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KARELIA UNIVERSITY OF APPLIED SCIENCES

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# MARKET ENTRY STRATEGY TO THE FINNISH MARKET

# CASE COMPANY: KLIMATO

Thesis

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Market entry strategy to the Finnish market - Case company: Klimato

**Abstract**

In the recent time, global warming has become a hot topic all over the world. There are many factors contributing to this global issue and the food industry takes up to one fourth of the total greenhouse emissions generated to the environment. However, many people from different age groups start to be aware of their impact and changing their eating habit will contribute to the progress of making a difference. The carbon label which indicates the total carbon footprint of their meal is a promising solution, however, albeit still new and unfamiliar to most people.

The main objective of the research is to choose the most effective entry mode strategy to the Finnish market for Klimato, the case company. In order to design an entry plan for the case company to the hosting country, the author presents the analysis of target market, the potential of "carbon label" in Finland and studies about the company current situation to come into final conclusion. The author utilizes PEST model, Porter's Five Forces model, Segmentation-Targeting-Positioning (STP) model in order to achieve the goal of the study.

The results of this thesis concludes that Klimato is potentially able to enter to Finland, initially through indirect mode (piggyback) then establishes a sales branch in the host market.

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# 1 INTRODUCTION

## 1.1 Background

Currently, climate change has been a serious concern and one of the main factors that contributes to the warming globe is the food industry. According to the University of Oxford research, approximately 25% of total global greenhouse gas emissions comes from the food industry (Poore and Nemecek 2018).

A significant number of EU citizens (93%) see climate change as a serious problem. Furthermore, 92% of Europeans want to set a goal of making the EU economy climate neutral by 2050. (European Commission 2019). YouGov research shows that one out of five consumers takes a product's carbon footprint into account before purchasing and a majority of them (66%) agreeing upon their positive impression on companies showing their attempt at reducing carbon footprint of their products (Carbon Trust 2019).

The increasing demand for carbon label on food products has started a competition in the food industry. Oatly, a Swedish vegan dairy substitutes company has recently established a campaign called "Hey food industry – show us your numbers" and begun to reveal their products carbon dioxide equivalent ($CO_2$e). However, the $CO_2$ calculation service is costly and not accessible for the majority of the market. Klimato, an environmental consultancy calculating food-related $CO_2$e for restaurants, who provides digital and cost-efficient solutions for any companies regardless of industry, has come to the market. (Unger 2019)

## 1.2 Objectives

This research aims at designing the entry strategy for Klimato to the Finnish market. Furthermore, one of the main objectives of this thesis is to analyze the current position of Klimato's carbon-labeling service in Finland and study the business opportunities in the Finnish market.

The main research question is: *How should Klimato enter the Finnish carbon-labeling market successfully?*

Sub-questions that helps to answer the main questions are as follow.

- *Who are the target customers of Klimato in Finland?*
- *What are the opportunities in the Finnish carbon-labeling market?*
- *What are the challenges existing in the Finnish market?*
- *How should Klimato operate to minimize the risks?*

## 1.3 Methodology

The research approach gathers both primary and secondary data. The primary data is collected through interviews with the case company. The author interviewed the 3 co-founders of Klimato through emails to collect information on current situation, product portfolio, their target groups and the goals.

The secondary data refers to existing statistics and information regarding to the market and trends in the food service sector in Finland, as well as the consumer behavior when it comes to environmental awareness. The core theory of this study is based on the book "Global Marketing" by Hollensen, S. Some data is collected from online surveys executed by the European Commission in 2019.

## 1.4 Thesis structure

First, the information about the case company Klimato is provided to give readers an overview of the current situation and company's goals. Second, the environmental impacts of food system activities are described. The third chapter analyses the carbon-label in Finnish market. Lastly, the author identifies the target groups and presents a concrete market entry plan to Finland, along with a detailed marketing strategy. Finally, conclusions are made.

## 1.5 The case company : Klimato

**Company background**

Klimato is an environmental consultancy based in Stockholm, Sweden, with a goal of reducing food-related emissions to the Earth and fighting climate change. Founded in

December 2017, four co-founders have developed a tool for restaurants to calculate, present and communicate food-related $CO_2$ emissions to the final consumers. They aim to facilitate climate-friendly food choices for both consumers and organizations. Furthermore, Klimato works closely with customers to define the goal of cutting emissions and show progress to consumers and employees (Klimato 2020). Their main target market are Nordic countries and after 2 years of establishment, Klimato is currently having customers in Sweden and Norway. (Hansson 2019)

**Product portfolio**

Klimato provides customers a web app to track ingredients to calculate carbon footprint of their recipes and also climate labels stating those information on the menu. The business model is considered to divide customers into three group based on different plans: Basic, Plus and Premium (Connée 2019).

The basic price for the application with unlimited menus is 150 euros per restaurant per month. The most popular subscription is 300 euros a month including application, monthly reports and the help from the team to design menus and other related things. The most expensive option is 500 euros per month with all the benefits of above plans plus the Application programming interface (API) Integration. (Connée 2019) The API Integration allows restaurants to retrieve the climate data through one system instead of having separate ones for $CO_2$e calculations and costs. This extra service explains higher price due to additional technical efforts. (Hansson 2019)

Klimato targets at canteens, chains with many restaurants in different locations and provides discounts to customers who want to use Klimato service in several restaurants, depending on the number of restaurants. (Connée 2019)

**Current situation**

So far, Klimato has been using the same sales approach to customers in Nordic markets which is through existing sales channel: entering through an international partner as indirect export or contact directly prospects (Hansson 2019). For example, Sodexo, a global food services and facilities management company, is an important partner who piggybacks Klimato into new markets (Unger 2019). Thanks to this collaboration, Klimato has had customers and contacts in nearby countries, especially Norway and Denmark and gets in touch with some partners in Finland. In addition to a sales representative in

Sweden, the company has one team member responsible for Danish market and one for the Norwegian market. In terms of online branding, Klimato has been working with a Norwegian influencer Hanne-Lene who creates vegan recipes and uses Klimato's web app to calculate the carbon footprint of each dish and feature them on her over 10000 follower Instagram account. The marketing and design team is located in Stockholm, Sweden who not only work on marketing materials but also update the design of labels, reports and website. Until December 2019, Klimato has had 12 clients purchasing mainly monthly fee for the service. (Unger 2019)

# 2 ENVIRONMENTAL IMPACTS OF FOOD SYSTEM ACTIVITIES

## 2.1 Overview

Since the environmental impact of human activities is considerable, several metrics have been taken into account to estimate and minimize that impact in the future. Firstly, the ecological footprint is the amount of natural resources needed in order to produce necessary goods and services as well as the amount consumed to dispose the waste. (WWF 2019). This metric measures the demand on and supply of the nature to a region. **Ecological deficit** refers to the situation when a region's demand for the goods and services provided by its nature is more than the amount that its ecosystems can renew. This region is usually in need of importing or overexploiting. On the contrary, **ecological reserve** happens when the biocapacity amount of a region exceeds its demand. Nowadays, ecological deficit is occurring in many countries with more than 80% of the world's population living in countries where their demand exceeds the amount their ecosystems can regenerate. There are many consequences caused by ecological deficit and one major issue is contributing to the climate change, especially the amount of carbon dioxide emitted into the atmosphere more than their own ecosystems can absorb. (Global Footprint Network 2020)

On the other hand, **carbon footprint**, a rapidly growing element of ecological footprint, is defined as a climate change metric measuring the amount of carbon being emitted by an activity or organization (Global Footprint Network 2020). In terms of the food system, natural resources, including renewable and non-renewable ones, are used from production stage to processing, distribution, consumption and waste management. The food systems relies on various Earth's resources such as land, soil, water, biodiversity, minerals, biomass and fossil fuels (UNEP 2016, p14). The food system accounts for a large impact on the climate, one-quarter of greenhouse gases generated a year to be specific (The NewYork Times 2019).

## 2.2 Carbon label as a tool for branding

In this sub-chapter, the author describes the concept of eco-labels and green marketing as a whole before analyses further in details the origin and challenges of the carbon-label.

### 2.2.1 Eco-labels and green marketing

On the side of governments and businesses, the foundation of eco-labelling is established due to a growing global concern for environmental issues. Ecolabeling is a method of environmental performance certification and labelling on a voluntary basis (Global Ecolabeling Network 2020). When targeting at consumers seeking solutions to reduce their personal impact, businesses have noticed some competitive advantages of presenting eco-labels on certain products or services, which results in the emergence of various environmental declarations, claims such as natural, recyclable, eco-friendly, low energy, recycled content, etc. (Global Ecolabeling Network 2020). Since then, the concept of green marketing has become a trend in which companies aim at selling and advertising their products or services based on their environmental benefits and responsible actions. Green marketing refers to not only products itself but also the production process. To be specific, advertised products are friendly to the environment as well as produced in a sustainable way. For example, companies avoid toxic materials, utilize recycled materials, renewable materials and design products in a way that they are repairable. (Investopedia 2019) In order to make the best of green marketing for these products, eco-labels are important tools especially when consumers observe them directly in stores. A global survey asked 30,000 consumers in 60 countries by Nielsen, majority of respondents is willing to pay extra for products or services from companies who committed to positive social and environmental impact. (Investopedia 2019) Thus, by showing the concern and solution for environmental through ecolabels, a company can encourage their consumers' loyalty.

### 2.2.2 Carbon label

Many different types of eco-labels have been created for different industries and the food industry in not an exception. The "low carbon" label is an effective way to promote the

brand image and drives more eco-friendly options amongst consumers. (Green queen 2019) The next paragraph explains the origin of carbon emission data.

The term “greenhouse gases” is referred to the gases that trap heat in the Earth’s atmosphere and its main elements are carbon dioxide ($CO_2$), methane ($CH_4$), nitrous oxide ($N_2O$) and fluorinated gases. Different greenhouse gas has different level of impact on the Earth, based on the amount generated in the atmosphere, the length of it being remained in the air and the strength of its impact. More greenhouse gases being generated results in higher concentrations in the atmosphere (EPA 2017) and this causes the “greenhouse effect”. The greenhouse effect refers to the natural process that a part of the Sun’s energy is absorbed and re-radiated by greenhouse gases which keeps the Earth warm and maintains the life on our planet. However, the increasing amount of greenhouse gases generated by human’s activities causes more heat to be trapped and quickly raises the Earth’s temperature. (Australian Government 2020)

The $CO_2$ is used as the reference to compare with the other gases’ effects, which indicates the unit $CO_2$ equivalent ($CO_2e$) when it comes to calculating the total carbon emissions emitted by a specific activity (EPA 2017). Carbon label is used to indicate the total amount of all greenhouse gases emitted from the beginning to the ending phase of an activity, for example, until a dish is served on the table, or from raising a cow until the beef is packaged and sold in the supermarket. Recently, Oatly, a Swedish company producing beverages from oats, has introduced carbon label on their oat drink. The company claimed that the carbon calculation is conducted from farm to factory, packaging and transport stage. For instant, the Havredryck Deluxe oat milk in Swedish market has a climate footprint of 0.29 kg $CO_2e$ per kilogram. (Oatly 2020)

However, there comes several challenges in producing carbon labels for food products. The first issue is products need to have consistent $CO_2$ labeling if they are to support people’s purchasing decisions and climate friendly choices. In Finland, for instance, according to three largest grocery retailers SOK, Kesko and Lidl, calculating and labelling the carbon footprint of every single product would be very costly, up to hundreds of millions of euros. (Yle 2019) That explains the second issue, high cost. It is necessary to have available information on as many specific products as possible so consumers can make a comparison during purchasing decision. Otherwise, $CO_2$ label will not be effective. The growth of labelling is slowed down due to a large amount of time, effort, money and comparability of data. (Yle 2019) Nevertheless, the work can be simplified if data is collected and monitored regularly throughout manufacturing process. (Katajajuuri 2019) In conclusion, although several challenges have slowed down the development

and popularity of carbon labelling, this metric is a promising method to communicate with consumers regarding their meals' impact and a branding tool for green companies.

## 2.3 Waste disposal

The second solution for reducing environmental impact is tackling the food wastage. Beside concerning about the generated emissions of daily meals, food waste has also been a big problem and it is a significant loss of many resources, for example land, water, energy and labor. Food waste is not only occurred by final consumers but also during all stages of the chain. One third of the food produced globally is either lost or wasted and never reach consumer's table. In the EU, the average amount of waste per person is 180 kg (European Commissions 2019) and most of the waste (42%) comes from households, 39% of them is from manufacturing process, the rest caused by food services and at wholesale and retail. (European Environment Agency 2016). The Intergovernmental Panel on Climate Change reported that 8 to 10% of greenhouse gas emissions come from food lost during harvest and production or wasted by consumers (IPCC 2019).

There are many reasons explaining the large amount of food waste produced in the EU. At manufacturing stage, some by products are thrown away such as carcasses, bones from animals. When the quality and quantity of products do not meet the requirement (misshapen, damaged or overproduction), they go to waste. The majority of food waste in households mainly caused by people's habit of buying more than needed, making too big portion then discard leftovers, along with bad storage leading to spoiled food and their confusion over labels ("best before" label usually does not mean the product goes bad). Besides, for wholesale and retail, due to temperature changing or packaging defects, the quality may decrease and products are not qualified for selling or consuming. Other factors such as aesthetic standards and overstocking also result in food going to the trash. Lastly, the difficulty in forecasting demand and meeting customer preferences also results in food being thrown away in the end. (European Environment Agency 2014)

In Europe, many countries have been seeking solutions to reduce food waste. In France, for example, a law in 2016 banned supermarkets from throwing away edible food with a fine of €3,750 and they have to cooperate with a food waste NGO to redistribute unqualified food. Later in 2018, the UK government paired up with Wrap, a non-profit organization and IGD, the food charity to design future direction of reducing food waste at every stage of the supply chain. (Euronews 2019) In Finland, 900 S-market stores

offer “Happy hour” as a part of two-year campaign to decrease food waste. Almost unsellable food with reduced price by 30% is slashed to 60% off from 9 PM and many consumers enjoy shopping during this time. (The NewYork Times 2019) In addition to that, the app ResQ, established in Finland, is also an effective solution in which restaurants and food retailers in Finland sell limited portions that are over-produced on that day at lower price. (ResQ Club 2020).

# 3 FINLAND AS A TARGET MARKET

In prior to entering to Finland, it is important to understand the business environment and the environmental service industry or carbon-label market. In this chapter, the author analyzes the Finnish market and indicates opportunities for Klimato.

## 3.1 Business environment of carbon-label market in Finland

In this chapter, the author utilizes the PEST framework to analyse external factors affecting to Finnish carbon-label market.

### 3.1.1 Political factors

The business environment of Finland is very close to Sweden where Klimato established, sharing the same political structure as a parliamentary system and both are EU members. (Europa 2019)

There are two fundamental legislations concerning doing business in environment-related industry in Finland, which are the Environmental Protection Act and Climate Change Act (Ministry of the Environment 2016)

Regarding the Environmental Protection Act (527/2014), all EU member states abide by the principles of controlling emissions from the industry. This includes the principle of preventing and minimizing harmful impacts, the best available technique principle (BAP), the principle of environmentally best use and the duty to prevent or minimize harmful influence of parties that cause a risk of pollution. (Ministry of the Environment 2016)

The Climate Change Act is the first national decree of Finland explaining general long-term guidelines and provide regulations on a planning system for Finland's climate change policy. The Climate Change Act takes effect from June 2015, indicating the target of reducing greenhouse gas emissions by 80% in 2050 (Ministry of the Environment 2016).

Those legislations support the business concept of Klimato as they encourage actors in the restaurant industry of Finland to seek solutions to minimize the environmental impact, and to contribute to the emissions reduction goal of the Climate Change Act.

### 3.1.2 Economic situation

In general, Finland is a high-industrialized country with stable economy (Forbes 2018) combined with a low inflation rate (Statista 2019). In 2017, Finland's GDP was worth 233.6 billion euros (Statista 2019) increasing by 9% in comparison to 2015 (212 billion EUR) (Statista, 2018). The GDP growth rate of Finland is forecasted to increase by 1.73% in 2020 (Statista 2019), along with a highly-developed society. The GDP per capita in Finland is in the top 20 highest in the world (Trading Economics 2019) which indicates Finn's high standard of living. As a result, consumers can afford eco-friendly options with higher price. Most importantly, when they prefer environmentally-friendly products, eco-label is the factor that drives their intention. The increasing necessity of eco labels supports the business operation of Klimato and their future business partners.

Finland is the only country in Nordic region using Euro as the official currency. Meanwhile, the Swedish official currency is Swedish krone. The exchange rate SEK/EUR has been following an increasing trend during the period of five years from November 2014 to November 2019 (Figure 3). (European Central Bank 2019). This trend shows that the value of Swedish Krone is depreciated in relation to Euro. If this trend continues in the coming years, Klimato will make more profit in SEK when trading in Finland.

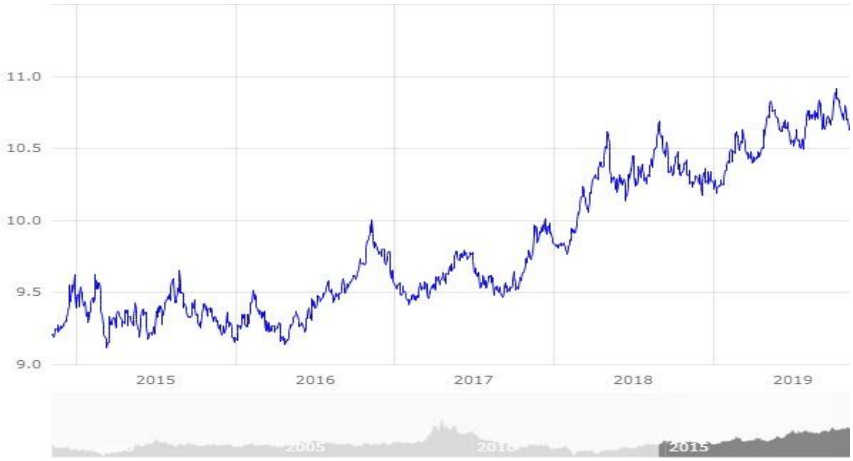


*Figure 3. The exchange rate of Euro (EUR) to Swedish krona (SEK) in the period of five years (Nov 2014 – Nov 2019) Source: European Central Bank 2019*

The labor cost in Finland is considered high as the average hourly labor cost in 2018 is estimated at EUR 33.6 compared to EUR 27.4 in the EU-28. (Eurostat 2019). The high labor cost indicates higher income of consumers.

### 3.1.3 Social factors

Finland's population is 5.5 million and the widely-spoken language is Finnish which accounts for 87.6%. Swedish is one of the official languages in Finland. There are 5.2% Swedish-speaking people living in this country. (Statistics Finland 2019). In addition to the official languages, Finnish people are well-known for their high English abilities as this country ranks sixth in English skills according to a survey carried out in 80 countries (Yle 2018). The language of Klimato's app is either Swedish or English, therefore, language barrier will not be an issue for customers to use Klimato web app.

According to a survey by European Commissions, respondents from Finland largely support climate-related technology and innovation as they believe those can boost the economy. (European Commission 2019)

*Table 4: Climate act statistics in Finland, Sweden and European Union (European Commission 2019)*

| | **Finland** | **Sweden** | **EU28** |
|---|---|---|---|
| Consider the carbon footprint of food purchases | 43% | 47% | 18% |
| Cut down on consumption of disposable items whenever possible | 77% | 81% | 62% |
| Try to reduce waste and regularly separate it for recycling | 83% | 91% | 75% |

The awareness of protecting the environment in Finland is considered high (table 4) with 43% of whom surveyed consider the carbon footprint of their food purchases as an action on climate change which is lower than Sweden at 47% and higher than the average of European countries at 18%. A majority of Finns strives to reduce the consumption of disposable items if possible (77%) and tries to reduce waste and separate it for recycling

(83%) (European Commissions 2019). Even though the share of Finnish people taking those actions as a way of protect the environment is lower than Sweden, it is still higher than the average of European countries. Additionally, more than half of respondents from Finland (65%) believe that business and industry should be responsible for tackling climate change. (European Commission 2019)

Nevertheless, according to a survey conducted by Sitra (2017), Finns' environmental awareness moves slowly from words to action. Only under a half of the respondents strives to choose responsible options in their daily life as they are more attracted by saving money, social contacts, innovations, health aspects, or ease (Rajantie 2017). Accordingly, almost one half of the respondents sees the priority of environmental-certificate-granted products but in reality, only one third actually choose them. (Sitra 2017)

The environmental awareness of younger generation is high. This is indicated by the demonstrations across Finland in 2019 with the aim of drawing attention to the climate change issue. The events were inspired by Greta Thunberg, a teenager from Sweden and around 3000 children and young people in Helsinki participated, showing their concern about climate change and worrying about their future (Yle 2019). At Finnish educational institutions, climate change becomes an important subject and a new climate studies programme is being developed in order to be part of every subject (This is Finland 2019)

### 3.1.4 Technological environment

Finland is a high tech country and the important role of internet is emphasized by the legal right for every citizen to get access to broadband connection (BBC 2019). The use of personal smartphone has increased by 25 percentage points since 2013 along with the growing demand for the internet. Finns tend to spend more time on surfing the web as it is shown in figure 4. 79% of 16 to 89 year old population use the internet several times a day in 2019, compared to 61% in 2013. (Statistics Finland 2020).

*Table 5: Use of information and communications technology by individuals in Finland from 2013 to 2018. (Statistics Finland 2020)*

| | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** |
|---|---|---|---|---|---|---|---|
| **% of population aged 16 to 89** | | | | | | | |
| **Internet users** | 85 | 86 | 86 | 88 | 88 | 89 | 90 |
| **Uses the internet several times a day** | 61 | 64 | 67 | 72 | 73 | 76 | 79 |
| **Smartphone in own use** | 56 | 63 | 69 | 72 | 77 | 80 | 83 |

In 2018, nearly 70% of the Finnish population from 18 to 64 years old joined in social networks and the most common social media channels were Facebook, Youtube, Instagram and Snapchat. The daily usage of social media increased by more than 20% in 2018 as well (Statista 2019). Klimato should take advantage of this trend and be active on social platforms, not only focus on building relationship with potential restaurants but also gain brand recognition and boost social engagement by providing climate-change-related information.

## 3.2 Industry analysis

Porter's (1980) five forces framework is used to evaluate the overall environment and industry from an outside point of view. The forces, which are suggested to have an influence on Klimato's carbon-label industry, are analysed.

### 3.2.1 Threat of new entrants

The capital requirement for entering the industry is low. In the process of performing calculations and developing software, there become barriers in accessing the underlying data. In Klimato case, it took 6 months from the beginning step of initiating talks with a data supplier – RISE (Research Institution of Sweden) to signing a license agreement, then 12 months to develop the software (Unger 2019). However, this amount of time could be reduced considerably with access to financial resources. This threat does not only concern new start-ups entering the market with competing solutions but also applies

to the case that established actors in the restaurant industry can develop their own similar solutions. To conclude, the threat of new entrants is considered high.

### 3.2.2 Threat of substitutes

The availability of alternative or similar labels is limited. In the eco-label market, there are some qualitative food labels such as Fairtrade, EU Ecolabel, Climatop, etc. (Ecolabel Index 2019). However, those are not considered as substitutes because they are used mostly in supermarkets. Meanwhile, Klimato focuses on labelling meals in restaurants. As a result, threat of substitutes is low.

### 3.2.3 Buyer power

Due to a small amount of alternatives for Klimato's carbon label, the bargaining power of customers is low. At the same time, the Klimato software requires integration with customer's existing systems. Therefore, buyer switching costs are considered high. (Unger 2019)

### 3.2.4 Supplier power

At the moment, there are only a few suppliers who provide $CO_2$e data of foods and they provide critical inputs to the final offering (Unger 2019). It is not easy to find substitute inputs as the data is calculated specifically for different regions, based on the origin of the food, means of delivery and other related things. Switching cost is high as well. The large amount of data that Klimato already set up for current customers will not be consolidated once they cooperate with a new data supplier, which can lead to the loss of current customers due to lack of unification. In conclusion, the bargaining power of supplier is high.

### 3.2.5 The competitive rivalry

There have been a few direct competitors of Klimato established in Sweden and Europe, who also sell software to calculate $CO_2$e emissions of food such as CarbonCloud and Eaternity. They are the two most well-known companies serving approximately 100 restaurants in Sweden and Switzerland. (Unger 2019) Klimato sees the opportunity to gain brand awareness and achieve first-mover advantages in Finland thanks to the absence of direct competitors on this market. Besides, traditional sustainability consultancies also offer $CO_2$ calculation service. However, they target at broad segments and deliver high-quality services at premium prices. Their service package can include

$CO_2e$ calculations, data visualization, sustainability-related strategies which may sound appealing to many businesses but not budget-friendly to them. (Unger 2019)

## 3.3 Analysis of Klimato in Finnish market

The author uses SWOT Analysis as a technique to determine and define Klimato's strengths, weaknesses, opportunities and threats in Finnish market. The result is based on the interview between the author and the co-founder H.Hansson (Table 6).

**Strengths**

Klimato is a company with a mission of assisting restaurant industry and consumers to reduce carbon footprint. This goal is qualified with the Best Available Technique principle of the Environment Protection Act, therefore, Klimato can see a future of being appreciated in Finnish market. When it comes to international experience, the company has made some partnerships with clients in Nordic countries such as Denmark, Norway other than Sweden. This means the company will be able to forecast the challenges and lower the risks when entering Finland.

**Weaknesses**

Klimato is a start-up company with limited financial resources. As a result, the company cannot afford new employees based in Finland but will initially sell products through existing channels. Moreover, lacking of network and knowledge of food service actors in Finland is also a weakness. (Hansson 2019)

Besides, Klimato is missing a brand identity in Finland. Therefore, it is necessary for the company to cooperate with big brands in Finland and invest in marketing (working with Finnish influencers for example) in order to gain brand awareness in this new market.

**Opportunities**

The Finnish market is very promising. First of all, products with environmentally- friendly purpose are highly appreciated in Finland. The government supports through environment-related regulations such as the Environment Protection Act and the Climate

Change Act. Klimato product can be seen as a solution to minimize carbon emissions for the food industry, to be more specific, for restaurants.

Secondly, the demand for carbon-label has been growing in Finland recently. Most of Finns are willing to pay more for environmentally-friendly brand the economy of Finland is stable. Along with low number of substitute and competitors, that makes it promising for Klimato to enter Finnish market.

*Table 6. SWOT Analysis of Klimato in Finnish market*

| **Strengths** | **Weaknesses** |
|---|---|
| Product with the purpose of supporting environment protection<br><br>Experience in other Nordic countries | Lacking of resources and knowledge of Finnish food service market<br><br>Missing brand awareness in Finland |
| **Opportunities** | **Threats** |
| Government supports (environmental decrees)<br><br>Increasing demand for carbon-label<br><br>Low number of substitutes | Only one data supplier with high power of raising the price<br><br>Big firms may create their own in-house solution to calculate carbon-footprint |

**Threats**

One crucial issue that Klimato should be concern about is the possibility of big brands in restaurant industry, who have to create their own in-house solution to calculate and compensate carbon footprint, and introducing their own label. For example, a firm who owns many restaurants in Finland and aims at building a environmentally friendly brand image, creating their own carbon label can be a part of their marketing strategy. Second, RISE is the only one data supplier of Klimato which explains their high bargaining power. The possibility of raising price can be a threat for Klimato  in the future.

# 4 MARKET ENTRY STRATEGY TO FINLAND

In this chapter, the author indicates briefly different entry modes, analyses different factors that influence a firm's choice of entry modes, applying to Klimato and design an ideal market entry strategy for the case company.

## 4.1 Factors influencing the choice of the entry modes

After analysing the internal and external factors, the next step is to decide how to enter a new foreign market.

According to Hollensen (2014, p339), there are three groups of market entry modes: export, intermediate and hierarchical modes. However, no entry mode is the best. Based on the current situation and the environment of target market, the company will choose an entry mode or combine some of them to achieve the most effective result.

*Table 7. Factors influencing the choice of entry modes (Hollensen 2014)*

| Internal factors | External factors | Desired mode characteristics | Transaction-specific factors |
|---|---|---|---|
| Company size<br>International experience<br>Product characteristics | Socio cultural distance<br>Market size and growth<br>Trade barriers<br>Country risks | Risk averse<br>Control<br>Flexibility | Transaction cost approach<br>Tacit nature of know-how |

Next, the author classifies factors that affect the choice of entry modes (Table 7) as well as analyzes Klimato's case to design a market entry strategy.

**Internal factors**

In relation to internal factors, the company size, international experience and the product characteristics are firm-specific factors influencing the entry mode selection.

The *size of the company* determines the ability of a firm's resource commitment. Generally speaking, SMEs prefer to take over high level of control in foreign market. However, most of SMEs cannot afford heavy resource commitment at an early stage and tend to choose export entry modes. International experience is also an important factor.

An experienced firm can reduce the cost and uncertainty in foreign markets. Direct experience with international markets increase the confidence of extra resource commitment. According to Johanson and Vahlne (1977), lower risk is very likely to achieve by experiential knowledge rather than acquisition of objective knowledge (Hollensen 2014, 335). As a result, direct investment is possible in the form of wholly owned subsidiaries, in other word, a firm can consider hierarchical entry modes to have high control but higher risk in foreign markets.

On the other hand, *product or service characteristics* determines where the production should be located and the level of control in international market. The variation of products' characteristics and use is very large, thus the sales process may also vary. When it comes to a product's technical nature with high complexity, a firm will use one of the hierarchical modes to work directly with customers because the product may need before and after sale service, which may not be handled by intermediaries in many foreign market areas. (Hollensen 2014, 335)

**External factors**

External factors come from the target foreign market, including socio-cultural distance between home country and host country, country risk, market size and growth, and trade barriers.

The *sociocultural factor* consists of the comparison of languages, levels of education, cultural characteristics and the more different the host country is, the more internal uncertainty the firm will have. This issue influence the choice of entry mode as when the perceived distance between the home and the host country is big, a company will prefer an option with lower resource commitment and higher flexibility such as export modes. (Hollensen 2014, 336)

On the other hand, when the *size of the market* as well as the growth rate are considerable, a company is more likely to be able to commit resources to the development and they can choose hierarchical entry modes with higher control. (Hollensen 2014, 337)

Next, a firm should also consider the *country risks* as an important factor. Not only economic factors are considered as risks but political factors should also be noticed. When a new market is too risky, a firm will prefer low resource commitment entry modes such as export modes. (Hollensen 2014, 336)

The last external factor is *trade barriers* in the target market. Tariffs and quotas applied on foreign goods and components, regulations and customer formalities encourage the involvement of local companies as well as assembly operations, which means hierarchical entry modes will be more beneficial for a foreign company. Besides, the preferences for local suppliers may make a company consider intermediate entry modes to receive help regarding developing networks and spreading out the foreign image. (Hollensen 2014, 337)

**Desired-mode characteristics**

Desired mode characteristics consist of three main factors: risk averse, control and flexibility. The entry modes decision will be affected by the preference of the decision maker and the firm as a whole.

If a company prefers risk-free options, entry modes with low resource commitment such as export and intermediate modes are suitable for them. However, when choosing minimal levels of resource commitment and risks, a firm may lose many potential opportunities to develop their international operations. On the other hand, if a company prefers higher control and has the ability to take more risks, hierarchical modes will be promising. (Hollensen 2004, 337)

There is a coherence between a firm’s control over operations in international markets and the level of resource commitment. The lower the level of resource commitment is, the less control a firm will have. Export entry modes are the example. Meanwhile, hierarchical modes provide high control in foreign markets but more resource commitment in return. When it comes to intermediate modes, licensing and joint ventures for example, the resource commitment required for the firm is not high but at an average level. However, management needs to assure the product quality standards. (Hollensen 2014, 338)

Each entry mode has different level of flexibility, sorted from the most to the least by this following order: export entry modes, intermediate modes and hierarchical modes. Clearly, hierarchical modes are the least flexible options, then the intermediate modes, both with difficulties in adapting to a changing market conditions. (Hollensen 2014, 339)

**Transaction-specific factors**

Transaction-specific factors are the last influence on the entry mode decision.

Transaction cost analysis approach is a framework used for selecting entry modes. If the transaction costs through an importer or agent are higher than through an internal hierarchical system, the firm should look for internationalization of their activities, for example, wholly-owned subsidiaries. (Hollensen 2014, 83)

Another factor in this category is tacit nature of know-how. When the firm's know-how is tacit, drafting a contract and licensing out the production are tricky due to the difficulties and costs for transferring its know-how. In this case, the firm will favor hierarchical modes, this brings the benefits from existing human resource, namely organizational routines in order to structure the transfer problem. (Hollensen 2014, 339)

## 4.2 Market entry strategy for Klimato

Klimato is a small firm with certain international experiences by doing international trade in Norway and Denmark. For that reason, they can reduce the risk when entering Finland, a similar foreign market locating in Nordic region. Additionally, the web application, labels and reports are not too complex but if assistance needed, production team is required to work closely with customers, thus both before and after sale are necessary.

Second, talking about external factors affecting the company, Finland is a neighbour country of Sweden, also similar to Sweden socially, politically, and both are European Union members. Moreover, Finland's growth rate is raising which makes this market very promising for Klimato. For these reasons, country risks are considered low and Klimato is very likely to be able to achieve high resource commitment for more flexibility and higher control over Finnish market.

Third, Klimato prefers to enter a new market step by step, sell their products through existing channel to Finland such as big partner like Sodexo in order to reduce the risk. The company also wants to utilize current marketing team from Sweden and

communicate in English unless automated translations through the advertisement platforms allows automatic translation. (Hansson 2019)

Lastly, Klimato's product know-how is not so tacit as the web application produces climate label for unlimited menus as a basic service when purchasing for Klimato's membership. Users will get an one-page of instructions to use the app. (Hansson 2019)

Due to those statements, Klimato should start with a low-risk entry mode to gradually build relationship and brand recognition in the Finnish market. When the company is able to commit with higher resource, it is possible to move forward and utilize hierarchical modes for higher control.

### 4.2.1 Piggyback

Indirect export is the least risky option and piggybacking is suggested in this case.

*Indirect export* is when exporting activities are managed by another domestic company instead of the producing company, for example an export house or trading company, usually without the manufacturing firm's involvement in the foreign sales. A firm can take advantage of the internationalization of an experienced exporter thus less commitment and investment required. This option comes with several risks, little or no control over the product or service being marketed in other countries, losing potential opportunities or lacking of contact with foreign market for example. There are usually five indirect entry modes such as export buying agent, broker, export house, trading company and piggyback. (Hollensen 2014, 347 – 350)

Piggyback or "pick-a-back" is when a firm acting as a rider makes a deal with a larger company (the carrier) who already operates in the target market. In most cases, the brand name can be remained the same. (Hollensen 2014, 352). Klimato can keep the brand name when its partner advertises the product, however, does not need to establish its own distribution. According to the interview, Sodexo is an important partner who helps the firm to be in touch with some Finnish partners. The profile of Sodexo is described in sub-chapter 4.4.4. In this entry mode, high resource commitment are not required and the firm can observe and learn how Sodexo sells the product. In return, Klimato has to give up control over its marketing activities and face a loss of profitable sales opportunities. However, piggyback marketing is a strategy that is beneficial for Klimato. *Piggyback marketing* is a firm taking advantage of the popularity or attention of another brand or special occasion to promote their own brand image, which helps to gain a considerable amount of publicity for a small investment (Medium 2018). Sodexo can

advertise Klimato's labels together with their relevant but not competitive product, service or event. For example, to promote their target of reducing their carbon emissions by 34% between 2011 and 2025 (Sodexo 2020) or to feature Klimato's label on a "Dish of the week". To conclude, it is an affordable start for a small foreign company.

### 4.2.2 Sales branch

When the company achieves a certain position in Finnish market as well as a strong resource commitment, establishing a sales branch (hierarchical mode) in the host market is the next promising step.

Hierarchical mode is when a firm chooses to take full responsibility for its own exporting and production activities in a new foreign market. This entry strategy requires a large amount of investment as well as high risk, low flexibility. (Hollensen 2014, 399) When establishing a foreign sales branch, a firm will transfer the sales function to the target market. Foreign branch brings a better customer commitment and allows the company to recruit local employees for the branch office. If the nature of the product is technical and complex, many servicing and supply of parts is required, a permanent foreign-based is necessary. Furthermore, in the case of positive results of market sales, a wholly-owned sales subsidiary could be established. (Hollensen 2014, 401)

In this entry mode, no second company is involved, Klimato is about to take more control and responsibility in terms of their sales activities while maintaining the marketing and production process in Stockholm, Sweden. A sales branch is helpful especially when the characteristics of Klimato's product need after sales service. The firm is able to be personally in contact with Finnish customers by employees based in the host market. At the same time, Klimato can control how their brand and product are advertised in the host country.

## 4.3 Potential customers in the restaurant industry

In this sub-chapter, the author presents the potential customer profile in the Finnish restaurant industry. The author suggested that Klimato should enter Finland by indirect entry mode, therefore, an international firm with experience of doing business in Finland is a necessary partner for piggyback strategy. Food service companies are suitable for Klimato's label as they can advertise the carbon label together with their catering service,

especially if they aim at sustainable brand image. On the other hand, the author utilizes the STP model, standing for Segmentation, Targeting, Positioning, which helps to identify the most valuable types of customer (or restaurant) (Mindtools 2019), and create a strategy that ideally suits Klimato from there.

### 4.3.1 Segmentation

On the level of service basis, there are four major groups in the restaurant industry. Firstly, *full service restaurants* are the ones who have dining locations with menu selections. Customers do not have to either prepare or serve their own meals. This segment targets at customers who look for higher-quality experience at a moderate to very expensive price. Some examples of full service restaurants are fine dining, casual dining, family style. Secondly, *quick service group* includes fast-food chains and fast casual restaurants with takeaway options and buffet. This segment offers similar service to consumers as at full service restaurants plus customization service in some places and usually takes little time to prepare. Customers can observe how the meals are prepared and consume off-premises, at home or work. The price range is less expensive than full service restaurants. The third group is *eating and drinking place*, consisting of caterers and refreshment stand vendors. Food is commonly consumed on-site, for example, catering company will prepare and serve meal at an event venue or refreshment vendors selling food at entertainment venues where patrons consume right away. Unlike full service and quick service segments, people serve themselves, choose food from a wide range of ready options. Lastly, *retail host restaurants* are located within gas stations and grocery stores and mostly franchises of major brands. In other case, some convenience stores replace with their own quick-service restaurants and menu items at a good price. (Chron 2019)

### 4.3.2 Targeting

Klimato targets at partners with several restaurants or chains who already have a certain group of customers being able to afford meals at moderate to high price range and willing to pay more for climate-friendly options. Additionally, restaurants offering fixed menu are ideal partners because calculating task will be simplified and easier to update in the future if changes in terms of ingredients may occur. Based on those criteria, full service and quick service are the most suitable target groups for Klimato when considering a partner in Finnish market. Eating and drinking place, retail host are less attractive since

the final consumers look for convenience and reasonable price or they have limited restaurant options to choose from such as meals served by catering company or refreshment vendors. As a result, carbon label will become less important in that situation.

### 4.3.3 Positioning

The author narrows down the industry to two potential segments which are *full service restaurants* (fine dining, casual dining, upscale dining, family style ) and *quick service restaurants* (fast-food chain, fast casual). Each type of restaurants are positioned in the following perceptual map based on quality and price range (Figure 5).

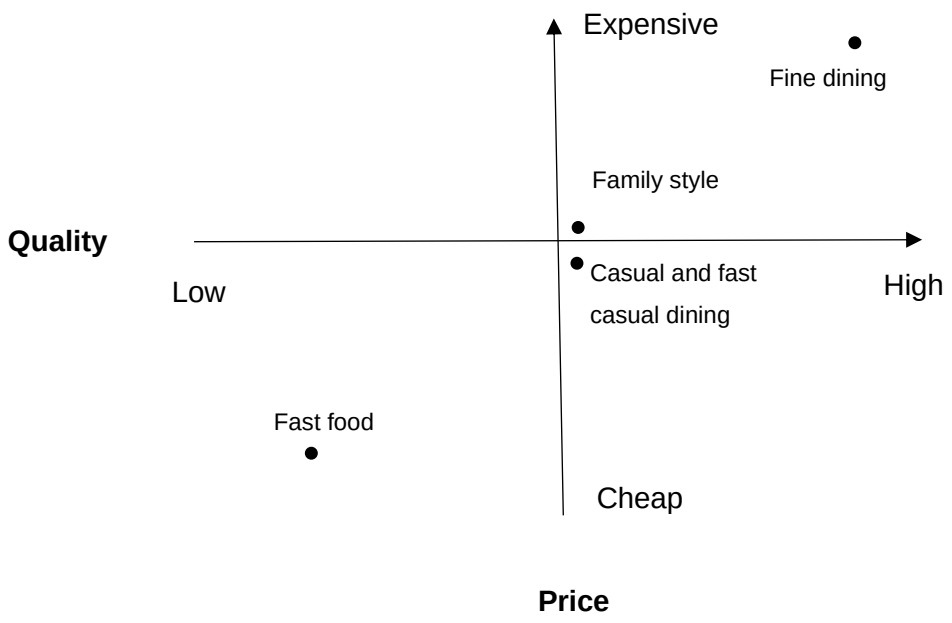


Figure 5: Perceptual map for full service and quick service restaurants

However, fast food chains or restaurants do have a poor reputation of the bad environmental impact. For that reason, they are not suitable for Klimato service. Family-style restaurants are not potential either due to the final consumers' need. They aim at big portions for a large group of people at reasonable price, therefore, price and quantity come first. To conclude, fine dining, casual dining and fast casual restaurants should be focused in marketing strategy of Klimato.

### 4.3.4 Examples of each target group

Next, the author made a list of examples for each type of restaurant segment.

*Piggyback partners: Sodexo and Compass Group*

**Sodexo**

Sodexo is one of the largest Food Service solutions providers in Finland who serves lunch for canteens and restaurants with over 200 Sodexo restaurants around Finland (Sodexo 2020). Most importantly, Sodexo is already a partner with Klimato in Sweden and Denmark. (Unger 2019)

**Compass Group**

The Compass Group is the seventh largest private employer in the world in corporate food and support services sector. In Finland, the firm has several business plans such as Eurest, Eurest Services, Medirest and Scolarest. In regards to food services, the Eurest is in charge of this segment. The restaurant services are located all over Finland. More specifically, Scolarest is responsible for modern school meals in primary and secondary school, with a focus on health, environment and a good taste. In addition to service for educational institutions, Medirest, a branch of the Compass Group, is an expert in providing food for medical institutions. (Compass Group 2019)

*Fine dining: BW Restaurants*

**BW Restaurants Oy** based in Finland is a private company owning 7 restaurants around Helsinki (Farang, Gaijin, Boulevard Social, Bronda, Levain, Goldfish and Ventuno) and 1 located in Stockholm (Farang). Their goal is to serve high quality food, world-class cocktails and relaxed atmosphere. They claim to use sustainable resources, put recycle at an important level and to minimize waste by offering half portions. (BW Restaurnats 2020)

*Fast casual dining: Bun2Bun Burger, Friends&Brgers*

**Bun2Bun Burger**

Bun2Bun is the first 100% vegan burger chain in Finland with two restaurants located in Helsinki. Their main products are burgers with plant-based, gluten-free, soy-free and

GMO free base (Bun2Bun 2019). The mission of this brand is very compatible with Klimato as they aim at protecting the environment by creating meat-free, vegan-friendly burgers. Bun2Bun's reputation is seen as an asset as the brand ranks 22nd on the *Europe's 50 best vegan restaurants* list and is the Finland's best vegan restaurant (Bun2Bun 2019). Additionally, Klimato has experience collaborating with a burger restaurant in Sweden, Bastard Burgers (Klimato 2019). Therefore, the company can utilize the same strategy of pitching to close the deal and then gathering data when a partnership is made.

**Friends&Brgrs**

Friends & Brgrs is a fresh casual burger chain in Finland with 10 restaurants in Finland and Germany. An additive-free label has been launched since 2017, featuring on seven out of eight burgers on their Finnish menu. Every part of the meal, they make by themselves in order to achieve a long-term goal of becoming totally additive-free. (Friends&Brgers 2020)

## 4.4 Marketing strategy

In terms of marketing activities, there are two groups of audience that Klimato should focus on. The first group is the restaurants who will buy Klimato's service. The second one is the final consumers of restaurants. If Klimato achieves brand recognition in Finland, builds trust and impression with those who frequently visit restaurants, the firm will be very likely to draw attention of new prospects. This applies to the stage when Klimato can take full control over their marketing activities in Finland as the firm cannot decide when choosing piggyback entry mode.

*Email marketing*

This is one of the internet marketing methods when a firm wants to send promotional messages such as advertisements, commercial messages, sales solicitation or call for business through email. (Sean 2019) The first action could be acquiring new customers through cold emails. Klimato may send an initial email giving information about the company, vision and mission. After that, one or two follow-up emails are necessary before the seller makes a decision to do cold-calling. Straight-up communication may not get customers right away but it is the easiest way to make prospects be aware of the brand. The second group is current customers, Klimato team can send out product

update announcement, product tips, tips for reducing environmental impact in restaurants,etc. In general, information that makes customers see the benefits when using the service.

*Social media marketing*

When it comes to individual, the goal of marketing is to raise awareness about the brand and build a fan community. According to the market research in sub-chapter 3.1.4, data shows that Finns are active users on social media, especially Facebook and Instagram. Advertising on social media requires valuable content as well as frequent posts, engagement to succeed. Klimato should promote content such as knowledge about climate change solutions, environmental issues in Finland, tips or news regarding the progress of their partners and the company themselves. Active publishing account will reach more followers thus create loyal audience. On the other hand, Klimato can do giveaway with restaurant partners to reward followers with free food or discounts as well as gain new followers who participate in the event.

On the other hand, since Klimato is a business-to-business company (B2B), LinkedIn is a necessary social network to participate. However, the content should be adjusted due to the professional nature of this channel. In order to impress prospects about the company itself and the benefits they may have when collaborating with Klimato, the firm should share mainly business-related news, advice as well as be active in groups or forums with Finnish audience to get noticed.

*Influencer marketing*

Another strategy is cooperating with food bloggers, influencers, ideally vegans or vegetarians, based in Finland, whose audience share the same concern about climate issues or interested in plant-based lifestyle. Examples of Finnish influencers are: Lotta Viitaniemi (@syotavanhyva, 3600 followers on Instagram) and Tiina Savolainen (@terveellisetherkut, approximately 16,200 followers on Instagram). Both of these influencers cook the food, upload the results and share some tips. Klimato can offer them to try the web app to calculate some dishes they make and reveal the carbon emissions emitted. Since both have their own blogs, having Klimato’s website linked in some of their blogs can drive more traffic to the company’s page.

*Offline marketing*

Although internet has been developing significantly and many companies shift to digital advertising, offline marketing still plays a crucial role in forming a solid brand awareness. Events with the relation to restaurants, environment or networking taking place in Finland is an example. Slush, for instant, is a startup and tech event taking place during November in Helsinki annually. The event gathers thousands of companies, investors from different countries, industries, from small to big size and it would be a good opportunity for Klimato to call for investment, look for new partners, talents and to be featured in one of the biggest events in Finland. (Wikipedia 2020)

At partner's premises, designing banner, poster or on-screen banner is a great way of being featured and seen by restaurant visitors. These posters can be about climate-smart tips or the hosting restaurant progress in reducing carbon footprint. The main objective is to be seen as much as possible.

## 4.5 Conclusion of the market entry strategy

To sum up, the author concluded that Klimato should use firstly an indirect export mode, piggyback in which the bigger partner will eventually advertise Klimato's labels together with relatable product of their own. After assuring a strong resource commitment, the firm moves forward and invests into a sales branch represented in Finland. At this phase, the company will take full responsibility over its operation in Finland and utilize the marketing strategies suggested in sub-chapter 4.4. The author gathers information about different factors influencing the choice of entry modes based on the SWOT Analysis, and the description of potential customers to come to a conclusion. The main target groups are food service companies, fine dining, casual and fast casual restaurants. Furthermore, a marketing strategy, which aims at two groups of audience, the industry actors and the final customers of restaurants, is also suggested to build brand awareness in the Finnish market.

In the case of new objectives or changes in the market occur, more research and analysis may need to be done. Otherwise, the suggested entry strategies are the most suitable options for the case company Klimato.

## 4.6 Suggestion for future research

This research mainly suggests the general ideas and strategies for Klimato's entry plan to the Finnish market. Thus, it should be necessary to execute deeper research about specific content for each strategy. For example, a detailed marketing content plan, specific restaurants in each target group. Furthermore, if the firm wants to improve the offline marketing, more research in terms of information about potential participants, big brands in upcoming trade fairs, events should also be prepared, which will help in creating a networking strategy as well as planning the expenses, employee and setting up goals in advance. In general, in order to run the business smoothly in Finland, the firm is recommended to work on the pricing strategy, regulations and business customs in addition to information mentioned above.

# 5 CONCLUSION

The purpose of this thesis is to study about the Finnish food service market for the case company Klimato and design a market entry plan for the firm to expand successfully to Finland. In short, Finland shares a lot of similarities in terms of political structure, parliamentary system as well as border with Sweden. Finnish people are aware and concern about environmental issues. The high living standard, due to Finland's stable economy, encourages them to spend more on climate-friendly choice.

In this research, the author utilized several frameworks to support her thesis, including PEST (Political, Environment, Social, Technology) analysis to describe the food service industry in Finland, SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis and Porter's Five Forces to study the target market, its level of competitiveness and the case company. Besides, the STP (Segmentation, Targeting, Positioning) model helps to identify the target group of customers. Furthermore, different entry modes and factors influencing the choice of entry modes were presented before the final plan was made. Interviews with the two founders of Klimato were also implemented in order to collect information about the case company, its products and current status. In addition to that, the author gathered information from trusted online articles and statistic providers.

Due to the current situation of Klimato, the author suggests to conduct an entry plan starting with a low-risk mode, indirect export. To be more precise, piggyback is the most suitable option, in which Klimato will enter Finland through a big partner who has international sales experience in the host market. In this case, Sodexo and the Compass Group are the examples. Establishing a sales branch is recommended as well when the firm reaches a certain position in the host market. In this phase, Klimato is able to take full responsibility over their sales activities and be in contact personally with clients in Finland. Moreover, because of a low level of brand recognition, the firm should drive their objectives to develop the marketing strategy to familiarize target customers with their labels. Lastly, a marketing strategy was introduced to increase brand awareness in the future.

To sum up, Klimato's mission and vision meet the demand of the Finnish market actors and consumers, which makes the firm such a potential when entering Finland.

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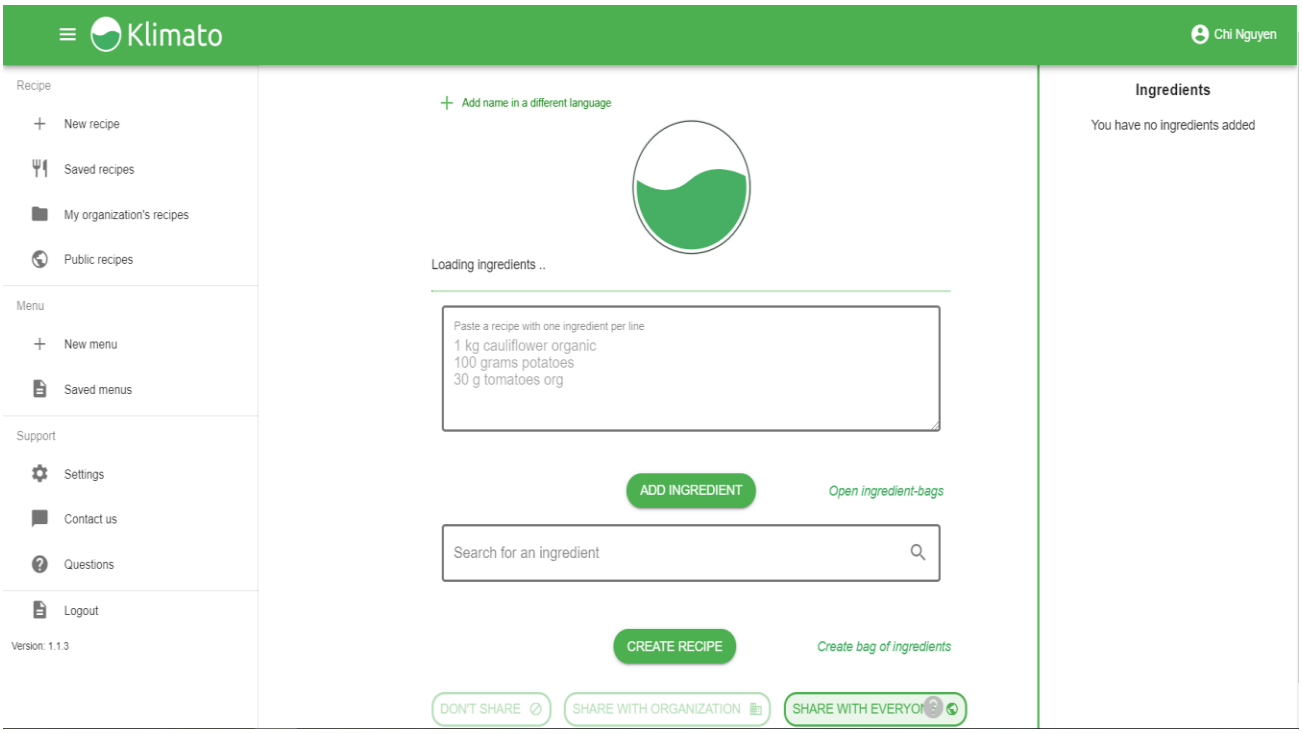
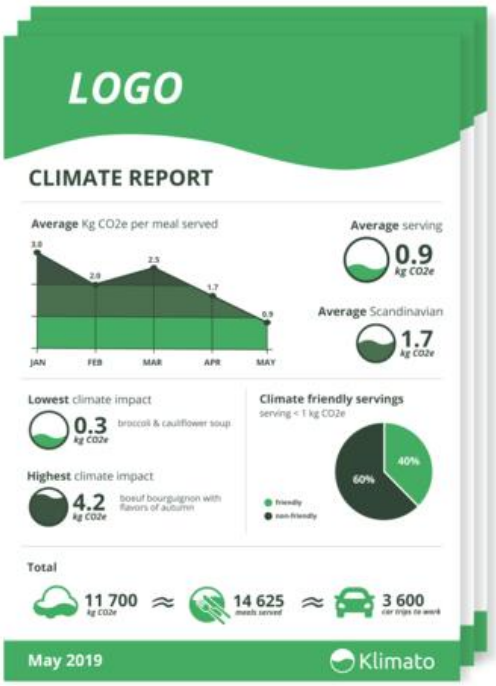
**Klimato web-app**




*Source: Klimato 2020*

**Klimato label and report**




*Source: Klimato 2020*