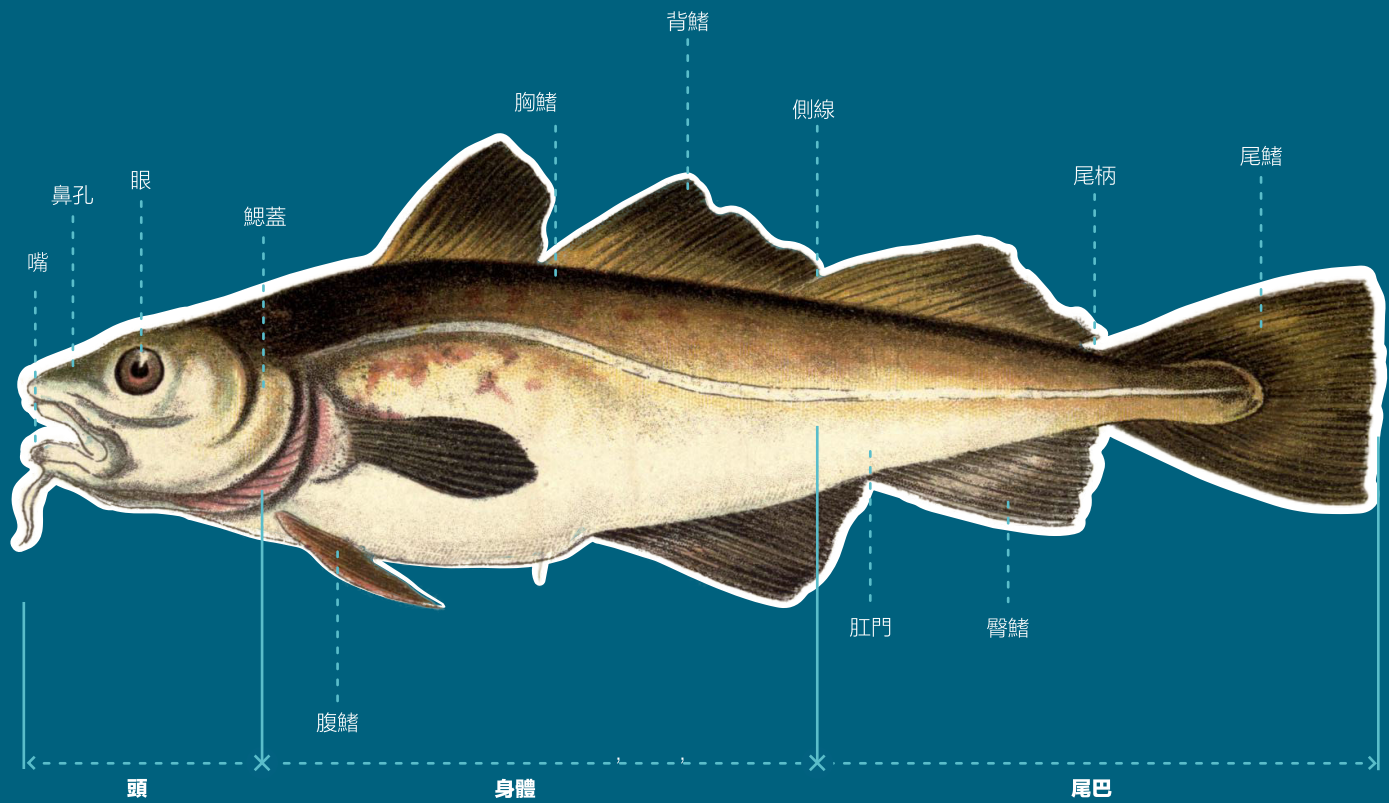


Norwegian cod by-products in the Chinese market

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Master thesis in International Fisheries Management (30 ECTS)

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NORWAY / 挪威



CHINA / 中國



VESTERDAALENS
FISH BALLS / 魚丸
FISH OIL / 魚油

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Abstract

This thesis is dedicated to studying the main factors which could affect Norwegian cod by-products in the Chinese market. Norway has been recognized as one of the biggest seafood countries in the world while China shows a preference towards Norwegian seafood. And due to the relationship has been better in the past few years between these two countries, it is worthy to discuss Norwegian seafood business situation in China. The study is focus on Norwegian cod by-products through a Norwegian seafood company as a study case. The theory of entry mode selection, drivers of success are the main perspectives. Together with PEST and SWOT analysis result, the thesis shows the factors which affect establishing Norwegian cod by-products in China.

Key-words: Norwegian cod, Norway, Vesteraalens, by-products, fish oil, fish balls, marketing strategy, entry mode, firm size, entry timing, Chinese market, PEST, SWOT.

ABBREVIATION

GDP= Gross domestic product

DHA= Docosahexaenoic acid

EPA= Eicosapentaenoic acid

MOU= Memorandum of Understanding

MSC= Marine Stewardship Council

FOS= Friends of the Sea

EJV= Equity Joint Venture

RBV= Resource Based View

MNC= Many multinational corporation

DFI= Direct foreign investment

IJV= International joint venture

PRC= People's Republic of China

SOE= State-owned enterprise

MFN= Most-favored nations

B2C= Business-to-consumer

FTA= Free trade agreement

NSC = Norwegian Seafood Council

O2O = Online to Offline

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Chapter 1 Introduction

1.1 Research background-Seafood market in China

China has been recognized as the largest importer, exporter, producer and consumer when it comes to the seafood market. Historically, China was focusing on processing seafood once they imported fish, and exported the processed seafood products to the target markets like Europe, United States, Japan and along with others. Seafood was then only considered one approaches to make profit for the business, due to the labor cost being relatively cheaper than most of seafood countries. However, as economic development and GDP of China has been rising the late decade, Chinese people can afford imported seafood with better quality than the domestic seafood for themselves. Therefore, it is no longer just a commodity, it has become essential in their daily dietary (Chi, 2018).

China is not only the world's largest seafood supplier but also the largest consumers. The per capita consumption was 26 kg in 2009, four times that of the United States, and it is expected to increase another 40% by 2020. The increase is believed to occur due to the growth of Chinese middle class population, which will reach 0.3 billion by 2020, with many of these individuals believing seafood is healthier than other animal protein sources (Xu, Zeng, Fong, Lone, & Liu, 2012). However, frequent reports of contaminated domestic seafood worry Chinese consumers. This also leads increased preference for the imported seafood (TVBS NEWS, 2013). With the growth of the middle class populations and trend of pursuing higher quality seafood in China, there are now numerous opportunities for foreign exporters. Norway has enjoyed a positive seafood country reputation in the world for many decades, and it can get increased profit by exporting seafood to China.

In addition from a social perspective, recent changes in China's history have had significant effects on modern forms of Chinese seafood consumption (Fabinyi, 2012). Historically, China considered some certain seafood as a luxury products such as shark fins because they believe it contains lots of benefits for this health. This is called "Bu food" in Chinese, which means the food can improve human body healthy condition. In China, luxury seafood is often purchased by wealthy members of society, where consumption could be considered as a claim to social esteem (Hanser, 2010). Based on this concept, it is logical for foreign exporters to emphasize the positive

function of seafood products for a better promotion. For instance, when fish oil was introduced to China, it was categorized as dietary supplement. With various scientific evidences from the media and articles to explain how DHA and EPA in fish oil function to benefit the human body (Chinses academy of sciences, 2011). This is now widely accepted among Chinese. Although China is a vast seafood market to other countries, it is predictable that the competition between exporting nations will become more fierce. Besides the seafood quality, establishing efficient promotion strategies is also crucial for the exporters.

Now, the demand for seafood is increasing. As a result, the Chinese government encourages foreign companies by changing their policies, improving fisheries benefits from import or export as well as the infrastructure. Still, the supply the seafood products are constantly unsatisfied. Therefore, how to build up the seafood business in China successfully for the numerous demand from Chinese consumers is the major subject for foreign companies in the world.

1.2 The current situation of Norwegian cod and cod by-products in Chinese market

In 2013 Norway had increased supply by the largest cod quota, and targeted China as a potential marked. The project *Cod in China* was successfully launched in 2014 through The Norwegian Seafood Council. Together with a good timing, as Chinese dietary habit changed toward using seafood in their daily life instead of making profits from it. Norwegian cod became the second strongest product after salmon in the Chinese market. Through market development, Norway is now associated as a seafood country, and Chinese consumers show a very strong preference for Norwegian cod compared with cod from other countries. It is also predicted that the export amount will increase from 5,000 tons to 40,000 tons by 2025 (Bjørgero, 2017).

Positively, Norwegian cod has definitely made an outstanding progress. It has been more visible in Chinese market and the health benefits from eating cods have also established among Chinese. People in China start to accept the concept that having cods in their diet is an efficient way to develop physical functions while growing up. The trend is even going to the Chinese parents who believe cod will promote the intelligent development of children if they take it into their dietary regularly at the early ages. Undoubtedly, Norwegian cod has been accepted across the board in China.

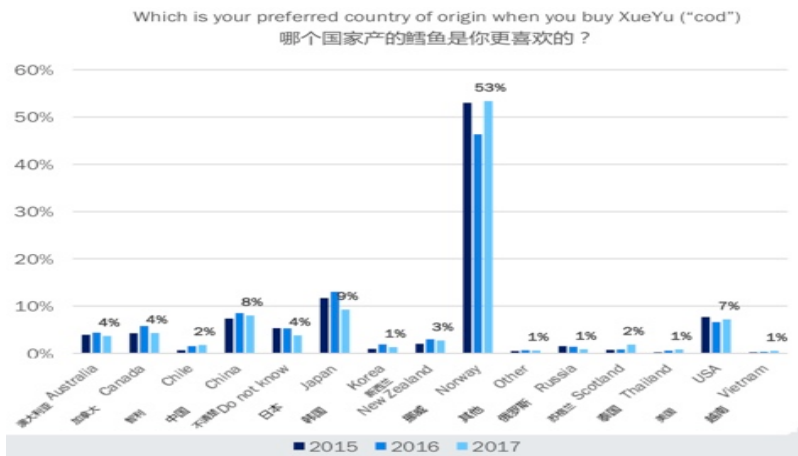


Table1 Chinese consumers show the preference to Norwegian Cods¹

When we looked into by-products from the Norwegian cod in the Chinese market, fish oil (fish liver oil, as Chinese translation) will be the obvious choice to the Chinese people. The healthy benefit concept of fish oil is successfully established among Chinese. Fish oil has become the most popular supplement from cod in China as more and more scientific studies have published to verify the advantages from it (Kremer & Jubiz, 1987).



Figure 1 Dried fish maw

Another product has become favored in China is dried fish maw. Dried fish maw is seen as a luxury dish in China, it is dried from swim bladders and fish belly to become a type of jelly product. In most modern dishes, the fish maw is simply gently boiled with other ingredients, often chicken, to prepare a soup or broth. As for many other traditional food,

fish maws are believed to have medicinal properties and are commonly recommended, particularly in winter, as a tonic for those recovering from, or attempting to ward off, an illness (S. Y. Lin, 1939).

Also, Chinese believe that dried fish maw is enrich with collagen which is perfect for anti-aging on the skin, therefore, the product is very popular as a beauty supplement. Furthermore, it is also seen as a dietary supplement to strengthen the immune system, activate cells, smooth the wrinkles or even restrain the cancer. They are excellent protein sources and low in fat content. Fish maws are rich in glycine, proline, glutamic

¹ Resource: Norwegian seafood council (2017). Norwegian seafood in China

acid, alanine and arginine with a well-balanced composition of functional amino acids (Wen et al., 2016)

Some online shops in the Chinese websites like Taobao and Alibaba show the most common dried fish maw resource are from New Zealand, Iceland and Norway. Dried fish maw from New Zealand and Iceland are abstracted from ling fish while Norwegian ones are from cods. New Zealand dried fish maw has been promoted in China for many years and there is no doubt that it is the most popular choice in the Chinese market. However, as the good reputation of Norwegian seafood spreading in China, dried fish maw from Norway has shown outstanding selling performance in China (KKNEWS, 2018), and some stores even specifically indicate the resource is from Norway to catch more attention or distinguish the markets. Since the amount of Norwegian cod are considerably abundant, and swim bladders are normally treat as disposable organs in Norway, Chinese businessmen accordingly reach the resource with lower price. The dried fish maw from Norway is comparatively cheaper in the Chinese market and that also accelerates the competitive edge of Norwegian cod. There are also various cod by-products in the Chinses market like cod skin for the purpose of collagen capsules. They are mainly produced for the beauty supplements towards the female market. Also processed food like cod sausages or fish balls which is a kind of food that contains mixture of cod and flour enjoy the popularity among Chinese as a snack at a meal option.

1.3 Research Question

In December, 2016, Norway and China have signed three contracts on seafood trades. (1) Memorandum of Understanding (MOU) on food trade in April, 2017; (2) Protocol on salmon in May, 2017, (3) Free trade negotiation resumed in August, 2017 (Bjørøgo, 2017). These deals increased the market share of Norwegian seafood from 5% to 65%. The new agreement is a big breakthrough for the two countries since China declared an official boycott against Norway's salmon exports in 2010. In February 2018, the total export gross had reached to 51 millions NOK with 85,400 tons of Norwegian salmon products .

Trading seafood with China could bring significant profits to Norway. Hence including China in the seafood business chain is important to Norway.

The Norwegian companies are eager to understand the best seafood marketing strategies toward to China. At the moment, there are theories based on the how Scandinavian firms performance in China (Carlsson, Nordegren, & Sjöholm, 2005). As cod from Norway is favored by Chinese, in the paper, The research question is : *What are the major successful factors for Norwegian seafood companies to sell Norwegian cod by-products to China.*

With the perspectives of firm size, entry timing, host country risk and resources from the company, the thesis will evaluate an entry mode for Norwegian seafood companies which want to establish cod by-products business in China.

1.4 Background of Vesteraalens

To answer the research question, the paper will have the Norwegian seafood company Vesteraalens as a case study. The Norwegian company has over 100 years history dedicated to innovated seafood products and marine ingredients in Norway. With approximately 60 employees in Vesteraalens, the medium size Norwegian company decided to enter the biggest seafood market in the world. The company launched their products in China based on cod by- products: fish oil and fish balls. Therefore, discussing their entry mode and marketing strategies towards to China will be helpful to analyze the feasible theories and the major factors which could affect establishing seafood business in China. Also, how the company promote their products culturally and their choices of entry mode will bring the important knowledge to answer the research question.

Vesteraalens is located by one of the world's richest fishing fields, Sortland. Through an extensive network of partners, the company has built a value chain of white fish with the resources from the arctic waters in its region. Respecting the nature and committed to harvest in a sustainable way, the products from Vesteraalens are under the certification requirements from Marine Stewardship Council (MSC) and Friends of the Sea (FOS). Observing the market opportunities in Asia, Vesteraalens has started to expand their business map in China during the past few years. In this thesis, Vesteraalens will be an model for entering the Chinese market including their entry mode, promotion, business strategies and other drivers of success.

Chapter 2 Theoretical approach

2.1 Entry mode selection

For a foreign company that wants to establish business in other countries, the market entry strategies involve the decisions towards to a target market or a country entry mode. Firms that have protracted international business experience are likely to serve respective foreign market via different entry modes (Mason-Jones D.R., 1999). Based on the various markets with their own social and culture background, the marketing plan and the management system should be regulated accordingly. The diversity of uncertainties faced by firms in foreign markets necessitates the balancing of control and flexibility in market entry decisions (H. Lin, 2000). The five most common modes of foreign market entry are export, license and franchise, alliance, joint venture (EJV) and wholly owned subsidiary (Buckley & Casson, 2014). Each of these strategies has its advantages and disadvantages, and each places specific demands on the managerial and financial resources of the firm (Sanjeev Agarwal, 1990). Here, it is going to categorize into various perspectives based on the theoretical approaches and constructs in entry mode research (Canabal & White, 2008) to analyze the difference among these modes for the foreign companies can have more proper choices.

2.2 General Market Entry Strategies

Drivers of Success for Market Entry

Most of the modes of market entry research suggest that a foreign company has the option to choose any entry mode strategies in a target market. However, there are still some impacts of the factors existing to the internationalization process of firms. Here, entry timing, entry mode, firm size and host country risk are the main drivers discussed.

Entry Timing

Entry timing focuses exclusively on how quickly a firm enters a market compared to the market entry timing of the firm's rivals (Dykes & Kolev, 2018). Normally, the market entry includes products, business model or brand refers to a one-time event

which means the first step to establish a business in a foreign country has to contain the most efficient strategies for better chance to be succeed. Some literature have listed reasons that early entry into international markets could favor success (Johnson & Tellis, 2008). First, it can lock up some distribution channels or supplier which are considered as access to the main resources. Second, early entrants have the opportunities to set the consumption patterns of consumer preference (Carpenter & Nakamoto, 1989). Third, In China, foreign investors are facing the intervention of the central and local governments in a number areas, such as industry selection, location, project type, equity distribution, and timing of investment (H. Lin, 2000). Therefore, early entrants could have more benefit from exploiting governmental concessions and Chinese government often offer them to attract foreign entrants.

Firm size

Firm size is suggested to play an important role in the international trading (Johnson & Tellis, 2008). There are some reasons that larger firms have more possibilities to success in a foreign market than small firms. First, it is predictable that large firms have more resources than small firms. Second, larger firms possibly possess a greater wealth or more stable financial situation that lets large firms have longer period of low or even no benefits when its just entered the market. Furthermore, product-specific and marketing-specific knowledge could be better established in the larger firms. However, with the proper strategies for a small company, there are still possibilities to success. For small and medium-sized companies, the best action is to concentrate on a single regional market, perhaps to start with China's major cities Guangzhou, Shanghai, and Beijing which have better infrastructure, and relatively affluent and more receptive consumers (Bretherton & Carswell, 2001)

Resource-Based View

Essentially, the RBV (Resource Based View) describes the firm from the perspective of its resource endowment and deployment, i.e., an inside-out view of the firm rather than an outside-in view (Sharma & Erramilli, 2004). The view offers an opportunity for the company to look into its resource perspective for choosing entry mode. It is especially crucial for the foreign companies. When a firm start to enter and establish a business in a foreign country, it accordingly relies on its current resource to expand or

compete in the market. It is generally more effective and/or efficient to transfer them to the foreign market than develop new ones from scratch (Bruce Kogut & Zander, 1993). As a firm which wants to enter a foreign market, it includes many sources of resources between domestic and foreign countries, and each sources are complementary to each other. That provides the advantages of multi resource of the firm. Complementary assets are assets or capabilities that need to be built up or acquired in the target country in order to fully exploit the firm's advantages in that country. The advantage of having superior products and a superior product range requires-for sustainable success effective backup in terms of after-sales service, technical support, distribution, and marketing (Hu, 1995).

Condition description	Lower	Higer	Possible choices
A firm's establishment of competitive advantage in production and marketing operations in a host country	X		Indirect exporting
A firm's establishment of competitive advantage in marketing operation but not in production operation in a host country and the higher the ability to transfer the advantage generating marketing resources to local partners,		X	Direct exporting
A firm's establishment of competitive advantage in both the production and marketing operations in a host country and the higher the ability to transfer those advantage generating resources to local partners		X	Contractual mode (licensing and franchising)
A firm's establishment of competitive advantage in both the production and marketing operations in a host country but the ability to transfer the advantage generating resources to the local partners is higher only for production operations		X	Joint venture
The higher the likelihood of a firm's establishment of competitive advantage in both the production and marketing operations in a host country but the ability to transfer those advantage generating resources to the local partners is lower		X	Wholly owned

Table2 Mode selection with Resource Based View¹

¹ Resource : Summarize from Resource-Based Explanation of Entry Mode Choice (Sharma & Erramilli, 2004)

2.3 Chinese Market Entry Mode

There are certainly many factors to be included when it comes to a market entry. However, here it is going to focus on discussing the strategies for a small or medium size company to enter the Chinese market. As the economy booms and trade liberalization progresses, China has become an important focus of international investment. Many multinational corporations (MNCs) increasingly target the large domestic market of China through direct foreign investment (DFI) (Sun, 1999). However, for those firms which have cultural distances from China, how to choose a proper entry mode is still a challenge and inconclusive. Historically, social cultural links with China from other countries are geographically related. Based on sociocultural backgrounds and geographic adjacency, foreign investors in China can be classified into three groups : (1) investors from Hong Kong and Taiwan. (2) East Asian neighbor countries including Japan, Singapore, Malaysia and South Korea. (3) Western investors (Sun, 1999). It is evident that the first group investors have advantages in language and historical cultural backgrounds for accessing to the people in mainland China. These factors provide them the advantages to enter the Chinese domestic market easily with less barriers on local firms. Under this circumstances, it is not necessary for the first group of investors to form joint ventures with local firms for reducing transaction costs which could be caused by an unfamiliar operating environment. As for the second group, they are geographically close to China, and some social culture backgrounds are interfered with each other. However, the language could be one of the problematic issues for these neighbor countries. For the third group, due to the language, cultural background, investing environment are extremely divergent from China. It is crucial for these western investors to be familiar with building up the relationship and social network in China. Foreign companies can gain an edge over their competitors in the Chinese market if they have a guanxi (connections in the society) network with the business community such as suppliers, buyers, banks and government authorities like political governments, industrial administration departments, foreign exchange administration bureaus and taxation departments (Luo, 1996). Therefore, with these complicated procedure for western investors to establish business in China, Joint Venture could be the most efficient approach of entry to the Chinese market for reducing the obstacles of cultural

distances, languages, understandings of the laws or regulations and investing environment.

2.3.1 Joint Venture as an entry mode to Chinese market

Entering a foreign country through an international joint venture (IJV) has several advantages compared to entering through a wholly owned subsidiary (Barkema, 1997). The IJV offers a firm to share the costs and the risks with the host country partner. Furthermore, the two countries can also share knowledge about the local institutional framework, local consumer preference, and business practices experiences. A firm which takes international joint venture as the entry mode implies that the firm could reduce cultural distance. Due to the difficulty of integrating an already existing foreign management, cultural differences are likely to be especially important in the case of an acquisition (Bruce; Kogut & Singh, 1988).

Taking Joint Venture as an entry mode to China has many advantages. First, it is obvious that it helps limit the barriers which caused by the cultural distances. A high cultural distance will increase the uncertainty and thus the transaction costs (Puck & Mohr, 2009). Also, it provides more opportunities to the foreign companies. Such as advanced technology that can be mastered by the Chinese, easy-to-target bottleneck industries of energy, communication, transportation, equity and contractual ventures provide quicker access to the market and partners in China can help with the bureaucracy, customer base, and distribution (Helms, 1999).

Business in the world is quite different, especially in China. The country experienced a rapid economic growth that attracted inventors' attention from the world within a short period. Therefore, there are numerous business opportunities in China but also many uncertainties. For instance, e-commerce is the most popular way to sell the products in China. However, with different social media from the world, China has establish its own brand of social media, browsers, online ordering and payment system. They are all different from others like Google, Paypal, E-bay which are very common in western countries. It is crucial to understand how to operate the e-commercial system and how to relate the online shops to other social media for the more efficient promotions. Therefore, having a Chinese partner as joint venture mode helps to expand the local business knowledge and technology. Joint Venture in PRC (People's Republic of China) are frequently used, created due to government pressure

and with government partners, and often formed with partners from ethnically related countries (Beamish, 1993). In the journal of *Empirical investigation* (Kent, 1991), it summarized the advantages of Joint Ventures :

- (1) greater market power by combining resources or generating economies of scale
- (2) the avoidance, reduction, or sharing of risk
- (3) the acquisition or sharing of information
- (4) are often used in international business to overcome cultural, political, or legal impediments, or to meet host country requirements
- (5) manage rivalry in an industry by turning potential competitors into allies. There are two important reasons to form a Joint venture which are sharing the cost and knowledges ; and reduce the risk.

In the research of *Measuring performance of international joint ventures* (Geringer & Hebert, 1991), it tested the certain ranges of objective and subjective reliability and comparability to measure the performance of IJV, as well as evaluating the relative utility of various data collection approaches. The result from the analysis suggested that IJVs performed more successfully and were more likely to remain operational than those IJVs that were valued as being less successful. Successful IJVs also tended to keep operating for a longer period of time, a correlation which received support from data on the IJV duration measure (Geringer & Hebert, 1991).

Besides the cultural distances between western countries and China, the Chinese regulations are often uncertain to foreign companies. The reasons could be involved with political issues or trading treaties according with countries. Among many perspectives, for a foreign company which intend to expand business in China, joint ventures offer an advantage over non-joint ventures(Kent, 1991).

Chapter 3 Methodology

3.1 Methodological Choice

To uncover what factors will affect Norwegian seafood companies selling their cod by-products in Chinese market, a qualitative research methodology is used. In this thesis, I am taking qualitative questionnaire toward a Norwegian seafood company- Vesteraalens. How they enter Chinese market and other relative marketing strategies will be discussed as a case study.

3.2 Case study

The Norwegian seafood company has strong ambitions towards to Chinese market. It is a medium size company that started with fish oil as direct sales in China, and it was one of very few companies with their business approach based on this product.

Therefore, Vesteraalens will be an efficient case based on the theories of enter timing and firm size. It will also discover some insights marketing strategies and possible business channels for Norwegian cod by-products towards China.

The two interviews are the primary technique for data collection. The data collection are involved with around 35 questions in total. The methodology is taken to get the empirical seafood business strategies from Norwegian seafood company. It will provide information from a Norwegian company's standpoint, what kinds of advantages and challenges they might face and how they establish the business in China with the conditions. The two interviews will give the readers a deeper understanding to the reasons of the company's business decisions and strategies towards the Chinese market.

3.3 Research Design

To explore the major factors for Norwegian seafood company to sell cod by products successfully in Chinese market, it will take qualitative method including the information from interviews as a secondary data to support the research.

Primary data

It focused on drivers of success for entering the market. The major factors are enter timing, firm size and resource based perspectives. The questions for the interview are also based on these factors. If the enter timing effect the products promoted successfully, how will they deal with the challenges related to the company size ? Can the Norwegian company provide enough resource to the Chinese branch ? These questions were the main points to discuss and other related details were analyzed as a result.

The interviewee is the Asian Region Director who is in charge business affairs in Asia, and the office is located in Shanghai, China. The interviewee is half Taiwanese and half Dutch man who owns abundance of marketing experiences and Chinese social cultural background. With the advantages of the languages skills, he accumulates Chinese marketing knowledge and accomplishment for establishing seafood business successfully in China.

The conversation is conducted mainly in English and some Chinese.

During the interview, it will reveal which factors are important, and how these factors affect their business strategies. The information will provide ideas about feasible marketing strategies and channels when it comes to seafood business in China.

Secondary data

To understand the situation of Norwegian cod in China, a lot of information is gathered through online news articles. There are two categories for the secondary data:

- (1) Norwegian research data: The reports from Norwegian Seafood Council provide some important resource about the preference of Chinese consumers towards seafood. Examples that analyze Norwegian business in Chinese market are also used as secondary data. Scientific reports, news and journals that describes the effects on human body when consuming cod and fish oil are collected as well.
- (2) Chinese research data: News and journals about seafood business involving China and Norway are prioritized. Norwegian cod by-products related information in the Chinese market was also frequently searched on this thesis. Chinese economic performance, information on importing seafood from Norway, Chinese consumers' background are also considered as the reference data.

3.3.1 Data process procedure

The interviews were conducted twice. One was face to face interview while the other was through the phone. Before the interview, the interview guide was designed on the general marketing strategies as well as the details regarding PEST and SWOT factors. PEST analysis helps seeing the seafood business environment in China. It can portray factors that could affect cod by-products promotions such as political or regulation subjects. Furthermore, the analyzing tool provides the basic background information of Chinese customers, so it can be connected to how the companies locate their target customers (education, age...). The SWOT analysis aims to analyze the situation of the fish products including their advantages and disadvantages. In this case, it will be helpful to uncover the strategies of the seafood companies.

3.3.2 Data Quality Issues

The result of the first interview provided lots of details on market analyzing tools including PEST and SWOT perspectives. However, the interview did not provide enough drivers of success theories information. The content did not explain the factors which affect the success clearly. This was because the questions contained flaws. Therefore, the second interview was targeted on the company's enter timing, firm size and resource based views.

Because the thesis is written through qualitative approach, reliability and validity are crucial to see if the information from interviewees' and researchers are consistent. The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable (Joppe, 2000).

While collecting the information of the theoretical parts, it was important to cross-reference between the content of theory and conversation from the interviews. Taking enter timing as an example, the interviewees stated that by entering a foreign market earlier, the more advantages they could have. This fit the drivers of success theories that mentioned before based on the findings from the company.

Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. In other words, does the research instrument allow you to hit "the bull's eye" of your research object? Researchers

generally determine validity by asking a series of questions, and will often look for the answers in the research of others (Joppe, 2000).

To overcome the data quality issues, it is necessary to do more research to validate the content of the interview. For instance, during the interview, when the subject was asked about entering timing, the interviewee claimed that most of fish oil sold in China is through purchasing brokers. To confirm the statement, more information was looked into through internet. In the case, most of the contents are not difficult to confirm. However, the company internal information such as if the profit is high or low is more challenging to confirm.

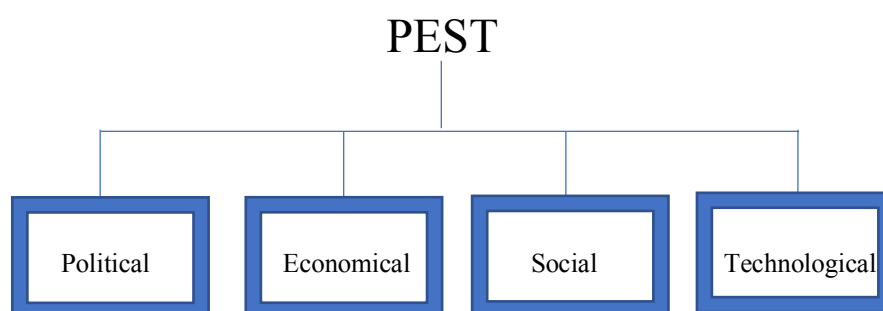
Chapter 4 Result and Discussion

The objective of this chapter is to answer the research questions in accordance with the theory presented in chapter 2. The chapter begins with an analysis of the Chinese seafood market based on two analyzing tools: PEST and SWOT. Secondly, it will present the findings of the research through interpreting the collected data from a case study.

4.1 Analysis

4.1.1 PEST analysis

Since the relationship between Norway and China was involved with many political issues, and China has been improving in GDP and many other developments domestically. PEST, a situational marketing tool which analyzes the factors including political, economic, social, technological, environmental and legal will be a good analyzing model to show the companies what they should be aware of when it comes to the decisions. In the analysis, China will be the main country to be discussed. The factors that could be affected to the Norwegian cod by-products' performance in China are also discussed in this section.



Political Factors (P):

Government regulations

These cover various forms of government interventions and political lobbying activities in an economy (HO, 2014). These can be included policy, taxes, laws, political stability, trade restrictions and regulations. All these factors impact all foreign companies, and they need to be able to be flexible to adjust and establish the product for current and potential political changes in China. In order to protect state-owned enterprises (SOEs) the central government, as the investor, had to fend off strong competition from foreign rivals. As a consequence, participation of foreign products and investors in the Chinese market had been strictly limited during the planning economic era (Peng & Nunes, 2007). To be competitive in the world, Chinese government intended to establish a self-supporting industry and an airtight economic system between the domestic economy and the world economy by direct controls on imports, foreign investments and other foreign trade policies (Rose-Ackerman & Palifka, 2016). Many experiences showed that the political force is the most unsettled factors.

However, the political relationship between Norway and China is improving in the last few years. Although it can't be concluded within a few sentences, it is still indisputable that establishing business in China is more accessible now than before for Norwegian companies. The government relationship is especially important. It is suggested that a representative from the Norwegian company in China has to have the abilities to expand the connections with Chinese government and organizations such as embassies to be supported in any business challenges. In that case, the company can be immersed and accumulate the Chinese government interaction experience efficiently.

Legal issues

To export seafood products to China, the products need to be categorized accordingly to the Chinese regulations. Based on the experience of Vesteraalens, the company registered its fish oil products as dietary supplement in China, and it is hard to meet the logistic requirement. The product must be recognized whether it contains the

functions of health promotion to decide which certification that the product should be applied for. Applying for the certification and sales license is a complicated and long term procedure, therefore, it shows how important it is to have right representative with good connections (Guanxi) to the government. Guanxi can be used as a positioning strategy in the Chinese market because four dimensions are embedded within it, i.e. opportunism, business interaction, dynamism, and protectionism (Wong, 2010). In the recent years, E-commerce enables the communication of business information and business activities through the internet. Compared with traditional commerce, it has relieved people of many troublesome business activities accompanied by the transfer and confirmation of notes. Therefore, it is required that the E-commerce should be much safer and more reliable than the traditional business patterns (Xia, 2017). However, the E-commerce legal framework is still at an early stage in China and China has limited experience for e-commerce legislation. The topics like intellectual property rights protection, tax, supporting the privacy and recognition of digital signatures are still in the line to meet the international practice and standards.

Economic Factors(E):

Current economic growth

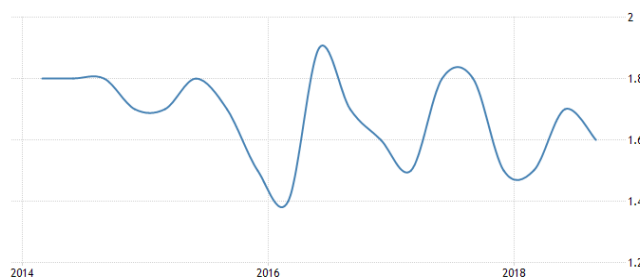


Chart 1 GDP Growth Rate from 2014-2019 in China

China is known as a socialist country adopting a Marxism-Leninism ideology, based on which a centrally planned economic system has been developed. Since 1979, when

the country adopted the “open-door” policy, China has been gradually reformed from the traditional planned economy to a market economy (Weisheng, Liu, Hongdi, & Zhongbing, 2013). Since the “open-door” economic policy had been conducted, the economic growth has been outstanding in the world. The annual GDP growth rate is forecasted at 6.5 % for 2019.¹

¹ Resource : Trading Economics. China GDP Growth Rate. <https://tradingeconomics.com/china/gdp-growth>

More export business

The coastal area has experienced higher growth rates than the hinterland, which has an enlarged income disparity between the two regions. One possible reason to cause the economic growth differences is that the international trade is conducive to a region's growth and development (Chen & Feng, 2000). With the low labor cost and the potential vast market in China, it attracts international companies and exporters to establish business there. For intriguing more business and exports from foreign companies, China hold Canton Fair, China's largest trade fair every year. The purpose is not only for the rapid growth, but also for the better intellectual property protection and an improving business environment. The Canton Fair has shown a positive effect to the foreign businesses. Exports increased 6.5 percent during the period to 11.86 trillion yuan, while imports grew 14.1 percent to 10.42 trillion yuan, indicating stable foreign trade with an improved trade structure (Xin, 2018).

High inflation rate



Chart 2 Food inflation in China from 2014-2018.

The food inflation for the past five years is at average 2.5 where the highest is at 40.20 and the lowest locate at -5.50². The figure is evident that the inflation rate can be considered unstable. In that case, how much profit for an exporting company

will be affected by the inflation is a factor to analyze before entering the Chinese market.

Tariffs

Ever since China joined the WTO, the country has signed various bilateral free trade agreements and have further reduced tariffs with some countries. In the recent years, to satisfy the demand of the seafood, China reduces tariffs for imported seafood products based on the different seafood categories. On May 31, 2018, China's Ministry of Finance announced import duties for 221 seafood products from most-favored

² Resource : Trading Economics, China food inflation. <https://tradingeconomics.com/china/food-inflation>

nations (MFN, member countries of the World Trade Organization) will be reduced by 10-2%, as of July 1. Reductions of 18-2% will be applied to 15 canned seafood products (Harkell, 2018).

The economic growth, encouragement of foreign investment and the bilateral free trade agreements stimulate the business between China and the world. Considering the recent developments of the Chinese enterprises in their marketing strategies to achieve a global brand status, China should no longer be considered as an outsourcing workshop for Western firms (Ille, 2009). It is essential that foreign companies adjust their paces and marketing strategies to fit the possibilities of economic changes in China.

Social Factors (S):

The social and cultural factors for analyzing PEST of China plays an important role due to the population is constantly changing. Here, it is focused on discussing population growth and age distribution, education, consumer behaviors and social business network in China.

Population growth and age distribution

From 1960, the population growth rate has been increasing every year. In 2019, it reached almost 1400 million people. The population is estimated between 1400 millions and 1340 millions during 2020-2050³. The figures show that the demographics change are stable in China.

As the age structure, it can be categorized in 5 different age gaps⁴:

- (1) 0-14 years: 17.15% (male 127,484,177/female 109,113,241)
- (2) 15-24 years: 12.78% (male 94,215,607/female 82,050,623)
- (3) 25-54 years: 48.51% (male 341,466,438/female 327,661,460)
- (4) 55-64 years: 10.75% (male 74,771,050/female 73,441,177)
- (5) 65 years and over: 10.81% (male 71,103,029/female 77,995,969) (2017 est.)

³ Resource: POPULATIONOF.NET. China population. <https://www.populationof.net/china/>

⁴ Resource: Index mundi. China age structure. https://www.indexmundi.com/china/age_structure.html

The figures showed that China is facing a decline in birth rate. This means there is an even greater burden on China's one-child policy generation who have grown up without any siblings (ZEESHAN, 2018). It is expected once the generation grow up, they will have to face the financial burden of looking after their own parents and four grandparents. Chinese sociologists call this 4-2-1 family structure and suggested that the population distribution will hurt purchasing power in the long run.

Population education

After the implementation of one child policy in 1980 to curb the rapid population growth, the lifestyle has significant changes. The only child in the family gets all the education resources and support from the family. Study shows that they find that having siblings has a mostly negative effect on educational accomplishments of both urban and rural youth (Beal-Hodges, M., Loh, C. P., & Stranahan, 2011). Since 1980, the literacy rate has been growing steadily in China. In 2015, the literacy rate had reached 96.36 % overall⁵.

Consumer behaviors

Due to the numerous scandals about food safety in China, Chinese customer have some trust issues towards many food companies. The main problems include quality of oil, chemicals and hormones added to the meat, sanitation of water, the environment of food production procedure and mislabeling issues on fish products. Food safety has always been an issue in China due to lack of knowledge about contamination and hygiene standards (Huehnergath, 2014). Under the circumstance that Chinese customers have little trust to some certain brands, it is significantly important that the exporters establish a brand with good quality to have a better reputation for food safety once the company enter the Chinese market. For companies marketing industrial products and large-scale projects a key question is how to obtain information about up-coming purchasing decisions, and how to establish and nurture relationships to potential buyers (Björkman & Kock, 1995). Accessing the social background information would help to analyze and locate the target customers. As the

⁵ Resource : The Statistics Portal. Adult literacy rate in China from 1982-2015.
<https://www.statista.com/statistics/271336/literacy-in-china/>

population and education rate are growing in China, it is expected that the promotion on dietary health could be more acceptable in China than before. Norwegian seafood industry has been considered as professional and trustworthy seafood resource. That gives advantages to Norwegian seafood companies since the seafood promotion from a country like Norway gains attention and confidence easier.

Technological Factors(T):

New distribution mechanisms : Internet

There are 802 million people in China now actively using the internet, 57.7 percent of the population. More interestingly, 788 million people are mobile users, a whopping 98 percent of the country's total user base (McCarthy, 2018). As the mobile technology developed efficiently in China, the network coverage has also been expanding a lot. Mobile phones become indispensable in the Chinese daily life. From payment through the mobiles to ordering food or taxi, mobile phones cover most of the demands from their life.

E-commerce

E-commerce has become the most popular way for customers make purchases. China's e-commerce market will hit \$1 trillion in 2018, a year ahead of predictions. The growth in mobile shopping and consumer spending in categories would see China's retail sales reach \$1.1 trillion in 2018. Chinese online shoppers will continue to grow by 4.6% annually to reach 631 million by 2022, up from the current 502 million (Alex, 2018). Due to the popularity of smart phones, the B2C business model has been rising annually. It has increased more than 50 % of B2C and C2C business behaviors since 2015. iResearch consulting suggested that B2C will become the main E-commerce model in China. Another noteworthy change is the dramatic increase in the proportion of mobile E-commerce purchases, from 1.5% in 2011 to 68.2% in 2016 (Hongfei, 2017).

New purchasing mechanisms

As the new purchasing technology through mobile phones are developed, the mobile telecommunications brings a major technological problem in China. The development of the B2C industry does not have a secure and stable online payment system.

Furthermore, the most widely accepted payment method-credit card is lowly used and the payment system to support online credit card transaction is also facing low usage. Every personal information including bank payment account is connected to the personal mobile phones, and this gives the convenience in the daily life. But without stable and safe payment technology, it also brings safety and fraud concerns. Based on the PEST analysis, it is believed that China is a flourishing and competitive market. Foreign companies can make profit if they understand the external macro-environment and make the proper strategies to deal with the social cultural distance. As they enter the market, it is also fundamentally essential to understand how to promote their products using Chinese social media and new technologies such as payment methods. The rapid economic growth and stable political conditions make the Chinese market lucrative for foreign investors. However, there are potential risks in lack of stability and secure online payment systems, counterfeiting issues and high inflation rate. All of these create uncertainties and challenges for the market investors.

Summary of the PEST Framework

The PEST framework analysis tells us that the political risk could make doing business in China less attractive. However, the economic growth and the middle class population does show a strong trend that higher price seafood is more affordable than before. Together with the social elements, they tell us that Chinese consumers value the seafood quality due to the increased education overall in population and other related factors such as the one child policy. Last, as the modern technology develops, E-commerce becomes the most popular method to purchasing seafood. This allows better tracing when it comes to health and food safety, as well as published reviews from the seafood products.

For the Norwegian cod by-products in China, political issues are more difficult to be predicted. The economic growth and social environment are changing in China, and as a result the technology is developing day after day. Therefore, it seems important to target the customers properly (people who understand the value of cod and who can

comfortably afford Norwegian cod by-products) and being familiar with Chinese E-commerce system.

4.1.2 SWOT analysis

To uncover the possible marketing channels and strategies for Norwegian cod products in China, it focus on the analyzing strengths, weaknesses, opportunities and threats of Norwegian cod by-products for the Norwegian seafood companies.

Strength

- Stable and quality resource environment supply
- Experienced technology development
- Background history

Stable and quality environment resource supply

Each year in the winter feeding area, the annual up-stream spawning migration of cod happens in January. And the down-stream movement of larvae and juveniles from the spawning grounds to the feeding area happens in April–May (Hjermann, Stenseth, & Ottersen, 2004). Cod travel from Barents Sea to Norwegian sea and spawn around Lofoten islands annually. This provides Norway with an abundance of cod resource and the quality is also considered superior condition. Norway owns the world's largest cod stock, and it is also the most important resource for Norwegian fisheries. To achieve a sustainable resource management of the fish resources is an important government objective in Norway. Taking the cod fishing fleet as an example, they divided sustainable fishing fleet into three perspective : social (accident risk, employment), economic(profitability, quality) and environment(catch capacity, greenhouse gas emissions/acidification, by-catch/selection) (Utne, 2009). It is believed that Norway has well functional fisheries systems to manage cod with appropriate regulations to keep the quality and catch at a sustainable standard.

Experienced technology development

The Norwegian seafood processing industry enjoy a long history with experienced and skillful workers. There are political goals of a more profitable industry in the long term that contribute to the maintenance of settlement patterns along the Norwegian coastline and deal with the possible loss of local knowledge and capabilities (Fløysand & Jakobsen, 2001). This shows how Norway maturely manage the fisheries industry and boost the confidence to the potential customers in foreign countries. For instance, there are many fish oils from different countries like Norway, New Zealand or America in the Chinese market. It is believed in China that Norwegian cod are the best quality in the world among Chinese consumers, and there is preference for fish oil from Norway.

Background history and innovation ability

Accumulating the market maturity and technology, Norwegian seafood companies now have more knowledge to be innovative with their seafood products. According to the Asia Region Director, Floris Vaessen from Vesteraalens, the company has been established for over 100 years. The company has a long history of innovating the seafood and marine ingredients. In the recent years, to expand to the Chinese market, they have successfully customized fish balls for higher acceptance among Chinese consumers. To Chinese, fish balls are not foreign food. It is a classic kind of street food in China that you find outside everywhere, where fish balls in different varieties are served (Vagle, 2018). In the Norwegian society, fish cake is a common seafood product, however, Chinese are not very familiar with this seafood product. Fish cake and fish ball are made from similar ingredients. The company observed the possibility that fish balls could be accepted easily and then they gained success in China (Vagle, 2018).

Weakness

- Shipping fee
- Culture distance
- Poor understanding on building connections

Shipping cost

The dynamic development of regional trade arrangement in the world coupled with China's economic boom has provided sound foundation for China to seek regional economic and trade cooperation. At the moment, there are more than 20 economies that have approached China for FTA-Free trade agreement (Jianping, n.d.). Including Chile has been signed as of the FTA countries, the 6 Gulf Cooperation Council member countries, Pakistan, India, New Zealand, and Australia are in negotiation on the FTA between China. Furthermore, China now is exploring the possibility of FTA with South African Customs Union countries, South American Common Market (Mercosur), Peru and Iceland. Two of the advantages to sign FTA with China are lowering the trading barriers and decreasing the trading tariffs. With these two benefits, the shipping cost would be expected to lower. Taking salmon from Chile and Norway to China as an example. Importing salmon from Chile to China is easier than importing salmon from Norway. When the Norwegian salmon is delivered to Chinese ports, it takes days to pass the customs. Besides the delivering fee, the exporters also have to pay a fee for keeping their products in the ports. On the other hand, Chilean salmon pass the customs much easier due to the FTA. Since Norway is not one of the countries that have signed FTA with China, the shipping cost will be higher and the price of the products would be also less competitive in the Chinese market.

Culture distance

Many western companies failed when establishing businesses in China because of the cultural distance. Due to the political issues for the past few years, Norwegian companies had less involvement doing business with China compared to other western countries such as America, Australia and New Zealand. Cultural difference could be a struggle for Norwegian companies when they enter the Chinese market. From a human resource perspective as an example. Since the on-line shop as a trading channel is very popular and common, no matter how big the firms sizes are, Chinese companies normally offer 24 hours service. It is not only increasing the human resource cost, also the companies are forced to be operating all the time. Nonetheless, Norwegian companies, especially small size firms, are not used to having 24 hours service in the company. The relationship between culture and perceptions of fairness of organizational practices is critical for strategic decision making in international companies (Lunnan & Traavik, 2009).

Poor understanding on building connections

Although there are lots of marketing strategic suggestion emphasizing how important it is to build up connection (Guanxi) in China, there is still little empirical instruction for that. Building up the connection with any actors individually in the business network involves different approaches accordingly. In this case, having an experienced representative who has Chinese society cultural background and owns the ideas about how to expand the business connection is quite important. Taking fish oil as an example. The business connections for fish oil could involve logistic customs agents, government authority which gives the selling license, whole sellers, channels of physic stores, channels of setting up an online shop, research companies and so on. To the foreign company, it could be challenging to have a proper and capable representative. In addition to the language obstacles, Chinese business connection culture is an important and necessary competence to gain.

Opportunities

- Market Growth
- Higher food price
- Growth in purchasing ability
- Market trend

Market growth

According to the Beijing-based Norwegian Seafood Council (NSC) executive several Chinese processors used a project from the NSC to boost sales of cod in the world's second largest economy and "ran with it" (Seaman, 2016). They claimed that Norwegian cod had been the second popular product after salmon in China. Besides cod filets, Chinese factories have taken this project to process cod. Producing processed products from cod mainly is for re-exporting in China, but they are also losing the profitability. Therefore, they are building the domestic market. With this trend, for Norwegian cod products, it is expected that the cod product markets are growing. It's not possible to separate the sales of cod to China for re-export and the domestic market, but imports are up a lot in 2016. According to Norwegian export data through week 43, sales of cod to China are 23,233 metric tons, up 79.04% year-

on-year (Seaman, 2016). Whether the cod products are exported from Norway or they are processed in China, as long as people start to explore the value of the cods, the market can keep growing. Furthermore, the two countries can cooperate or sharing their knowledge and technologies through the trend for the future growth. The Norwegians are helping with marketing material, customer events and product launches for the Chinese processors working with cod (Seaman, 2016).

Higher food price

The food price inflation in China has been being dramatically changing in the recent years. The urgent demand for food in India and China even effect the worlds' food price inflation. As the need for the exported seafood in the mainland China is growing, it provides an opportunity for the Norwegian cod products to increase its Chinese market share. And it is also wise to foresee that the seafood price inflation also might influence the prices of the Norwegian cod products.

Growth in purchasing ability

Strong and rapid growth in the economy especially in the major cities in China has led to higher purchasing ability among the Chinese population. Since Norwegian cod products are normally seen as exported products, the price would be higher than many other seafood products. According to the Asia Region Director, Floris Vaessen from Vesteraalens, the price of their fish oil is higher than some other brands. However, their target customers was middle class families who can afford it. With the good reputation of Norwegian seafood products and the efficient customer targeting strategies, it is reasonable that the products are still profitable even the price is higher.

Market trend

As earlier mentioned, the health awareness in China is growing. In the seafood industry, it seems that Chinese customers favor Norwegian cod products because they are considered as a healthy product, since cod contains high DHA level, high Omega-3 and high vitamin A&D content.

In 1979, China started to conduct one-child policy, although in 2013, China announced the decision to relax the policy, the one child policy has still nurtured a tendency that parents tend to spoil the child and provide the child with the best as they cab possible afford. Because of the trend of health awareness, the food security

has been rising to a new level. Parents become very conscious when it comes to the food they serve their child, especially after food safety issues keep leaking to the public in the news.

Chinese have more faith toward to Norwegian seafood products. With the confidence, purchasing power and health value awareness toward cod, it is a great opportunity to boost the market trend of cod products.

Not only food products from cods. Forms of supplement developed from cod skin are used as a daily beauty care procedure is popular in China. The target customers are mainly the female market, as they are used to taking several beauty care products in different forms, like cream or capsules, to maintain a young look. Although using cod skin for beauty care is not popular in Norway or other Western countries, in China, it is continuously trending as the years go by.

Threats

- Competitors
- Counterfeiting
- Laws and regulations

Competitors

According to the author's finding, currently, the market is not very competitive among the cod by-products in China. It is worth to note that cod by-products from New Zealand, America (mainly Alaska), Canada and Iceland are also common in the Chinese market. However, according to the interview with Vesteraalens, Norwegian seafood products have really good reputation. Chinese customers believe that Norwegian cod has the better quality due to the Norwegian seafood industry environment and historical background. Although, there are still cod products from other countries sharing the market in China, the products from Norway can still be outstanding in the market as long as Norwegian seafood industry pays attention to the other competitors as they expand their business in China over time.

Counterfeiting

Due to the popularity of the cod by-products in China, some counterfeiting issues are appearing:

1. Misleading the ingredient: Some products claim that the ingredient is from cod when it is actually from another species like halibut. It is misleading through using Chinese words to confuse customers.
2. Counterfeiting on country of origin: The products might have similar packing to puzzle customers. They claim that the products are imported from Norway, but they could be made from some other unsafe ingredients. Normally, the price counterfeiting products are lower than the real one to attract purchasing. However, for the customers who couldn't tell from the differences, it might be negative for the Norwegian products.
3. Exaggerating the function of the products: For attracting customers, some cod products are described with functions that are not proved scientifically or greatly exaggerated. For instance, the collagen from cod are normally attractive for Chinese women due to this belief that it is capable to deal with aging. Claiming the anti-aging function is not the issue, but to guarantee that the function will be seen in a short period is over stating. The customers could have the expectation to see the effect in the short time and it could damage Norwegian product reputation once it fail to show the result to the customers.

Laws and regulations

Changes in laws and regulations such as taxes might cause a massive impact for the exporters. Also, China could take some policies against one certain country over political issues like the Nobel Prize incident in 2010. It is difficult to predict if the laws and regulations will be certain for long term in China. The changes of the laws and regulations could lead to problems such as increasing tax, delays, appropriation of the certifications for selling and exporting, or even shorten the supply of Norwegian seafood products.

Summary of the SWOT Framework

In the SWOT analysis framework, it portrays that Norwegian cod by-products have strong advantages to compete in the Chinese market. The growth of purchasing ability and the quality confidence from Chinese customers provide great opportunities for Norwegian seafood companies. However, there are still some challenges. Besides the possibilities of changing regulations from the Chinese government, it seems the counterfeiting issues should be taken care of in advance. After all, a lot of brands show that they have been suffering from these obstacles once they reach success in China.

4.2 Case study

In the section, it will focus on analyzing the interview to figure out whether the Norwegian seafood company marketing strategies for entering the Chinese market are in accordance with the theories presented in chapter 2.

Through the information that has been collected during the interview, it will also identify some major factors that are important for Norwegian seafood companies to look into when they want to sell Norwegian cod by-products in China. Some of these factors are mentioned in the theoretical approach while some of them are not.

4.2.1 Analysis of the interview

Enter timing

According to the theory, entering a new market early brings benefits to the companies. One of the obvious benefit is less competitors in the market. To Vesteraalens, promoting fish oil in China was their first step. At that time, they were not among the first selling fish oil in the Chinese market. When they entered the Chinese market, there were already similar products from other countries like America, New Zealand and Australia. However, most of the products were sold through purchasing brokers. To Vesteraalens, the Chinese market is the future due to the rapid economic growth in the country, even though they did not enter the market early, they still have the ambitions to establish their business in China. With their experienced marketing background and will to invest in the market, they decided to sell fish oil based on a direct sale strategy. Since China is a newly developed country economically, there are

not many companies that enjoy a long history reputation. Therefore, for Chinese customers, it is unusual to be loyal to a brand when it comes to purchasing products. In this case, Vesteraalens choose to place their products physically in stores and let customers reach the company whenever they have questions about the products. This increases the satisfactions of customers. The strategy of direct sales from Vesteraalens for fish oil is new in this market, and it also makes the fish oil products from the company gain their customers' attention and confidence. Therefore, it can be a beneficial strategy for this kind of product in the Chinese market.

Firm size

Vesteraalens is a small size company and it is necessary that the company has well functional marketing plans and risk control.

To confirm the quality of the fish oil products, the company invest in making perfect containers including labels for the products. Since the amount of containers will not reach enough quantities to have lower cost, they always have outsourcing companies to do it instead of making a model of their own at the moment. This increases their producing cost, therefore, the profit from the products are not considerable.

However, from the long term marketing perspective, this investment is necessary since the company has a great interest to be successful in China. Even though the profit at the moment could be better, they are still willing to invest time and money in the market.

Entry mode selection

At the beginning, when Vesteraalens expanded their business in China, they tried to cooperate with local distributors including traders and seafood companies. However, this did not meet their expectation. These partners lacked the nutrition background knowledge, even though they were interested in the cod by- products industry.

Because of the lacking nutrition knowledges, they did not know how to promote the fish oil product as a specialist. Vesteraalens want to create the product value by branding wisely. Therefore, they have chosen Alliance nutrition group, a company that entered the Chinese market earlier than Vesteraalen as their partner based on the Joint Venture mode. The company is 50% owned by Chinese and 50% owned by Dutch, has a nutrition background and possesses longer experience building the seafood business in China. In this case, Alliance nutrition group is helpful to Vesteraalens.

Besides the professional nutrition company background with selling certification and platforms, they also understand Chinese business cultural since it is half owned by Chinese. Joint Venture mode reduces the cultural distances for the foreign country, it is especially important in the Chinese market since the culture difference between east and west is considered a huge gap.

4.3 Market selection

Vesteraalens' main products in China are fish oil and fish balls. Two different products from the same fish resource, similar target consumers, similar competitors and same opportunities.

For the company, there are some certain steps making their marketing strategies:

1. Know your own products: According to the SWOT analysis, it is believed that Norwegian seafood company's products should be of high quality, a pure resource, natural ingredients and harvested through sustainable fishing. A product from a seafood nation with a good reputation would increase the price
2. Set up the price range: Take canned food as an example, the price range for canned seafood food in China is located between 25-65 NOK. Since the company believe their products are better than others, they decided to sell their canned seafood products at around or over 65 NOK.
3. Target customers: They worked with local research companies to discover the backgrounds of customers that are interested in fish oil or fish balls. Since the price for their products are higher than other competitors, they choose to promote their products starting with major cities such as Shanghai and Beijing.
4. Categorize customers: Based on the customers' backgrounds, their purchasing motivations, the company categorize their target customers into different groups.
5. Make marketing strategies: Due to the firm size and their budget is not big enough to support promoting their products to all the customer groups, they make the marketing strategies to one of the categories which they think it is the segment that have to try on.

Product:

From their process of making market strategies, it is seen that Norwegian seafood has an advantage among all the seafood products. As a Norwegian seafood brand in

China, emphasizing that the resource is from Norway is a practical way to distinguish from other products aimed at the Chinese customers. Norway has a great reputation when it comes to the seafood quality, it is believed that all the Norwegian seafood products are tested through the Norwegian Food Safety Authority and Norwegian Seafood Council. In this case, with the strong advantages being a Norwegian seafood company, it is easier to select their market targeting to the higher income customers.

Cultural adaption:

Cultural factors are important for products in the food industry since consumers' preferences could be highly influenced based on the various culture backgrounds. Adaptation has been emphasized as a key aspect of managing alliance diversity and performance (Glaister et al., 1991). This can also refer to the product level management processes. The focus here is on adaptation of management processes, a type of adaptation that can be referred to as cultural adaptation (Voldnes & Grønhaug, 2015). In the case of Vesteraalens, the first challenge they should overcome is the language barrier between Chinese and Norwegians. They have Floris Wilhelmus Vaessen who is half Dutch and half Taiwanese as Asia region director. Not only he is fluent in Chinese language but he also shares Chinese cultural background. Therefore the company face less culture differences obstacles under his lead in China.

One of the cultural adaption example from the company is selling their fish balls to China. In Norway, everyone is familiar with fish cake from cod. However, this form of cod product is not accepted widely in China. The company therefore chose to promoted their fish ball products for higher acceptance since "fish ball" has existed in Chinese food history for a long time. The product is widely accepted by Chinese customers and can be considered as a successful example of cultural adaption.

Another example of cultural adaption is how the company promote their product. To have the successful product promotion, prior market survey can be very helpful. As earlier mentioned, before Vesteraalens sold their products through internet, the company cooperated with local research company for target customers' information. The suggestion led to products being promoted 95% through online shops, social media and podcast and 5% through physical stores in the major cities only visible in the shops. The E-commerce trend has expanded to not only Business to Consumer (B2C) also Online to Offline (O2O) mode, which means the combination of offline

commercial opportunities with internet. Therefore, In China, the promotion through the internet is 24 hours, with the human resource for the customer service necessary. To sum up the market selection from Vesteraalens, it can be concluded as the company knows their advantages to promote their product, emphasizing the qualities and appropriate price range to fit their customer groups. To decrease the issues from their weaknesses and threats, they also have proper approaches like a manager with Chinese cultural background who is able to deal with any issues from the cultural differences (regulations, connections building...) and food forms adjustment. Through the company's vast business experience and understanding of Chinese culture, the company performs a good example establishing seafood business in China. Since they have established business successfully in China, their next step will be focus on developing their business in Taiwan and Korea, according to their Asia region director.

Chapter 5 Conclusion

To answer the research question, I list some factors that could affect Norwegian cod by-products performance in China.

- (1) Promotion: For small countries, like Norway, a country-of-origin marketing strategy constitutes a possibility to enhance its international competitiveness with products and services that otherwise would be too small to position themselves on a global scale (Kleppe, Iversen, & Stensaker, 2002). In China, people believe that Norway provides seafood of a superior quality. This gives Norwegian seafood companies an advantage when selling seafood in China.
- (2) Entry timing: Since most Chinese consumers are not loyal to one certain brand, it seems entry timing has less impact if the product can be accepted in China. However, China is a large market that most industries want to establish business in. If a brand on a product can be seen in China earlier than other similar products, and then it will have less competitors. Furthermore, it can build up the business connections with local suppliers and build up government relationships. This would be quite beneficial to a foreign company.
- (3) Risk control: China is the biggest seafood market in the world. Before a foreign company enters the biggest market, risk controls can determine if the company will be successful in the future. Taking Icefresh, a Norwegian seafood company as an example. The company used to be the biggest Norwegian salmon exporter in China three years ago. They invested around 500 million on promoting their products in China every year. The demand was over their expectation and the company could not provide enough supply to satisfy the demand. Hence, the company suffered from the low profit but high promotion cost in the end. This case shows that when facing a big market like China for a Norwegian company, it is not difficult to be noticed because of the seafood nation image of Norway. How to promote the products properly to create a win-win situation for both sides involves a lot of research. Besides market selection, it is also important to have a clear idea how much demand that the company can supply.
- (4) Placement: How to divide the percentages of products displayed in physical stores and online shops are also important. For example, displaying products in Walmart in China engages risks such as the display locations could be changed once the selling is not ideal. Also, if 75% of the stock could not be sold in three months, the

products would be taken over by the stores without any payment to the sellers. Selling through internet contains less risks than in physical stores. Therefore, having internet as the place for the product service is fundamental and ideal.

- (5) Price: This is linked to the quality of the product in competition with other comparable products, and price is not necessarily from the lowest or highest price but what the perceived value of the product to the customers is rather than important to an objective costing of the product. On the other hand, if a price of the product is higher or lower than its perceived value, then it most likely will not be able to be sold. As earlier mentioned, Chinese sometimes consider seafood as a luxury item. Therefore, for Norwegian cod by-products, it is logical to be sold at higher price compared with other similar products.
- (6) Representative: To the western companies, Chinese language is one of the obstacles doing business in China. However, the most important ability for a foreign company is to understand Chinese business culture including building connections with distributors and government, understand local labor working patterns. Therefore, cultivating employees who are capable to overcome these barriers is necessary.

Chapter 6 Recommendation for future research

Norwegian seafood companies are enjoying the great opportunities in China. It is thought that the situation can last for long. However, in my opinion, it seems that Norway has not worked much on avoiding counterfeiting problems at the moment. It is predictable that Norwegian companies will keep expanding seafood business in China. Once the promoting cost reach the certain level, counterfeiting problems will surely affect the profits for Norwegian companies.

Also, another subject worthy to discussed is the modern technology business channels in China. It is not very challenging for foreign brand seafood to be visible in the Chinese market since imported seafood is very trendy there right now. Nonetheless, it is crucial to understand e-commercial promotion channels since they are the most common selling channels in China now. In recent years, the online turnovers of agro-food (agriculture food) for all online retailers in Taobao have increased a lot from 2010 to 2013 (Yang & Wang, 2015). Therefore, for the future research of Norwegian seafood industry in China, the subjects of how to avoid counterfeiting problems and how to exploit seafood business opportunities with E-commerce should be investigated further.

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