreign markets is based on their ability to develop new products and services.

From the outcomes of previously mentioned scholars, the author of this master's project concludes that if a company's expansion strategy fails or the presented product is unsuitable or subprime it is fairly likely that this company will be surpassed by competition, as a fierce competitive field gives few room for mistakes. Author adds that previous work also suggests that the resource constraints and liabilities of foreignness are common entry barriers for companies' international expansion. Therefore, to expand to an international market company should set realistic, achievable, and encouraging goal. Usually those objectives are the likes of earning profit or increasing profits, strengthening existing market position and realization of manufacturing potential. Reasons to expand to foreign markets are usually buried into enterprise development goals.

Writer lays down that another vital component particularly in foreign markets is the existence of useful relations. These relations and preserving them can be summarized as networking. Connections, relations and building up a strong and functioning network is allegedly the key for success in foreign markets as it may turn out to be vital for noticing arising opportunities while backing of from operations with tricky outlook.

Chandra & Wilkinson (2017) research strongly supports previously mentioned aspects. According to them relationships and networks affect firm internationalization in two main ways – they affect international opportunity recognition and firm's ability to develop and exploit international market opportunities. And for firm established network(s) (which consist of business partners, suppliers etc.) to stay sturdy it requires bilateral trust and commitment which makes both sides interdependent on each other, but it also facilitates information movement.

Hertenstein et al (2017) contributes to Chandra & Wilkinson (2017) and stresses that relationships and networks affect its ability to exploit international market opportunities. Therefore, networks tend to be the tool for accessing additional and vital skills and resources that are helpful for navigating to international markets.

Previously mentioned researchers (Chandra & Wilkinson, 2017; Hertenstein et al., 2017) are supported by Musteen et al. (2014) findings. They discovered that imposing knowledge of foreign market prior to the first international transaction is positively correlated with

internationalization and the performance of the SMEs. Additionally, to that, Mariotti & Piscitello (2001) found that SMEs regularly face limitations due to the lack of available financial and managerial resources, but qualified localized capabilities can make firm's internationalization process easier. This is knowledge again suggesting the essentiality of fully functioning networks.

Somewhat unexpected knowledge emerges from Pangarkar (2008). He suggested based on his research that internationalization provides benefits while incurring costs. Suddenness of this information stands out especially after some previous work has suggested foreign market entry rather as a costly and time-consuming endeavor. Though Pangarkar (2008) findings slightly overlap with Li et al (2012) who found that smaller companies due to their flexibility might be bigger internationalizes than wealthier bigger enterprises, this is still remarkable knowledge.

Pangarkar (2008) based on his research also highlights the benefits of internationalization. They are the likes of taking advantage of market opportunities, economies of scale and increasing in market power while reaching to rare or location-based resources. Again unexpectedly (in particularly compared to previous search) mentioning risk reduction as an internationalization benefit.

When summarizing theoretical findings, it becomes clear to the author that a company's endeavors towards foreign markets can be a success if most of the following criteria are filled: company must have enough resources, knowledge, and contacts. Existing partners must be trustworthy and credible. Relations with the partners should be strong, mutually beneficial, and really close ones as they help to withstand difficulties and recessions. While most importantly (especially for SMEs) studies show that size and financial capability are not entirely decisive factors.

Based upon previous theory a conclusion is drawn – in spite of the risks and complexity the main way for companies to grow is through internationalization regardless of their location (Vuorio et al, 2020). Followingly Table 1. summarizes most important definitions of internationalization, its benefits and the drawback and shortcomings of it.

Table 1. Internationalization process, benefits, and constraints.

Definitions	Benefits	Drawbacks and shortcomings
<p>Process of increasing involvement in international operations. Boosted by changed perspectives and changed position. (Melin, 1992)</p> <p>Process of aligning business operations according to international market requirements (Paul, et al. 2017)</p>	<p>New and bigger market which will bring higher profits compared to staying in home market (Pangarkar, 2008)</p> <p>Vuorio et al, (2020) – best way for growing is through internationalization</p> <p>Conditions in foreign market could better match firm’s strategies and business needs (Wu &amp; Deng, 2020)</p>	<p>Lack of knowledge</p> <p>Lack of trustworthy partners</p> <p>Unknown environment/insecurity</p> <p>Resource shortage</p>

Paul et al. (2017); Melin (1992); Pangarkar (2008); Vuorio et al. (2020); Wu & Deng (2020); Chandra & Wilkinson (2017). Table 1 concludes the benefits and drawback of internationalization process while providing with some appropriate definitions, best describing this process.

### 1.3 Literature on internationalization processes

Following chapter focuses on comparison of different internationalization methods. Historically there have been few, while the changing world has created new ones consisting of some modern principles, but which are still somewhat related to older methods. Methods help to establish the speed and manner of ventures overseas plans; they vary in between steady movers to accelerated expanders.

This chapter takes firstly under investigation Uppsala method, which is the most common internationalization method, it is followed by newer approaches like born global and network approach model. The goal of this chapter is to analyze different methods and contrast them.

## **Uppsala model**

Uppsala model, the utmost known and widely used method was developed by Johanson and Vahlne in 1977. According to this model companies tend to follow an incremental approach when entering foreign markets, allowing them to benefit from learning effects (Johanson & Vahlne, 1977).

In their initial study Johanson & Vahlne (1977) concluded that companies face lack of resources and market-specific knowledge when they decide to internationalize. Psychic distance is the culprit which causes market knowledge deficiency and it intervenes information movement between markets and firms. Hereto psychic distance includes language barriers, differences in educational system and in industrial development, different managerial practices and additionally diverge in culture. According to Johnson & Vahlne (2009) firms after establishing themselves in local market would then gradually enter other markets that were further away in terms of psychic distance.

At first, Uppsala model was developed based on the internationalization process of bigger firms, but it turned out to be equally useful for analyzing the exporting challenges and outlook of SMEs (Paul, et al. 2017).

From one side Uppsala model has variables like market knowledge and market commitment and from the other side it has changing variables like commitment decisions and current activities. Johanson & Vahlne (1977) have demonstrated that market knowledge has impact on internationalization decisions. Deriving from that, international activities have an impact on market commitment and thus market knowledge. Dominguez & Mayrhofer (2017) have concluded that Uppsala model highlights the importance of experience for the international expansion of companies.

New Uppsala model features notion about companies' dedication, thus commitment of the firms in market is closely related to their standings in network. "If a firm attempts to enter a foreign market where it has no relevant network position, it will suffer from the liability of outsidership and foreignness, and foreignness presumably complicates the process of becoming an insider" (Johanson & Vahlne, 2009:1415).

Network importance which was already discussed above becomes visibly apparent in Johanson & Vahlne (2009) rework as they conclude that markets are networks of relationships where

companies are linked to each other. Setting importance on networking and mutual commitment (firm and counterparts) are the main differences between the initial Uppsala model and the refurbished one. Rework summarizes gathered information and/or market knowledge (from counterparts) as the key for rapid internationalization.

### **Born global approach**

Born global represents a newer approach, rising from the notion that changed world has created opportunities for firms to endeavor foreign market expansion from the start of their inception.

What generally facilitates internationalization is technological development which literally brings your overseas clients and their demands closer to you. So, considerable amount of information (the location of the client, average salaries, preferred products, best channels for sale) is possible to gather from the Internet. That all has contributed to the inception of companies that are able to gather that vital information and thus can internationalize from the start of their creation – Oviatt & McDougall (1994) label them as born global companies.

Born-globals specification from Petrou et al (2020) marks them as accelerated internationalizers which frequently tend to make quicker decisions about entering a foreign market. Accelerated internationalizing SMEs showcase less procedural rationality than slowly internationalizing SMEs.

According to Dominguez & Mayrhofer (2017:1053), internationalization is not merely an incremental and linear process, rather “companies seek from their creation, to develop competitive advantages by using resources located abroad and to develop rapidly in foreign markets, regularly even distant places.” The form of these actions may vary – like joint ventures or wholly owned subsidiaries without any experience in local markets. Therefore, internationalization of different activities can be used to develop a competitive advantage in the global market.

Bell et al (2001) interpreted born global firms in a similar manner like Dominguez & Mayrhofer (2017) – according to Bell et al (2001:173): “they are typically smaller entrepreneurial firms (SMEs) that internationalize from inception or begin shortly thereafter. Their main source of

competitive advantage is often related to a more sophisticated knowledge base that they use to exploit the opportunities of an increasingly global market environment.”

One of the cornerstones of determining born-global is connected with Knight & Cavusgil (2004) definition – they counted born-globals as enterprises which internationalize their activities within 3 years of their founding, and which have 25% of their total sales abroad.

Knight & Cavusgil (1996) established trends contributing to the emergence of born-global firms, the likes of increasing role of niche markets and greater demand for specialized products, SMEs higher flexibility, the internationalization of knowledge, tools, technology and facilitating institutions, and additionally trends towards global networks.

As Dominguez & Mayrhofer (2017:1053) but it - born-globals focus is on “maximizing value and profits rather than minimizing their exposure to risks. Therefore, they are scantily affected by the negative impacts of distance or uncertainty and don’t hesitate to target distant countries from inception.” Author of master’s project concludes that Dominguez & Mayrhofer definition can be connected with using effectual logic for expansion plans as it may turn out to be more lucrative approach.

Kalinic & Forza (2012) studies support Petrou et al (2020) that lack of experience and information is not the deal breaker as they determined that SMEs could accelerate their internationalization process which helps to benefit from global competition. Dominguez & Mayrhofer (2017) interpret this finding in a way that companies using born-global strategy are effective because of their international strategy, flexibility and most importantly relations with foreign customers.

### **Network approach**

Network approach, one of the newest internationalization convergences, embraces facets from others (Uppsala, born global) but additionally adds its distinctive part. Network approach importance increases remarkably when lack of useful connections poses restrictions for ventures seeking expansion as network can facilitate both market entry and supply with the knowledge of the market, trends and opportunities.

According to Paul, et al. (2017) network approach stand for utilizing gathered knowledge while creating close relationships with clients, suppliers, regulatory and public authorities, etc. Thus, creating strong and close relations with all existing actors in business circle.

These relationships are based on mutual trust, knowledge, and commitment between the firm and the actors in this business circle. Like many authors have concluded, SMEs differ from multinational enterprises with their strong reliance on their network-based relationships as it often turns out to be the key for SMEs successful internationalization. Paul et al. (2017) strongly supports former approaches by laying down that relations are based on an organization's set of network relationships rather than on firm-specific advantages.

Meanwhile Coviello (2006) acutely highlights the essentiality of "insidership" in networks developed before entry into a new market, as it is frequently instrumental to internationalization process. Previously mentioned authors (Paul et al., 2017; Coviello, 2006) claims are affirmed Cavusgil & Knight (2015) findings that successful internationalization of companies is not merely the result of their own efforts but also of their relations with other companies in their business environments. Concurrently Cavusgil & Knight (2015) concluded that companies learn from their relationships by studying business partner's needs, resources and even strategies. All of this allows them to develop new relationships to enter new countries.

## **Guanxi**

Networking relevance in successful market entry is inevitable like previously described theory explained. More Chinese specific notion of networking "guanxi" has considerably important role and bond than relations common in Western countries.

Guanxi broadly refers to having personal trust and a strong relationship with someone and can involve moral obligations and exchanging favors. In West it is sometimes perceived as associated with corruption, but in reality, it is the core part of doing business in China (Asialink Business, 2021a). It can involve family members and friends, but it can be also nonfamily and contractual (Chen et al., 2013). Bilaterally strong business ties are relevant example in that sense.

According to one another definition guanxi refers to personal connections, relationships or social networks. It means to have trust and mutual obligations between parties. It operates on personal, familial, social, business and political levels. So, having good, bad or no guanxi impacts one's influence and ability to get things done (Wenderoth, 2018). Guanxi can generally be described as a slower version of building relationships, but once trust has been established following processes normally speed up. Guanxi is hard to establish, but if it is set it is a long-term and usually do not end with one project or in a short period (Asialink Business, 2021a).

Besides formerly mentioned aspects, appropriate to note is that guanxi requires a lot more commitment, intercourse and communication which often even means that there is not clear boundary between business and social relationships. Compared to West where ties in general tend to be weaker and business and social (family) relationships are usually separated, guanxi ties tend to be strong (Li, 2007; Lin & Si, 2010).

Park & Luo (2001:457) conclusion sums up the actual difference of ties between West and East: "in China, transactions often follow successful guanxi, while in the West a relationship follows successful transactions." Additionally, to that something companies like to hear is that according to studies guanxi enhances organizational performance and confirms the value of guanxi networks on firm performance in China (Luo et al. 2011).

Subsequently table 2. highlights Uppsala model, Born-global model and Network model's most crucial aspects and compares them based on 4 parameters.

Table 2. The comparison of different internationalization models.

Model	Basic insight	Attitude towards internationalization	Size of the firm when internationalizing and pace	Market knowledge build-up
Uppsala model	Companies establish themselves in home markets. Internationalization is a step-by-step posterior process	Gradual process over longer period of time. Causation	Medium or even large. Steady pace, incremental.	Rather through experimentation and deciding based on results. Commitment to market is based on gathered market knowledge.
Born-global model	Taking advantage of distant places opportunities (resources, knowledge, higher sales) by enacting all business activities there	Necessary from the beginning. Effectuation	Small, rapid pace.	Through international networks and cooperation with locals
Network model	Networks and connections are the key to succeed in foreign markets. Relationship of a firm may be a bridge to another network.	Necessary process to take advantage of opportunities abroad. Rather causation	Size and pace vary, creating strong business ties takes time.	Takes time, a lot of vital information originates from business companions, regulatory offices, and clients.

Dominguez & Mayrhofer (2017); Cavusgil & Knight (2015); Paul et al. (2017); Coviello (2006); Bell et al (2001); Johanson & Vahlne, 2009); Johanson & Vahlne (1977); Knight & Cavusgil (1996); Kalinic & Forza (2012).

Table 2. represents the comparison of different internationalization models. Highlighted are elements like the brief insight of original principles, where they stand in terms of attitude towards expansion, size of the firm applying these models and how market knowledge is gathered.

## 1.4 Decision-making logics

Firm deciding to internationalize needs to determine how specifically internationalization process should look like. Heading towards a distant market without previous knowledge, connections and experience is always a hazardous step. On the other hand, connections gathered over longer period, investment to overseas and full-depth market analyzes may turn out to be too costly and time consuming especially for SMEs, which regularly are forced to choose between vital operations and one's that could be delayed or cancelled. Taking risks with lower cost may turn out to be even more profitable and useful. So, it all comes down to the cost-effectiveness.

The author of this project finds the that in order to compare and contrast different decision-making logics, they are taken under investigation. Decision-making logic is the core of successful internationalization process. Based on that, all target markets, associates, and clients are chosen. The most common decision-making logics are causation and effectuation. The following chapter is based on the description and comparison of effectuation and causation.

Effectuation and causation (E&C) are widely known as alternative decision-making logics. Effectual logic is means-oriented, so the means (actions) are given and goals are based on those given means, while causal logic is ends-oriented – means are determined by the goals (Xue et al. 2020).

Xue et al. (2020:112) have concluded that: “effectuation and causation are conducive to new venture performance in that effectuation breaks through resource constraints, limits the downside risk, co-creates the future, and seizes new opportunities for creating and capturing value, while causation directs action toward goals, enhances new venture legitimacy, facilitates entrepreneurial resource acquisition, while also enhancing learning.”

Sarasvathy (2001) has argued that causation and effectuation are not mutually exclusive but intertwining and they may appear simultaneously. Sarasvathy (2001) claim is supported by Agogué et al. (2015) who found that emerging technology entrepreneurs combined causal and effectual decision-making logics.

Besides Sarasvathy (2001), Reymen et al. (2015) found that strategic entrepreneurial decision-making follows using both effectuation and causation simultaneously. Meanwhile, Smolka et

al. (2018) discovered that an entrepreneur's adoption of effectual and causal logic positively relates to new venture performance.

Additionally, to Sarasvathy (2001), Reymen et al. (2015) and Smolka et al. (2018), Yu et al. (2018) went more specific when determining that a positive link of effectuation and causation interaction and firm performance exists, but in an environmental with high uncertainty. On the other hand, some researchers have discovered negative associations between effectuation and causation and new venture performance. For instance, Chwolka & Raith (2012) found that causation increases the probability of new venture failure.

### **Causation against effectuation**

Specifically speaking of causation, certain motives and differences compared to effectuation occur. As Xue et al (2020:113) puts it - "entrepreneurs using causal logic usually start with a given goal, calculate and focus on expected returns, conduct competitive analyses, exploit preexisting knowledge while avoiding surprises, and somehow try to predict an uncertain future."

According to literature causation is favorable for firm's performance for following reasons. Planning which is target-oriented aids entrepreneurs to take steps toward goal achievement by setting aims and applying them using competitive analyses. The benefit of using competitive analysis and in-depth monitoring of the external environment stands out as it also creates new information about future developments, thus reducing uncertainty while still endorsing upcoming potential (Smolka et al, 2018).

Smolka et al. (2018) added that causation helps new ventures to acquire vital entrepreneurial resources by increasing the legitimacy of the new venture while managing resources effectively.

Effectuation meanwhile encounters different dimensions, deriving from Xue et al (2020) there are 4 associated sub dimensions: experimentation, affordable loss principle, flexibility and precommitment. Read, et al. (2009) besides Xue, et al (2020) revealed that the 4 principles of effectuation (design-orientation, means, partnership and leverage contingency) significantly predict new venture performance.

According to Chandler et al. (2011) experimentation is a short-term trial-and-error attempt performed for detecting possible business opportunities. Their findings indicated that in environments with high uncertainty, experimentation method overcomes the sophistication of gathering additional data in order to make decisions. So, frequently it can also be labeled as a time and money saver. Chandler et al (2011) approach is endorsed by Smolka et al (2018), who laid down that experimentation is a key helping entrepreneurs determine certain expectations compared to possible profit expectations.

Affordable loss meanwhile reduces the likelihood of a business suffering from the losses of investment failure. Xue et al (2020) determined that affordable loss is especially important for new ventures which are eager to test new, but uncertain opportunities at a low cost in places with limited resources, for example in an environment with higher complexity. Sarasvathy et al (2014) added that entrepreneurs can receive turnovers faster if they determine the affordable losses rather than the optimal returns. Author of project estimates that it comes from the aspect that adopting the affordable loss principle requires less planning time than predicting future returns, so it is more cost efficient.

Chandler, et al. (2011) determined that one another important aspect of effectuation, flexibility means utilization of market opportunities but not complying all formal rules and planning. Flexibility also stands for responding to competitors to take advantage of rising opportunities. Vital knowledge of effectual flexibility is its compatibility with environments of higher uncertainty. Using effectual flexibility enables to abandon ideas or plans not so fruitful to target more perspective ones. Chandler, et al. (2011) idea is strongly supported by Cai et al. (2017) and Perry et al. (2012). They both marked that flexibility also helps to develop a variety of possibilities and pursue diversification without the need for additional resources.

To support using effectual logic Parida et al (2016) discovered that too much avoidance of the unexpected actually makes it difficult to take advantage of rising opportunities, something that may create vital value for new ventures. In general, many researchers (Parida et al, 2016; Cai et al, 2017; Perry et al, 2012 and Chandler et al, 2011) have found that the higher flexibility of strategic planning is positively correlated to company's productivity. And flexibility serves as the key to transfer investment direction if investment failures occur.

As summary, causal approach is designed to increase knowledge about the *status quo* and predict prospective development in rather humble manner. While the effectual approach, due to its riskier nature, intends to simplify the complicated situation by de-composing the task,

and seeking to derive from vagueness. Based on literature there is no certain right path. Whether to choose causal approach or effectual logic depends on firm’s risk tolerance, uncertainty of the target market, availability and cost of knowledge and many other factors.

Followingly table 3. summarizes most important aspects of both effectuation and causation while contrasting them.

Table 3. Comparison of effectuation and causation.

	<b>Decision making logics</b>	
	<b>Effectuation</b>	<b>Causation</b>
<b>Starting point</b>	Means oriented	Goals oriented
<b>Goals</b>	Evolving	Defined in advance
<b>Risk managing</b>	Affordable loss	Reckoned profits
<b>Outsiders</b>	Potentially partners, having useful connections/resources is useful	Potential risk, necessary to protect business secrets and knowledge
<b>Future prediction</b>	Future should be created not predicted	Forecasting based on environmental perspectives
<b>Contingencies</b>	Might offer opportunities, necessary to keep eyes open	Planning helps to mitigate/avoid them, unattractive swerve from initial idea

Sarasvathy, et al (2014), Xue et al (2020), Smolka et al (2018), Chandler et al (2011), Parida et al (2016), Cai et al (2017), Read et al (2009) and Perry et al (2012).

Table 3. displays and compares two different decision-making logics to give the overview of them. Values compared include the idea, goals, how risks are managed, attitudes towards unfamiliarities and suddenness.

### 1.5 Pestle and SWOT

This master’s project includes business plan as the practical task. Important role in executing it has been laid on both Pestle and SWOT. Both of these metrics are widely used to analyze different aspects of business environment. This paragraph highlights most important part of these two-analysis tools aimed for describing and analyzing business plan.

Distinctly from SWOT analysis, which identifies issues in generic categories of strengths, weaknesses, opportunities and threats, PESTLE is a mnemonic which in its expanded form denotes P for Political, E for Economic, S for Social, T for Technological, L for Legal, and E for Environmental. That makes PESTLE framework more accurate and field specific (Zalengera et al. 2014).

PESTLE analysis is usually executed before SWOT analysis. “PESTLE identifies the external framework of the undertaking, while the second strengthens this analysis and supplements it with the internal factors’ evaluation. Thanks to the knowledge of PESTLE issues, it is possible to consider the external influences among the SWOT analysis factors. The knowledge acquired enables to use better the opportunities and to overcome the threats that exist in the environment.” (Kordana & Słyś, 2020:2)

SWOT on the other hand is more generic and is the abbreviation of strengths (S), weaknesses (W), opportunities (O) and threats (T) (Kordana & Słyś, 2020). Like described SWOT analysis is divided into 4 groups. Two of these groups include positive elements and the other two involve negative aspects. S are positive, and W are negative internal factors. Opportunities (O) are external factors that have a positive interaction with the system, while Threats (T) serve as negative effects. Threats and opportunities are external as they are out of one’s control (Srdjevic et al., 2012).

The positive elements – strengths of the project and potential opportunities associated with its implementation are followed by negative elements showing its weaknesses and forecast threats (Gao et al., 2017; Kordana, 2017). Meanwhile “the strengths enable the use of the available opportunities and facilitate the combating of possible threats. On the other hand, weaknesses are the cause of wasting the appearing opportunities and increased susceptibility to threats.” (Kordana & Słyś, 2020:3).

How precisely PESTLE and SWOT are applied to Loov Organic’s Chinese market endeavors and what is the outcome of these analysis is described in-depth in the second part (practical task) of this master’s project.

## **1.6 New Zealand's firms' example**

This chapter focuses on real-life examples compatible to Loov Organic in order to specify and shape its strategy and also evaluate different aspects and risks previously encountered by other companies seeking Chinese market access. Due to that New Zealand example is discussed and the goal of this chapter is to determine best entry strategy, highlight risks and offer future forecast.

What makes NZ's example comparable to Estonia are somewhat similar markets for exports like EU and the United States. Like Estonia, NZ also relies heavily on exports. For example, in 2015, the total goods and services exports of NZ were approximately 30% of its GDP (Jin & Hurd, 2018).

NZ example highlights that roughly 75% of all its firms focus solely on the domestic market because of difficulties in expanding overseas. Foreign market entry impediments include limited financial resource, remoteness, limited experience in expanding business overseas and shortage of specific market knowledge (Jin & Hurd, 2018). Most of the named restrictions are visible for many Estonian ventures as well.

A large proportion of New Zealand's exports to China are milk powder, meat, wool, logs, and other products from the primary sector. Again, the same applies to Estonia – the most common export articles include electrical and mechanical equipment, wood and wooden products, precision and optical instruments, dairy products and fish and aquatic invertebrates (Eesti Statistika, 2021). What represents a major competitive advantage for NZ is its FTA (free trade agreement) with China, as it significantly reduces cost of tariffs in exporting (Jin & Hurd, 2018).

Worth stressing is that e-commerce channels have clearly facilitated NZ firms' path to China. In 2016 NZ formed a strategic alliance with Alibaba Group to establish trading partnership and e-commerce solution with China (Alibaba, 2016; O'Sullivan, 2016). Using digital platforms helped a lot of firms which had financial resource constraints, it helped to prevent costs like registration and cost from retail channels and also facilitated building brand awareness (Jin & Hurd, 2018).

Also, this study and many previous ones have concluded that Chinese consumers generally prefer to purchase foreign goods through digital platforms. This claimed is based on both tech-savviness of Chinese people and their tendency to use online channels for shopping (Chen,

2020; Jing, 2020). This in turn is also important knowledge for SMEs (like Loov Organic) which cannot afford selling in physical store.

Apart from e-commerce benefits many entry barriers like resource constraints, shortage of market knowledge and liability of foreignness, remained. Important to grasp from NZ enterprises study is the need for understanding and reckoning different business practices and social norms in China. Moreover, having local people is necessary for further internationalization, but developing local human resources should be done in the later stages of internationalization, as it is difficult for firms to acquire them merely through digital platforms (Jin & Hurd, 2018).

NZ firms' example enables author to deduce that it is reasonable for SME's to start developing their network (guanxi) after they have established their online sales and are seeking operations in physical stores. E-commerce channels nowadays just have created a field where there is essentially no urgent need for many networks in order to expand to external markets and start sales, e-commerce platforms tender a fully functioning replacement.

## **1.7 Schedule and detailed description of research process**

This paragraph explains the time management of this project. Specifically, are discussed different stages, the results, and findings of each stage and additionally the time which was spent to each stage is determined.

This masters project dates to the autumn of 2019, when discussions with former head of the curriculum, Urmas Hõbepappel, were made. He advised to contact with University of Tartu Centre for Entrepreneurship and Innovation. After a brief conversation with the Senior Industrial Liaison Officer Ülle Jagomägi, it led to the conclusion that the best option is to contact EAS (Enterprise of Estonia) directly. The communication with EAS (with Johanna-Riinu Annuk, the Project Manager at Estonia-Asia Trade Agency) was amicable, they were willing to help. Though finding one suitable company seeking for Chinese market entry, turned out to be complicated. In the end the only company which had interest in co-operation was Loov Organic. First contact with them was made in the end of 2019.

After changing ideas, discussing the possibilities for co-operation, and determining reciprocal suitability, we decided to continue collaborate. Hence, it was determined in the spring of 2020, that helping Loov Organic to Chinese market will be my master's project. It was also suitable for Loov Organic as they already had a certain plan to expand to Chinese market and they were looking for additional knowledge and workforce.

In the middle of April 2020, we held the first online meeting where Loov Organic described their company, products, plans with Chinese market and work they had already done. As they already had first contacts in China plus a broad-based support and knowledge gathered from EAS they had a more in-depth and specific plan about entering Chinese market. This in turn made our co-operation more focused and specific. Knowledge they had already gathered involved information about the most perspective cities, contacts received through EAS, and general market knowledge from Asian seminars (held by EAS) etc.

First task for me was to analyze different e-commerce platforms which offered cross-border e-commerce (CBEC) selling solutions. Analysis was executed to determine a platform where Loov will start their initial sales. Analysis involved 8 different e-commerce platforms. These were Tmall Global, Pinduoduo, Jingdong (JD), Kaola, Xiaohongshu (Little Red Book), VIP, Taobao and Suning. Parameters which were the basis of the comparison were following: market cap, number of users, age and sex of the users, the growth rate of users, deposit and fees, the existence of warehouses, supported business process (C2C, B2C, B2B2C etc.) and finally compatibility for SMEs.

Based on these factors it was decided to progress with Tmall Global and Xiaohongshu. The tiebreakers were mainly the reputation, cost of fees, existence of warehouses (+logistics) and the profile of their average customer.

After the decision to advance with the mentioned duo was made, even more in-depth analysis of these two was executed. This leads to the following stage where the exact supply chain was determined, also factors like specific function and operations were ascertained. For example, Tmall Global tends to be more of an ordinary e-commerce platform, where client searches for product and then orders it, while Xiaohongshu is more like a forum, where buyers can express their ideas and give feedback about the products to new customers. And new customers will firmly rely on the experience of already purchased customers. They will take it under consideration before making the final decision about the purchase. Xiaohongshu's keyword is

the credibility to buyers. It applies to Tmall Global too but is essential for Xiaohongshu and its users.

Situation with Tmall Global turned out to be easier as they are an affiliate of conglomerate Alibaba, so information movement was more rapid and most of communication was possible in English. As Loov Organic already had a contact with Tmall Global they managed to get the estimate price of starting a shop on Tmall Global platform. In favor of Tmall Global, they have the biggest market share, they offer logistics and own warehouses in cities where Loov is seeking to start selling to.

With Xiaohongshu, things turned out to be more complicated. Mainly because Xiaohongshu is smaller and not so well-known as Tmall Global, also contacting them in English turned out to be a bit of challenge. But they suited to Loov because most of their customers are female and the percentage of their clients under 30 is 66% (Chernavina, 2019). Hence, precisely the average customer of Loov Organic. Additionally, they operate in Tier 1 and Tier 2 cities which are also first target for Loov.

One another extremely vital issue needed sorting was legislation aspect as cross-border e-commerce differs significantly from sales in physical store. Nowadays exporting through CBEC (cross-border e-commerce) does not require comparable licenses which will be obliged when selling in physical stores. That will significantly decrease the time wasted on getting first batches on sale, while it will lower the overall cost as licenses are costly and additionally temporal.

But establishing a shop on e-commerce platform still requires a lot of work, starting from the bureaucracy and filling necessary documents, sending required information etc. After that reading vital rules and regulations of each platform is demanded. Frequently this information is only available in Chinese. Which in turn leads to the priority one when approaching Chinese market and it is the necessity to speak at least intermediate level Chinese. Though, bigger and more famous platforms (for example Tmall Global) are increasingly starting to provide registration, sending most of the paperwork and giving support in English, nearly all regulations and rules concerning CBEC in China are frequently available only in Chinese.

Thorough analysis of e-commerce platforms helped to determine that selling on e-commerce platforms does not come free. Regular fees include security deposit, fees based on sales, yearly or monthly payments, logistics costs and marketing costs (many platforms offer last two possibilities for extra fees). This makes selling on e-commerce platforms still costly and this in

turn postpones the moment of making profit. Despite, e-commerce channels can still be a vital option for SMEs.

Broadly, e-commerce channels offer firms possibilities which were not realistic 10 or more years ago. Right now, even smaller enterprises can sell their products to Chinese customers despite distance and different language. Biggest benefits include (but are not limited with) – no need to establish own physical shop, logistics can be dealt with the help of e-commerce platform, licenses which are required when selling in brick-and-mortar store are not demanded and finally getting items on sales requires considerably less time. Time spent on analyzing e-commerce platform was roughly 4 months.

Later stage, writing the business plan turned out to be the most creative stage and it enabled to discover a lot of new and essential information about the market, trends and outlooks while also making the calculations and based on that creating initial financial plan. It was rather initial, but it involved assessing the moment of making a profit and also the necessary initial investment scale.

Business plan noticeably included the in-depth analysis of market trends and perspectives, comparison of competition, SWOT and PESTLE analysis and general description of Loov Organic. Business plan in-detail is presented in the practical task part of this master's project.

Time spent to this stage was approximately 3 months and it was executed in between October and December.

Final stages of this master's project were mainly based on composing the theoretical part and writing the entire academic transcript. As academic transcript part demanded theoretical part and clarification if it is compatible with the masters' thesis practical part (business plan), a broad-based theoretical framework was composed. Exporting to foreign markets is widely used in smaller countries with limited internal markets. And deriving from previous researches, a compatible framework for Loov Organic was made as this Estonian company fitted perfectly to theory. Writing the whole academic transcript part took more than 3 months. The most fruitful period was in between February and April.

Following timetable is divided into 4 different stages. First stage is the stage of finding a compatible company and making agreements about further cooperation.

Second stage is comparison and evaluation of e-commerce platforms as it was decided beforehand that initial market entry will be through e-commerce platforms because its time and money saving option.

Third stage is the composition of business plan as the practical task of this master's project.

Fourth stage is the composition of the entire master's project and contributing Loov's Chinese market plans by contacting Xiaohongshu (Little Red Book) for an estimation about opening store on their platform.

Table 4. Schedule of different stages

<b>Time</b>	<b>Stage</b>	<b>Results/findings</b>
The start of October 2019	First stage. Contacting UT Center for Entrepreneurship and Innovation	It advised to contact EAS
October 2019	First stage. Contacting EAS	EAS used its database in order to determine suitable firm
The end of December	First stage. First connection with Loov Organic	It was determined that initially we will try to move on with Loov Organic.
March-April 2020	Second stage. First longer discussion, description of plans in behalf of Loov and explanations of my master's project.	Systemic information movement was agreed. Agreement of further co-operation was made (i.e. collaboration involving my masters project)
July-September 2020	Third stage. Comparison of different e-commerce platforms.	The outcome of this stage was the defining 2 e-commerce platforms (Xiaohongshu and Tmall Global) which are most suitable initially.
October-December 2020	Third stage. Making of business plan. Active communication with Loov Organic. Detailed comparison in between Xiaohongshu and Tmall Global	Completion of business plan. Received new knowledge about Tmall Global and Xiaohongshu.
February 2021	Fourth stage. First meeting in real life. Discussion of master's project details, their specific vision of the start of exporting (in best case scenario June or July of 2021)	In the future probably sending the first batch to China in June or July.
January-April 2020	Fourth stage. Writing masters project - academic transcript, theory, analysis etc. Contacting Xiaohongshu for an estimation.	Completed academic transcript, theory and analysis. Xiaohongshu estimation is still pending.

Table 4. described time-specifically different stages of composing this masters' project. Highlighted were most important parts like e-commerce platforms comparison, creating academic transcript and making of business plan.

## **2. Practical task**

The following chapter represents the second part of this masters' project and is entitled as the practical task. Practical task is executed by composing a business plan for Loov Organic to facilitate their endeavors towards Chinese market. It is endorsed by statistics, market knowledge and experts' estimations which are present in order to highlight most important aspects necessary to consider. Practical task concludes with risk analysis and financial information.

### **2.1 Explanation of a business plan**

Practical task's goal is to create a business plan for Loov Organic, a company exporting Nordic berry-products in order to guide them in their endeavors towards Mainland China market.

Loov's endeavors towards China are based on the lack of local market potential and growth possibilities in growing market like China. Loov, as many other SME's encounters the issue of limited market perspective locally (Jones & Coviello, 2005; Vuorio et al., 2020; Li et al., 2012). That makes them choose to expand abroad, to a state or region which both encompasses higher demand while embracing wealthier consumers.

Though hazardous plan with unpredictable outcome, their endeavor still presents an opportunity which is wrong to let slide. Irrespectively gambling with high volatile market for SMEs might not be a bad idea as according to Li et al (2012) – SMEs tend to be more effective about quick decisions and taking advantage of risen opportunities than bigger companies. And most importantly – internationalization according to Lu & Beamish (2001) and Vuorio et al. (2020) truly helps the SMEs to perform better.

According to Loov Organic's homepage their mission is to promote clean and organic production, product promotion and wider dissemination. They also seek to contribute to a

cleaner and better world, and they wish to share delicious and nutritious Nordic forest superfoods with the rest of the world (Loovfood, 2021).

Their commercial activity is not merely seasonal. Due to berry season, main emphasis is on months between April and October, but despite that, products are sold out of season as well, due to a long shelf life of its products. Company does not own warehouses or production buildings; they procure raw product, warehousing and packaging service.

Loov Organic is a currently operating private limited company (OÜ). They started their journey already in 2008, their first product was organic wild blueberry and blackcurrant mulled wine. Members of the board are Ahto Vegmann ja Martin Karolin. Company's revenue in 2019 was nearly 2,4 million €. In 2020 the revenue was already around 3 million €.

The estimated initial financing for this project is 110 000€. From scratch the project does not require extra workforce, though, if necessary, translation services, legal expert assessments etc. are procured.

Products aimed towards Chinese market are freeze-dried berry-powders, for instance cranberries, blueberries, blackcurrants, lingonberries. Articles are targeted towards nutritionally more conscious people, clients who have a profound interest of dietary, food safety and organic product and due to that are willing to pay extra for a pure and quality product.

Loov's average client is female, under 45, who has higher educational background, is nutritionally aware and has high emphasis on healthiness. As cities in China are unofficially divided into tiers based on economic growth and consumer sophistication, Loov is endeavoring initially for Tier 1 (Guangzhou, Shenzhen, Shanghai) and Tier 2 (Chengdu, Hangzhou, Wuhan) cities, in later stages Tier 3 (Xiamen, Fuzhou, Wuxi, Hefei) cities. To support the idea of Loov focusing firstly on top Tier (1, 2) cities, statistically Tier 1 major cities like Shanghai and Beijing are thriving in sense of prevalence of healthy foods (Malmsten, 2021; Li, 2020).

Loov Organic seeks to start making business-to-client (B2C) sales. But in the future B2B sales are not entirely ruled out and the decision about that is made based on the success of B2C sales.

Meanwhile huge and highly perspective Chinese market still holds many risks. As legislative and political risks are considerable, a precaution measures are needed to be implemented. Loov needs to be prepared for expulsion from market, fierce rivalry and needs to reckon many other obstacles.

Loov has decided to approach clients through e-commerce channels. From one side Chinese people tend to be eager users of the social media and e-commerce channels. It is mainly visible among younger female. (Jing, 2020). From the other side as Chinese market is far, e-commerce channels offer distant enterprises opportunities to sell their products without establishing psychical stores. This process is usually highly complicated and tedious. Also selling through e-commerce channels saves companies from the need to apply for different permissions and is usually cheaper than running a brick-and-mortar store.

Initial plan is to create a company account on Tmall Global or Little Red Book (Xiaohongshu) e-commerce platform. To promote its products Loov first aims advertise its own products. The second stage involves promotion campaign using Chinese local influencers, who will test Loov's products and give their honest opinion about these items. It would give other interested people trustworthy feedback of products.

Estimated is that there is no need for additional workforce for the first 1-2 years as company already possesses resources inside the company which they can utilize or direct upon necessity. Also, it is estimated that there is no need for extra storage units or additional need for berries as the first years will have a rather slow growth.

Finally, Loov Organic already holds previous experience with expanding to foreign markets and exporting its products, and they have knowledge of finding partners in foreign markets. Additionally, Loov has researched Chinese market, they have attended different courses held by EAS and they already own some contacts in China. All in all, it makes expanding to Chinese market slightly easier.

## **2.2 Loov Organic's products**

Loov's product are not something entirely new, though, as the organic market and its volume are growing year-by-year, Loov's products enjoy ever growing demand.

As mentioned above Loov Organic initially plans to start selling freeze-dried berry-powders. Those berry-powders are directed towards more nutritionally conscious people who take good care of their health. Berry-powders are consumed daily, and doses are fixed. Loov's powders can be added to smoothies or consumed with muesli, porridge, milk, or yogurt. Berry-powders

of Loov are not entirely water soluble as they represent real berries. According to Loov Organic homepage, one package (113-250g) contains enough berry-powder for 18-52 days. Berry-powders are available with different tastes – blueberry, raspberry, blackcurrant, chokeberry, cranberry, lingonberry, sea buckthorn and Chaga mushroom (Loovfood, 2021).

According to the label of the package of Loov Organic's Nordic Wild Blueberry, it contains 3-5 times more antioxidants than the cultivated blueberries. Anthocyanin (a blue, violet, or red flavonoid pigment found in plants) which is found inside blueberry supports the normal functioning of the immune system, neuronal and cognitive brain functions and ocular health.

Labels claim, that all products are 100% organic and natural. Berry-powders do not contain additives, fillers preservatives and the raw product is kept as purely as it exists in wild nature. Likewise, products do not contain GM (genetically modified) foods or refined sugar. As Loov seriously evaluates the quality and safety of its products, they perform inspection of each batch in laboratory to give their clients complete assurance of the high quality of products.

Loov mentions, that to preserve all vital nutrients (vitamins and antioxidants), natural color and original taste inside the product, freeze-dried method is used, the manufacturing process is detailed and precise. According to Loov's webpage description: "maintaining original taste and color brings the same effect as eating fresh berries from forest – they might paint your tongue." (Loovfood, 2021)

The purity and quality of Loov's products is confirmed by 2 widely common and recognized certificates. Firstly, USDA certificate which is given to products containing at least 95% certified organic substance (water and salt excluded), free from synthetic additives like pesticides, chemical fertilizers and dyes and shall not be treated with industrial solvents, irradiation or genetic engineering. The remaining 5% of the product may contain additives from a certain list of products (Agricultural Marketing Service, 2021).

Secondly, Loov's products holds European organic label, which is given when at least 95% of the product consists of organic ingredients (European Commission, 2021b).

Loov's products quality is also confirmed by Amazon, as Loov has received a valuable recognition Amazon's Choice's label which is granted to highly rated, well-priced products available to ship immediately (Amazon, 2021).

Loov's products taste like real berries and are healthy because they are free from additives and they are good for the organism. It is quite common that healthcare and dietary specialists

recommend eating sufficient quantity of berries, fruits and vegetables daily, as they provide body with vital nutrients like water, C-vitamin, E-vitamin and also calcium, magnesium and fibers etc.

Loov Organic aims to sell the food as nutritional supplements. Like mentioned above, if sales are conducted through e-commerce channels (not in physical store) there is no need for CFDA certificate which is required if selling in physical store. That will significantly mitigate the time when the products could be available for ordering. (Loovfood, 2021)

Example of the package of blueberry berry-powder:



Picture 1. The package of Loov Organic's Organic Wild Blueberry Powder

### 2.3 Loov Organic approaches towards foreign markets so far

As a conclusion, after analysis of the theory and contrasting different expansion strategies, Uppsala method best describes Loov Organic method of internationalization so far. Parallels with Uppsala method like gradual approach and starting from closer and more well-known markets has been visible in Loov Organic's actions since its creation. Since their inception in 2008 they have approached foreign markets in a subtle but confident manner. When they established their market in Estonia, the next logical step for expansion was to look abroad mainly due to the reasons like limited market size, possibility for higher profits etc.

What has been pivotal to Loov for market expansion strategies apart from proximity has been the market potential for its products like freeze-dried berries, juices made of berries and berry chips. As product tends to be expensive, it hasn't been suitable for countries with lower standard of living. Due to that they have already made sales in Sweden but not in Russia or Latvia. In spite of the similar distance of these neighboring countries. For clarification – most of the sales are performed using online channels, and more precisely country-specifically Amazon pages. For example – Amazon Poland, Amazon UK, Amazon US, Amazon Australia, Amazon Germany etc. But the likes of emerging new e-commerce platforms have established themselves more and more for Loov's sales.

Loov's endeavors towards foreign markets is also highlighted approach that if possible, the steps should be executed as cost efficiently as possible. It means limited market research, using all available possibilities cheaply to grasp knowledge cheaply etc. They have sufficiently experience and they are willing to take risks. Finally, and most importantly shifting its focus from sales in real stores to e-commerce or online channels. All of these aspects tend to be prevalent in most SME's as they tend to lack resources. Therefore, Loov's foreign market expansion is conducted using effectual logic.

## **2.4 Vision**

Vision can be divided into two aspects – firstly Loov seeks to start selling their products in Chinese market. Due to the peculiarities of the market and its remoteness the task remains complicated and risky. Initial plan is to target sending first batch to China in the start of the July 2021.

The second phase can be described as increasing its presence and raising volumes. When initial sales are made, first positive feedback and knowledge of the customers is achieved, Loov aims to steadily start increasing revenue and profit. According to plans the second phase should start in the fourth quarter of 2022, as products have already been in a market for a while and by then Loov also estimates that they have caught enough attention of potential buyers. That makes Loov believe that it will create a noteworthy increase in orders. Estimated, second phase should reach its peak somewhere in the end of 2024.

Third phase involves the enlargement of assortment, as it will bring even more profit. Moving to this phase comes into reality if perspectives in Chinese market remain the same or even amplify, that means that if the tendencies are favorable to health products and regulatory risks or political risks have not been materialized or there is small change of them materializing. Additionally, later stages can be discussed when precise consumer preferences are ascertained as it will strongly facilitate developing a batch of products aimed precisely for Chinese customers. Pivotal to establish is the taste, form (drink, powder, chips etc.), price and even packaging.

One other aspect which highly influences future plans is the competitive situation. Outlooks of the organic food market suggest ever growing demand, but it will also bring more supply, so before introducing new products it is vital to estimate the competitive situation.

### **2.5 Production and service process. Product cost**

Manufacturing process which Loov Organic uses is freeze-drying method. Gathered berries are freeze-dried and packed. Sales are mainly executed through e-commerce channels, as products are orderable from Amazon, Lazada etc. platforms. (Loovfood, 2021)

Freeze drying (aka lyophilization) is a water removal process typically used to preserve perishable materials, with the goal of extending their shelf life and/or preparing them for transport. Freeze drying works by freezing the material, then reducing the pressure and adding heat to allow the frozen water in the material to change directly to a vapor (sublimate) (Millrock Technology, 2021).

Loov Organic is purchasing products from cooperation partners, mainly smaller peasants and berries originate from Scandinavia (also Estonia). Loov does not own warehouses nor packing center and equipment. Thus, both storing and packaging services are bought in from partnering firm.

The product self-cost depends on product, but it is roughly 20% of the retail price. So, for a 30€ package of freeze-dried blueberry powder, it is 6€.

According to assumption, this project does not require additional workforce for the first 4-5 years. The same applies to the need for exceptionally higher amounts of crop. Loov Organic already has contracts with many smaller peasants and deriving from the rising demand they can purchase more berries.

But in case the demand increases rapidly, Loov has the opportunity to increase to number of berries they are purchasing by raising existing contracts quantities and also by making agreements with new farmers, both in Estonia and in nearby countries.

As mentioned beforehand, Loov Organic procures both berries and packaging and storing of them. Stock depends but is regularly 60-90 days. As period between May-September is the berry season, stock is usually higher at that time. Though, it does not mean that Loov's operations are merely seasonal. As they prepare more thoroughly during usual berry season, they have stored products ready for shipping throughout the off-season as well, but it slightly depends on country and delivery time as well.

## **2.6 Target market and business environment**

China represent a major and decently growing market, though, in 2020 China GDP grew only 2,3% compared to the previous year to 101,6 trillion yuan, roughly \$14,7 trillion. In terms of nominal GDP, though right now 2<sup>nd</sup> in the world, China is expected to pass USA, as the largest economy right now, by the end on 2028. Currently China's GDP counts approximately 15% of the world overall GDP (Cheng & Lee, 2021).

China's slow growth last year was due to worldwide Corona pandemic as it pretty much influenced the whole world heavily, but China actually suffered with fewest losses, as it was the only major economy which grew (2,3%) in 2020. In 2019, before Covid-19 outbreak, China's GDP growth was 6,1%. In spite of decreasing growth pace, it still has a decent tempo compared to other Western economies (yearly GDP growth between 0,7-2,2%) (Bajpai, 2020; Silver, 2020).

Estimations indicate that Chinese GDP will be approximately \$20-22 trillion in 2024 (Focus Economics, 2021; Bajpai, 2020). Figure 1 summarizes Chinese GDP previous and expected growth over 40 years.

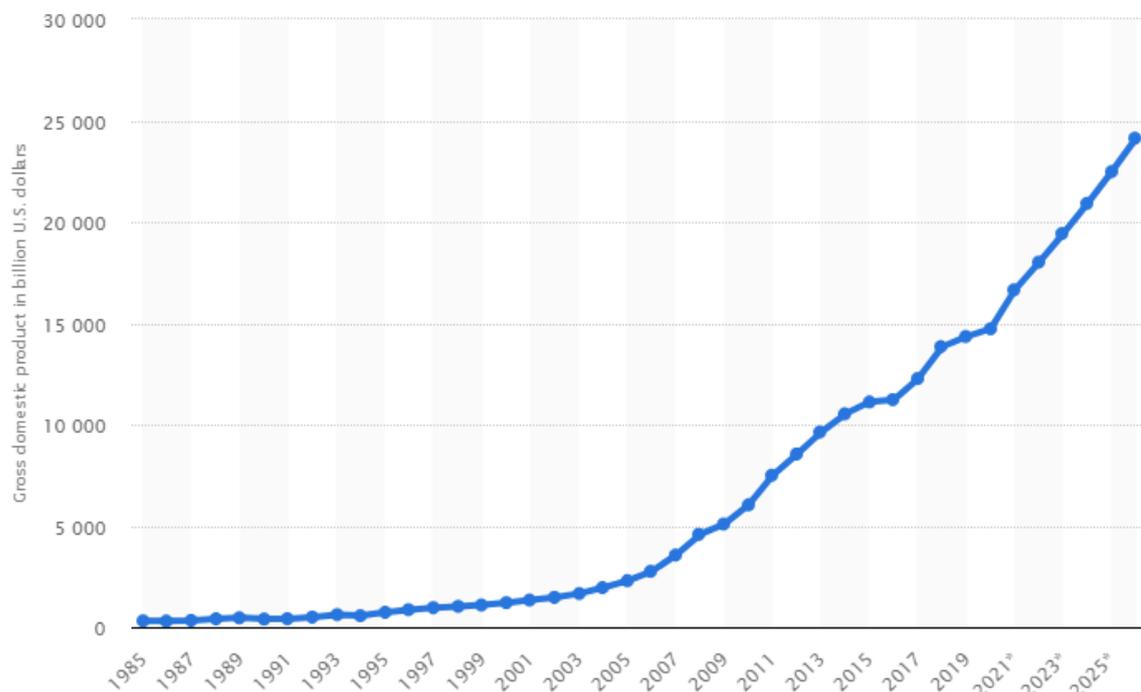


Figure 1. Gross domestic product (GDP) at current prices in China from 1985 to 2020 with forecasts until 2026 (in billion US \$) (Statista, 2021)

Deriving from general economic growth, by now, China’s organic market is one of the largest in the world – according to statistics in 2018 it was the fourth largest in the world at \$9,6 billion, behind only the USA (\$48 billion), Germany (\$12,9 billion) and France (\$10,7 billion). China Organic Products Certification and Organic Industry Development Report 2020 stated that local organic food market was valued at \$10,3 billion as of 2019, it is an increase of \$710,7 million compared to 2018. Meanwhile China Chain Store & Franchise Association (CCFA) concluded that organic awareness amongst consumers in first and second tier cities is at 89% when concerning labelling and 83% when it comes to understanding the concept of sustainable food production (Neo, 2020).

Newest data indicates that the Chinese organic market is now worth between \$11-12 billion, which accounts to approximately 10% of the global organic products market. Evaluated is that China organic food market will be more than \$13 billion by the end of 2024. What mainly feeds organic market growth are rapid socio-economic development (higher disposable

incomes) accompanied by modernization and the industrialization of agricultural food production and middle-and upper-class Chinese consumers concerns about environmental issues, food scandals and air pollution (Figueiras, 2021; Globe Newswire, 2019).

Meanwhile business environment in China can generally be considered as complicated and insecure, though, it has improved and become more supportive over the last years. Chinese government has made visible efforts to make it easier for foreign producers to enter the Chinese market. Both laws and regulations have been amended to facilitate FTZ-s (free trading zones) and cross-border e-commerce for selling items under certain conditions without obtaining licenses. Beforehand it was widespread the whole process of getting items on sales was tough.

According to introduced “Decision on Major Issues Concerning Comprehensively Deepening Reforms” document, Chinese government enacts opening-up’s particularly in-service sector, capital account liberalization and deregulation. Planned easing’s include fields like trade and logistics, e-commerce etc. Document also hinted that reforms in market access, customs supervision, inspection, and quarantine management are carried out. And like mentioned, Chinese government has stressed the need to speed up FTZ (free-trading zones) and decrease tariffs for foreign goods (Bin, 2015:12).

Additionally, to previously mentioned governmental plans and initiatives, author of this project assumes that EU and China will at some point start improving their (trade) relations even more and due to that, it would be realistic to estimate that outlook in Chinese market for interested firms is improving. So, despite many hazards and complications EU entrepreneurs should be ready for emerging chances. Though, to materialize, EU must keep its market open for Chinese (cheaper) product, because then as a counterweight, China would be more motivated to let more EU manufacturers products to Chinese market. Hence, in longer term better (trade) relations are in the interests of both parties.

## **2.7 Macro-environment analysis**

The following chapter is dedicated to macro-environment analysis which is presented in the form of PESTLE. Discussed are political, economic, social, technological, legislative, and

environmental aspects of Chinese market. Examples help to highlight current constraints and opportunities which may provide possibilities.

Comprehensively, China's freedom of expression ranking is poor. Despite that, China's business environment is improving. Economic recovery from COVID-19 pandemic is assumed to be decent, while the foreign investment climate is becoming easier. Additionally, consumption is increasing due to growing middle-class and the continued appeal of high-value goods. Huge investments in technology infrastructure are starting to pay dividends as 5G systems excel compared to many Western peers. In spite of that, troubles with Huawei are still a concern (Euromonitor International, 2021).

### **Political factors**

The political environment is stable and uniform on one hand, while China's views and values are often completely different from the western ones. And these colliding views may turn out to be a major risk.

From one side, China's communist government, led by Xi Jinping, has sent out a message that they want to cultivate and support a market economy, even though over 80% of companies continue to be state-owned (Bin, 2015). On the other side Chinese government still keenly supports state owned enterprises (SOEs) and is committed to making them bigger, stronger, and more efficient. It tends to be particularly visible in the fields of defense, energy, telecom, aviation, and railway (Guluzade, 2019). Also, there have been recently signs expected further and stronger co-operation with Chinese government from local enterprises (Kharpal, 2019) and the same applies to foreign enterprises seeking to make business in China.

According to Garcia-Herrero & Ng (2021:2): "differential treatment of companies operating in China has long been an issue of concern. It is not only that foreign firms are treated differently from Chinese firms, but also that there is differential treatment of Chinese private firms compared to their state-owned enterprises (SOEs)." Chinese government supportive stance towards SOEs is highlighted in notion that they often encounter financial advantages, subsidies, and preferential policies.

Meanwhile, making business environment in China more equal has been one goals of the European Union. For that, in the end of 2020 an agreement with China was made

(Comprehensive Agreement on Investment). Agreement was extremely necessary as the lack of equal field makes it complicated for European firms to compete with local firms in China (Garcia-Herrero & Ng, 2021).

Though, as mentioned above, the Chinese government still has made significant steps to improve trade and entrepreneurship. First, a number of e-commerce "zones" were created in specific cities, where foreign companies can store products, which allows faster delivery. As the products that arrived there have already passed customs, the time spent on transport was significantly reduced, thus allowing consumers to obtain goods much faster than usual. Also, for now China does not charge sales tax on cross-border e-commerce and customs duties have been significantly reduced for many products. Alibaba's case embraces the benefits of it – after eased regulation their sales grow 179% year-on-year (Floship, 2018).

All these governmental steps stand out in the eyes World Bank's Ease of Doing Business Index (Doing Business) 2020 ranking – according to that China registered a significant improvement by climbing up 15 positions from a year earlier (Euromonitor International, 2021).

One Chinese government step specifically beneficial to Loov Organic, is implemented "Healthy China 2030" plan, aimed for fighting obesity and other health issues. According to data, this plan has already majorly supported fresh and organic food market growth (Malmsten, 2021, Ma, 2020).

Additionally, to previously mentioned steps, Chinese government has proved its commitment to market-oriented reforms by tax cuts worth around \$300 billion. China is also encouraging innovation in "deep tech" through state-funded venture capital funds, while also establishing start-up accelerators and high-tech business parks (Guluzade, 2019).

In spite of being a permanent member of the UN security council and also a member of the WTO, APEC, BRICS, G20 etc., relationships with the United States has been tense for a long time. Likewise, recent protests in Hongkong, tensions in the South China Sea, sanctions by the US, and China's retaliatory sanctions on some US and Canadian citizens have been big causes for concern. But China still has maintained good diplomatic relations with many great powers in the world trade and politics (Rahman, 2021)

Also, from political side worrying is that Chinese Communist Party has mainly established itself by quashing any voices of dissent through force and violence (Euromonitor International,

2021). Hence, rational to consider for foreign enterprises is to be aligned with governmental decisions.

### **Economic factors**

China is the 2<sup>nd</sup> largest economy in the world by nominal GDP. However, it is the world's largest economy on a purchasing power basis (Rahman, 2021). The Chinese economy shows a decent growth rate, although it has fallen steadily from over 10% over the past 20-30 years, to around 6-7%. But it is still one of the fastest growing economies in the world (Trading Economics, 2021).

It is expected that by 2022 more than 50% of urban households should be in the middle class, an increase of more than 100 million households – the result is a vast home market with exposable income (Freedman, 2018).

The standard corporate income tax rate is 25%; however, the Chinese government reduces the rate to 15% for qualified businesses which operate in industries encouraged by the government. The individual income tax rates range from 3% to 45% (PwC, 2021). Over the long term, Chinese economy is expected to maintain its growth momentum, placing a greater focus on innovation and domestic market development. While China's inflation target - 3% is off from real number (between 1,6-2,5%) (Euromonitor, 2021).

China's rapid economic growth was mainly achieved through cheap labor, but this growth also increased eagerly payments, which have caused tripling of average salary 2005 and 2016 (Rahman, 2021). At the same time, due to the increase in living standards, people will be able to consume more and more consciously. According to 2018 survey, roughly 70 percent of consumers in China stated that they were willing to pay more for organic food products (Wunsch, 2020).

### **Social factors**

The population continues to grow, even though the rate of growth has clearly slowed down. Currently, about 1.44 billion people live in China. The population growth rate is

currently around 0.5%, and it is predicted that China's population will grow for another 10 years, after which it will quietly decrease (Worldometer, 2021; Trading Economics, 2021).

Education attainments forecast indicates the increase of people with secondary and higher education. Followed by sustained disposable income growth, per capita income levels are projected to grow at a steady rate until 2040. Also, structural reforms and easing business regulations are assumed to also facilitate in improving labor market flexibility and mobility, supporting formal employment and disposable income growth (Euromonitor International, 2021)

Surveys support understanding that Chinese people are more eager about foreign products as they are safer and more trustworthy than local output (Fang & Levy, 2015; Gan, et al.,2014), but as statistics show growth is strong and competition is increasing. And Chinese focus still stands on luxury and prestige products like luxury cars, latest technical gadgets, and designer clothes (Rahman, 2021).

Directly deriving from pandemic is consumers' wider focusing on healthier living. While the COVID-19 made Chinese people increasingly urgent to channel their focus to activities and products that help to manage both mental and physical prosperity (Euromonitor International, 2021)

Though demographic trends right now are supportive, China still faces ageing population, lowering fertility rates, urban and rural divide which leads to higher income inequality and at some point, decreasing population (Euromonitor International, 2021; Rahman, 2021)

### **Technological factors**

In technological capabilities and development China seemingly excels. It is the home for world's largest, most successful, and innovative internet-based big tech giants e.g. Baidu, Alibaba and Tencent.

China's high infrastructure developments scope manifests in the fact that in 2020 majority of Chinese people homes had a broadband internet connection. Consequently, China's internet users are forecast to expand to 97.0% of the total population in 2040, up from 65.2% in 2020. Due to high technological level and tech-savviness of people e-commerce and digital payments

importance proliferates. 5G, the next generation mobile communication standard, will be pivotal to integrating various technologies such as big data, artificial intelligence (AI) and cloud computing (Euromonitor International, 2021).

Though, it is no secret that manufacturing processes are shifting to surrounding countries, like Vietnam and Bangladesh, due to rising wages in China. Despite of that, China still enjoys cost advantages in two major talent categories: research & development (R & D) and marketing & sales (Freedman, 2018). Statistically R & D expenditure has increased from around \$220 billion in 2014 to \$310 billion in 2020 (Euromonitor International, 2021).

But technological development still encounters some setback as only a modest share of firms is placing and/or receiving orders online, at 19.2%. Another drawback is that Huawei has encountered wide-spread dislodge by many Western countries due to their alleged connections with Chinese government.

Due to previously mentioned aspects and taking into consideration studies (Hasimu et al., 2017; Rahman, 2021; Xie et al., 2015) it is established that the Chinese consumer generally appreciates quality and high-tech product and service. At the same time, the Chinese consumer is also significantly more demanding of the products, which means that the products must be safe, healthy and generally reliable. There's no way to make any concessions, especially after variety of serious food scandals (Business Sweden, 2019; Figueiras, 2021; That's, 2017).

### **Legislative factors**

The Chinese legal system differs from the ones in western countries. The main legislative organ within the country is the National People's Congress (NPC) (Stratagoras, 2021)

Experts of China stress that legislation in China is generally complex and confusing. But understanding all regulations, rules and requirements is vital for successful business. Understanding thoroughly agreements (i.e. made with business partners, logistics partners and with e-commerce platforms) is crucial and they should be conducted in a way either party fully understands them, as it will help to mitigate the risk of subsequent disputes coming from misunderstood contracts. Also, according to experts, disputes which end up in Chinese courts are rather lost in advance. Due to that it is vital to add clauses to contracts which enable to process complaints in EU courts, not merely in Chinese courts.

Like mentioned, for foreign companies' legislation can be considered as complex. Appropriate case is about demanded licenses - in order to sell products in a physical store, it can take years to obtain different demanded licenses and comply with regulations, but the long waiting period might have changed the market situation so much that the initial plans or ambitions have vanished (Transcustoms, 2020; Amadeo, 2021).

Chinese governmental opening up's best visibly emerge in alleviations made for cross-border e-commerce. Cross-border sales, generally speaking, allow products to be sold considerably easier and faster than through a lengthy applying process, where responses can arrive within 6 months to 3 years. While certificates validity is limited, it is usually not more than 5 years. In addition, it is necessary to mention that the certificate (especially for food) is not easy to acquire, and it costs quite a lot (Transcustoms, 2020; Bin, 2015).

Vital to mention is that China could implement laws to impede the influx of many Western companies if they see them as a threat. China has already blocked social media giants such as Facebook, Twitter, YouTube, and Instagram, and also Google. Aside from these blockades, there are many other restrictions for foreign companies. There is a Foreign Investment Negative List and a Market Access Negative List that include restricted or prohibited activities for foreign companies. While trade tariffs also exist for foreign businesses wanting to sell their goods in China (Stratagoras, 2021).

At the moment, legislative environment and more importantly the direction whiter legislative environment is heading is beneficial to Loov Organic, as established changes have helped to avoid the long process of obtaining an expensive certificate in order to start sales. Though, Loov must be prepared for China to seize a supportive stand (specially to facilitate SOE's). Additionally, about the customers, should cases or even litigations arise, they will be extremely complex, with high cost, while it is realistic that decisions can also fall unfairly to the detriment of the company. It is therefore very important to follow closely the rules in food safety, e-commerce, and other regulations, as well as to ensure that all agreements are properly translated and unambiguous to either side.

## **Environmental factors**

China's population and economic growth did not come without a cost. The rapid industrialization brought along several serious environmental issues. Namely air pollution which is caused by excessive coal usage and water pollution caused by water sources contamination with industrial waste (Stratagoras, 2021).

Chinese government has started paying more attention to the environmental issues; hence China is also striving to improve local pollution and reduce ecological footprint. Truthfully these governmental measures have already starting to show results (Stratagoras, 2021; McGrath, 2020).

As health and well-being are crucial for the Chinese, as living standards rise, Chinese people have begun to pay increasingly more attention to the consumed products. Which is seemingly associated with many scandals in China over food purity and misleading consumers. In 2010, for example, several sites were closed, producing fake green beans from soybeans, mixing them with a number of chemical additives. In 2014, meat that had exceeded its shelf life was sold to global companies, and in 2017, a Chinese company was caught producing oil from rotting pig carcasses (That's, 2017).

Those scandals have helped to turn Chinese people heads more towards foreign manufacturers. Therefore, it seems justified, and this is confirmed by studies, that Chinese people value high-quality food from a clean environment. Simões (2016) found in his research that Chinese consumers, particularly mature citizens, are very conscious about issues related to sustainability. His study also reflected Chinese consumer behavior about the willingness to pay for organic foods.

Xie et al. (2015) research found that the majority of Chinese consumers are ethically minded when making consumption decisions, based on the increased cases of food fraud in the industry. Respondents in their study stated that they would wish new generation can live in environment which is free from plastic waste and free from pesticides in soil. Despite of organic foods higher cost, surveyed people marked readiness to rather eat less, preserve their health, the environment, and the welfare of animals than eat more conventional foods.

McCarthy et al. (2015) findings contribute to Xie et al. (2015) by saying that Chinese consumers have a positive attitude towards the ethical principles that guide organic foods farming, including the care for the welfare of the animals.

Previous researches are supported by Business Sweden (2019:8) claims: “Chinese consumers are increasingly drawn to brands that are environmentally friendly and like to support companies that are facilitating change in society through corporate social responsibility.”

## **2.8 Microenvironment analysis**

Success factors in the industry are certainly the presence of raw materials and the fact that, to a large extent, raw materials are also growing naturally in Estonia (and nearby countries).

The industry is clearly growing. The increase originates from both - a higher level of nutritional awareness and increased incomes, which also allow more expensive and high-quality (cleaner) food to be consumed.

Competition in the industry is increasing year on year, but the market is certainly not saturated. This can be argued because there are not excessively providers, although their number is increasing year-by-year. Estimated that China’s health food market will grow at an annual rate of 10-15%. That has increased volumes of production and organic consumption in China. The Chinese middle-class is interested in changing their food habits from heavy oil-tasting food to vegetarian-based, light, organic meals. As discussed above they are interested in importing food for safety reasons, as frequent local food safety scandals have been made Chinese consumers more likely to trust the high quality and credible of imported food than local food. (Asia Perspective, 2018)

Entry barriers to market nowadays aren’t extremely high, but in longer run it is still required to have contacts as well as in the future potential infrastructure costs will appear (equipment, storage facilities, etc.). Though vital to stress is that entry barriers come cheaper when products are sold through cross-border e-commerce channels. The reason behind that is - you don't have to pay a physical store to sell products, you don't have to wait for a health food certificate (it could potentially take 2-3 years), it requires less contacts in China because the e-commerce platform is responsible, for example, for storing goods and shipping items to customers.

It is estimated that there won't be many customers initially, because the product and the manufacturer are unknown to Chinese people and their knowledge of Estonia is rather low. However, it is crucial to promote products as pure, consisting of organic raw material and originating from Scandinavia, as Scandinavian items assimilate with purity and quality to the Chinese consumer (Business Sweden, 2019).

Customer loyalty is questionable because there are substitute products, and it is also rather easy and inexpensive for the customer to switch to a competitor product. According to studies Chinese consumers are brand aware, but not particularly brand loyal (Frost & Sullivan, 2018).

It is likely that e-commerce platform(s) will offer a full logistics solution where Loov Organic pays for transport costs and reimburses platform commission and deposit fee. At the same time, the platform itself sends out products that the customer has ordered from the warehouse, while storing them as long as necessary.

## **2.9 Client, market, competition**

### **Client profile**

Generally, the client profile for Loov's products is a mainly younger and more knowledgeable female consumer, who is also economically well off. A customer who knows what (s)he wants and what to eat in order to maintain good health and a strong immune system, and who is willing to pay extra if necessary.

According to statistics 73% of Chinese consumers are willing to pay extra for healthier food, and 58% of the Chinese middle class (20-49) are willing to pay extra for products from ethical brands (Paul & Förster 2019).

Additionally, according to researches the number of Chinese people concerning health awareness is rising and the people with higher awareness live in bigger cities (Malmsten, 2021).

Survey conducted by Ipsos revealed that 84% of 3,000 survey respondents aged 18-65 from Tier 1-3 cities confirmed their higher attention on their health. The amount of people aged 25

or above, who showed an increasing awareness and satisfaction with their current health condition was particularly high. Also, statistically the number of clients purchasing unhealthy products is in decline (Malmsten, 2021; Chen 2020). Estimated, that in 2020 approximately 60% of consumers will check ingredient labels on packaged foods. In addition to that, a more specific data from TMall platform showed that in February 2020, sales of nuts, fresh vegetables and fruits on the platform increased by 122% and a 72% year on year respectively (Malmsten, 2021).

Statistically women use e-commerce channels more than men. Particularly, categories like health food, natural cosmetics, etc. are very popular with younger Chinese women. There are approximately 400 million female consumers in China, and together they spend more than RMB 10 trillion (\$1.44 trillion) annually. From that point changed stereotypes appear - earlier Chinese men were the main breadwinners, but now Chinese women position is becoming more equal in decision-making and financial management at home. Survey conducted by Accenture in 2019 revealed that nearly 97% of women in the urban areas earn a stable source of income, while 68% own a property. While according to “The 2017 China Women’s Consumption Survey Report”, more than 50% of married women earn incomes on par with their spouses. (Pinduoduo, 2020; Chen, 2020).

More precisely, the main driving force of e-commerce users in China are female born in 1980s and 1990s. According to one other research, young Chinese women are an ever-growing buyer population. About 2/3 of family purchases are made by women. While women's annual spending is expected to increase from RMB 3.3 trillion (2017), to RMB 8.6 trillion (2022) (Chen, 2020). On average, a month, women spend 7 hours using e-commerce apps, and this time has increased by about 10% in one year (Jing, 2020).

Based on researches and trends Loov determines its average customer as a younger (under 45) female, with higher education and knowledge of dietary, who does not have an issue to pay more for pure and high-quality product.

Established core customer profile

- Female
- Higher education
- Nutritionally aware
- Rather young (20-45)

- With paycheck over average (90000 yuan or \$14000 a year) (Textor, 2021)
- Willing to spend more on a quality product

Products are sold to private customers. It means that at first sight Loov Organic aims for B2C sales, but later B2B sales are not ruled out if the B2C sales are on adequate level and market perspectives support that motion.

### **Market and competition**

The market can be described as very wide, and the growth potential is irresistibly high, as both a more informed diet and people's demands for different products are growing, while the improvement in the purchasing power allows this. Rapid socio-economic development, modernization and industrialization of agricultural food production additionally have a strong impact.

China organic food market is expected to be more than USD 13 Billion by the end of the year 2024. Organic food products are of particular interest among the food products for a Chinese consumer with increasing awareness regarding the benefits of organic products and growing disposable income. Last few years have brought, both increased demand and wider production of organic food products (Yahoo Finance, 2019).

Organic food items are enjoying significant popularity among Chinese residents, as these items do not increase any health hazards and environmental issues. While Chinese government policies have favored organic food products over food safety and the consumer preference for organic food products over the conventional one. Though, lack of availability and visibility of organic food items at the Chinese stores are some of the prime barriers for the China Organic Food Market (Yahoo Finance, 2019)

Therefore, there is an increasing demand for natural products. This mainly comes from more conscious consumption, as well as from greater care for health. There is a market for natural products in general, both on the internal market and on the foreign market.

There are an approximately 10-20 competing products on the market. But they vary in different platforms, though the number of competing items is increasing. The most direct competitors are following foreign companies: Micro Ingredients, Alovitox, SB Organics, Biofinest, Navitas Organics, Nordicnordic, Powbab, Nubeleaf etc.

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Followingly table 5. focuses on comparison of Loov Organics most direct competitors. Comparison is mainly based on their price range, something that tends to be the determinant for buyers.

Table 5. Comparison with competitors

Competitor's brand name	Description of product(s)	Price/price category (price depends on the package size and type)	Country of origin	Advantages/disadvantages
Micro Ingredients	Organic Blueberry Powder	38-43€	USA	Already selling in many Chinese e-commerce platforms. Price is a disadvantage
Biofinest	Blueberry Juice Powder	13-31€	USA	Price is advantage
Powbab	Wild Blueberry Powder	25-47 €	USA	Similar product line-up and price range as Loov
Navitas Organics	Acai Berry Powder	19-34€	USA	Common in Chinese e-commerce platforms
Alovitox	Aronia Berry Juice Powder	20-22€	USA	Rather low price, but products somewhat differ from Loov's line-up
SB Organics	Acai Powder	12-20€	USA	Low price
NordicNordic	Bilberry Powder	8-61€	Finland	Huge price range, both benefit and constraint and variety of quantities
Nubeleaf	Organic Blueberry Powder	13-26€	USA	Price is rather low
Loov Organic	Wild Blueberry Powder	22-42€	Estonia	Tested purity and quality are advantages, while price is a disadvantage

Biofinest, 2021; Tmall Global 2021; Powbab, 2021; SB Organics, 2021; Alovitox, 2021, Loovfood, 2021; Navitas, 2021; NordicNordic, 2021, Nubeleaf, 2021.

Table 5. took under investigation the main rivalry for Loov which are selling same or similar products on platforms where Loov is also aiming to make sales. Important to note is that this table is not complete and due to ever-growing demand and rapidly rising supply the number of competitions is on rise.

There exist many substitute products, but it is questionable where and under what conditions exactly they are grown and held etc. Loov Organic has a number of certificates (like USDA and European Organic Label) that confirm and prove the purity and quality of its products. Most importantly analysis of competitors products held in Loov Organic revealed that Loov product was the purest one.

Loov Organic also benefits from the freeze-drying method, which is not used by some competitors (though still widespread) and which preserves a number of useful substances and vitamins in the product. Loov's widest range of quantities also speaks in our favor, as well as the largest quantity offered exceeds that of several competitors. Few of competitors don't own organic labels such as Loov Organic products.

Another strong competitive advantage of Loov is their 100% money back guarantee and 30-day returnless refund meaning the products will be eligible for a full refund without being returned to the seller (Loovfood, 2021).

Unfortunately for Loov, however, high product price is a disadvantage for them, meanwhile the price of their items tends to be more expensive than their main competitors ones.

In general, Loov Organic's price level is higher. At the same time, a pure and natural product from Scandinavia, to which no additives have been added, speaks in their favor.

Several analyses have claimed that Scandinavia associates the Chinese with cleanliness, mysticism, quality and reliability. For example many Chinese consumers consider "Made in Denmark" as a guarantee for quality, which to some extent also can be seen in the studies of Chinese tourists in Denmark, who like to mention positive words like "pure", "nature" and similar words when asked about their impressions of Denmark. All these previously mentioned aspects tend to embrace all Scandinavian originated articles (Ehub Nordic, 2018).

Finally, a major benefit for Loov is their management's sector-specific know-how for more than 10 years with both inner and external market experience. They are aware of the trends and

their accumulated experience helps to reckon threats and shortcomings while spotting arising opportunities (Loovfood, 2021).

### **Food safety concerns, consumer preferences and attitudes towards organic food**

Food safety represents a crucial aspect for Chinese because food scandals have embraced both manufacturing process and items sold, which have made locals suspicious and timid.

Studies highlight the importance of organic and healthy food and the urgency of Chinese consumers to strive for a healthier lifestyle. The change towards higher quality food has mainly been influenced by recent health concerns in China. Namely, the baby milk incident, Avian Influenza (Bird Flu), and Spongiform Encephalopathy (Mad Cow disease) (Li, et al. 2019).

Li, et al. (2019) study highlighted correlation between higher consciousness about health of Chinese consumers and their willingness to pay for organic foods. Meanwhile Yang, et al (2014) study found that organic foods are preferred as they are perceived by customers to be relatively free from chemicals and are thus safer to consume. Due to that, clients are more willing to buy the types of foods they are sure to consume without suspicion and hazards.

Gan et al. (2014) research supports both Li et al. (2019) and Yang et al. (2014) findings, adding that consumers are increasingly aware of health concerns, they read health related articles, also reading ingredients labels before making purchasing decision.

Yang et al. (2014) concluded that both Chinese consumers who feel they make a conscious choice to pay for organic foods, as well as those believing that organic food is the right decision, are more willing to buy organic foods because their motivation is internal and based on their attitudes. Fang & Levy (2015) research contributes to this finding, adding significant relationship between the attitude of Chinese consumers towards organic foods and their purchase intentions.

Xie, et al. (2015) and Li & Xin (2015) both stress Chinese consumers' willingness to pay for organic foods because they are assured that the safety of the food is guaranteed.

Hasimu et al. (2017) research revealed that high price and low product availability could be perceived as a signal of quality and high value of the product. According to them survey done in Shanghai revealed "healthy", "safe" and "expensive" as the 3 core associations that outline

best the image of organic products. Also, since food packaging in China is at least as important as the food itself, adequate packaging is a key purchasing driver at least for consumers who are not so aware. Hasimu et al. (2017) and Wu et al. (2014) research additionally signaled lack of trust that is already enormous and growing, especially towards local products.

Chinese consumers have strong trust in foreign products, because they perceive these as safer and of higher quality than the domestic alternatives. Numbers indicate that the Chinese consumers pay 2-4 times more for organic products. The challenges of market access are not limited to organic food only, as the food industry is highly regulated area due to increasing focus on food quality and safety. Thus, understanding Chinese regulations and good communication with Chinese authorities are essential for food exporters (Asia Perspective, 2018).

Somewhat McCarthy et al. (2016) research outcomes support previous by concluding that certified food purchase is associated with income, education, age, gender, presence of young children, household size, living in developed cities and overseas experience. Additionally, Chinese consumers are turning towards certified food for health reasons and are growingly skeptical about genetic modification (GMO) food.

Also, Gan et al. (2014) established that people with a high social standing are more likely to purchase organic foods. All in all, households with higher income are more eager to pay for organic foods because they have the ability to pay for a premium to derive the benefits of organic foods. Similar to previous findings is that these people believe that organic foods are more preferable, nutritious, healthier, and more aligned with their social values as opposed to the conventional alternatives.

Both Xie et al (2015) and Gan et al. (2014) concluded that the higher price of organic food is a major deterrent to the purchasing decision. As deduced from the studies, it is clear that the level of consumption of organic foods in China is positively correlated to the income levels of the consumers. (Li, et al. 2019)

## 2.10 E-commerce channels

E-commerce channels appearance is a relatively new topic for merchandising, but they are undeniably important part for enterprises and especially to ones with limited (financial) resources and inadequate market knowledge. E-commerce importance and authority is increasing rapidly and how it highlights in China is discussed below.

Known is that China represents the home to some of the world's largest, most successful, and innovative internet-based companies like Alibaba and Baidu. As of the middle of 2018, 9 out of 20 of the largest tech companies in the world, by market valuation, were Chinese enterprises. Compared to USA the online share of retail in China was at 28.6% in 2018 and projections were 33.6% in 2019. It is higher than in USA, while those numbers aren't close to reaching saturation (Freedman, 2018).

E-commerce makes up for 25 per cent of China's domestic retail market, subsequently providing the initial gate to Chinese market. Already in 2017 China had one of the highest online sales as percentage of total retail sales – 16,6%, compared to UK – 18%, US – 8,9% and Australia – 7,5% (Business Sweden, 2019; Frost & Sullivan, 2018). Figure 2. highlights Chinese e-commerce sales compared to other countries.

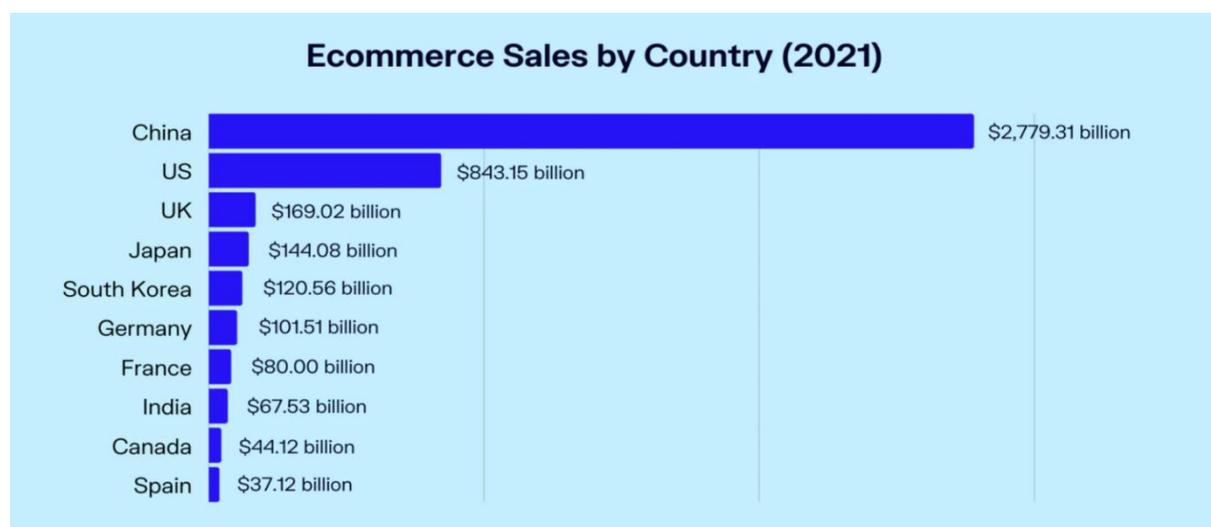


Figure 2. Chinese e-commerce sales compared to other countries. (Keenan, 2021)

Additionally, Chinese people interest of foreign brands and rising spending power offer China as an attractive market for foreign businesses. Chinese tech-savviness becomes prevalent, as like briefly mentioned, e-commerce business is evolving rapidly, this in turn makes it a decent testing ground for using e-business platforms to export to other markets. Chinese users'

receptiveness for trying out new ideas, only support this notion. Though, e-commerce channels offer a tempting opportunity for selling, market experts stress that creating brand awareness is essential to success, elements like choosing the right social media, search engine and sales platforms are the main aspects which need to be considered (Freedman, 2018; Melchers, 2020).

More of numbers – in China, 600 million people used their phones to make mobile payments as of the start of 2019, at the same time about 550 million people regularly use their phones to shop online (Freedman, 2018). Statistics show that in 2020 there was 1.6 billion mobile phone connections (+4,3% compared to 2019), 854 million internet users (+3,1%) and 1 billion active social media users (+1,5%) (Disfold, 2020). Meanwhile, E-commerce revenue in China is expected to grow to over \$1.5 trillion in 2024 (Asialink Business, 2021b; Melchers, 2020).

Figure 3. showcases e-commerce sales in China from 2019 to forecasted 2024.

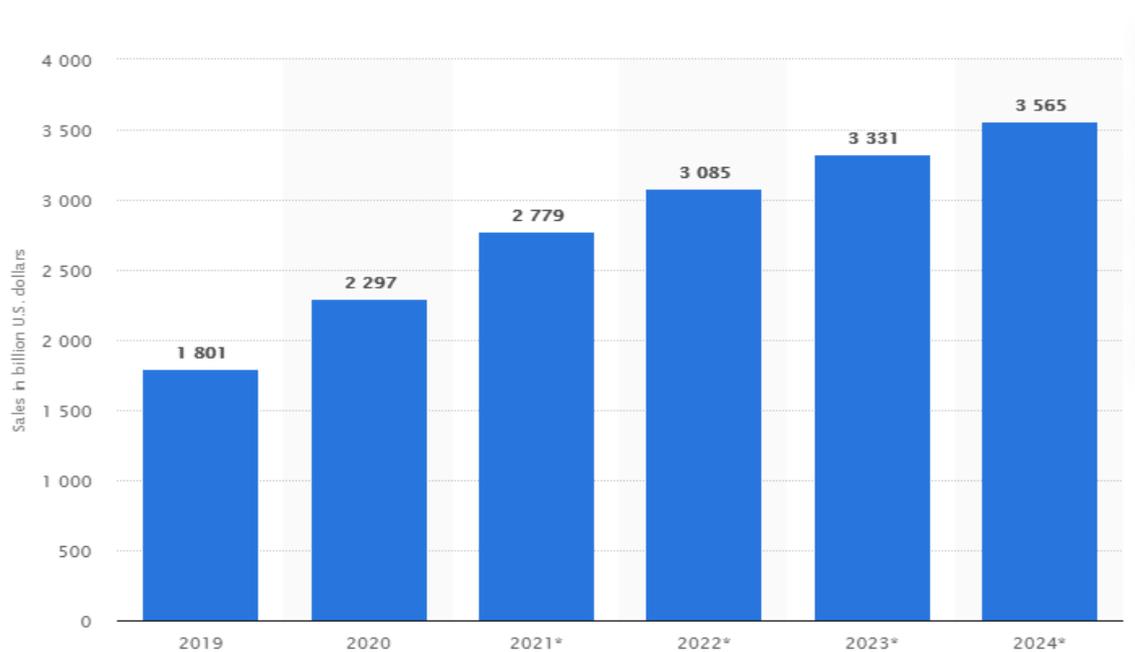


Figure 3. Retail e-commerce sales in China for 2019 and 2020 with forecasts until 2024 (in billion U.S. dollars). (Ma, 2021)

Secondly major e-commerce platforms have managed to construct a rapid delivery process. Usually it means that the items are shipped to customers within 24-48 hours, regularly even quicker (Business Sweden, 2019).

Loov's targeted customer group – younger, nutritionally conscious with interest in quality, good taste and evaluation of organically growth product, is the ideal group for selling in e-commerce channels because, according to statistics, the growth of e-commerce is driven precisely by younger urban people, who are highly educated and increasingly knowledgeable consumers (Hsu, 2016).

Additionally, to Chinese e-commerce platforms, the author of this masters' project has previous experience associated with listing products and running a store on Singapore based e-commerce platform Lazada. Processes in Lazada platform were significantly easier as whole of the operations were possible to conduct in English. Local experts and customer service were fluent, and their explanations were thorough. Lazada has some similarities with Chinese e-commerce platforms, apart from overlapping items, the structure of e-commerce store - analytical data availability, e-commerce platform guidelines, presented in a form on Lazada or Xiaohongshu University, functioning of customer service and profound terms and conditions. What distinguishes Lazada from Xiaohongshu is language, even after requests it was still impossible to acquire information in English on Xiaohongshu platform. And the recent cause obstructs heavily different firms plans on starting sales in China e-commerce platform. On the other hand, Lazada's superiorities (language, information movement) also helps entrepreneurs make the decision to concentrate to Lazada's platform.

Language barrier widely applies to other Chinese e-commerce platforms as well, though, in the future few platforms will probably provide start providing some contracts and customer service in English, namely Tmall Global and WeChat.

Generally, despite of different region and cultural space e-commerce platforms tend to have similarities, for example both Amazon and Lazada prohibit to add external links to company's store and the terms and conditions are regularly inclined towards the service (platform) provider.

### **Promotion**

As e-commerce channels act widely as marketing places, promotion is another vital component of gaining reputation. According to the plan it is done by two different ways. Loov first seeks to make a promotion for its products, both on its own and by using people in China with a

considerable number of followers on social media (called KOL's – Key Opinion Leaders), who then review Loov's products and provide feedback (Burns, 2021; Rapp 2019)

The promotion is made, for example, on the Xiaohongshu platform, where is possible to create an account for Loov's brand and where you can promote different company products by displaying variety of pictures and videos (Chan, 2019). Important in that sense is to keep followers updated and provide continuously content. Chinese consumers like a certain mysticism or specialty, so a foreign advertiser can have a motivating effect on them to learn more about the product and to order it later.

Local people with considerable followers (100,000+) can promote the company's products if the Loov Organic sends them products for an agreed fee and these influencers then review these items. It is also conceivable to send a smaller batch to customers for free as the brand for them is unknown and establish itself takes time and effort. Nowadays e-commerce platforms have made the purchasing process really easy for customers. So, if a customer showcases an interest in product, they can conveniently order it from a common Chinese e-commerce platform, such as Little Red Book (Xiaohongshu).

The utmost important aspect speaking in favor of using e-commerce platforms is that compared to regular retail stores, fewer licenses are needed for e-commerce, and it is noticeably faster to get products on sale. And as a result, e-commerce is, at least to some level, replacing shopping in physical stores. Just to contrast the motion, this huge e-commerce boom has already made several supermarkets like Carrefour and Walmart close some stores (Hsu, 2016).

Also, important to mention is the selection topic - online stores allow customers to access what is not currently available in the retail store, or products that are more special, such as organic food and luxury products.

Loov would aim for an e-commerce platform which owns warehouses as it will considerably facilitate the shipping process to the customer. In longer term it is more rational for the firm to focus on the inhabitants of the cities of Tier 2 and Tier 3, where e-commerce has not yet reached its full potential, but at the same time there is a growing number of internet and e-commerce users, who also have a clearly growing standard of living (Hsu, 2016).

## 2.11 SWOT and risk analysis

Following chapter is dedicated to SWOT, the second of metrics for analyzing business environment.

SWOT analysis is conducted through analyzing internal factors strengths and weaknesses and external factors opportunities and threats. SWOT analysis is executed analyzing Chinese market and Loov's products specific topics which should give brief overview of the outlooks.

Subsequently SWOT analysis is carried out. Table 6. SWOT-analysis starts with strengths, followed by weaknesses, opportunities and threats.

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• High quality, pure product, proved by USDA certificate and European Organic Label</li> <li>• No additives or preservatives in the product</li> <li>• The company has already expanded to foreign markets, i.e. experience in exporting and finding partners abroad exists</li> <li>• Company has done a huge preliminary work, has studied the Chinese market itself, has undergone EAS training and has partners in China</li> <li>• Chinese market is huge, with contentiously high growth potential</li> <li>• Such product is highly welcomed following many serious food scandals</li> <li>• Loov is familiar from previous experience with sakes on foreign e-commerce platforms which makes setting up a store on a Chinese e-commerce platform a bit easier</li> </ul>	<ul style="list-style-type: none"> <li>• The price of products is among highest in the market</li> <li>• Loov is unknown firm for locals and creating brand awareness is a difficult and a long-term process</li> <li>• The company is rather smaller, so high demand can be overwhelming (at one point)</li> <li>• The company has no previous experience in particularly associated with the Chinese market</li> <li>• Inside the company there lacks specific competence of Chinese market, and there also lacks persons who are fluent in Chinese, which is crucial when understanding rules and regulations</li> <li>• Gathering organic certifications (for selling in retail stores) is very tedious and long process, certification validity is limited</li> </ul>

Opportunities	Threats
<ul style="list-style-type: none"> <li>• An insanely large and growing market (GDP growth of 6.5-7%)</li> <li>• The Chinese are diligent users of social media and e-commerce, with an annual growth rate of around 9-10% (Statista, 2020)</li> <li>• The company's plan to go cross-border e-commerce is very reasonable because of the saved time and cost.</li> <li>• Tier 1 and Tier 2 cities are currently the largest market for merchants on e-commerce platforms, as their people are wealthier, more educated, and also more nutritionally aware</li> <li>• At the same time, rising living standards and awareness in emerging Tier 3 cities creates very high demand for providers (and products)</li> <li>• The Estonian state supports foreign market entry seeking firms quite a lot (trainings, foreign fairs, funding etc.)</li> <li>• There exists EU SME Center which is located in China but funded by European Commission and their purpose is to facilitate EUs firm's penetration to China. They can provide with a lot of helpful knowledge and boost some processes or provide companies with other expertise</li> </ul>	<ul style="list-style-type: none"> <li>• Unstable situation in the world and between countries (west vs China) and an indistinct future</li> <li>• Political risk arising from the policies of Chinese Communist rule, which, in theory, may at some point begin to restrict the entry of foreign companies or persecute those already on the market</li> <li>• Expected is an alignment with governmental policies (uncommon to Western enterprises)</li> <li>• Some products may not be suitable for the Chinese because of price, taste, or other reasons, so in later stages to develop even more suitable products it is crucial to determine specific consumer preferences</li> <li>• Making a few single or one big mistake can lead to a failure that results in considerable financial losses for the company, as shipping costs, running firm's own store on an e-commerce platform and marketing costs are high. Thus, entry barriers are high.</li> <li>• Joint ventures are a big risk, establishing one with a minority position today, it is best practice to assume it will be that way forever in the core business activities (Freedman, 2018)</li> <li>• Market complexity embraced by regulatory and bureaucracy aspects and the fact that most of the vital information is only available in Chinese</li> </ul>

Table 6 is highlighting different aspects of the strengths, weaknesses, opportunities, and threats of this business plan. Again, as regulation is alternating, keeping SWOT updated is essential to keep up with all changed but vital regulatory, business environment and associated aspects.

China represents a major growing market with increasingly rising demand, but still, Chinese market is fair to label as a complex market, due to several aspects. Reasons include entirely different language, remoteness, as well as a different client, meanwhile processes (bureaucracy)

requires more time. The complexity of the market, in turn, also increases the risks and cost for the company. To land them, a very long and thorough preliminary work must be carried out.

Preliminary work can be divided into 3 parts. First, a general market overview, as well as an assessment of the market perspectives and an assessment of the company's prospects on the market. Secondly, identifying the potential consumers and assessing their solvency and needs. Followed by a more specific processing of laws and regulations, the identification of the exact sales channels, setting up a store on e-commerce platform(s) and signing contract with the platform(s).

The market's perspective and prospects are unambiguous, and they favor Loov Organic's entry to the Chinese market. The main customer of the product, who is a nutritionally conscious younger woman, has also already been identified and it is strongly supported by knowledge and surveys (Pinduoduo, 2020; Chen, 2020; Malmsten, 2021)

When composing risk analysis, some peculiarities emerged when contacting with experts. Expert 1 marked that determining the compatibility of products is essential, because they have encountered a occasion where they approached Chinese retailers with rhubarb lemonade, but rhubarb turned out to be used for medical purposes and it made it impossible to sell this lemonade in Chinese market. Additionally, expert 1 emphasized vitalness to translate all of contracts and make sure they are understood reciprocally in a same way. In spite of Chinese partners frequent demand to add a clause that disputes can exclusively be discussed in Chinese courts, situation like this should be prevented.

Besides expert 1, expert 2 stressed that setting up an e-commerce store does not mean sales. At first it is vital to create brand awareness. It is done by promoting your items and making them appealing to consumers, especially because the knowledge of smaller foreign business in China is nearly non-existent.

As part of the preliminary work, the company also works through the E-commerce Act of the People's Republic of China and lays main emphasis on e-commerce channels since due to the complexity and time expenditure of starting sales in the physical store, it is not initially rational path. If it is also necessary to use Chinese assistance on the ground, it is necessary to conclude agreements with them in a uniform manner and probably also to visit China to make sure that each other is understood and that all agreements comply with the law but are not ambiguous. To do this, it is also necessary to involve a person with Chinese language skills.

Involving an experienced lawyer will come handy, as (s)he can assess the conformity of the contracts, ensure the correct administration (e.g. that Loov has applied for the correct selling license) while dealing with rising legal issues if necessary, in order to assess all other agreements as well as regulations concerning the Chinese market.

Understanding thoroughly agreements (i.e. made with business partners, logistics partners and with e-commerce platforms) is crucial and they should be conducted in a way either party fully understands them, as it will help to mitigate the risk of subsequent disputes coming from misunderstood contracts.

Also, according to experts (expert 1 and expert 2), disputes which end up in Chinese courts are rather lost in advance. Due to that it is vital to add clauses to contracts which enable to process complaints in EU courts, not merely in Chinese courts.

However, since the legislative and political risks are considerable, it is necessary to defend ourselves in this regard as well. If necessary, the company must ensure its products and be prepared for squeezing out of the market, as well as for the occurrence of various other obstacles.

## **2.12 Financials**

This chapter takes under examination the financials of this project. Discussed are price, quantities, all major expenses, profitability, and the point of making a profit. All prices are in euros (€). Calculations are somewhat estimated, but they widely base on realistic data (like taxes, fees, etc.). Loov has also taken into account their competitors' numbers.

Financials also give the overview of estimated bulks and how much profit is expected to be made within 5 years.

Table 7. Price (EUR) of the products

<b>Products and services</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
Freeze-Dried Organic Lingonberry Powder	22	22.6	23.3	24	24.7	25.4
Freeze-Dried Organic Wild Blueberry Powder	31.8	32.8	33.8	34.8	35.8	36.9
Freeze-Dried Organic Wild Cranberry Powder	26.8	27.6	28.4	29.3	30.2	31.1
Organic Sea Buckthorn Powder	20.5	21.1	21.7	22.4	23.1	23.8
Freeze-Dried Organic Blackcurrant Powder	21.8	22.5	23.2	23.9	24.6	25.3
Freeze-Dried Organic Raspberry Powder	29.5	30.4	31.3	32.2	33.2	34.2
Freeze-Dried Organic Aronia Berry Powder	19.3	19.9	20.5	21.1	21.7	22.4

Prices of products are calculated based on the average price of a product (biggest and smallest amount available divided by two). It is estimated that the price increase could be around 3% per year. Like previously determined, at first Loov plans to start selling freeze-dried berry powders.

Table 8. Quantity.

<b>Products and services</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
Freeze-Dried Organic Lingonberry Powder	200	700	1,400	2,100	2,700	3,200
Freeze-Dried Organic Wild Blueberry Powder	300	900	1,800	2,500	3,100	3,600
Freeze-Dried Organic Wild Cranberry Powder	200	700	1,400	2,100	2,700	3,200
Organic Sea Buckthorn Powder	200	700	1,400	2,100	2,700	3,200
Freeze-Dried Organic Blackcurrant Powder	200	700	1,400	2,100	2,700	3,200
Freeze-Dried Organic Raspberry Powder	200	700	1,400	2,100	2,700	3,200
Freeze-Dried Organic Aronia Berry Powder	200	700	1,400	2,100	2,700	3,200

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Quantities are displaying in above table. According to presumptions the start will be rather slow and as the year 2021 will also be incomplete (as the project starts from June) the initial amounts are quite modest. Year 2022 is expected to be rather slow but with gaining momentum. The growth will rapidly accelerate in 2023 and will peak somewhere in the end on 2026. Loov has calculated possible sales based on the results of some of their competitors. Bulks are rounded, but it is estimated that blueberry will be the most popular berry-powder. Quantities of other articles are considered same due to estimations.

Table 9. Expense amount (EUR)

<b>Other operating expenses</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>
Corporate gift	4,000	6,000	7,000	8,000	9,000	10,000
Travel expenses to China and other expenses in China	4,000	4,500	0	5,500	0	6,500
Expenses related to running a store on Xiaohongshu (Little Red Book) platform	25,000	37,000	44,000	51,000	57,000	63,000
Transportation cost of products	4,000	11,000	22,000	33,000	43,000	52,000
Cost of reshaping and translating packages	2,500	6,000	8,000	10,000	12,000	14,000
Other fees (VAT)	4,500	16,000	32,000	49,000	64,000	78,000
Marketing and advertising costs	7,500	26,000	35,000	40,000	45,000	50,000
Additional logistics and transfer costs	1,000	3,000	4,000	5,000	6,000	7,000
Other operating expenses	400	1,000	1,200	1,350	1,500	1,600
	<b>52,900</b>	<b>110,500</b>	<b>153,200</b>	<b>202,850</b>	<b>237,500</b>	<b>282,100</b>

Table 9. includes various of cost starting from cost related to running an e-commerce store, shipping and logistics cost and concluding with taxes and fees.

Expenses involve business gifts which is a common and vital part when doing business in Asia. Usually gifts are valuable and hold symbolic associations. For example, if giving multiple items, it is advised to avoid giving 4 of any items as Chinese associate the number with death. It is

suggested to give 6 items as 6 (六) sounds like the character for 'flow' (流), which indicates that everything will go smoothly. Or 8 items as the word 'eight' (八) in Chinese somewhat resembles the word for 'prosperity' or 'wealth' (发). While a gift that represents where you are from or an item which is not accessible in China will usually be highly appreciated (Oldham, Li & Nie, 2021).

Travel costs to China are necessary to consider despite of the fact that Loov will not start selling in retail stores.

Xiaohongshu is the platform where Loov is planning to start promoting and selling. Cost of running a store on Xiaohongshu platform are calculated. These costs involve one-time security deposit (roughly 3250€), monthly fee, which varies broadly, but is calculated 2500€ per month. Also, the commission fee (5%) is included.

Transportation costs are rather estimated and based on previous knowledge Loov has gathered from sales in distant markets.

VAT (value added tax), is something Chinese government has decreased recently. For certain products it can be as low as 6-9%. As Loov is a nature product selling brand, their VAT is considered 12-13%.

Marketing costs are calculated considering both the necessity to use KOL's (Key Opinion Leaders) and rationality for Loov to initially start promotion its products by itself. Prices of KOL vary heavily, they are usually in-between 400-3000€ per month. Marketing costs percentage in first few years is higher to create brand awareness and to attract the attention of interested people. That means that first few years marketing costs are roughly 20% of the revenue. After achieving certain reputation these costs decrease and are approximately 8-13% of yearly turnover.

Extra transactions costs involve expenses for transfers etc. In Xiaohongshu the percentage is 0,7%. Additional operating cost include internet, phone, and administrative cost. This is rather estimated.

Necessary to stress is that all expenses and profits are calculated based on Loov Organic selling merely on Xiaohongshu platform. But as Loov is still seeking in the future to start their sales in Tmall Global and probably through WeChat as well, it will both increase their profit and costs. This specific does not consider both of these

CHINESE MARKET ENTRY BASED ON LOOV ORGANIC

Following tables (10-12) represent the most important financial information of this project. These include, cash, sales revenue, net profit, return on equity (ROE), operating expenses and the break-even moment.

Table 10. Main financial measures

	2021	2022	2023	2024	2025	2026
Cash	49,529	1,689	17,879	100,337	249,516	445,377
Sales revenue	37,520	130,390	268,600	408,090	536,230	651,880
Net profit for financial year	-60,330	-44,217	22,043	87,924	154,420	200,973
Operating margin	-161%	-33.9%	8.21%	21.5%	28.8%	30.8%
Owners' equity	50,671	6,454	28,496	116,421	270,840	471,813
Return on equity (per year)	-159%	-685%	77.4%	75.5%	57.0%	42.6%

Table 11. Income statement (EUR)

	2021	2022	2023	2024	2025	2026
Sales revenue	37,520	130,390	268,600	408,090	536,230	651,880
Export sales	37,520	130,390	268,600	408,090	536,230	651,880
Cost of sales	7,504	26,078	53,720	81,618	107,246	130,376
Other operating expenses	52,900	110,500	153,200	202,850	237,500	282,100
Labor cost						
Wages and salaries	27,945	28,380	29,580	26,640	27,660	28,680
Social security costs	9,501	9,649	10,057	9,058	9,404	9,751
Total labor cost	37,446	38,029	39,637	35,698	37,064	38,431
Depreciation of fixed assets	0	0	0	0	0	0
<b>Operating profit</b>	<b>-60,330</b>	<b>-44,217</b>	<b>22,043</b>	<b>87,924</b>	<b>154,420</b>	<b>200,973</b>
Financial expenses						
Interest expense	0	0	0	0	0	0
Total financial expenses	0	0	0	0	0	0
<b>Profit before income tax</b>	<b>-60,330</b>	<b>-44,217</b>	<b>22,043</b>	<b>87,924</b>	<b>154,420</b>	<b>200,973</b>
Income tax expense	0	0	0	0	0	0
<b>Net profit for financial year</b>	<b>-60,330</b>	<b>-44,217</b>	<b>22,043</b>	<b>87,924</b>	<b>154,420</b>	<b>200,973</b>

Table 12. Break-even analysis (EUR)

	2021	2022	2023	2024	2025	2026
<b>Sales revenue</b>	<b>37,520</b>	<b>130,390</b>	<b>268,600</b>	<b>408,090</b>	<b>536,230</b>	<b>651,880</b>
Cost of sales	7,504	26,078	53,720	81,618	107,246	130,376
<b>Variable expenses, total</b>	<b>7,504</b>	<b>26,078</b>	<b>53,720</b>	<b>81,618</b>	<b>107,246</b>	<b>130,376</b>
Labor cost	37,446	38,029	39,637	35,698	37,064	38,431
Other operating expenses	52,900	110,500	153,200	202,850	237,500	282,100
Financial expenses	0	0	0	0	0	0
<b>Fixed expenses, total</b>	<b>90,346</b>	<b>148,529</b>	<b>192,837</b>	<b>238,548</b>	<b>274,564</b>	<b>320,531</b>
Gross margin	80%	80%	80%	80%	80%	80%
Break-even sales revenue	112,933	185,662	241,047	298,185	343,206	400,664
<b>Sales revenue above break-even</b>	<b>0</b>	<b>0</b>	<b>27,554</b>	<b>109,906</b>	<b>193,025</b>	<b>251,216</b>

Table 10, 11 and 12 represent the main financial measures. Like mentioned, sales are expected to be low on first 1-2 years but after that will increase rapidly. Project will reach the profit point in the start of 2023, when sales amounts are increasing rapidly. By the end of the project, it is forecasted that the yearly profit will be around 200000€.

## Conclusion

This masters' project took under examination Estonian SME, Loov Organic's endeavors for reaching Chinese market. As supported by analysis, Chinese market offers valuable possibilities for companies seeking for wide and growing market which makes it especially thrilling for companies which offer niche products or products which encounter limited market size on locally.

Masters' project was divided into two parts – the initial one concentrated on theory and built a suitable theoretical framework. It also included a time-specific outline of the composition of this project. While the second part was dedicated to the creation of a business plan aiding Loov's Chinese market endeavors. It determined focus client, market trends, best sales channels, analyzed risks and opportunities and calculated the profitability and costs of reaching Chinese market.

Theoretical framework which was applied in order to determine most suitable route for Loov Organic, defined that based upon Loov's actions so far, Uppsala method seems to showcase their endeavors most accurately as they have proven themselves locally before expanding overseas and their expansion has been rather linear.

Loov Organic based on its limited resources has not been enacting in-depth market analysis and long-term planning and computing, they have rather relied on experience and performance of their peers, while also considering market trends, consumers preferences etc. Loov has put a lot of emphasis of their subsequent operations on their previous knowledge and experience gathered from variety of countries world-wide. Therefore, strategy they have been prevailingly used is effectuation.

Network approach still serves a considerably important role in market expansion, especially when it is in distant market with unknown consumers preferences, regulatory aspects, etc., but the accrual of e-commerce channels suggests that the importance of it may be shrinking. Though, it can only be said if the sales actually are done online, reaching market and executing sales in brick and mortar stores still requires fully functioning network, which can lead, hint and guide towards arising opportunities, while alluding for hazards and failures.

Like literature claims and consultations with market experts confirm – before even starting to think of real sales it is undeniably crucial to create brand awareness. To introduce your company, items you sell and keep your followers entertained and updated. Though, Chinese are willing to try out new, they are still cautious and as the market is filled with different merchants, it is hard to stand out. For example, Xiaohongshu offers create opportunities for companies. You can set up your store in app, advertise your company and post videos (even live streams) and pictures of your items. Simultaneously using the help of KOL's to evaluate and give honest opinions of your items help to convince the buyers to choose for your product. Creating and keeping brand awareness is long, tedious and time-consuming process, but is necessary for succeeding. Only after wider attention is caught, it is reasonable to set up a store in e-commerce platform to provide clients with ability to purchase your items.

Xiaohongshu like many other e-commerce platforms nowadays serve a possibility firms could only imagine 20 or 30 years ago. They have created a field for smaller enterprises to make sales and through that they somewhat have brought merchants closer to customers as the communication additionally to purchase and returning of the items requires not more than just mobile and internet connection.

But nothing comes free, operations on e-commerce channels in China have a considerable expense. Fee for running a store, making sales, promoting items and taxes (VAT) are incurred. But generally, there seems to be no alternative for smaller enterprises which are aiming distant and unknown markets. China in that sense serves as an outstanding case.

From the point of sales initially Loov intends to sell freeze-dried organic berry powders (raspberry, lingonberry, blackcurrant, sea buckthorn, cranberry, aronia berry and blueberry). First years are expected to be more subtle, as Loov's products are unfamiliar to locals and creating a brand awareness takes time. According to forecasts, sales will speed up in 2023. Project will reach the profit point in the start of 2023, when sales amounts are increasing rapidly. By the end of the project, it is forecasted that the yearly profit will be around 200 000€.

Loov's products are anticipated to Chinese market due to several food scandals and changed consumer preferences towards healthier diet. Also, tendencies like increased standard of living and higher nutritional awareness, theoretical suggestion of the need to expand operations for further growth only support this approach. Not to mention Chinese government steps which have rather facilitated certain foreign companies' entrance to the Chinese market.

Chinese market apart from its size, tech-savviness, and growth potential, still has many risks. Hazards like legislative and political risks, which are embraced with regularly favoring state owned enterprises and complications about customer disputes highlight that before directing attention to this market thorough analysis of risks and weaknesses of market is required.

And as a conclusion this master's project supplies 4 main points for firms targeting distant markets like China. Firstly, distant market is not an obstacle, it is rather a chance. Despite of the remoteness, overseas markets like China offer unimaginable possibilities, since they have wide variety of eager customers, who may be even willing to pay more for foreign, but quality products. The wider the market, the more it may be suitable for niche products and for items which encounter limited sales in local or nearby markets.

Secondly, if selling in physical store seems impossible, wise is to take advantage of emerged opportunities like selling through e-commerce platforms. Apart from convenient sales they upon agreement even supply full logistics services, conduct marketing campaigns, while they take care of customers inquiries, disputes and also engage to operations of shipments, returns and all that is associated with it.

Thirdly, as this masters project's practical task accurately highlighted, there is no possible way of enacting sales in China without the ability to speak Chinese. Vast majority of the rules and legislation is only available in Chinese, frequently the only way to set your store up is by doing it in Chinese, as English is not even an option. Plus – if company plans to execute sales on physical stores in the future, they need to advice that the vast majority of their business partners, contacts, distributors, clients and officials will only be communicating in Chinese. English is rather uncommon, though younger Chinese people tend to be more fascinated of English, which may render the situation in future and in the future some e-commerce platforms might start providing services in English.

And finally, further research could be made in order to determine arising constraints of SME's using e-commerce platforms and for companies interested in Chinese market, discovering the average cost of running an e-commerce store for SMEs. It also could investigate whether e-channel capabilities are equally important for different types of international entrepreneurs and to what extent creating brand awareness and building trustworthiness helps to improve sales.

## **Kokkuvõte. Hiina turule sisenemine Loov Organic'u põhjal**

Käesolev magistriprojekt võttis vaatluse alla ühe Eesti VKE, kes tegeleb Põhjamaades kasvatatud marjade ja marjatoodete ekspordiga. Spetsiifiliselt oli magistriprojekti eesmärgiks hõlbustada ettevõtte laienemisplaane Hiina turule. Tuginevalt analüüsile pakub Hiina turg väärt võimalusi ettevõtetele, kes otsivad laia ja kasvavat turgu. Ettevõtete jaoks, kes pakuvad nišitooteid või tooteid, mille turu suurus on kohalikul tasandil või ka lähiriikide osas piiratud, on see eriti paeluv.

Magistriprojekt jagunes kaheks osaks – esimene osa keskendus teooriale ning rajas teoreetilise raamistiku. Töö esimene osa sisaldas ka spetsiifilist ajakava projekti valmimise kohta. Töö teine osa oli pühendatud äriplaanile, mis abistab lähitulevikus Loov Organic'ul siseneda Hiina turule. Äriplaanis määratleti fookusklient, turu suund, parimad müügikanalid, analüüsiti riske ja võimalusi turul ning arvatati välja Hiina turule jõudmise kulud ja kasumlikkus.

Kirjandusest ja turuekspertide arvamustest selgus, et enne reaalse müügiplaanide seadmist tuleks luua bränditeadlikkus. Oma ettevõtte ja toodangu tutvustamiseks on vajalik seada üles ettevõtte konto, koguda jälgijaid ja hoida oma inimesi kursis tooteid ja ettevõtet puudutavate

asjadega. Töö käigus selgus, et üks paljudest Hiina platvormidest kuhu konto luua on näiteks Xiaohongshu. Seal saab luua konto, kus ettevõtet reklaamida ning postitada videoid ja pilte. Samal ajal on ka võimalik kasutada ühiskonna arvamusiidrite abi oma toodete hindamiseks ja ausaks tagasisidestamiseks, mis aitab veenda ostjaid toodet valima.

Loovi esialgne eesmärk on Hiina turul alustada külmuivatatud mahe marjapulbrite müügiga (vaarikas, pohl, mustsõstar, astelpaju, jõhvikas, aroonia ja mustika). Esimesed aastad on eeldatavasti müügi osas tagasihoidlikumad, sest Loovi tooted on kohalikele tundmatud ja bränditeadlikkuse loomine võtab aega. Prognooside kohaselt kiireneb müük 2023. aastal. Projekt jõuab kasumipunkti 2023. aasta alguses, misjärel müügisummad kasvavad kiiresti. Projekti lõpuks (2026) prognoositakse, et aastakasum on ligikaudu 200 000€.

Olenemata Hiina turu suurusest, tehnoloogia arengust ja kasvupotentsiaalidest on seal palju riske. Kõige tõenäolisemad on seadusandlikud ja poliitilised riskid, mis tulenevad sagedasest riigiettevõtete soosimisest ja kliendivaidlustega seotud komplikatsioonidest. Seega enne Hiina turule tähelepanu pööramist on vaja põhjalikult analüüsida kõiki võimalikke riske ja nõrkuseid.

Käesolev magistriprojekt toob välja 4 peamist punkti ettevõtetele, mis on suunanud oma tähelepanu Hiina turule. Esiteks, kauge turg ei ole takistus, see on pigem võimalus. Vaatamata kaugusele pakuvad välisturud nagu Hiina arvestatavaid võimalusi, kuna seal on palju kliente, kes on valmis maksma rohkem välismaiste ja kallite, kuid kvaliteetsete toodete eest. Mida laiem on turg, seda enam võib see sobida ka nišitoodetele ja kaupadele, mille müük kohalikel või lähedal asuvatel turgudel on piiratud.

Teiseks, kui müümine füüsilises poes tundub võimatu, on tark kasutada ära tekkinud võimalusi, nagu müük e-kaubanduse platvormide kaudu. Lisaks mugavamale ostu ja müügi protsessile pakuvad paljud e-kaubandusplatvormid kokkuleppel isegi peaaegu kõiki logistikateenuseid, viivad läbi reklaamikampaaniaid, samal ajal on nad võimelised hoolitsema ka kliendipäringute, vaidluste ja ka toodete saatmise, tagastamise ja kõige sellega seotud toimingute eest.

Kolmandaks, nagu selle magistriprojekti äriplaani väljakuulutamisel, ei ole üldiselt Hiinas võimalik edukalt müüke teha ilma hiina keelt rääkimata. Valdav enamus eeskirjadest ja õigusaktidest on saadaval ainult hiina keeles, sageli on ainus viis oma poe loomiseks teha seda hiina keeles, kuna inglise keel ei ole isegi valik. Lisaks sellele, kui ettevõtte plaanib tulevikus teostada müüki jaepoes, on tarvis mõista, et valdav enamus nende äripartneritest, kontaktidest, logistikapartneritest, klientidest ja ametnikest suhtleb ainult hiina keeles. Inglise keel on üsna haruldane, kuigi nooremate hiinlaste seas tundub inglise keele oskajate arv suurem olema, mis

võib tulevikus olukorda muuta ja tulevikus võivad mõned e-kaubanduse platvormid hakata pakkuma ka mõnesid teenuseid inglise keeles.

Viimaks leiab antud magistriprojekt, et tulevikus võiks teha täiendavaid uuringuid, et teha kindlaks, millised piirangud eksisteerivad VKEde puhul e-kaubanduse platvormide kasutamisel ja teistel Hiina turust huvitatud ettevõtetel. Samuti on kasulik leida arvestuslik kulu e-kaubandusplatvormil poe pidamiseks ning mil määral aitab bränditeadlikkuse loomine ja usaldusväarsuse suurendamine müüke kasvatada.

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## Appendices

### Appendix 1. Company's general description

Loov Organic was established in 2008 by childhood friends Kristjan and Ahto. They are both in love with Estonian aboriginal forest and nature. They are very keen about raw produce grown in wild. Loov Organic aims to contribute to a cleaner and better world and they wish to share Nordic forests delicious superfoods with the world. Loov's journey started in a small home kitchen with an "elixir of love,". It was a non-alcoholic organic wild blueberry and blackcurrant mulled wine, which found great support from the customers at the annual Christmas Market in Tallinn's Town Hall Square. As this first product turned out to be a success the amazing journey of our newborn company began. (Loovfood, 2021)

Loov still holds a tradition to offer this loved mulled wine every year at the Tallinn Christmas. Their intention is to bring the power of nature from the Nordic climate straight to a consumer dining table. As growing conditions in the Nordic region are complicated (there are only 3 months of potent sunshine), plants have to be adapted with limited resources by storing enough strength and energy to survive the cold and often even extreme winter conditions. This, together with the pure air and clean waters, Nordic forests offer amazing berries, mushrooms and real Nordic superfoods. Loov also collects their honey from 1,400 different wild plants in the forest. (Loovfood, 2021)

For now, the company is selling different natural products like freeze-dried berry powders, freeze-dried berries and wild berry juices. Their catalog of products is growing year-by-year. In the upcoming future they intend to start selling berry chips.

Both their crew and revenue are steadily growing. All of this is endorsed by the rapidly growing knowledge about nutrition, higher attention to natural products and most importantly increased standard of living which offers people choices they formerly didn't have. Loov Organic is an operating company (OÜ). They started their journey in 2008, when they sold non-alcoholic organic blackcurrant and wild blueberry mulled wine. Members of the Board are Ahto Vegmann and Martin Karolin. Ahto was also one of the initiators of the company. Loov

Organic's turnover was 2,4 million €. Turnover in 2020 was around 3 million € (Loovfood, 2021).

## **Appendix 2. Service and manufacturing process**

To produce the product, you need organically grown berries. The berries are purchased from cooperation partners in Estonia and nearby countries (many also from small farmers) and are freeze-dried in the next section. In the final stage, the packaging of products is carried out.

The whole process takes time, the company itself does not grow or pick berries. Berries are bought in. Freeze-drying and packaging as services are also purchased in.

At the moment, products can be ordered from an online store, for example, and they will arrive in a couple of weeks.

The company will probably start using either a two- or three-level distribution channel, where the company will send its products, then the intermediary who receives the products, and then the e-commerce platform itself, who stores the products and ships them out after ordering. Clearly, the company would have a vision that the e-commerce platform from which people buy the product would also have physical warehouses themselves, from which the products would then reach the customer. Because it would allow to skip hiring additional intermediaries.

In China, reaching the buyer depends on how quickly the product is shipped out of the warehouse and how far the warehouse is from the customer or buyer. Commonly, it could take from a few days to a few weeks. For example, both Xiaohongshu and Tmall own warehouses, but since their warehouses are not in every city, it can take longer to ship the products to customer. At the same time, Xiaohongshu and Tmall Global have warehouses in the major Tier 1 and Tier 2 cities (which are at first our main market). It may take longer to be sent to more distant cities (especially those in the north and west of China), but it will be an issue at latter stages. Cities are chosen based to the higher standard of living, nutritionally aware consumer, location of warehouses to facilitate the process of shipping etc.

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