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Future Demand of Label Papers in the Chinese Market

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Future Demand of Label Papers in the Chinese Market

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Abstract

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Future Demand of Label Papers in China

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The thesis was conducted in order to investigate the future demand of label papers in the Chinese market. The Chinese paper market is an attractive segment for many local and international producers and the information gathered for the thesis is relevant for understanding the market dynamics. Initially, the plan was to utilize the Delphi method. However, due to changes and unwillingness to answer sensitive market information the possibility to conduct a Delphi study was limited. This transitioned the method to focus primarily on secondary research, such as the Asian Release Liner Market Study. This was combined with an interview to analyze the validity of information and support the primary research method. After research was conducted, the understanding of growth in Asia and primarily China for release liners and labelstock was obtained. This was coupled with the examination of market structure, competitors, and the marketing environment to gain a clear understanding of the label stock market. From the research, it can be highlighted that UPM is in a strong position currently, and is strengthening their position through capacity investments in China. Also, the growth outlook for release liners and labelstock remains strong, and is beneficial for UPM.

Keywords: forecasting, future studies, labelstock market

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Tiivistelmä

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Tarrapapereiden tulevaisuuden kysyntä Kiinan markkinoilla

Vuosi

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Kyseinen opinnäytetyön tarkoitus on tutkia tarrapaperimarkkinoita ja kyseisten tuotteiden tulevaisuuden kysyntää Aasian sekä Kiinan markkinoilla. Kiinan paperimarkkinat on houkutteleva useille kansainvälisille sekä paikallisille toimijoilla kasvupotentiaalin takia. Opinnäytetyön tietoa voidaan hyödyntää markkinadynamiikan ymmärtämisessä. Alustavasti Delphi metodia oli tarkoitus hyödyntää tulevaisuuden tutkimisessa, mutta UPM:n yrityspolitiikan muututta opinnäytetyön metodia muutettiin hyödyntämään aiempaa tietoa sekä raportettuja. Asian Release Liner Market Study 2014 on yksi kyseisistä raporteista ja raporttia tuettiin yhdellä haastattelulla. Tiedon keruun jälkeen ymmärrys Aasian sekä Kiinan markkinoista kasvoi sekä markkinarakenteen, kilpailijoiden ja markkinaympäristön ymmärrys kasvoi. Tutkimustyöstä voidaan päätellä, että UPM:llä on vahva markkina-asema ja asemaa vahvennetaan kapasiteetti-investoinneilla. Tutkimustyöstä voidaan myös päätellä, että tarrapapereiden rooli UPM:n portofoliossa kasvaa tarrapapereiden tulevaisuuden kasvun myötä.

Keywords: tarrapaperimarkkinat, tulevaisuuden tutkiminen, ennustaminen

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1 Introduction

1.1 Company Introduction

UPM is a large Finnish company currently operating in the forest industry. Currently, the aim of UPM is to integrate “bio and forest industries into a new, sustainable, innovation-driven future” (UPM- The Biofore Company). As mentioned in the About UPM section of the corporate website, UPM has divided their business areas into biorefining, energy, plywood, Raflatrac, and paper in the Asian and Europe & North American market areas, which was a part of their initiative to change their business structure (Strategy and Goals).

According to UPM’s strategy (Strategy and Goals) UPM is striving to shift their focus from the traditional paper business with innovation into new products and business areas. UPM is striving to create a lean and simple organizational structure to become more agile and responsive, while striving to capture new business growth in for example, label stock products in emerging markets. In addition, UPM wants to invest into new businesses such as biocomposites and biofuels. The sales of UPM were over 10 billion euros in 2014, and UPM operates in 65 countries with production in 14 countries (UPM- The Biofore Company).

1.2 Scope, Purpose, and Relevance

The aim of the thesis is to investigate the future of the specialty paper market in China from the perspective of UPM. As the future is extremely difficult to predict, the purpose is to analyze the specialty paper market development in China. As mentioned by Gordon (2008, 20), long-medium forecasts have a time span of 3-10 years as these forecasts try to understand larger strategic shifts in the operating environment of the organization; taking into consideration market changes, mergers and acquisitions, actions of competitors, and other factors. The idea originated from the knowledge that UPM is transforming its business, and an interest for the topic was gained while performing a short internship in China.

The current thesis is relevant to UPM as mentioned in the strategy of UPM (Strategy and Goals); an aspect of their strategy is to capture new business growth in label paper products for example. The definition of specialty papers is quite large, and the idea is to focus on the label papers and its future demand in the Chinese market.

2 Theoretical Background

The thesis will consider multiple areas of business including future studies and forecasting, international marketing, strategy, and demand planning. The information gathered in the theoretical section of the thesis will be used as a basis for the research methods.

2.1 Future studies and Forecasting

Forecasts are done daily by many different organizations as mentioned by Gordon (2009, 5) and all forecast claim to be true. For this reason, future studies and forecasting is an extremely broad topic that requires a critical mindset in order to evaluate the validity of these forecasts. This can also be considered one of the largest limitations in the thesis, which will be explained in the conclusions and analysis section in more detail.

According to Gordon (2009, 5), the environment of tomorrow is important for all organizations. The expectations of tomorrow will guide the decisions of organizations. However, forecasting and future studies can be simplified to the level of the individual by considering where one wants to be in 5 years' time, and what decisions are needed to get to that place. This simple example illustrates the need for organizations to evaluate and forecast appropriately, as good forecasts will make an organization to work smarter not harder, see new opportunities and threats while limiting the level of uncertainty that is present in their current environment. (Gordon 2009, 6) There can be negative consequences if an organization has not critically evaluated the forecasts that have been made.

Neves (2013,1) further illustrates that an understanding of marketing is needed to plan for the future and quotes Kotler whom states that marketing is "a social and managerial process by which individuals and groups obtain what they need and want through the creation, offer, and trade of products and values with each other." An understanding of marketing can help a company prepare for the future, as organizations often face a situation where they need to adapt to changing circumstances. The success of an organization is often related to their ability to visualize future changes that may occur in the market place, and correctly time decisions. (Gordon 2009, 13)

The thesis will consider a span of 5 years forward in the demand of specialty papers for UPM. These forecasts are known as long-medium forecasts as they consider a span of 3-10 years, and they concern larger strategic shifts in the operating environment of a company (Gordon 2009, 20). As Gordon states (2009, 20) this forecast considers a variety of possibilities which include new competitors entering the market, market changes, new products, possible research and development options, and mergers and acquisitions. A good forecast is one that is 'sort-of correct' which better prepares an organization for the before mentioned changes. (Gordon 2009, 24) Axson further strengthens this idea by quoting Peter Schwartz (2007, 159) and stating that "the end results... is not an accurate picture of tomorrow, but better decisions about the future."

In order to understand forecasting, it is important to distinguish the difference between a plan and a forecast. Axson defines (2007, 159) that a plan concerns with the idea of what

future should look like, while a forecast concern with what the future will look like. This subtle difference needs to be understood in order to critically evaluate forecasts. Often, plans are made in order to meet certain predefined objectives, and forecasts are made in order to visualize how different changes and events inside the organization or in the external environment may impact the meeting of the objectives. (Axson 2007, 160) Gordon notes Hamel and Prahalad (2009, 11) whom imply that the idea of forecasting is to monitor developments in order to be flexible when a new situation is present. The similarity in these two ideas of forecasting illustrate the belief forecasting should be used as a method to understand changes that may occur in order to respond to these changes correctly.

Forecasting plays an important role in the planning of a demand-driven organization, and these factors are explained by Neves (2013, 3-4). First of all, the entire organization must pay attention to any changes that may occur in the market place, while evaluation is used as a tool for measuring business performance. Time needs to be allocated for the generation of new ideas, and careful examination of changes in environmental factors is required to visualize the possible changes in the macroeconomic environment. These changes should be considered as opportunities, not limitations. In addition, Kuada (2008, 18) states that for an organization to outperform its' competitors in a specific market, it requires knowledge and information about that specific market. This knowledge encompasses possible strategies of competitors, and information about customers and their needs. The similarity of ideas by Neves, Gordon, Axson, and Kuada imply the importance of the need for an organization to constantly monitor the environment and forecast any potential changes that may occur in their internal or external environment. This is required so that the company can realign themselves when necessary.

2.2 Environment Analysis

An environment analysis is necessary to outline the environment in which the company is currently operating. It is important for companies to understand the changes that may occur in their immediate environment or external environment. (Neves 2013, 18) The immediate environment considers the changes to an organizations suppliers, distributors, competition, and customers while the external environment concerns with any macroeconomic changes that may occur. There are a few tools that can be used in conducting environment analyses.

2.2.1 PEEST Analysis and Types of Markets

There are certain characteristics in markets that show in specific industries. First, it is important to understand the difference between an industry and a market. Hooley, Piercy, and Nicoloud (2008, 60) define an industry as group of organizations that compete with the same products, while a market is a group of customers that are connected with similar needs. An example of a specific industry can be considered the forest industry in Finland, while an ex-

ample of a market could be the paper market in Asia. There are certain types of markets that may occur in industries (Hooley, Piercy, Nicoloud 2008, 89-90). Markets in a stalemate often are characterized by an opportunity to gain a volume or specialization advantage. A volume based market often occurs when the differentiation of products is low, yet there are advantages in the size of the market. Specialized markets occur when the products are specialized products and companies within the market experience different returns on scale. Fragmented markets occur when none of the above occurs.

One of the most common methods to analyze the environment is the political/legal, economic, demographic, ecological/physical, social/cultural, and technological analysis, also known as the PEEST analysis. (Kotler, Keller, Brady, Goodman & Hansen 2009, 154) The thesis will utilize this common tool to analyze the changes that occur in the macroeconomic environment. A company should not only analyze these, but also create action plans according to changes that may occur in these four key areas in order to outline opportunities and lessen the impact of threats (Neves 2013, 21). This framework is supported by Hooley, Piercy, and Nicoloud (2008, 60) by analyzing the current environment in a broad context inwards towards the current competitive environment to view changes that may occur.

When investigating the economic environment, it is important for marketers to understand purchasing power and the different forces that affect it. (Kotler et al. 2009, 163) Purchasing power in a certain economy outlined by Kotler et al. (2009, 163) is dependent on the income, savings, prices, debt and available credit. Often industries are divided into different categories, and these are subsistence, raw material exporting, industrializing, and industrial. (Kotler et al. 2009, 163) Subsistence economies is an economy in which livelihood is mostly made up of farming. Raw material exporting economies are reliant on the exporting of raw materials for production. Industrializing economies are economies that are industrializing, and often exist when there is a new rich class with a constantly growing middle class. Industrial markets have a rich market for all goods. In addition, markets can also be divided by incomes. (Kotler et al. 2009, 163) The five different categories by which markets can be divided are very low incomes, mostly low incomes, very low and very high incomes, low, medium and high incomes, and mostly medium incomes.

The next environment that can be analyzed is the demographic environment. As stated by Kotler et al. (2009, 157), the main aspect that is studied is the population. The information about the population investigated is size, growth rate, age distribution, ethnic mix, educational level, household pattern, and regional characteristics.

Preceding a demographic study, the social-cultural environment is studied. Society shapes the values and norms that individuals possess and this shapes consumer preferences. This envi-

ronment can be subdivided into how people view themselves, view others, view organizations, view society and view nature. It is important in a social-cultural study to understand core cultural values. These are the values that are passed from parents to children, and are reinforced in school. (Kotler et al. 2009, 164) Marketers are unable to change these values however; secondary-beliefs can be changed by marketers.

An analysis of the ecological and physical environment should be considered as well. The rise in awareness for the deterioration of the environment has forced legislators to create new laws to protect the environment. (Kotler et al. 2009, 165) This change in attitude will have implications on business; while consumers have an increased interest in the environment. Corporate environmentalism defined by Kotler et al. (2009, 168) is the organizations recognition of environmental issues and its integration into the strategic objectives of the company.

An analysis on the legal and political environment should also be conducted. This environment is composed of the government, laws and institutions that can influence or limit organizations and individuals. (Kotler, et al. 2009, 171) New legislation can either increase or decrease opportunities of businesses. Kotler et al. (2009, 171), highlight that business legislation has four main purposes, and these are to protect companies from unfair competition, protect consumers, protect the interests of society, and charge businesses the costs that they do to society.

The final environment that should be investigated is the technological environment. As stated by Kotler et al. (2009, 169) technology is one of the most influential forces that is shaping the future of people's lives, and technology often creates long-term changes that may not be apparent. When analyzing the technological environment, Kotler et al. (2009, 170-171) illustrate four main aspects that should be kept in mind. The first aspect is the accelerating pace of change, which identifies that the time between the introduction of new technology and its' implementation is decreasing. In addition, with the increase of technology leads to almost limitless opportunities for innovation however, regulation on unsafe products is increasing as well. Also, companies have varied research and development budgets, as companies are increasingly interested in the creation of something unique.

These two ideas are important for the thesis in order to understand the potential changes that UPM sees that may occur in the market and the environment in which it operates in. A good PEEST analysis will provide a framework for outlining potential changes that may occur in the operating environment

2.3 Competitor Analysis

In order to gain a complete understanding of the future demand of specialty paper products in the Chinese market, an understanding of the customers and competitors must be gained. Neves refers to Juttner (2013, 7) whom states that the new business model relies on the gained competencies of the marketing and supply chain, as well as maintaining the relationships in both. Companies should be viewed as networks, and the network of the company has an effect on the value that it generates, (Neves 2013, 4) and this is why an understanding of the company network must be understood. In addition to understand the future demand of specialty papers, a competitor analysis must be completed as competitor analysis can be used as a strategic tool.

2.3.1 Competitor Analysis

A company should audit the processes of their competitors in order to outline where the company is in relation to its competitors, resulting in the knowledge about the business, market and the methods in which their competitors are adding value. This will lead to the creation of appropriate strategies that will utilize the opportunities. (Neves 2013, 37) However, a company must be able to differentiate between their resources and competencies.

Neves references Grant (2013, 39) whom states that a company must be able to differentiate between their resources and competencies. Often, resources are the basic unit of analysis which includes intellectual capital, human resources, capital, and other factors that are used in the creation of products and services. Neves further elaborates Grants point of view (2013, 39) that the resources alone do not create value; the resources of an organization must be organized in such a way that they create organizational competencies.

Neves divides resources into intangible, tangible, and human resources (2013, 40-41). A great example of an intangible resource is a brand, or the intellectual property rights that an organization may own. On the other hand, tangible resources include financial and physical resources. These can be for example the ability to gain funding, or the different production possibilities that an organization may have. Human resources refer to the abilities, knowledge, creativity and any other human factors that the human capital offers to the company. When these resources are organized in the correct way they create competencies for the organization. The competencies of an organization are the processes that it carries out extremely well. (Neves 2013, 42) After careful analysis of the environment and the competitors, an organization can identify the critical success factors or the factors that “determine the capacity for surviving and prospering” (Neves 2013, 42).

These ideas presented by Neves can be utilized in competitor benchmarking. Hooley, Piercy, and Nicoloud refer to Swain, (2008, 116-117) and state that benchmarking is the analysis of

strategies and operations of the best companies that operate in and outside the industry that the company operates in. Benchmarking can be carried out for the whole value-chain, or for certain processes of competitors and these indicate strengths that the company may want to adopt. However, benchmarking should not only be limited to the direct competitors operating in the environment, but also include companies that may have capabilities in entering the market in the long run. In addition, organizations must consider the potential substitute products that may change customer expectations and cause shifts in the preferences of customers. (Hooley, Piercy, Nicoloud 2008, 118-119).

Hooley, Piercy and Nicoloud state four main factors that were generated by Lehman and Winter (2008, 120-121) that can be used in competitor analysis. The first stage is to identify the current and future objectives of competitors. This can give ideas about the current objectives that competition is trying to achieve, and the methods that they may use. Second is to understand the current strategy of competitors. An analysis of competitor strategy can more clearly evaluate the opportunities and threats that are present. Third is to analyze the resources of competitors. An analysis of the resources can indicate what the competitors will be able to do in the future. Finally, a prediction of the competitors' future strategy can be completed. A concise analysis of the previous stages can indicate what the competitor will do in the future.

3 Methodology

Due to changes in UPM policies, a Delphi study was not possible as a primary research method, and the initial method of research had to be altered. However, a report on the release liner market was made available, and document analysis was used as the main research method. This was supported by an interview with an individual whom has extensive experience and knowledge about paper sales in China. Document analysis was conducted for all secondary data that was collected, and the analysis of the data is conducted in the Secondary Data Analysis section.

First, information regarding the Chinese market, market environment, and competitors information will be read in order to gain a complete understanding of the current and future market environment. As stated by Bowen (2009), document analysis is a procedure for reviewing and evaluating documents, and document analysis should be used in order to understand and develop knowledge through the examination of documents in order to meet research objectives. Bowen (2009) identifies that document analysis involves skimming, reading and interpretation of documents. In order to meet research objectives, these three methods were used first to outline whether information is relevant, second to gather information, and third to interpret findings with research objectives in mind.

While conducting secondary research, the main objectives were to outline information that is relevant for the completion of the thesis. Information was gathered during the reading of the study, irrelevant information such as information regarding other geographic regions was discarded for example. After relevant information was gathered, a content analysis was conducted. Content analysis is used in order to gain an understanding of the information that is presented through the organization of information into categories which are related to research objectives. (Bowen, 2009) Bowen (2009) identifies that this process involves the categorization of relevant and irrelevant data through a thematic analysis.

Heaton (1998) further supports the ideas of Bowen by indicating that secondary data is data that has been collected before, and outlines that the inexpensiveness of secondary data is an asset of when utilizing secondary data. Heaton (1998) also indicates that secondary data can be used to create new knowledge, new hypothesis, and support existing theories. An important fact that should be noted is that the design, conduct, and analysis of qualitative and quantitative data are based on the interpretation of responses. Thus, secondary analysis is not less problematic as it is dependant on the researchers ability of form critical insights. (Heaton, 1998)

The next process in document analysis is the analysis of credibility of information. The desk research / secondary research section identifies the methods that were used in the analysis of the credibility of information. Briefly outlined, it involves an analysis of the methodology used in the study, an indication of copyright, and how valid the information is to the answering of research objectives. An interview was conducted in order to deepen information gathered from the release liner market study, and was used as a supporting tool when conducting data interpretation. It should be noted that a similar document analysis process was used when conducting the competitor analysis which utilized information from Canadean Company Reports and other sources.

Finally, Bowen (2009) mentions certain steps that are required for the correct evaluation of evidence that has been collected. First of all, the meaning and contribution to the research topic should be established. Also, an evaluation of relevance of the information should be conducted, as well as the original purpose of the document. Finally, the methods that have been used should be indicated somewhere to evaluate whether the information is credible.

3.1.1 Desk / Secondary Research

In order to complete competitor and environment analysis, desk and secondary research needs to be undertaken. Secondary data is data that has been collected before, and the main advantage of secondary research is that information is readily available. (Kuada 2008, 103) The importance of secondary research is further elaborated by Hague et al. (2013, 51) by

stating that a good understanding of the market environment can be obtained by correct desk research. However, the validity of the information needs to be evaluated before the information can be utilized. (Hague et al. 2013, 54) Secondary research can be found on corporate websites, newspapers, and other sources (Hauge et al., 42) and desk research should be used a basis for primary research. (Hague et al., 54)

Due to changes of organization policies in UPM, the main focus of the thesis had to be changed to utilizing more information from secondary sources. This was the result of limited cooperation in the form of interviews. However, excellent specialized market reports were made available for use which focused on the release liner market in Asia. Saunders, Lewis, and Thornhill (2009, 256-257) define secondary data as data that has been collected previously, and note that secondary data can be used in the meeting of research objectives. First, it is relevant to distinguish between the types of secondary data.

Saunders et al. (2009, 258-262) divide secondary data into three categories. The first category of secondary data is documentary secondary data, and this data is obtained from a variety of mediums that has been documented. The data can take the form of emails, memos, meeting notes, newspaper articles, and also audio and video material. (Saunders et al. 2009, 258) The second type of secondary data is survey based secondary data which has been collected as a census, continuous surveys over a period of time, or adhoc surveys. (Saunders et al., 259-262) A census is usually conducted by a government agency and is of high quality and well defined. Continuous surveys are surveys that are conducted over a period of time in a regular interval. Adhoc surveys are often conducted once, and are specific on the topic of the survey. Saunders et al. (2009, 262) define the final source of secondary data as multiple-source secondary data, and this data can be based from documentary data, survey secondary data, or a combination of the two.

There are advantages to using secondary data in the research process (Saunders et al. 2009, 268-269). The first advantage indicated by Saunders et al. (2009, 268) is the saving of time and resources as the data has already been collected and analyzed. Often this results in the researcher being able to allocate more time into conducting an analysis of theoretical and substantial issues. Saunders et al. (2009, 268) also indicate that secondary data may be more unobtrusive and of higher quality as market research organizations and governments are more experienced in collecting and analyzing a large amount of data. Bowen (2009) also indicates that the main advantages of using secondary data is that information is readily available, it is cost effective, and generally available in multiple formats.

There also are disadvantage to using secondary data. (Saunders et al., 269-272) First, the collection of the data may have been completed for a different purpose and Bowen (2009)

also indicates that information may have been collected and analyzed for a different purpose. In addition, Saunders et al., (2009, 270) outline that if data has been collected and analyzed for commercial reasons, gaining access to the data may be difficult and costly. Bowen (2009) also mentions that information can be hard to access, especially when that information is for commercial purposes. Saunders et al., (2009, 271) also indicate that the data may have been originally collected for a specific purpose, making definitions unsuitable. The information that has been analyzed could have been analyzed for the benefit of the organization responsible for the analysis. These are the disadvantages of using secondary data.

Correct evaluation of secondary data is significant when using secondary data in business research. Saunders et al. (2009, 272) state that evaluation of secondary data is critical in order to indicate whether the data can be used in the meeting of research objectives. Saunders et al. (2009, 273) define this as measurement validity, or the ability of the information to meet research objectives. Another aspect to consider is the coverage of data. (Saunders et al., 274) From the researchers' perspective, this means that the researcher has sufficient data to analyze after the exclusion of unwanted data. Saunders, Lewis, and Thronhill (2009, 275) indicate that the source should be evaluated for reliability and validity. In other words, the reputation and the means by which the data was collected should be investigated and a search for indications of credibility should be conducted. The researcher can investigate these by looking for copyright statements and examining the methodology of data collection. Saunders et al. (2009,277) also note that potential bias of the author must be evaluated. The researcher should indicate the potential of deliberate distortions which occur when data skewed due to inaccuracy or on purpose. An objective view should be maintained when analyzing the bias of the data.

4 Environment Analysis

As stated before, the following section will utilize a PEEST analysis. This analysis is necessary in order to gather in depth knowledge about the market conditions in China. This section utilizes a special report on China and another special report about business in Asia which were published in *The Economist*. These two reports analyzed China in detail, and the overall business climate in Asia.

4.1 Political & Legal Environment

The current political environment of China is in transition. The current President of the Communist Party, Xi Jinping, has a few targets on his agenda, and the important three are markets, consumption, and innovation. (Foulis, 2014) This idea is supported by Miles (2014) whom expressed that the Central Committee declared in November that market forces must play a bigger role in the transition of China. Corruption can be seen as a problem in China, and Xi Jinping has also stated that the tackling of corruption is a target of the Party. On the

other hand, business in China often relies on good ties with the Party which can create complications. (Miles, 2014)

China's political party believes that urbanization is the key to continued economic growth, and Miles states that almost all local governments have some target for urbanization. The national target for urbanization is 60% by the year 2020, however, this creates a problem. Miles (2014), states that local governments have relied on heavy borrowing to stimulate growth through urbanization, and often they have seized land from farmers for collateral. In addition, local governments receive about 50% of fiscal revenue, while account for about 80% of total spending. Local governments are responsible for providing public services such as education and healthcare. (Miles 2014) In addition, the growing wealthier middle-class can be seen as a political risk (Miles 2014) as they start finding their political voice and are more interested in the ways their cities are run.

4.2 Economic Environment

China's economy is one of the largest in the world and Miles (2014) quotes James MacGregor, the author of *One Billion Consumers*, and states that the Chinese consumer represents the potential dream of "staggering profits for those who get here first." China's nominal gross domestic product is expected to grow to over 40 trillion dollars at current exchange rates by the year 2030. Due to government investments, the gap between the more developed east and the less-developed west has lessened, however, in order to see continued growth it is important for China to get their cities right. (Miles 2014) If this is not achieved, it could lead to worsening inequality, spread of slums, and growing climate change.

China has successfully grown to a large economic force on a global scale, and as pointed out by Miles (2014), about 15 years ago there was a non-existent middle class. Miles utilizes information by McKinsey, whom predicted that the current upper middle-class who earn about 16,000 to 34,000 dollars in real terms will grow from 12% to about 50% of the total population. Foley (2014) points out that economists worry that the more developed places of South-East Asia and China will get caught in a middle-income trap which will slow down innovation and development.

When inspecting the business environment of Asia, Foulis (2014) states the region has changed in the past 20 years, with 54% of trade occurring inside the region, an increase of about 20% in comparison to the 1990's. Foulis (2014) also mentions that some Asian companies are discarding their old-traditions by state-owned enterprises opening up, Asian conglomerates becoming focused multinational companies investing in brands and technology while internet entrepreneurs are changing the corporate order. This translates into increased competition for many Western multinational companies as Asian companies become more sophisticated.

(Foulis 2014) A trend indicated by Foulis (2014) is that the need for quality products in Asia may occur faster when compared to industrialized countries during their industrialization period. The reason for this can be seen in the increase of consumer awareness of global norms due to social media and the internet. Foulis (2014) indicates that this is an opportunity and a threat as business models based on selling Asian products cheap and fast may not be feasible in the future.

4.3 Socio-cultural Environment

For the socio-cultural environment analysis, information from The Hofstede Center 6-D Model will be used which was learnt and utilized in previous studies. Also information from the Economist articles will be used to see identify changes that may be occurring in the Chinese culture.

The 6-D Model divides cultural aspects into six different dimensions, and these dimensions are power distance, individualism, masculinity, uncertainty avoidance, pragmatism, and indulgence. (What about China? 2014) Power distance outlines the fact that all individuals in societies are not equal, and shows the attitude for these inequalities. This dimension is defined to be the level of acceptance for power being distributed unequally. China is one of the higher ranked countries in this dimension, with a score of 80. This means that Chinese people accept inequalities in their society. As mentioned in The Hofstede Center (2014), China's power ranking indicates that people should not aspire to reach for a higher rank in society, and subordinate-superior relationships are often polarized.

The next dimension is individualism, and this dimension addresses the "the degree of interdependence a society maintains among its members. (What about China?, 2014) This dimension investigates whether individuals see themselves more as individuals, or together. In other words, in an individualistic society the assumption is that people look after themselves and their direct family while in a collectivistic society people look after a group as a whole. China scores a 20 in this category which translates society to being more collectivistic and people often look after the interest of groups, not necessarily themselves (What about China? 2014). The cultural analysis by The Hofstede Center (2014) states that in-groups often see preferential treatment in promotion and hiring situations, while personal relationships often are of greater importance than the task at hand and the company.

The third dimension is masculinity and a high rank in this dimension is often indicative of the degree by which society is driven by competition and success, while a low rank indicates a more feminine society in which importance is placed on the caring of others and quality of life. (What about China? 2014) China scores 66 in this dimension which indicates a more masculine society. This means that the society is success driven and competitive, and this can be

seen with migrant workers moving to cities in search for work and leaving their families behind, and with Chinese students placing high importance on exam scores. (What about China? 2014)

The following dimension is uncertainty avoidance, and The Hofstede Center (2014) defines this as the extent by which individuals feel threatened by unknown situations and the beliefs they hold that are used in the avoidance of these unknown situations. China scores a 30 for this dimensions which means that Chinese are comfortable with uncertainty and ambiguity. A great example of this is the Chinese language, which is full of cultural idioms and meanings that are ambiguous and difficult for Western people to comprehend. (What about China? 2014)

The next dimension is pragmatism, and this is the method in which a society maintains links with its own past while dealing with future and present challenges. (What about China? 2014) A low score indicates a normative society and often prefer to maintain traditions and norms while change is suspicious. On the other hand, a high score indicates a more pragmatic society, and see change as way to prepare for the future. (What about China? 2014) The Hofstede Center (2014) has assigned a score of 87 in this dimension, and identifies that China is a pragmatic society. This translates to individuals believing that the truth often is dependent on changing circumstances. Also, it shows that traditions are easily changed according to different conditions, and people own a strong desire to save and invest.

Indulgence is the final dimension in The Hofstedes 6-D model, and this is defined as the “extent to which individuals control their desires and impulses.” (What about China? 2014) China scores a 24 in this dimension, and this means that China is a restrained society. The Hofstede Center (2014) mentions that a low score is often indicative of pessimism and cynicism; individuals do not put emphasis on the gratification of their desires. In a restrained society, people feel that societal norms restrain their actions and indulging oneself is somewhat wrong.

On the other hand, Chinese culture is seeing some changes due to continued economic growth. Miles (2014) illustrates that the new middle class is reluctant to share the advantages of economic growth with rural migrants, and refers to a study conducted by the Chinese Academy of Social Sciences which identified that one third of respondents living in Shanghai do not want a migrant as their neighbor. Another study completed by the Chinese Academy of Social Sciences illustrated that only half of the 7,300 respondents believed that they live in a good society. The respondents identified that equality, democracy and being rich and powerful are achievements of a good society. (Miles 2014)

Another social problem that has become relevant is the household registration issue which migrant workers and their urban born children face after moving to urban areas. According to Miles 2014, urban born children have extreme difficulty in changing their household registration from rural to city-dweller which entitles them to public services such as public schools and welfare in cities. If migrant workers and their children were allowed to change their household registration Miles (2014) believes that their spending power would approximately triple as the workers do not have to constantly save money to pay for school and potential medical bills. According to Foulis (2014), a strong trend in Asian societies is the shift from quantity to quality as the growing middle-class is demanding a more livable environment and quality products.

4.4 Ecological & Technological Environment

Due to China's plan for rapid economic growth and increased urbanization, several problems have become present. According to Miles (2014), Prime Minister Li Keqiang has admitted several problems in cities such as worsening pollution and social tensions. Also, rapid urbanization has led to China's cities consuming about three-fourths of China's energy, which is mainly produced by coal. In 2006, China surpassed America as the main emitter of carbon dioxide, and currently is emitting twice the amount that America is emitting. (Miles 2014) However, the political party is building an eco-city in cooperation with Singapore. The eco-city project has strong support from the government as the Chinese public is starting have more resentment towards the deteriorating environment. (Miles 2014)

Ho Tong Yen ,the CEO of the eco-city's development company, believes that many methods used in the Sino-Singaporean eco-city will be used in the future urbanization of China as the public starts to demand more and more livable environments. (Miles 2014) Also, the Communist Party aims to expand the current high-speed rail network by two thirds, and this means that cities with a population of at least 500,000 will be connected to this high-speed network. Asia is a technologically oriented geographic area, and Foulis (2014) indicates that marketplaces where merchants deal directly with consumers are of greater importance in Asia. For example, 90% of retail sales happen online in China, while this figure is at 24% in the United States.

This analysis is important for the thesis as it outlines the idea that Chinese consumers are becoming more demanding. With social media presence and an understanding of global norms, Chinese consumers may start to demand more environmentally friendly products as they become aware of their deteriorating environment.

5 Competitor Analysis

In order to understand the environment in which UPM operates in, an investigation to UPM competitors was completed. In order to understand the complex nature of the paper industry, three competitors were chosen for analysis. Avery Dennison is a large label paper converter creating end-products for customers and directly competes with UPM Raflatac. The second competitor chosen was China Sunshine Paper Holdings Company Limited which is a domestic competitor of UPM in China, and it was chosen to gain insight into local competitors. The third competitor chosen was Asia Pulp & Paper Co., Ltd. as this is an Asian paper producer and converter and directly competes with UPM in Asia. These competitor analyses should provide a framework for understanding the complex nature of the paper industry. The main aspects of analysis will be SWOT analysis and Business Analysis. .

5.1 Avery Dennison Corporation

Canadean Company Reports (2014) indicate that Avery Dennison Corporation is a United States based producer of pressure-sensitive materials, branding and supply chain solution provider, and a producer of other paper converted products. Avery Dennison reported revenue of USD 6 036 million, with an increase of 0.15% annually.

5.1.1 Business Description and Analysis

Canadean Company Reports (2014) state that Avery Dennison Corporation has a broad product portfolio, and products offer solutions for identification and decorative purposes; meeting the needs of a range of customers. Avery Dennison Products include pressure-sensitive labeling materials, retail apparel ticketing and branding, radio frequency identification inlays and tags, specialty tapes, imprinting equipment, and a variety of specialized labels for automotive, industrial and durable good applications. The main competing products of Avery Dennison Corporation are label products, and this is a direct competitor of UPM Raflatac. Avery Dennison Corporation and UPM Raflatac are both end-users of base papers.

Avery Dennison Corporation operates globally, and Avery Dennison products are found in the industrial, consumer and medical sector. (Canadean Market Report) Currently, Avery Dennison has targeted their focus on the delivery of cost-effective products to a diverse group of consumers, and according to Canadean Company Reports (2014), Avery Dennison Corporation believes in the strengthening of their market position through the introduction of new products, network expansion, internal development, strategic alliances, and acquisition and diversification.

Avery Dennison has divided their business into three distinct segments. These segments are Pressure-Sensitive Materials, Retail Branding and Information Solutions, and Other Specialty Converting Business. (Canadean Market Reports) Pressure-Sensitive Materials sell graphic

films, Avery Dennison Corporation brand reflective products, and provides papers, plastic films, metal foils, and fabrics that are coated with company-developed and purchased adhesives. These adhesives are specially coated with backing papers and films. Retail Branding and Information Solutions manufacture and sell brand identification, price marking, and information management solutions to a variety of customers, including retailers, apparel manufacturers, and distributors. Canadean Company Reports (2014) indicate that major products of this segment include woven and printed labels, variety of tags, and different printing applications. The final segment of Avery Dennison Corporation according to Canadean Market Reports (2014) is the Other Specialty Converting Business. This segment consists of Vance Medical Technologies, which produces pressure-sensitive adhesives for surgical wound care, and other medical applications. The products are sold to medical suppliers, and health-care providers. It should be noted that Avery Dennison sold Office and Consumer Products as well as Designed and Engineered Solutions to CCL Industries Inc. in June 2013. (Canadean Company Reports) The figures below indicate the differentiation of revenue by segment and region for Avery Dennison.

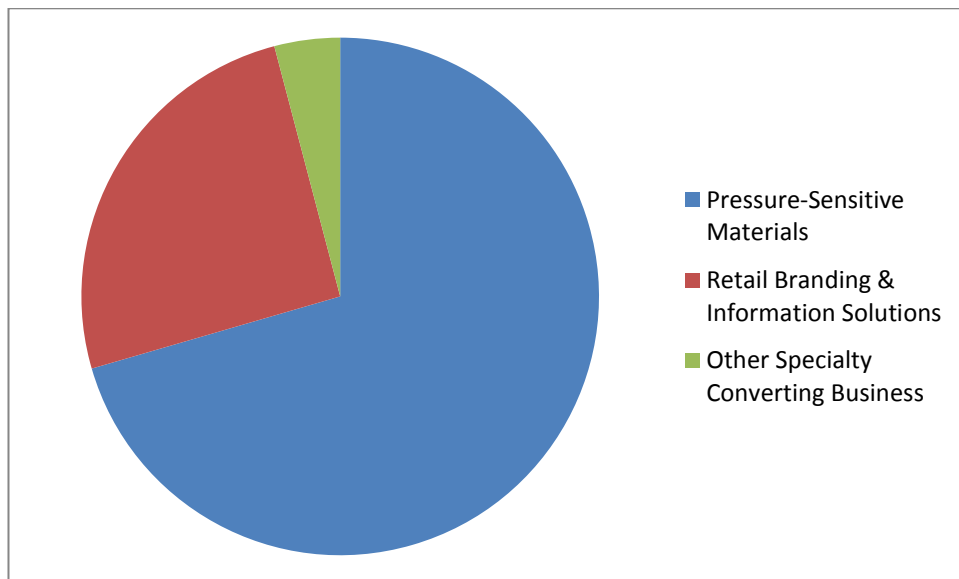


Figure 1: Avery Dennison Revenue by Business Segment

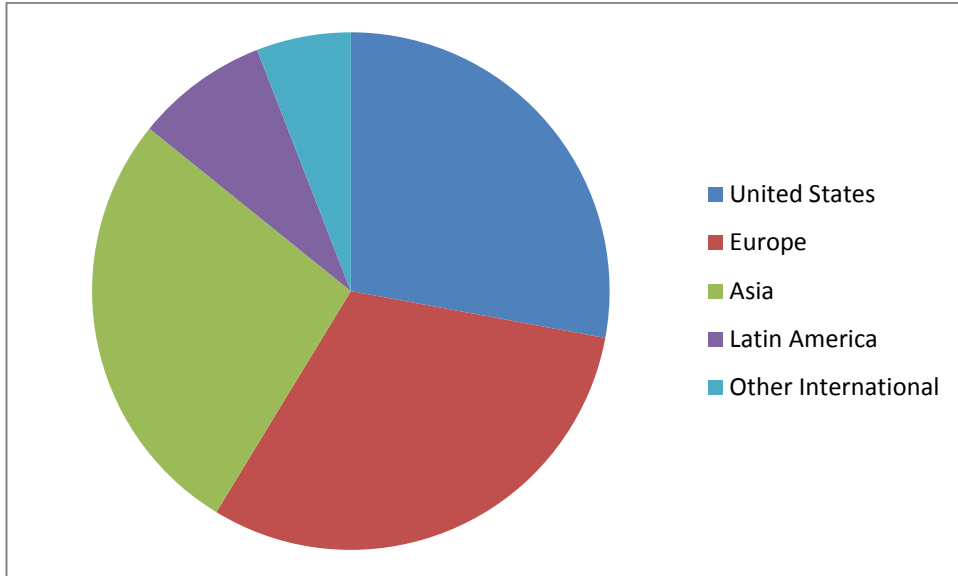


Figure 2: Revenue by Region

From the Figure 1, it can be concluded that Pressure-Sensitive Materials is the largest business segment of Avery Dennison, and Figure 2 illustrates the division of revenue between Asia, United States, and Europe.

5.1.2 SWOT Analysis

Avery Dennison Corporation is a pressure-sensitive material manufacturer and marketer for a variety of different sectors. As it was shown before, major operations are conducted in Asia, Europe, and United States. (Canadean Company Reports) The table below will show the SWOT Analysis of Avery Dennison Corporation.

Table 1: SWOT Analysis of Avery Dennison Corporation

Strengths	Weaknesses
Diversified Business Offerings Research and Development Strong Market Position	Increasing Trade Receivables
Opportunities	Threats
Strategic Initiatives Product Innovation	Strong Competition Rapid Technological Change

Avery Dennison Corporation has multiple strengths. First of all, Avery Dennison Corporation has obtained a strong market position. According to Canadean Company Reports (2014), Avery Dennison Corporation offers a wide range of products in all of their business segments, and the ability to deliver exceptional solutions meeting the needs of a variety of customers. On

the other hand, Avery Dennison Corporation has also increased their research and development activities. (Canadean Company Reports) Avery Dennison increased research and development spending from USD 85.6 million in 2010 to USD 105.1 million in the 2012 fiscal year. This has given Avery Dennison a competitive edge over its competitors as research and development has occurred in the development of new products and product extension. Quoting the Chairman, President, and CEO of Avery Dennison Corporation, Avery Dennison Corporation Materials Group has “launched more than 30 new products in the last two years, and exceeded its target for new product sales.” (Canadean Company Reports) This quote shows the importance of research and development for senior management of Avery Dennison Corporation.

When investigating the weaknesses of Avery Dennison Corporation, the main weakness is the increase of trade receivables. (Canadean Company Reports) Avery Dennison Corporations’ credit sales increased by 10.9%, and this indicates inefficient credit management by Avery Dennison Corporation. This can have a negative impact on revenue in the future if debtors are unable to pay their debts. This is the main weakness that Avery Dennison has.

Avery Dennison has obtained a few opportunities. First of all, Canadean Company Reports (2014) outline that Avery Dennison Corporation has implemented strategic initiatives that will enhance operations in the future. These strategic initiatives will aid Avery Dennison Corporation to maintain their strong competitive position in the market. Due to Avery Dennison Corporations strong research and development initiatives, Avery Dennison can continually develop new products to meet the needs of customers. Canadean Company Reports (2014) outline that Avery Dennison Corporation launches new products in regular intervals in order to obtain a higher market share. A smaller opportunity that Canadean Company Reports (2014) states is the growing wound care market, which is expected to grow more than 5% between 2012 and 2019. These are the main opportunities that Avery Dennison Corporation has obtained.

Canadean Company Reports (2014) has outlined the main threats to be rapid technological change and the competitive nature of the market. The products of Avery Dennison are dependent on the competitive nature of the market, and this requires Avery Dennison Corporation to regularly invest into the design and updating of existing products. Customer preferences are hard to predict and Avery Dennison Corporation may suffer from the shifts in these preferences. In addition, technological advances may create Avery Dennison products to become obsolete, and Canadean Company Reports (2014) outline that future success is dependent on the ability of Avery Dennison Corporation to introduce new products.

Overall Avery Dennison has a strong position in the market, and with consistent research and development their competitive position should not be easily lost. Avery Dennison has a global presence, and this is also beneficial for them.

5.2 China Sunshine Paper Holdings Company Limited

China Sunshine Paper Holdings Company Limited (referred as China Sunshine Paper in this thesis) is a local competitor of UPM in the Chinese market. For the 2013 fiscal year, China Sunshine Paper reported operating revenue of USD 581 million. (Canadean Company Reports) China Sunshine Paper operates as a paper producer in China and their product portfolio consists of different grades of paper. (Canadean Company Reports) China Sunshine Paper was chosen for competitor analysis as it is a local competitor in the paper producing sector.

5.2.1 Business Description and Analysis

China Sunshine Paper is a local paper producer located in China, with annual production capacity of 1,100,000 tons. Canadean Company Reports (2014) indicate that China Sunshine Paper has divided their business into two segments which are Paper Products and Electricity & Steam. The main focus for the thesis is to investigate the Paper Products segment as they are a paper producer competitor of UPM in China. Currently, China Sunshine Paper has built several strategic partnerships with various printing and packaging supplying companies. (Canadean Company Reports) China Sunshine Paper products can be further classified into 4 four main products. According to Canadean Company Reports (2014) these products are White Top Linerboard which is used as the surface layer of corrugated boxes, Light-coated Linerboard which is used as the surface layer of high-class products, Core Board is used as a base paper for industrial purposes. In a sense, these three products are mainly different grades of cardboard. The final product category is Specialized Paper Products, which produces different papers for label and magazine purposes. The figure on the next page shows revenue generated by each paper sector of China Sunshine Paper. (Canadean Company Reports)

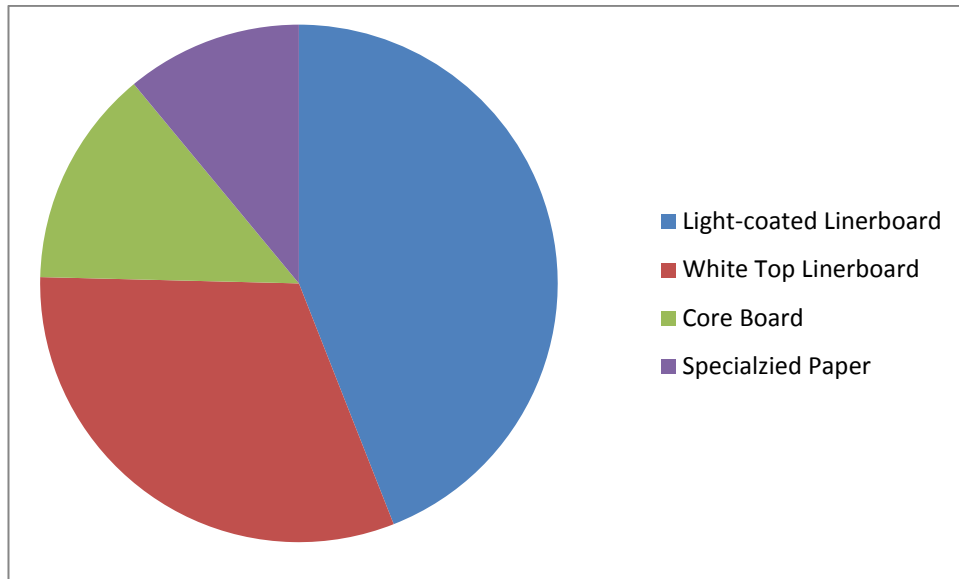


Figure 3: Generated Revenue by Paper Segment

The figure illustrates that different grades of packaging products generate most of China Sunshine Paper revenue, while Specialized Paper has a small percentage.

5.2.2 SWOT Analysis

China Sunshine Paper is a Chinese packaging manufacturer, manufacturing different grades of paper and packaging materials. In addition, they offer complementary services such as advertising, and packaging design services. The table on the next page illustrates the SWOT analysis for China Sunshine Paper. (Canadean Company Reports)

Table 2: SWOT Analysis of China Sunshine Paper

Strengths	Weaknesses
Manufacturing Capabilities Focus on Quality	Poor Operating Performance Liquidity
Opportunities	Threats
Expanding Packaging Sector Sustainable Packaging Growth	Competitive Market Rising Pulp Prices Regulatory Environment

According to Canadean Company Reports (2014) China Sunshine Paper has two main strengths that they have obtained. First of all, China Sunshine Paper has strong manufacturing capabilities, being able to produce a total of 1,100,000 ton. They operate 5 production lines in 6 facilities. (Canadean Company Reports) Currently, their production for specialized paper is 110,000 tons. As an advantage, they are able to produce products for end-markets, and helps maintain an efficient supply chain and generate cost efficiencies. Canadean Company Reports (2014) indicate that China Sunshine Paper is focusing on the quality of their products. As an example of their quality focus, Canadean Company Reports (2014) indicate that China Sunshine Paper has established a Quality Control Department, which oversees quality aspects ranging from production to staff training. This focus on quality helps the organization address issues where appropriate, and enables high customer satisfaction and operational performance.

On the other hand, Canadean Company Reports (2014) has indicated that China Sunshine Paper is facing financial weaknesses. First of all, the company has shown a 45,5% decline in operating income with the operating margin decreasing from 1.9% to 1.1% between 2012 and 2013. Also, the liquidity of the company can be seen as an issue. (Canadean Company Reports) The current ratio of China Sunshine Paper was 0.6 in the end of 2013, and can be traced to the increase of current liabilities by 13.7%. These weaknesses indicate inefficient costs management and a low focus on profitability, while it leaves China Sunshine Paper in a weaker financial position compared to some close competitors. (Canadean Company Reports) This means that the organization may not have enough capital to fund future operations.

Canadean Company Reports (2014) have identified two major opportunities, and these opportunities are linked to the potential growth of the packaging sector. As it was outlined in the environment analysis, China is facing a few social changes. The growing middle class and increase in urbanization creates large group of consumers that need for a variety of packaging solutions. Canadean Company Reports (2014) indicate that the packaging sector in China is expected to grow at a Compound Annual Growth Rate of 6.07%. It should also be noted that

China is the second largest packaging industry in the world, and has experienced steady growth. (Canadean Company Reports) In addition, sustainable packaging is also expected to grow due to the increased focus of the international community. Canadean Company Reports (2014) explain that this growth is influenced through consumers, advocacy groups, manufacturers, and retailers promoting environmentally friendly packaging. These are the opportunities that China Sunshine Paper may capitalize on.

China Sunshine Paper faces a few threats that have been outlined by Canadean Company Reports (2014), and these are the highly competitive market in which China Sunshine Paper operates in, price volatility of pulp, and the regulatory environment. The price volatility of pulp, which is used in the production of paper products, may affect the variable costs of the company, and can create difficulties in maintaining effective price strategies which may affect the long-term sustainability of the company. (Canadean Company Reports) Also, growth may be hindered due to increased regulation in emissions, handling of hazardous waste, and waste disposal. Canadean Company Reports (2014) outline that increased regulation can affect the operational performance of the company through increased costs, and the violating of regulations can incur penalties. The largest threat is the competitive nature of the market. China Sunshine Paper operates with large multinational packaging manufacturers, as well as multiple regional and specialized manufacturers. (Canadean Company Reports) In addition, major producers have completed capacity expansions, while mergers and acquisitions have taken place, increasing the competitive nature of the market. (Canadean Company Reports)

5.3 Asia Pulp & Paper Co., Ltd.

Asia Pulp & Paper Co., Ltd. (referred to Asian Pulp & Paper in this thesis) is an Indonesian based paper packaging solutions provider. According to Canadean Company Reports (2014) Asian Pulp & Paper is headquartered in Jakarta, and operates seven subsidiaries and markets products in 65 countries. Asian Pulp & Paper produces a wide range of printing, packaging, office, tissue, and specialty products through a variety of brands. (Canadean Company Reports) The subsidiaries will be outlined in brief in the next section in order to understand their corporate structure.

5.3.1 Business Description and Analysis

Canadean Company Reports (2014) mention that Asian Pulp & Paper is a manufacturer and distributor of printing and writing paper, consumer and industrial packaging products, and maintenance products. Asian Pulp & Paper operates through their seven subsidiaries. (Canadean Company Reports) The first subsidiary is called PT. Pabrik Kertas Tjiwi Kimia Tbk, and this site manufactures writing and printing paper, and has a large product portfolio of converted products. This site contains a manufacturing facility covering 200 hectares. The second subsidiary is PT. Indah Kiat Pulp and Paper Tbk, and was established as a joint venture pro-

ducing a variety of converted products as well as packaging products such as cardboard. (Canadean Company Reports) They operate a fully integrated pulp and paper mill with two manufacturing facilities. The third subsidiary is PT. Pindo Deli Pulp and Paper Mills and this site has two manufacturing sites producing a variety of converted products such as photo-copy, carbonless, and wood-free paper. (Canadean Company Reports) The fourth subsidiary is PT. Ekamas Fortuna, and manufactures a range of paperboard products in one manufacturing facility. (Canadean Company Reports) The fifth subsidiary is PT. Lontar Papyrus Pulo and Paper Industry, and this subsidiary manufactures different grades of paper and it operates two manufacturing facilities. Their mill complex includes a waste water treatment plant as well. (Canadean Company Reports) PT. Purinusa Ekapersada is involved in the conversion of containerboard into shipping containers, and operates two manufacturing facilities. (Canadean Company Reports) PT. The Univenus is the final subsidiary, and they are involved in the production of consumer products, such as tissue papers. This subsidiary operates two manufacturing facilities. (Canadean Company Reports)

5.3.2 SWOT Analysis

In order to gain an understanding of an Asian paper products producer, a SWOT Analysis of Asian Pulp & Paper will be utilized. The table below contains the SWOT Analysis of Asian Pulp & Paper.

Table 3: SWOT Analysis of Asian Pulp & Paper

Strengths	Weaknesses
Vertically Integrated Operations Focus on Quality Broad Product and Brand Portfolio	Illegal Logging Geographical Concentration
Opportunities	Threats
Sustainable Packaging Growth	Intense Competition Rising Pulp Prices

According to Canadean Company Reports (2014) Asian Pulp & Paper has achieved vertically integrated operations which are one of their biggest strengths. This translates to Asian Pulp and Paper being vertically integrated along their value chain as their operations includes the whole process of producing converted products. This means that they are able to manufacture their own pulp and paper, producing these raw materials for their own paper, processing raw materials into finished products, and delivering these two end users and industries. This integration gives the company a competitive advantage as they are able to manage high quality standards, achieve cost reductions, and respond to changes in the market place. (Canadean Company Reports) The second strength is their focus on quality. (Canadean Company Re-

ports) Asian Pulp & Paper operate multiple facilities that are accredited with certifications, and this focus on quality ensures customer confidence in products enabling growth. Final strength is their broad product and brand portfolio. (Canadean Company Reports) Asian Pulp & Paper produces a variety of converted products such as office supplies, printing paper, packaging materials, and consumer products such as WC and tissue paper. According to Canadean Company Reports (2014), this allows Asian Pulp & Paper to meet a range of customer needs.

Weaknesses of Asian Pulp & Paper include allegations of illegal logging and their geographical concentration. (Canadean Company Reports) One of the largest allegations Asian Pulp & Paper faced was those from World Wide Fund for Nature (WWF) in which they were accused of clearing rainforest which are inhabited by endangered elephants, tigers, and orangutans. (Canadean Company Reports) This negative publicity can deter customers from using their products, especially those interested in maintaining a good public image. Canadean Company Reports (2014) also outline that the geographical concentration creates risks for Asian Pulp & Paper. In a sense, Asian Pulp & Paper does not have a similar global reach compared to their larger competitors even though they are involved in the exporting of their products to numerous locations. It can be a restricting factor for growth and increased market share as it leaves them vulnerable for supply chain risks and other environmental risks. (Canadean Company Reports)

The opportunities of Asian Pulp & Paper are similar to those of other packaging material producers. Canadean Company Reports (2014) highlight the largest opportunity is the growth trend occurring in the sustainable packaging industry. This growth is occurring due to the increased focus from the international community on sustainable practices, and consumers, organizations, and advocacy groups are encouraging environmentally friendly packaging. (Canadean Company Reports)

Threats are also similar of other paper converter companies. The first threat stated by Canadean Company Reports is the regulatory environment. Asian Pulp & Paper may be affected by increasing regulations forced domestically and internationally and can affect company growth. In addition, increasing regulations may create new initiatives which can incur higher costs. Canadean Company Reports (2014) indicate that volatile prices of raw materials may also affect the operating margin of the company. In addition, competition is intense in this sector, and industry competition is dependent on technological sophistication, customer service, and performance. (Canadean Company Reports) Asian Pulp & Paper is considered as a paper manufacturing competitor. It gives insight into the operations of an Asian paper producer which will give insight into the Asian market, and will help in the development of questions for the Delphi study.

6 Analysis of Data and Conclusions

6.1 Analysis of Secondary Data

As the policies of UPM had changed, the information gathered for the thesis was mainly from secondary sources. In addition, an interview was held in order to gain a deeper understanding of the market situation and the future of the Chinese label paper market to support information gathered from secondary research. The secondary research was conducted using an Alexander Watson Associates Asian Release Liner Market Study 2014 which was provided by a UPM employee. Also information regarding competitors and environments can be classified as secondary data. The table below samples the documents in relation to their intended use for the meeting of research objectives

Table 4: Document Sampling

Document	Importance
Economist Articles	Used to complete PEST analysis
Cultural Dimensions	Support the understanding of Chinese society and culture
Competitor Analysis	Complete competitor analysis
Release Liner Study	Understand the release liner market

Bowen (2009) indicates that an important aspect of document analysis is the conducting of thematic analysis. This technically means pattern recognition from data with certain themes becoming the focal point of analysis. From this, data was reread and constructed in certain categories. These categories are SLEPT Analysis, Chinas' cultural dimension, competitor analysis, and understanding of the release liner market. Bowen (2009) indicates that secondary data that is analyzed can be used to supply the knowledge base and can be used to track change and development. After analysis of secondary data and a supporting interview, a SWOT analysis of UPM was conducted.

6.1.1 Analysis of Asian Release Liner Market Report

Alexander Watson Associates is a market research organization whom has operated in the focused gathering of information and analysis of release liner markets globally. (Alexander Watson Associates) Alexander Watson Associates has operated in the industry since 1971 with the publication of release liner market reports since 1984. Due to policy changes at UPM, they were able to deliver two reports from Alexander Watson Associates for the analysis of the release liner market, instead of the possibility to conduct a Delphi study.

The report by Alexander Watson Associates (2014) will be used as a tool to analyze the label paper market, and information provided in the reports include an "analysis of the current and

future market structure, demand for release liners, and an analysis by market segment, materials used, and by country.” (Alexander Watson Associates) The methodology of Alexander Watson Associates will be briefly explained.

Alexander Watson Associates report (2014) indicates that their methodology includes multiple sources of information. This includes the review of published information, internet and database searches, trade and industry statistical analysis, and any other Alexander Watson Associates studies related to the release liner market and materials. Alexander Watson Associates (2014) indicate that their experience and knowledge combined with their knowledge capital in secondary research provides a basis for the design and conducting of interviews, research questionnaires, and the selection of appropriate targets for primary research. The ability of Alexander Watson Associates to cross check data from different industry-perspective and their own research strengthens their integrity and validity of data. (Alexander Watson Associates) They also indicate that a key element of Alexander Watson Associates research is the collection of primary data, which includes discussions with various industry contacts and direct access to experts, executives, and industry contacts. Alexander Watson Associates (2014) also use the Delphi method, other survey methods, and follow-up questions after data-driven research to reach a consensus through cross-checking with other industry experts. Overall, the methodology of Alexander Watson Associates is detailed and well described for the appropriate usage of the report in the thesis. The information is valid and on-point, with limited bias and containing information regarding the label paper market in Asia.

The report contributed to the understanding of the complexity of the release liner market including deepened understanding of the market structure, China’s release liner market, the labelstock market, and market drivers in Asia. It provided good insight into the different roles that companies play in the market, as well as providing a general outlook of demand for the region. The report was relevant to the thesis as it was an Asian release liner market study for the 2014 year, and the target audience is personnel involved in business development and sales in the Asian region for release liners. The benefit of using this report is the resources that Alexander Watson Associates have in the thorough conducting of a market study, including secondary and primary research. Also, as it was mentioned before, the methods were stated and a copyright was located further validating the relevance of the report for the use of the thesis.

6.1.2 Analysis of Canadean Company Reports

Canadean Company Reports were individual reports which were used for the analysis of an Asian paper producing competitor, a local Chinese paper producing competitor, and an analysis of a release liner converter. These three competitors were chosen to understand the local competitor, Asian competitor, as well as a direct UPM Raflatac competitor. It was initially

thought that this information would provide a thorough analysis of a variety of competitors in order to understand the competitive environment of the release liner market, as well as provide insight into competitor operations.

The competitor analysis contributed to the understanding of the competitive environment and the different companies operating in the market. This information is relevant because it outlines three different but key competitors of UPM. The original purpose of the Canadean Company Reports is for business and teaching purposes, and so can be viewed as valid information for the thesis. Data about the competitors business and SWOT factors were used as they indicate key differences about competitors, as well as outline trends. Canadean Company Reports include a copyright as well as a disclaimer notice and their methodology. Canadean Company Reports uses core research methods including information from corporate websites, annual reports, and press releases. Overall, the information from Canadean Company reports seems valid, and well researched. As it includes a copyright and a disclaimer notice, it strengthens the validity of the reports used. This combined with the outline of the methodology and information used further strengthens their use to meet research objectives.

6.1.3 Hoefstede 6-D Model and Environment Analysis

For the environment analysis, two articles from *The Economist* were used. *The Economist* is a well reputed business and economics magazine, and the articles were special reports investigating the transformation of China and trends in conducting business in Asia. These two special reports were used to gain an understanding of the SLEPT environment in China, as it showed changes occurring in the region. For the socio-cultural side, previous knowledge about Hofstede's 6D model was used to understand the social and cultural aspects. This provided good background information for the overall environment in China, and an outline of the transforming society. This information is relevant for the thesis as it provides a background of how China has transformed, and the potential implications for business there. The purpose of information utilizing Hoefstedes' 6D model was to outline the cultural aspects of Chinese society, while the *Economist* articles were commercially targeted to inform business and economic individuals about the region. The limitation of these two articles is that the method for the collection and dissemination of data was not directly stated.

6.2 Asian Release Liner Market and Structure

For the 2013 fiscal year, the release liner market in the Asian region grew by 8.9% and accounts for 31% of the market. The Asian market surpassed North American and Europe whom both represent about 30% of the market each. (Alexander Watson Associates) Currently, Asia is expected to grow by 9.1% for the 2014 fiscal year. According to Alexander Watson Associates (2014), the largest application of release liners is labelstock, and this accounts for 48% of the market worldwide. In Asia, labelstock holds 46% of the entire market of release liners.

The market structure is divided into three main divisions. According to Alexander Watson Associates (2014), the three divisions are raw material suppliers, release liner producers, and converters. Raw material suppliers supply the base paper, film, silicone and other chemicals required in the production of release liners. Paper continues to be the major material used in the manufacture of release liners. However, Alexander Watson Associates (2014) indicate that the supply of base paper could be impacted by the specialization of supplier groups as certain paper groups continue to increase their position, while smaller groups target niche opportunities. Most European and American base paper producers work in a global context and consider Asia a key exporting region, and due to pressure from customers, some have invested into Asia. UPM followed the trend to invest in Asia, expanding their capacity in China. The capacity expansion concerns SCK and other specialized paper grades that are used in the production of labelstock.

Alexander Watson Associates name the second division as release liner producers, whom coat base paper with silicone and complete adhesive laminating. Simply, this means that these use base paper and other chemicals to coat papers with adhesives. About 58% of all release liners are coated in-house primarily for labelstock and tape producers. For example, UPM Raflatac, a daughter company of UPM, and Avery Dennison are in-house silicone coaters. However, a characteristic of the Asian release liner market is that it is difficult to categorize between in-house and commercial silicone coaters, as many in-house silicone coaters will also sell commercially. Alexander Watson Associates (2014) define in-house silicone coaters companies who coat base papers with adhesive purpose for the production and sale of their own products. Commercial silicone coaters will tend to coat base papers and sell them forward to converters. Finally, there are converters who convert the coated base paper for adhesive purpose such as labels, graphic papers, and tape. (Alexander Watson Associates)

6.3 Chinas' Release Liner Market and Market Drivers in Asia

As it was stated before, the overall market demand remains strong in Asia, combined with a good growth outlook for the coming years. Alexander Watson Associates (2014) indicate three main characteristics that apply for the Chinese release liner market. The first characteristic is that the market is developing; the second characteristic is that China has experienced hyper growth, and the final characteristic is that the market is fragmented and some uncertainties remain. Currently, China is the largest market for release liners in Asia, holding a 31% market share geographically, and also, demand growth is stronger in China than other parts of Asia. (Alexander Watson Associates) An important characteristic that occurred in China is that labelstock is mainly produced by international companies such as Avery Dennison and UPM Raflatac. This created a scenario where base papers had to be largely imported from Europe and the Americas to be coated. However, the UPM Jiangsu plant expansion will impact China and

other Asian countries as they are able to source locally. (Alexander Watson Associates) The impacts of the Jiangsu plant expansion is positive for UPM, and will be explained in the SWOT analysis.

There are two main market drivers in Asia, and these are demographic trends and industrial growth. Alexander Watson Associates (2014) indicate that there is a casual link between population growth and the amount of release liners used. Currently, projections estimate continued population growth and so, more release liners should be sold. Also, industrial growth can be viewed as a market driver, as many applications of release liners are closely aligned with industrial production. (Alexander Watson Associates) For example, Chinas industry grew by 13.9% further strengthening the view that labelstock applications have a positive outlook of growth. These are the two main market drivers in Asia.

6.4 Labelstock Market

The labelstock market grew by 5.6% during 2013, (Alexander Watson Associates) while film release liners continue to generate interest due to their no label look, and the prospects for film liners continues to be high as sourcing film is easier than sourcing paper materials in Asia. In addition, Alexander Watson Associates (2014) note that film liner economics are in line with paper liner economics. When examining pressure-sensitive labelstock, main producers continue to gain more market share. (Alexander Watson Associates) Pressure-sensitive labelstock is mainly produced by large producers, while 15-20 smaller producers can also produce products at competitive prices.

Labelstock has four main applications. Alexander Watson Associates (2014) segment the first application as variable information printing and business system labels that are used in the monitor of goods through production and marking of prices. The second application is primary product labels, which are labels used to promote and inform consumers in the retail and industrial sector. The third application indicated by Alexander Watson Associates (2014) is functional and security labels, such as time/temperature indication labels and stamps. The final application is for promotional purposes. (Alexander Watson Associates) These labels are used for example in the promotions of brands and products. Variable information printing/business system labels and functional/security labels have seen higher growth than the other two, while primary product labels still remain the largest segment with steady growth. (Alexander Watson Associates) These are the four main applications of labelstock.

Alexander Watson Associates (2014) have identified multiple market drivers for pressure-sensitive labels. First of all, continuing innovation in materials and applications can have an impact. Also, the competition from alternate labeling solutions can negatively impact UPM label sales. Consumers are demanding more and Alexander Watson Associates (2014) have

indicated that some consumers may require specific labeling solutions to meet their needs, while continued pressure on costs can also be viewed as a market driver.

6.5 SWOT Analysis of UPM

The table below will show a conducted SWOT analysis for UPM.

Table 5: UPM SWOT Analysis

Strengths	Weaknesses
Control of the value Chain Increased capacity in China Sales presence	Currency risks with imports Not as agile
Opportunities	Threats
Release liner market in China Research and Development	China's economy Increased competition Substitute products

UPM has operated in China for approximately 15 years, and have gained a few strengths since launching operations in China. First of all, UPM has control over the value chain, as they play a large role as a raw material supplier of base paper used in the production of release liners, as well as having in-house adhesive coating operations as UPM Raflatac. This strength enables UPM to gain more control of their business operations in China. Also, with the Jiangsu plant expansion, UPM is increasing their capacity of super calendared kraft (SCK) paper grade, which are primarily used as a base paper in release liner production. UPM has also established a sales presence in China, and with label papers increasing their role, the label paper sales can utilize their sales channel. Another strength is UPMs' research and development activities, with research and development activities occurring in Finland and China.

There were a few weaknesses identified with the interview that was conducted as well as a few weaknesses that were identified through secondary research. Currently, UPM is still importing certain paper grades from outside China, and this has a currency risk involved. Also, as UPM is a global organization, it may be slow to react to certain changes in the outside environment. Also, understanding local customers can be difficult as a global organization.

The main opportunities of UPM are related to the growth outlook of the release liner market in Asia and China. As the release liner market is expected to grow steadily in Asia and China, with a growth outlook in the Asian region being at 9.4%, it provides good opportunities to utilize the sales network that UPM has established to drive label paper sales. With the Jiangsu plant expansion, UPM will have a local presence and can better serve customers in the region,

and can utilize shorter lead times. This will decrease delivery times and remove risks from supply chain. Also, as UPM is heavily invested in developing their business portfolio through research and development activities; UPM can be at the forefront of investigating new applications of labels.

There are a few threats that UPM faces in China. The largest threat is the Chinese economy itself. As it was stated previously, China will most likely not see double digit GDP growth in the future, and with UPMs' large investments in China it poses a risk of overcapacity in the region. Also, a risk directly related to good growth outlook is increased competition. Asian producers have increased the quality of their products and competition may increase with steady growth in the region. Another risk is substitute products. With the increasing rate of technology, substitute products can be found faster, and there is the potential to lose customers.

6.6 Conclusions and Limitations

As policies had changed at UPM, a Delphi study was not possible to complete. However, secondary research was provided, and one interview was completed that was used to support and outline main insights that were gathered during secondary research. Overall, the secondary research material that was provided was good and from a reliable source with limited bias. The methodology was clearly stated, and a copyright statement was present further strengthening the validity of the data. The interview conducted supported secondary research. The main limitation involved in forecasting is the inability to gain a perfect picture of the future. Information must be analyzed carefully, and a picture must be created with the information available. Also, as the Delphi study was not completed due to policy changes, secondary information had to be mainly used possibly limiting the complete understanding of market dynamics from UPMs' perspective. However, as the information gathered by Alexander Watson Associates was conducted appropriately, it should mitigate this limitation.

There are a few conclusions that can be drawn from the research that was conducted. First of all, the release liner and labelstock market has good growth outlook in Asia and China, supporting UPMs' decision to invest in a capacity expansion in the region to further strengthen their position in the market. This is indicative of label papers playing a larger role in the business portfolio of UPM. Also, UPMs' presence in China is beneficial for them, and they can utilize existing networks to drive growth in the region. It can be mentioned that UPM could increase their market strength by increasing base paper sales with partners. Also, the actions of local producers should be viewed to indicate whether competition in the market is increasing. It can be concluded that UPM will remain a strong player in the Chinese market.

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Appendixes

The questions below were proposed Delphi Questions. Policy changes restricted the conducting of a Delphi study, however, an interview using the questions was conducted with a senior sales director whom has extensive experience from China.

Appendix 1: Proposed Delphi Questions

1. Briefly, what do you believe UPM strengths are in the Chinese label paper market?
 - a. How do you think these strengths may change in the coming years?
2. What are the weaknesses of UPM in the Chinese label paper market?
 - a. Are these weaknesses being addressed in any way?
3. UPM expects the label paper market to grow in Asia, are there any other opportunities in label papers in China?
4. What are your largest threats in the Chinese label paper market?
5. Do you see technology changing the playing field in the coming years?
6. Anything else to add?

