

# **IS CHINA THE FUTURE MARKET FOR ICELANDIC SEAFOOD COMPANIES? MARKETING PLAN FOR BLUEICE GROUP**

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## **ABSTRACT**

This thesis is a final project in the Fisheries Training Programme of the United Nations University, prepared in collaboration with Blueice Group. The main goal of the thesis was to find out whether it is an attractive option for Blueice Group to enter the Chinese seafood market with products for end-consumers. The work was split into two phases. The first phase was dedicated to scientific analyses of the market. The second phase was based on the results from the analyses. The results are evaluated and suggestions made for the company. The following key questions were set at the beginning of the project: How can we find a target market in the complex Chinese seafood consumption market? What is the competitive advantage and main problem in the company's historical market activities? What does the situation look like according to SWOT and other factors which affect the results of the analyses? What is the effective core strategy for the company's marketing objectives, financial objectives and target markets? At what level should the sales forecast, expense forecast and margin regarding entering a new market be set? How should the new marketing plan be implemented, in order to successfully attain the target? The conclusions of the research indicate that it is possible and an attractive option for Blueice to enter the Chinese seafood market. The author suggests it should be done in two stages, each of them carefully planned and more deeply evaluated, before a definitive decision of market entry is taken, because some of the information used in this project is constantly changing.

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## GLOSSARY

CIA	Central Intelligence Agency
EIU	the Economist Intelligence Unit
FAO	Food and Agriculture Organization
WTO	World Trade Organization
GDP	Gross Domestic Product
PPP	Purchasing Power Parity
FDI	Foreign Direct Investment
H5N1	Bird Flu
CPI	Consumer Price Index
FTCs	Foreign Trade Corporations
AQSIQ	Administration for Quality Supervision, Inspection and Quarantine
CORFC	China Organic Foods Research Centre
OFDC	Organic Food Development Centre
NPA	National Program of Action
PBB	Polybrominated Biphenyl
PBDE	Polybrominated Diphenyl Ether
RoHS	China's Regulations on Hazardous Substances
RO	Representative Office,
JV	Joint venture
WOFE	Wholly Owned Foreign Enterprise
GM	Genetically Modified
SHCIQ	Entry-Exit Inspection and Quarantine
EDI	Electronic Data Interchange
MOFTEC	Ministry of Foreign Trade and Economic Co-operation
SETC	State Economic and Trade Commission
WOFE	Wholly Owned Foreign Enterprises
CCC	China Compulsory Certification
MII	Ministry of Information Industry
VAT	Value-added Tax
TT	Telegraphic Transfer
L/C	Letter of Credit
ICBC	the Industrial and Commercial Bank of China
CEO	Chief Executive Officer
COO	Chief Operating Officer
SWOT	Strength, Weakness, Opportunities, and Treats
SAC	Scottish Agricultural College
FOB	Free on Board

## 1 INTRODUCTION

This thesis is a final project in the United Nations University - Fisheries Training Programme in Iceland. The reason why the author chose this particular field of research is to acquire skills in marketing theory and to better understand how the various marketing tools work in the business environment.

The thesis is done in cooperation with an Icelandic company, Blueice Group, which is located in Iceland. The location of the company makes access to information easier. In addition, the CEO of Icelandic Service recommended this particular company to the author. Blueice has five plants in China and they hope for an expansion in the Chinese seafood market. This makes the project attractive for the author. The focus of the project is therefore on the Chinese seafood market, and the decision was made based on Blueice's need to for insights into the Chinese seafood market. Since the author of this thesis is Chinese, the project also has extra significance.

International business has become a part of our daily life. Countries and companies trade with one another for various reasons, they can buy raw material and process it at lower prices, or they benefit in other ways. For this reason many companies in Iceland try to expand their markets, internationally. When they do so, they meet all kinds of restrictions and hindrances. Some are set by governments, others are because of cultural differences and other non-trade hindrances.

Blueice Group is one of the Icelandic companies which is looking for opportunities in the Chinese market. They have successfully built up plants in China, and now they are interested in expanding and entering the market with fish products for end-consumers. It is clear, that there are many issues regarding the market that Blueice needs to know, in order to make a successful market entrance. The author hopes to clarify some of these issues in this thesis.

The main goal of this thesis will be to find out if it is attractive to enter the Chinese seafood market with products for end-consumers.

Due to the nature of this goal and the complexity of it, along with the limited time scope that is available for this project, the emphasis will be on following key questions:

- How to find target markets in China's complex seafood consumption market?
- What is the competitive advantage and main problems in the company's historical market activities?
- What is the situation according to SWOT analysis and other factors analysing results?
- What is the effective core strategy for the company's marketing objectives, financial objectives and target markets?
- How much should sales forecasts, expense forecasts and margins regarding entering a new market be?
- How should the new marketing plan be implemented, attaining to target successfully?

To be able to answer the questions above, that are the main objectives of this project, and to give the readers a clear understanding of the necessary background issues, the project is structured in the following way: First there is a chapter about the Chinese seafood market where an overview of Blueice is also given. The following two chapters include theoretical foundations and analysis of the Chinese seafood market and target markets analysis. The final chapters build on the results from the analyses and consist of proposals regarding Blueice's next steps in the market, as well as discussion about the project. The last chapter sums up the conclusions reached.

The thesis emphasises scientific analysis, with the help of bibliographic and statistical databases, especially second-hand data offered from China, a variety of textbooks, along with interviews with the management from Blueice and other experts.

## 2 BACKGROUND

Seafood is an important part of the diet in China. Increasing demand for frozen, convenient, high quality fast food looks like it will provide an opportunity for the company as it is apt to launch value added products of processed seafood into the Chinese seafood market.

### 2.1 Overview of the Chinese seafood market

#### 2.1.1 *China's economy at a glance*

China's economy has been growing rapidly in recent years. The new economic policy led China to take great strides on the road to economy improvement. Fast increasing economic growth brought a fairly large boom to the markets. Economic improvement has given Chinese consumers more purchasing power and has also brought about some changes in the Chinese lifestyle. China's accession to the WTO has had a positive effect on the economy and has brought more opportunities to foreign companies and investors. The location of China is shown in the following figure:



Figure 1: Map of China (Frozen Fish and Seafood in China: A Market Analysis 2004)



Table 1: Chinese economy at a glance.

<p><b>Population:</b> 1,313,973,713 (July 2006 EST.)</p> <p><b>Administrative divisions:</b> 23 provinces, 5 autonomous regions, and municipalities</p> <p><b>GDP (PPP):</b> \$8.859 trillion (2005 est.) – Ranked the second in the world</p> <p><b>GDP composition by sector:</b> agriculture: 12.4%, industry: 47.3%, services: 40.3%</p> <p><b>GDP per capita:</b> \$6,800 (2005 est.), ranked 117th in the world</p> <p><b>Inflation rate (consumer prices):</b> 1.8% (Q2 2006)</p> <p><b>Unemployment:</b> 9% official registered unemployment in urban areas in 2004.</p> <p><b>Exchange rate:</b> CNY per USD – 7.98 (2006e) 8.1943 (2005), 8.2768 (2004), 8.2 (2003), 8.277 (2002), 8.2771 (2001)</p> <p><b>Real GDP growth (%):</b> 10.7 (2006e), 9.9 (2005)</p> <p><b>Country risk rating (EIU CRS)*:</b> Sovereign (BBB stable) Currency (BBB stable), Banking Sector (B stable), Political (B), Economic structure (BBB)</p> <p><b>Foreign trade (\$m Q2 2006):</b> export fob 231,360; import cif 193,396</p> <p><b>FDI (\$bn):</b> 14.2 (Q2 2006), 14.3 (Q1 2006), 17.1 (Q4 2005),</p>
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Source: CIA World Factbook, the EIU \*the Economist Intelligence Unit Country Risk Services (2006)

### 2.1.2 High consumption of seafood

China is changing rapidly and so is the public taste. As a consumer society emerges, many new products are appearing with increasing regularity. Frozen foods, and frozen seafood, are among them. Rising average annual incomes, greater ownership of fridges and freezers, increased exposure to western and international cuisines and a greater array of goods in the supermarket are all combining to increase sales of frozen foods in China. The arrival of the fast-food chains, western-style supermarkets, greater awareness of frozen foods and the emergence of a generation both willing and able to try new products has meant that the market for frozen foods has made great strides in China.

China ranks the first on fish consumption (per capita) in Asia and the Pacific region. Seafood consumption has increased at a high rate from 1990-1998, and then kept a stable level until 2004. Seafood consumption in China was 25.4 kg per capita in 2004. (China Seafood Industry Report 2006) Seafood and fresh water fish established its core position on the food market because of H5N1 and the increased food safety demand since 2004

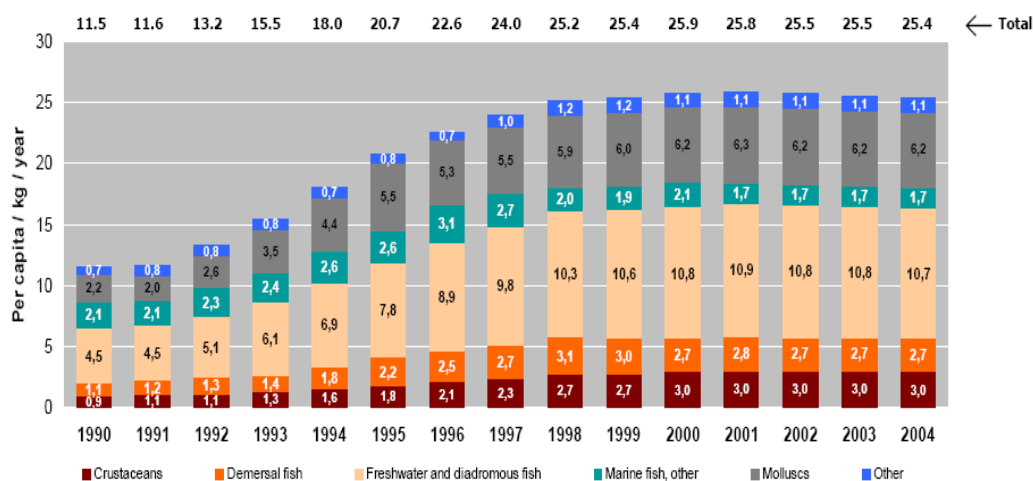


Figure 2: Seafood Consumption in China 1990-2004 (China Seafood Industry Report 2006)

Seafood consumption has grown since 2004 because of the increasing income and H5N1 (bird flu) and the market sales quantity increased by 9% in 2005. In 2006 January-June seafood supply increased by 3.37 % (compared with the same period last year), the seafood sales quantity increased by 4.8%. ([aweb.com.cn](http://aweb.com.cn) 2006).

Chinese consumers are sensitive to product quality regardless of low disposable income, compared to developed countries. Demand for high quality seafood such as salmon, seawater eel or crab, is expected to increase as purchasing power increases. The busy lifestyle of big city inhabitants has led to an increased demand for convenience (partly or fully prepared), frozen foods. The middle class is the main force on the Chinese seafood market. In 2005 the middle class accounted for 100 million (China National Statistic Bureau 2006) inhabitants but is projected to account for 650 million in 2015. According to FAO, the seafood consumption forecast in China is projected to be 35.9 kg/year per capita in 2020, an increase of 41% compared to the 2004 consumption (China Seafood Industry Report 2006).

### 2.1.3 Fisheries production in China

China has abundant seawater and freshwater resource. Total annual aquatic production, in fisheries and aquaculture is the highest among the world's nations.

Table 2: China's aquatic production (unit: Metric Ton)

Category	2001	2002	2003	2004	2005	2006 (1-6)
Total aquatic production	43,820,987	49,651,790	47,061,064	49,017,671	51,000,000	21,320,000
Seawater production	25,721,427	26,463,371	26,856,182	27,677,970	NA	11,480,000
Seawater catch	14,406,144	14,334,934	14,323,121	14,510,858	12,887,000 Jan.- Nov.	NA
Seawater culture	11,315,323	12,128,437	12,533,000	13,167,049	14,000,000	NA
Freshwater production	18,099,520	19,188,419	20,204,882	21,339,764	18,079,000 Jan.- Nov.	9,847,000
Freshwater catch	2,149,923	2,247,926	2,462,148	3,419,792	NA	NA
Freshwater culture	15,949,588	16,940,493	17,742,734	18,919,972	20,000,000	NA

Sources: Ministry of Agriculture Yearbooks, 2001-2005, Ministry of Agriculture Published Report, 2006

### 2.1.4 Complex markets

#### 2.1.4.1 Distinguished by geographical diversity

China is a big country. The culture and preferences of the customers vary among the different regions. Even within a province the dining habits and the tastes differ among the inhabitants. In western China, people prefer meat such as beef, lamb and salty foods; fish consumption is low in this area. In middle-northern China people like pork, fresh water/marine fish (fresh/frozen), marine fish consumption is at a lower level compared with the eastern coastal area, but frozen fish is common and welcome in this area. In the middle-southern part of the country the situation becomes more complex. People in some provinces, for example Sichuan and Hunan, cannot eat without hot chilli, while in Shanxi vinegar is used in each dish. Despite these differences they have a common habit of consuming fresh water fish (living/fresh/chilled). The biggest fresh water fish market is the middle southern region. As to east coastal provinces, marine fish consumption is at a high level. Inhabitants prefer fresh/living marine fish more than fresh water fish. The Chinese consumers typically prefer live seafood products to chilled or frozen, and wild caught to farmed.

#### 2.1.4.2 Multifirmity by consumers' purchasing habits

Ordinary Chinese consumers are price sensitive when buying seafood products. Farmed freshwater species such as shrimps, tilapia, and carps are mainly consumed at home. Their appeal to the Chinese consumers is based on freshness and economic price. Imported high quality and therefore more expensive seafood such as salmon and crab are mainly absorbed by the food service sector. Consumers in China often prefer smaller fish, i.e. 200-500 g. Wet markets, where seafood is sold fresh or alive, are popular among the older generations.

However, the younger and more affluent city dwellers tend to go to supermarkets nowadays for their food supply. Some of the larger modern supermarkets/hypermarkets are furnished with columns of water tanks to accommodate live seafood for sale. Products like fish heads and bellies, usually discarded elsewhere, are popular in China. (Casey Bean and Xinping Wu (12/29/2005). Gain report-China.

## 2.2 Overview of Blueice Group

### 2.2.1 Relation with Icelandic Group PLG

Blueice Group seafood company was founded in 1992 and has its headquarters in Reykjavík, Iceland. A merger contract between Icelandic Group and Blueice was signed and confirmed in June 2005. The Icelandic Group Plc. is a holding company controlling an international network of production and marketing companies selling seafood products on the international market with emphasis on frozen fish. In several markets, the company enjoys a prominent position of its brand ICELANDIC especially within the food service sector. The company is also a major supplier to the retail sector through its branded or private label production. (Icelandic Group PLC Market Report 2005).

### 2.2.2 Overseas infrastructure

Nowadays Blueice operates five fishing vessels in Russia, two value-adding processing factories in the USA, six primary processing plants, and two sales offices in Asia: three factories in Dalian China, one factory/office in Qingdao China, one factory in Yantai China, South China Office, and one factory in Thailand. A total of 3,000 people work in the production plants run by Blueice. Blueice Group Asia is one of Asia's largest companies trading in seafood and sells products through its sales office in Pusan, South Korea. (Business of Blueice Group-Blueice Group Asia 2006)

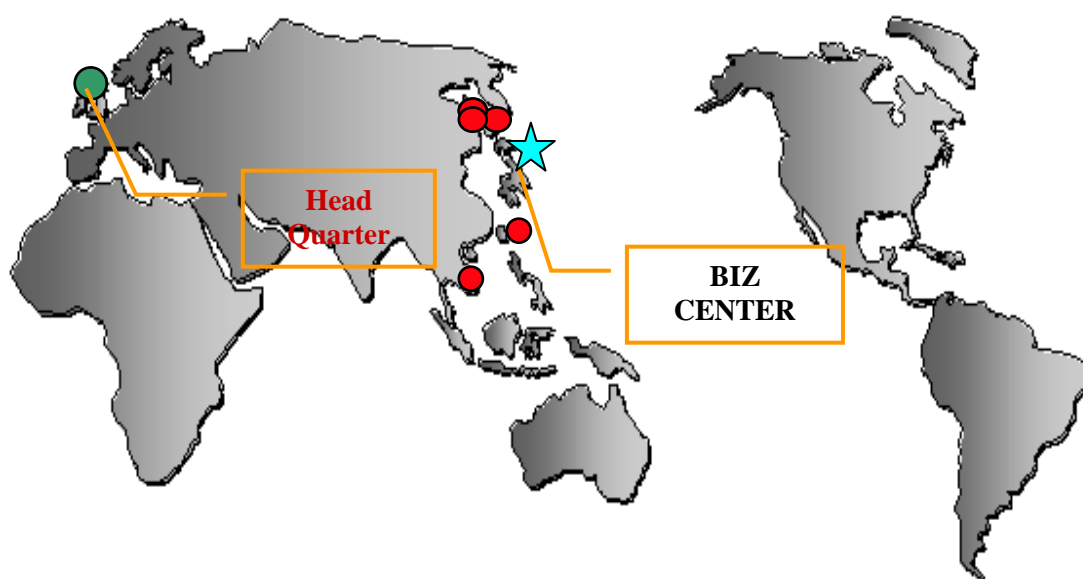


Figure 3: Blueice Group overseas infrastructure  
Blueice Group Primary Processing Plants ●

(Business of Blueice Group-Blueice Group Asia 2006)

### 2.2.3 Current activities, products and capabilities

The current activities of Blueice are raw material trading, and fillets processing. Keeping strong ties with all the major suppliers of Pollock in Russia and Japan, Blueice is able to sell a large quantity of Pollock raw material (80,000 MT in 2005) to processing factories in China and Japan. The primary cod processing activities-heading, filleting are operated by factories in China and Thailand (25,000 MT in 2005). Fish fillets will be sent to America for value-added breaded/frying. Five fishing vessels in Russia yielded 10,000 MT last year. The total turnover of 2005 is up to 220 million ISK (Business of Blueice Group-Blueice Group Asia 2006).

Blueice has started secondary processing in the coming months, including raw breaded and pre-fried products, and the companies will source shellfish products from China and Thailand.

Table 3: Blueice fish processing plants in China.

AREA	FACTORY	WORKERS	ITEM	FACILITY	LICENSE
DALIAN	3 Star		P. Cod,	Belt2, Contact 3	ETI,
		380	Red Fish	Air Blaster 3	BRC/EU/HACCP
		Halibut	Ice Machine	UNILEVER( BEW)	
	HONGYE		P. Cod,	Belt2, Contact 4	ETI, BRC/EU/
		380	A, Cod	Air Blaster 2	HACCP, SYSCO
		Ice Machine 1	UNILEVER		
HONGXING			Belt 1, Contact 3		
	400	Pollock	Air Blaster 2	EU/HACCP	
			Ice Machine 1	SYSCO	
QINGDAO	LAOSHAN		P. Cod, Catfish	Belt3, Contact 4	
		320	Chum Salmon	Air Blaster 1	EU/HACCP

Source: Business of Blueice Group- Blueice Group Asia (2006)

### 2.2.4 History of Blueice Group

Main events in Blueice's history and development are noted in the following list:

- 1999: Established BKK factory (SEA VIKING), start of processing business
  - 2002: Established Ocean Blue Inc. in Korea, raw material trading
  - 2002: Initiated operating two factories in Dalian China, enlarge processing business
  - 2003: Takeover Samsung Marine Dept. and becomes a major trader in marine business
  - 2004: Initiated operating Laoshan factory in Qingdao
  - 2004: Operating six factories and achieved US \$170 million in turnover
  - 2004: Start Russia vessel operations
  - 2005: Blueice buys Samband of Iceland from SIF
  - 2005: Operating seven factories and US\$ 220 million in turnover
  - 2005: Merges with Icelandic Group -A member of Icelandic Group
- (Business of Blueice Group- Blueice Group Asia 2006).

### *2.2.5 Focus on China: opportunity or challenge*

Blueice Group is aiming to launch value added products, frozen/processed seafood into the Chinese seafood market. Yet Chinese consumers can accept the price and secondary-processed fish is an unknown product for it. The managers need to gain knowledge about the Chinese seafood market situation, economic and cultural background, consumers' needs, product supply and distribution, and competitors. Through the present market analysis, the company will gain insight into the market and if it is ready for their products or not, what the opportunities and threats for them are in the market and how to make relevant strategies for entering the market: where, when and how to open the Chinese food market effectively in the near future.

### 3 METHODS

The process by which businesses analyse the environment and their capabilities decide upon the course of marketing action and implement those decisions is called marketing planning. Companies use marketing planning as a tool to ensure that the marketing mix for the product matches customers' needs, as well as seeking opportunities to use the company's strengths to market other products in new markets (Jobber 2004). The process of marketing planning provides a well-defined path from generating a business mission to implementing and controlling the resultant plans (Jobber 2004). Marketing planning is a tool for companies to find opportunities and achieve their aims in a particular business environment. As the key questions to be answered one by one, the manager is approaching the aim gradually.

#### Looking for the opportunity:

Answers: Macro environment analysis (social environment indirectly effects the business)

Microenvironment analysis (business environment factors have a direct relationship with the business)

Knowing about the market situation and target market findings

#### Where are we heading?

Answers: SWOT analysis

Through environment analysis and comparing with the competitors on the market, the company finds its own advantages and opportunities.

#### Finding the target

Answers: Marketing objectives

Target market segments

Financial objectives

#### Finding the way to achieve the goal

Answers: Core strategy

Competitive advantage (strength to success)

#### On the way to achieve the goal

Answers: Marketing mix (product, pricing, promotion, package strategies for the consumer in the target market)

Action plan and implementation (how to achieve the aim through marketing strategy action and who is responsible for it)

Budgets and control (result preview) (does it benefit the company? how much profitability and how to control it)

Key questions of marketing planning

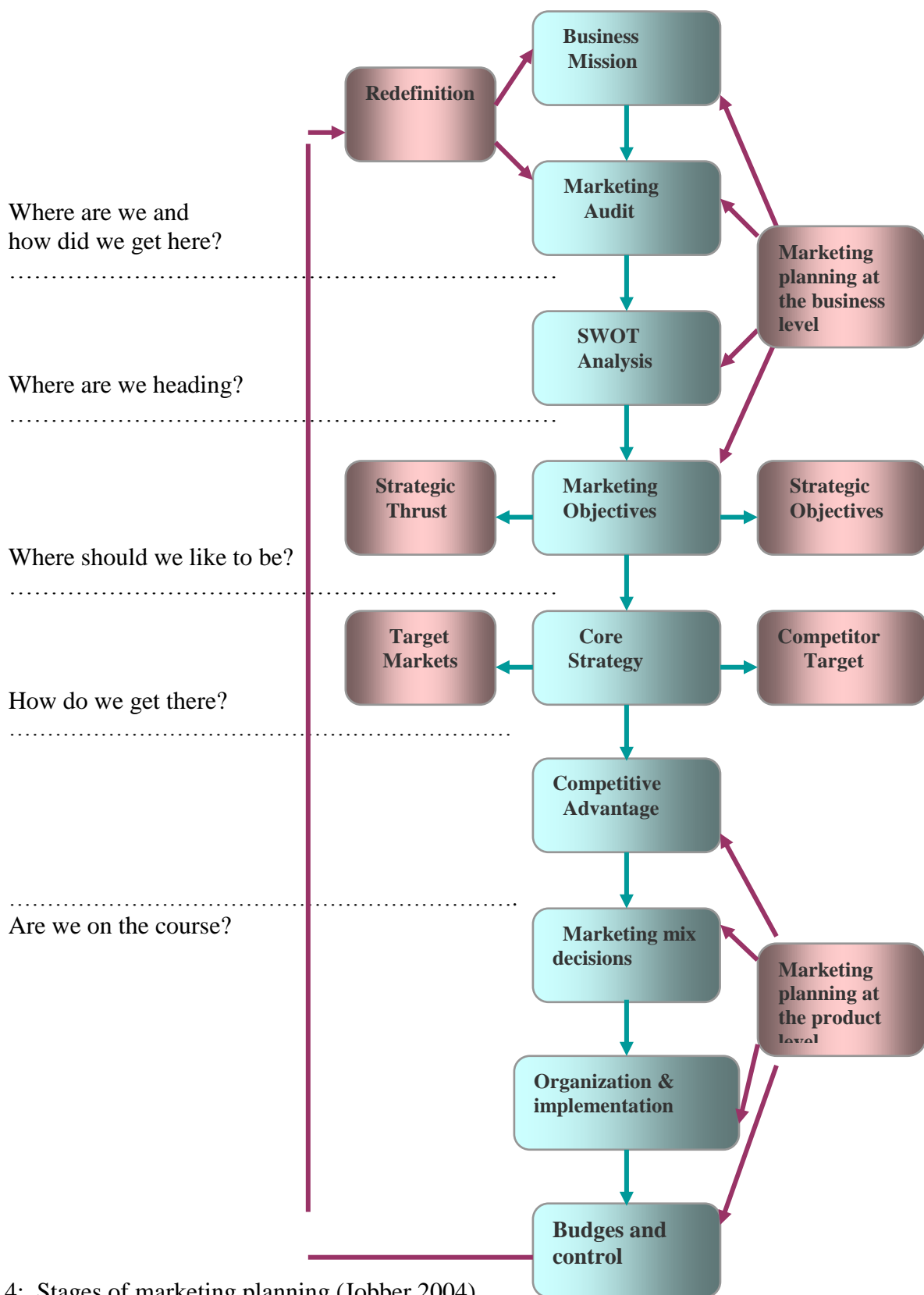


Figure 4: Stages of marketing planning (Jobber 2004)



## 4 Chinese seafood market analysis

### 4.1 The macro-environment

The marketing environment consists of those factors outside the immediate control of the firm which influence its relationships with its target customers. Some environmental factors affect many firms and many industries, and cannot be pre-empted or forestalled by the activities of any one organisation: such factors comprise the macro-environment (Hill and O'Sullivan 2004).

#### 4.1.1 Demographic analysis

Generally we divide all inhabitants in a market into three consumer groups when making demographic analysis: low income, middle class and high income groups (Dibb 2001). The low income group cannot be regarded as a target group, since it does not have enough purchasing power for value-added products. The growing Chinese middle class (nowadays over 100 million) is the main force and leading the consumption trend in the Chinese seafood market. The number of middle income families in 2005 was 42 million; it will most likely be up to 200 million in 2015 (China Supermarkets Competition 2007). The high income group grows rapidly but is still only a faint number compared with middle class. The demographic analysis on Chinese customers shows that the majority is:

- Middle-aged, middle-class adults

Middle-aged consumers (i.e. between the ages of 30 and 59) comprise over 45% of the Chinese population (Agri-Food Past, Present & Future Report China 2006), a large part of the middle-class and most of the public elite. Among this consumer segment are a number of professionals including engineers, scholars, doctors, scientists and business people, many of who are becoming increasingly successful at younger ages. This segment is currently increasing demand for sophisticated Western products and services which constitute a large part of their expenditure, presenting considerable opportunities for foreign exporters. . More and more foreign-educated Chinese bring home knowledge and taste for international goods and are becoming a very influential subgroup. However, price sensitivity remains a key issue that exporters need to consider when positioning products for this consumer segment.

- Teenagers

With over \$42 billion in annual direct spending on or by urban teens in China (i.e.80% spent by families on their teenagers and 20% spent by teenagers) (Agri-Food Past, Present & Future Report China 2006), the Chinese teenager presents an extremely lucrative market for foreign exporters. Some experts even suggest that teenagers influence a considerable number of additional family purchases, adding an extra \$32 billion to their total market value (Agri-Food Past, Present & Future Report China 2006). Chinese teenagers are much more branding conscious, aware of current trends, and trusting of foreign products than their parents. They have a distinct modern taste for goods yet maintain traditional values. Foreign exporters will have to carefully position their products to specific teenage segments of the Chinese market.

- Empty nesters

China's empty nester segment accounted for nearly 12% of households in 2005, and is expected to increase to 13.4% of the population by 2015; an approximate 59 million families (Agri-Food Past, Present & Future Report China 2006). A large number of empty nesters are also dual income families and are usually found amongst high income and well-educated consumer groups. This segment can afford to spend a lot on luxury products, travel, sports and dining out. Healthy food products, ready-made meals, and portable foods are likely to be popular within this group.

- High-income families

The number of high-income families in China is rapidly increasing. Such consumers hold high-income jobs and prefer modern living communities. Therefore, they are likely to be concentrated in highly urbanised regions and wealthy cities. High-income families lead expensive lifestyles and spend a lot of their incomes on sports and travel. The structure of the high income group in China is more complex than the middle class. Different from other countries, most of them have no high education background. The high income group came into being after 1989 when the government changed the economic policy. The wealth came from basic industries/business, not from knowledge intensive industries. In addition, their age phase is older than the middle class. These characteristics indicate that their consumption ideas are different from the middle class. They prefer more local species and dishes to imported products. They are just a small part on top grade fish consumption market.

- Baby boomers (i.e. between the ages of 40 and 59)

This generation makes up a large percentage of China's total population at 26% or 341 million people in 2005 ( Agri-Food Past, Present & Future Report China 2006) they generally do not hold as much wealth as their counterparts in other nations. In fact, only a small number of China's baby boomers are considered to be middle class or elite consumers and may also prove to be a lucrative segment for Blueice. Such Chinese are typically well educated, own a home and car, and spend a large part of their disposable income on luxury products.

#### 4.1.2 *Economic analysis*

Economic growth since 1979 has greatly improved the lives of millions of urban Chinese. China's economy held the line on growth in 1999, mainly with government assistance, as the economy continues to suffer from the effects of massive, and accelerating, restructuring. The incomes of many consumers has increased several times over; while in shops and stores the range of products has multiplied, affecting individual lifestyles and aspirations. Yet in the frantic rush for growth, many have been left behind. Economic casualties include tens of millions of state-sector employees struggling to cope with the removal of the 'iron rice bowl' - the state welfare system which traditionally provided work, housing, medical care and education to workers and their families.

The introduction of free market reforms has seen the emergence of privately run businesses, some of which have grown rapidly to compete with the loss-making monolithic state firms that in the past monopolised certain sectors. Joblessness has forced workers to go in search of new employment. An estimated 80 million to 150 million migrants have left their homes in the rural and urban hinterland to travel to areas of greater development - one of the largest movements of people in world history. This massive mobile population poses a potential catastrophe for the authorities and raises concerns for the economic effects on those communities left behind. Massive migration and unequal income distribution in major urban markets has brought with it new social problems. Crime rates are growing, along with urban deprivation, social unrest, drug abuse and prostitution. Such factors only encourage those consumers who enjoy the benefits of the new economy to aspire to a middle-class lifestyle. Increased spending power gives them the opportunity to gain a better education, travel more (both at home and overseas), rent or buy better housing, advance careers and spend more of their disposable income.

Economic empowerment has given Chinese consumers something more. Urban consumers are increasingly demanding better services and product quality, as seen in the explosion in consumer complaints and the emergence of numerous populist newspapers and magazines as consumer champions, as well as better governance and improved municipal and social services. After encouraging economic development and greater consumer spending, local government leaders now find that they are more accountable to an increasingly vocal segment of the population demanding greater consumer and social rights.

China's accession to the WTO will accelerate the pace of tough reforms in agriculture, the state-owned sector, and banking, among others. Economic performance depends in large part on how well China implements these reforms and on non-state sector growth. Foreign firms are also likely to see these reforms as crucial, as WTO implementation is deeply entwined with these issues.

#### 4.1.2.1 CPI of aquatic products

Though China's economy has been growing fast, inhabitants' consumption price is lower than GDP growth. It proves that consumption demand is not high enough to be the main force promoting economic development. In fact, it depends on investment in China. For example, in January - September 2006 the GDP growth rate was 10.7%, 2.7% exceeding the supposed level. In the same period, CPI was only 1.3%. Fixed capital investment grows 28.2%, social consumable retail grows 13.5%, and disposable income per capita/month grows 10.5% compared with the same period last year (aweb.com.cn, 2006).

According to the situation described, the CPI of seafood makes it difficult to expect better performance, though it is the best on the food market. Otherwise, the middle class consumption trend stably increases and group scale expanding leads to an acceptable consumption level of aquatic products.

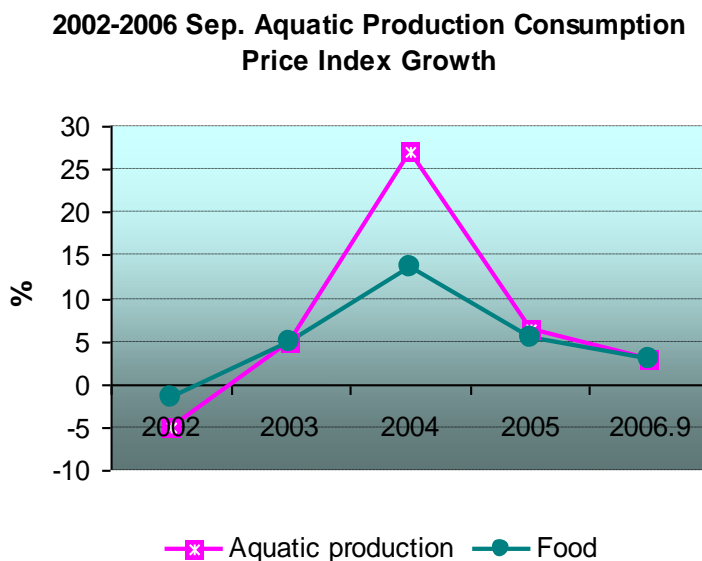


Figure 5: 2002-2006 September Aquatic production consumption price index growth (Food and Aquatic Production Developing Trend Analysis 2006)  
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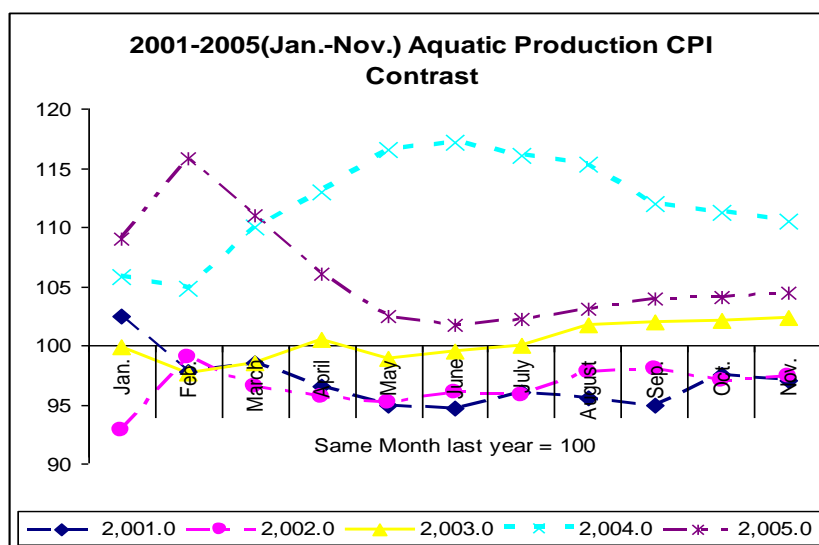


Figure 6: 2001—2005, January to November. Aquatic production CPI contrast (Summary of Aquatic Production Market in 2005 by Agriculture Ministry, 2006)  
Changes: Information translated

#### 4.1.2.2 Seafood price in 2005-2006

According to the China National Fisheries Institute, statistic from 64 markets show that the average seafood price in 2005 was 21.15 Yuan/kg, which was an increase of 5.9% compared with 2004. The seafood price index is 4.5% higher than fresh water products. The marine fish price increased 5.3% and the fresh water fish price increased 3.9%. The marine shrimp price increased 11%, but the fresh water shrimp price increased only 1% (Annual Report of Aquatic Production Research 2005). The main reasons for the seafood price increase in 2005 were:

Seafood consumption grew because of increasing income and H5N1, market bargain quantity increased by 9% in 2005; increasing diesel oil price led to increased costs. (Ministry of Agriculture Published Report, 2006. In the first three quarters of 2006 the price of aquatic products on the whole sale market decreased by 1.53% (compared with the same period of 2005), seafood price increased by 0.72%, marine fish price increased by 1.61%, and fresh water products price decreased by 4.39% (China Fisheries Bureau 2006).

#### 4.1.2.3 Economical variation within China

There is significant difference in seafood consumption between rural and urban areas in China. A common misconception is that there is a single market in China. In reality, it is a series of local and regional markets. Trends vary from one region to another. According to the geographic and economic situation, China can be divided into parts by provinces:



Figure 7: Map of China showing geographic and economic divisions.

Blueice fish processing plants (Business of Blueice Group-Blueice Group Asia 2006) ●

Blueice Target markets in China (Beijing and Shanghai) ★ ←

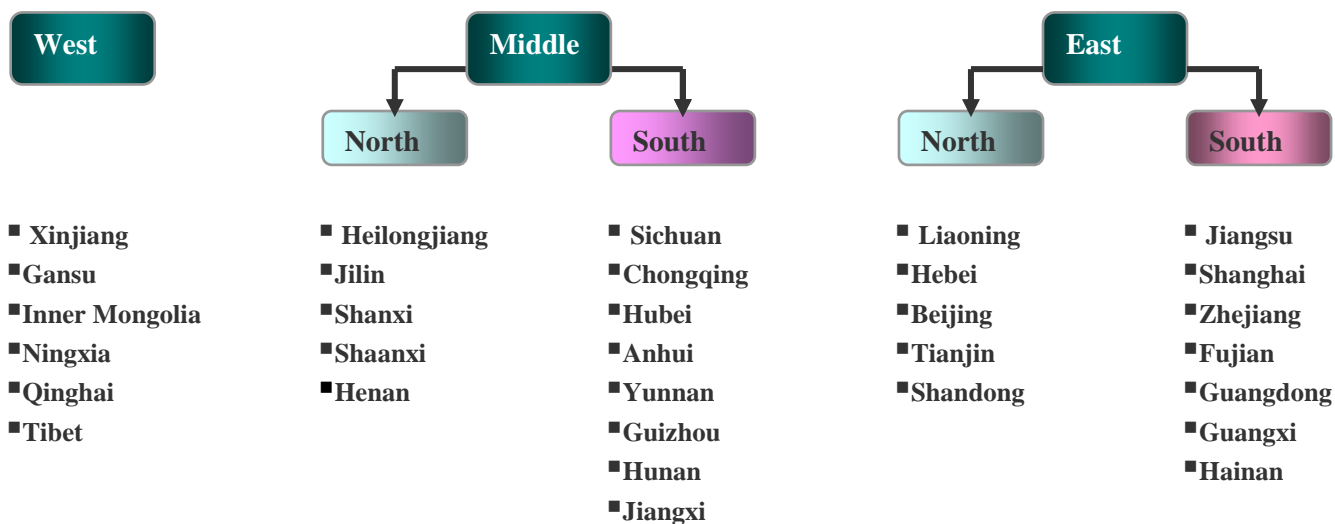


Figure 8: Regions in China

a. West and middle China

The products Blueice Group is planning to offer on the Chinese market are value-added products. The price is likely to be higher than similar locally produced products; but the quality is also expected to be higher. Therefore, they need find geographical areas with suitable economic environments for their products. Western China is the lowest income area and people prefer red meat, only in some bigger cities there is a little fish consumption. Economic conditions are better in the middle inland area than in the west and the middle-north is better than the south. However, it is not good enough for imported seafood consumption. Otherwise, this inland area is the main fresh water consumption market. The economic analysis and consumption habits in these two areas provide no chance for the company.

b. East coastal region

Both inhabitants' income and seafood consumption are the highest in east coastal provinces. High quality imported seafood is mostly consumed in hotels and restaurants in this area. Alongside the growing middle class in large cities and coastal regions, the potential of these imported seafood products is increasing. Increasing income and health awareness make the east China region a major consumption market of aquatic and fishery products. Although incomes in east China are relatively high, east China consumers continue to spend a large proportion of their income on food. For example, in Shanghai, per-capita spending on food is higher than in any other province or city in China. Census also shows that Shanghainese spend more on aquatic products (nearly three times the urban average) than most of other places in China. The relatively large amount of money that east China consumers are willing to spend on aquatic food makes them excellent potential buyers of imported aquatic products.

The following data about consumption and income describes the important economic position of this area:

The top five provinces for expenditure on seafood products in 2004 were Fujian, Shanghai, Zhejiang, Hainan and Guangdong. The affluent population in coastal cities of China consumes more expensive marine fish.

#### c. Middle class proportion of top four cities

According to data from the National Statistic Bureau of China published on 21 November 2006, inhabitants' average income per capital/month is US \$237.8 in Beijing, the highest in China. Average obtaining employment population per family is 1.65, the average income per family/month is US \$292.3, and the average annual income per family/year is US \$4,700. The average income per family/year in Shanghai is US \$4,544. The average family income levels in these two cities are approaching middle class. Now the middle class proportion is approximately 1/3 of the total population in Beijing, Shanghai, Shenzhen, Guangzhou. (China National Statistic Bureau 2006)

Table 4: Basic conditions of urban households by top ten cities in 2005

Region	Average number of persons per household (person)	Average number of employees per household (person)	Average number of dependents per employee (person)	Per capita monthly income(USD)	Per capita monthly disposable income (USD)	Per capita monthly living expenditure (USD)
Average by 36 cities	2.90	1.50	1.90	170.0	154.3	113.0
Shenzhen	3.20	1.70	1.90	338.3	305.9	200.4
Beijing	2.90	1.60	1.80	236.2	211.0	158.1
Shanghai	3.00	1.60	1.90	231.0	208.7	152.3
Guangzhou	3.10	1.80	1.80	233.3	195.2	140.2
Hangzhou	2.80	1.50	1.90	199.4	176.0	148.4
Dalian	2.90	1.60	1.80	191.9	175.7	138.5
Xiamen	2.90	1.50	1.90	212.7	186.1	122.6
Qingdao	2.90	1.60	1.80	176.5	162.3	126.7
Nanjing	2.80	1.40	2.00	194.1	176.1	115.2
Ningbo	2.80	1.50	1.80	208.6	180.5	116.9

Source: [china.org.cn](http://china.org.cn) (2006)

Changes: Choose top 10 cities among 36 cities and color

#### 4.1.3 Ecological analysis

Increasing pollution and over fishing are destroying the marine ecological environment in the East China Sea, confirming the fears of fishermen and environmentalists.

##### 4.1.3.1 Coastal water pollution

China's coastal waters face a serious threat of land-based pollution. As a country with rich marine resources, marine and coastal development plays an important role in the country's economic growth. However, pollution control in and along China's rivers and seas is of great concern. Pollution is very serious at the mouths of major rivers and in some bays. The quality of fish species caught in this area is degraded.

Statistics from the SEPA (State Environmental Protection Administration) say that nearly 31.7 billion tons of polluted water flowed into China's offshore waters in 2005, accounting for 60 percent of the total wastewater produced by the country (China Watch- Food and Water 2006).

Sewage has become one of the biggest threats to China's marine environment, as less than half of the wastewater pumped into the sea is treated, according to a report from the United Nations Environment Programme. Results from the country's 200 coastal monitoring stations indicated that more than 317 billion tons of wastewater, both treated and untreated, was discharged from the mainland in 2005, almost twice as much as in 2000 (China Watch- Food and Water 2006).

The Chinese government is drafting a National Program of Action (NPA) to protect its marine environment from land-based activities. The second intergovernmental review meeting of the Global Programme of Action (GPA) for the Protection of the Marine Environment from Land-Based Activities was held on 16 October 2006 in Beijing. China has promised to treat about 70 per cent of its urban wastewater in the next five years. It will also try to decrease pollutants by 10 per cent. There are currently 145 wastewater treatment plants under construction in coastal areas (China Watch- Food and Water 2006).

Protection of the marine environment depends on control of pollution from land-based activities. Measures to clean up the environment will focus on the Bohai Bay, the Yangtze River estuary and the lower reaches of the Pearl River delta.

At the same time, pollution in China may increase the size of the market for imported seafood. Blueice plans to found a salmon farm in China, providing high quality raw material for smoked salmon. The requirement of clear, high standard seawater for salmon farming brings both biological and technological problems to the company.

#### *4.1.4 Technological analysis*

##### *4.1.4.1 Local manufacturers*

Fish processing is still undeveloped as a labor-intensive industry in China. Though the total output is around 1/3 of the world production, ranked the highest among world's nations. But there is an obvious disparity from the world on processing technology and utilising level. Aquatic production processing proportion is at a low level, about 1/3 of the total output. Most is primary processing with low benefit and poor quality. Large numbers of employees and behindhand equipment are the best description for most domestic fish processing plants. Integration utilising proportion and level of the castoff also need to be improved. Mostly whole frozen cod/Pollock is imported for re-processing and exporting in local manufacturing industries. A small quantity of frozen fillets/whole frozen cod is sold on the domestic market, mostly to



restaurants and supermarkets. Yet the frozen fillets are always with bone and skin - a primary processing product.

#### 4.1.4.2 Advantage of Blueice

Blueice Group is modern and technically well equipped for fish processing and freezing. This is an advantage compared with Chinese local manufacturers. The company is extensively involved in primary processing in Asia. This involves processing of headed and gutted fish, normally into fillets or fillet portions. After gutting and washing the fish is iced and kept in chilled storage at sea and onshore to preserve raw material quality. In the freezing process, the fish is first washed, headed and machine filleted. The fillets are trimmed, portioned, graded for size, and packed according to specifications before being quick-frozen. Fish is processed immediately after gutting on board freezer trawlers (Icelandic Group 2005).

Value added processing of seafood consists of the transformation of primary processed raw materials into products that are ready for preparation or consumption (Beckman 1997). The products can range from raw material for restaurant kitchens to fully prepared meals, ready to serve.

Buyers include other associated companies, in addition to third party manufacturers and sales companies. These products are frequently semi-processed intended for further processing in the US, but also for direct sale. Product development at this level of processing, involves achieving the best and most stable quality, but also in adapting products to customer needs and achieving maximum yield (Lele 1990). In part, therefore, this product development is conducted in close collaboration with customers (Business of Blueice Group- Blueice Group Asia 2006).

#### 4.1.5 Political analysis

Despite more than a century of upheaval, the political system in China continues to undergo radical change. While the economic reforms introduced over the past two decades have generally improved living standards across the country, thus reducing the likelihood of social upheaval, the government has been obliged at times to slow the pace of economic liberalisation for fear of losing overall political control. Today's communist China is a world away from that of the newly formed People's Republic in 1949. The old revolutionary leaders who fought for the establishment of the PRC in the 1930s-1940s are gone. Now the Soviet-trained bureaucrats who succeeded them are preparing to hand over power to a new generation of technocrats more familiar with western economic policies and political affairs. At the same time, this new generation of leaders is finding itself increasingly accountable to both popular sentiment and the rule of law.

The extraordinary changes, which have taken place in China since former paramount leader Deng Xiaoping launched his open-door economic reform policy, have radically affected the lives of ordinary people, particularly in the major cities. Many people have been forced to question traditional values and attitudes as new ideas and concepts have emerged. The influence of foreign culture is now much more apparent in everyday life than in any other previous generation. Younger consumers are attracted to international products and brands. Yet they retain a strong sense of

patriotism which is shared by urban professionals and older generations. Since the collapse of communism in Eastern Europe and the emergence of the US as the world's sole superpower, The Chinese government has sought to play on latent nationalism to re-establish its position as the country's central authority and paid more attention to improving the economy.

#### 4.1.6 *Cultural analysis*

China has a five thousand year history and particular culture with abundant contents from other countries, especially western countries. The culture decides their religion and thought, special lifestyle, particular eating culture, different manners, conceptions and public behaviours.

##### 4.1.6.1 Chinese cultural overview

China's cultural background determines the thoughts, behaviours and habits of the nation. Chinese speak and behave more implicatively than people from the western world. They are not accustomed to expressing feelings directly with words or body actions. Modesty is regarded as a common virtue, appreciated by all the Chinese. China's ethical system involves respect for superiors, duty to family, and loyalty to friends, sincerity and courtesy. Age brings increased respect and status. Handshaking is the accepted greeting, with a light handshake encouraged, lasting as long as ten seconds. Chinese lower their eyes slightly as a sign of respect. Staring may make Chinese uncomfortable. It is very important for Chinese people to "maintain face" in everything they do. The Chinese, especially those who are older and in positions of authority, dislike being touched by strangers.

Chinese business customs are quite different to those in North America or Europe; therefore a good understanding of Chinese business etiquette is important for successful market entry. It is essential for the foreign-funded enterprises to understand the China's culture; it is not possible to run a foreign company in their own way in this country. For any foreign-funded enterprises, the first step must be to know about China through its particular culture, especially regarding the culture of "Guanxi" (relationship), to be able to gain the popularity and trust of the Chinese population. With a good relationship, business can become smoother and the probability of failure will be greatly reduced. Stronger bonds can also be built with the customers, suppliers, and partners (Ghauri and Cateora 2005).

##### 4.1.6.2 Business culture

###### a. The key of business in China: the "Guanxi net" (relationship net)

No matter the personal problems, business or official affairs Chinese meet with, the first thing they need to do is to find a powerful person who works in the relevant department on their friends list. If he is lucky enough to find some one, his problems will be solved in an easy way. Otherwise, he has to ask his friends to introduce him to somebody. That is the way Chinese solve problems and achieve success. Chinese call it "Guanxi". Usually each successful person, especially businessperson or government official has his/her own Guanxi net. It's an extremely valuable source which can effectively provide more opportunities and wealth for them. The wider

your Guanxi net, the more power you have. To be a successful businessperson you have to build up your Guanxi net gradually.

b. Business travel tips in China can be summarised as follows:

- Establishing and maintaining personal relationships before conducting business. It is very important in China to establish trust between business parties which often comes before or determines the beginning of a working relationship.
- Respect for hierarchical position is important in China; therefore, Chinese typically expect to be addressed by their family name. It is also common to address Chinese by their surname and business title, e.g. “Director Li”, especially when speaking with government officials.
- Accept and offer business cards with both hands, and make sure to study them for a few seconds before putting them carefully away. It is recommended that Icelanders offer bilingual, English-Chinese/Icelandic-Chinese business cards to their counterparts.
- Offering small gifts to Chinese business people is welcomed although not necessary. Never give a clock, handkerchief, umbrella or white flowers, as these items signify tears and/or death. Items bearing one’s company logo are best, e.g. mugs, pens, key chains.
- Although the degree of formality in business practices is changing, many Chinese, especially government officials, still like to begin business meetings with an overview of their company. It is also advised that materials and presentations be translated, and meetings incorporate a translator to help both parties understand details being discussed. However, even minimal efforts to speak the language are appreciated by Chinese business people.
- In Chinese culture, bringing up problems or negative responses in conversation is considered impolite. Therefore, Chinese business people may often remain silent, provide mixed answers to questions, or avoid speaking about problems in business dealings, rather than openly expressing their concerns. This does not, however, necessarily mean that they are not interested.
- Chinese may ask their business counterparts personal questions regarding their age, income and marital status, as this is not considered impolite in China. One should always respond with a generic answer if they do not want to reveal such details, but not express frustration as this has a negative meaning in Chinese culture.
- Normal business hours run from 8:30 a.m. to 5:30 p.m., Monday through Friday, although some offices still maintain six-day working weeks. Government officials are often unavailable on Friday afternoons as this time can be reserved for political studies. Meals are still an integral part of Chinese culture so most businesses close for lunch from 12:00 p.m. to 2:00 p.m.
- Evening banquets are the most popular occasions for business entertaining. Generally, they start between 5:30 p.m. - 6:00 p.m. and last for two hours. Guests should arrive on time. Chinese hosts and counterparts will probably be present before the proceedings officially begin. Banquets are hosted with varying degrees of extravagance, usually in a restaurant.

- During a meal, as many as 20-30 courses can be served, so try not to eat too much at once. The best policy is to lightly sample each dish.
- One important part of Chinese business entertaining is a tea drinking ritual known as “yum cha”. It is used to establish a rapport before a meeting or during meals. If you do not want a “refill” of tea, leave some in your cup.
- Sticking your chopsticks straight up in your rice bowl is considered rude because in this position, they resemble the joss sticks that are used in Chinese religious rituals. Do not put the end of the chopstick in your mouth. Try not to drop your chopsticks, as this is considered a sign of bad luck.
- Forming a personal relationship (Guanxi”) in your business dealings is very important. Part of this involves participating in the strong drinking culture that exists in China. Generally, the Chinese regard with suspicion anyone who does not participate in the inevitable drinking that takes place during almost all business dinners. And it is at these kinds of social occasions that most negotiating breakthroughs are made. Prepare some medical excuses for yourself to avoid drinking heavily; if you really wish to avoid alcohol, Chinese will accept medical excuses. Sometimes, the Chinese enjoy testing the ability of a foreigner ['lou wai'] to handle his or her alcohol, especially 'er gua toe', a potent clear alcohol that one might compare to airline fuel. A good practice would be to eat something beforehand (China Business 2006).

#### 4.1.6.3 Dining culture

China is famous for its “dining culture” in the world. As a food supplier on the Chinese market, general knowledge about the Chinese diet composition and culture can help the company a lot to know their customers’ needs, purchasing habits and attitudes towards the products (from the company and its competitors). It’s a guide for them to make suitable strategies for the products or services offered in China.

China’s dining culture is a product of thousands of years of history, formed by the country’s diversity in a natural way, it’s also an important part of China’s culture. There are eight main meal systems in China (Overview of Chinese Eating Culture through Eight Dish Systems 2006). Each meal system has built up a large quantity of restaurants in big cities all over China. The most favourable and popular are the Chuan meal system (originated in Sichuan Province), the Yue meal system (originated in Guangdong Province), the LU meals system (originated in Shandong Province) and the MIN meal system (Originated in Fujian Province). Different meal systems have different cooking methods and spices.

Halibut and flatfish dishes are mostly found in higher-grade Yue, Min, and Chuan meal system restaurants. Chinese regard these two species as classic fish with more nutrition and deep-sea water species without pollution. Additionally, the soft flesh is easy to satisfy Chinese requirement for taste sense. It is a favourable dish to the Chinese middle class who are the most usual customers of super restaurants. However, halibut is an expensive species for most Chinese, but it is a favorable dish in high-grade restaurants. High-income groups and middle classes prefer it. In addition, the

consumption comes from official or business affairs bouquets, which spend public money.

In family consumption, Chinese purchase flatfish or salmon as safe and nutritional species with less bone, usually for their children or old people. The cooking method is simpler than in restaurants, mostly frying or braising with steam. Fresh salmon is sometimes just is cut into very thin pieces without cooking.

## 4.2 Microenvironment

The microenvironment comprises those factors external to businesses that directly affect the running of that business and over which it can exert some control. Changes in this sector of the business environment are of the major significance to the marketing department, and are likely to influence marketing decisions at the both the strategic and tentacle levels (Hill and O’Sullivan 2004).

### 4.2.1 Markets

The rise in incomes and demand for imported seafood have been the main contributors to growth in all the sectors, along with the rapid growth in product variety and quality, coupled with increased marketing and advertising of the products. Better market penetration, achieved through the spread of more supermarket and convenience store chains have also contributed to the sharp rise in sales value. Between 2001 and 2005 the volume of frozen fish imported kept increasing from 853 MT to 1,772 MT, so the volume in 2005 was twice as much as in 2001 (Frozen Fish & Seafood in China: A market Analysis 2004).

Table 5: Imports of fish, frozen by country origins (MT)

Country	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec	Jan-Dec
	2001	2002	2003	2004	2005
Total	853	1,004	1,195	1,517	1,772
Russia	469	604	644	753	903
United States	53	71	106	201	270
Norway	57	57	81	109	81
Japan	60	68	92	80	79
Netherlands	25	10	23	52	53
New Zealand	22	27	29	39	32
Canada	5	8	15	33	38
Korea, South	12	10	16	28	47
Iceland	15	11	18	23	37
India	48	31	18	22	21
Thailand	7	7	7	20	28
UK	6	7	15	15	23
Other	72	93	131	142	162

Source: Bean and Wu 2005.

#### 4.2.2 Customers

Nowadays in China, especially in big/middle sized cities, middle class consumption capacity has been the main force. It is leading the Chinese market trend. The middle class in China has a better educational background than high/low income groups. Though the quantity of middle class consumption is not the highest, but as to consumption class, value and quality, it is a leader. This means the middle class consumption is driving Chinese market progress and development. In general, imported food is purchased by the middle-upper income younger Chinese. Import food purchases are often made out of curiosity to try something new or as a gift to relatives or friends. As a result, repeat sales are more difficult to achieve than the first. Price, brand and quality remain the leading decision making factors.

Economic development in the fast-growing coastal provinces of eastern and southern China has led to the emergence of a burgeoning middle class with increasing enthusiasm for imported consumer goods. Consumer spending is strongest in densely populated urban markets in these regions, most notably Beijing, Shanghai and the fast growing cities of Guangdong province. Consequently these areas have the most developed retail trade environments.

a. According to a report by the National Statistic Bureau published in January 2005, the annual income standard of Chinese middle income families should be between US \$5,063 and US \$63,291. The population share is 7.7%, about 100 million. (China Supermarkets Competition 2007) The number of middle income families in 2005 was 42 million; it will most likely be up to 200 million in 2015 (China Supermarkets Competition 2007).

Table 6: Middle income family food consumption per capita/year 2004 compared with 1996.

ITEM	QUANTITY	GROWTH RATE
Pork	19.52kg	13.2%
Birds	6.34kg	57.7%
Egg	10.16kg	9.2%
Fish	8.88kg	117%
Shrimp	1.26kg	72.6%

Source: Food and Aquatic Production Developing Trend Analysis I (2006)

In middle income families, fish consumption is 15% higher than in low income families and 22% lower than in high income families.

b. The middle class occupation structure is as follows:

- Civilian
- Middle/senior manager
- Owner of middle/small knowledge-type Corporation, specialty technique personnel.
- Specialty technique personnel including:
  - Lawyers
  - IT engineers
  - Middle/senior teachers
  - Middle/senior accountants
  - Middle/senior performance personnel
  - Middle/senior artificers
  - All kinds of writers
- Stuff in national monopolies industry such as electric power, petroleum, and communication traffic, etc. ([aweb.com.cn](http://aweb.com.cn) 2006).

c. Middle class is driving the sales of restaurants

From 2000 to 2006, the sales of restaurants keep increasing by over 10%. In 2003 the growth rate was up to 28.2%, almost an economic wonder. In 2005 it was 17.7%. The growth of restaurant sales is about double that of inhabitants' income growth ([aweb.com.cn](http://aweb.com.cn) 2006). If a company engages in opening China's food market, the key is opening the Chinese restaurant market first. The high sales value and growth speed come from public money- business affairs consumption and official consumption. The principal part of these two types of consumption is the Chinese middle class. In China almost all the business and official activities are achieved finally on the tables of restaurants.

#### 4.2.3 Competitors

As a member of the Asia-Pacific Economic Cooperation (APEC), China relies heavily on its many Asia-Pacific neighbours as import sources, making the country a more challenging market for foreign companies to penetrate. China's principle fish fresh/frozen import sources are shown in the following figure, which represents the company's top competition in the Chinese export market. And, China's CEPA with Hong Kong and Macao influences how numerous exports enter the country, as this relationship facilitates product admission via Guangdong Province much easier than in the past. In fact, almost 50% of all food products imported into Hong Kong are in turn shipped to China through Guangdong.

Domestic food producers and processors also present considerable competition for Blueice exporters, as almost all Chinese supermarket and hypermarket chains only contain homegrown goods. Foreign-owned retail food chains may present the best market entry, distribution and product placement opportunities for Blueice exports; however, such goods currently only represent 4% of total food product sales in such outlets. Retailers site low purchasing levels of international goods in comparison to well-known Chinese products as the reason for limited shelf space designated for foreign products.

#### 4.2.4 *Distribution and dealers*

The government has loosened its control and opened the market for competition. As a result, the system has improved. Eastern coastal cities, such as Shanghai, have developed the necessary infrastructure to meet the market need. Much needed infrastructure projects, industry reorganisation and elimination of restrictions on foreign participation will further bring improvements. But distribution remains the largest challenge for foreign companies striving to achieve market success. It is also the most crucial. China's vast geographical size requires the movement of goods over long distances which is a daunting task given China's inadequate transportation infrastructure, lack of warehousing facilities and different regional characteristics.

China's accession to the WTO is expected to improve the current situation. The distribution industry will become increasingly open to foreign companies. By 2006, foreign companies will be granted full trading and import rights. Industry analysts believe this will be a positive step for the distribution industry. Foreign operators will introduce new competition, infrastructure, and management expertise. The Chinese government will reserve the right to exclusively manage the trade of certain products (bulk commodities, tobaccos) and to maintain restrictions on certain sectors of the transportation industry (air). (Food Distribution in Yangzi Delta 2006)

Foreign operators have been successful at creating interim solutions to their distribution woes. Though they are not the most cost efficient and practical, foreign operators are increasingly able to reach their target destinations with minimal hassle and within their time frame (Hill and Terry 2004).

##### 4.2.4.1 *Distribution channel*

The following graph represents the modern distribution system. Designated large department stores, hotels and large supermarkets are the only actors who can import directly from overseas manufacturers or suppliers. Significant layers and regulations have been removed. Exporters are now able to exert more control on the product, and penetrate deeper into the market.



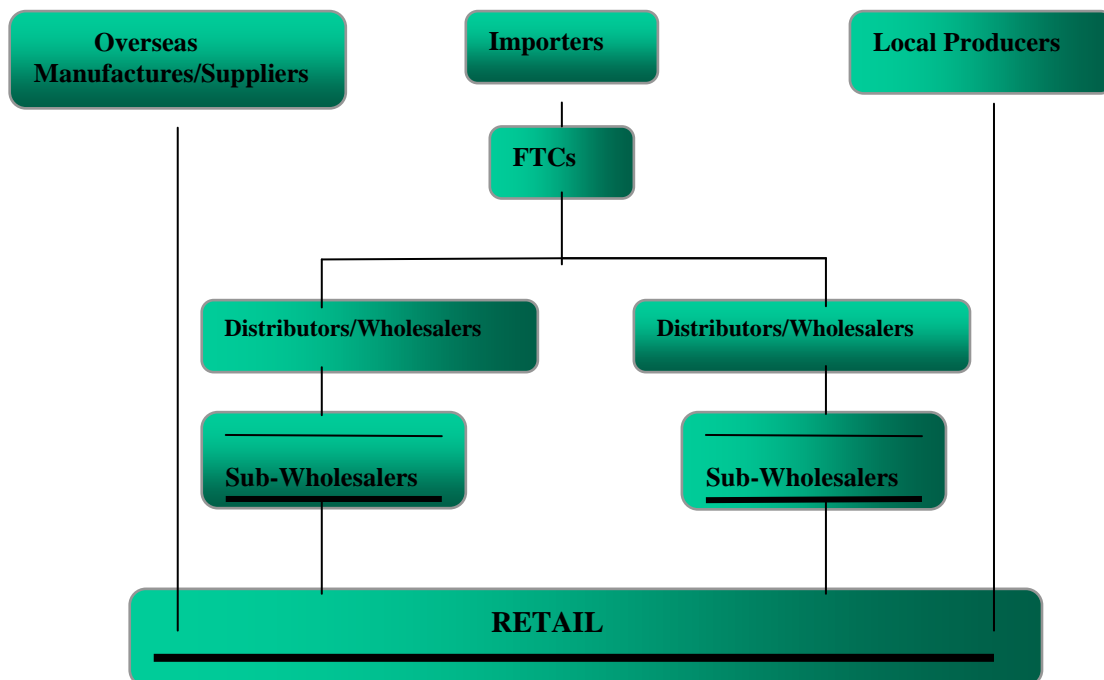


Figure 9: Distribution channels (Food Distribution in Yangzi Delta 2006)

a. Whole sale market

The wholesale market system is gradually becoming consummated and the main distribution channel of aquatic products. Nowadays markets in China, 13 of them are located in the main produced areas/main consumption areas/main distributing centres are operated 333 special whole sales by the Agriculture Ministry. There are 72 wholesale markets with annual sales over 1 billion Yuan, total annual sales of US \$56.58 billion in 2005, 11.93% higher than the same period in 2004. These wholesale markets combine cold storage, traffic, wholesale and retail together. (aweb.com.cn 2006)

b. Internet

Internet is becoming more and more important in modern distribution channels. Government and seafood sellers have built up websites providing seafood market information. Electronic communication expands and speeds up seafood trading and distribution.

c. Retail

Many foreign and local retail companies are expanding their business in China. The total retail sales forecast is US \$108.86 billion in 2007, increasing 13% compared with 2006. The value is high enough to make China rank seventh in world retail. (China Supermarkets Competition 2007)

Aquatic product retail is an important activity, including nation ownership food stores, individual aquatic shops, free markets, chain shops, and supermarkets. As people pay more attention to food safety, more and more people purchase seafood at supermarkets. So supermarkets are becoming more and more important in the seafood retail market.

In eastern coastal regions frozen cod fillets are sold in some supermarkets. For example in Beijing it is common to see frozen cod fillets (with bones and skin) in bulk sold in most supermarkets. The price is around 4 \$/kg, not high compared with local species. But since 2006 chilled fresh fish has become more favourable than frozen fish in these big cities. Chinese people prefer whole fresh chilled fish to processed products. As for fish consumption, they hate “processed”; any processed seafood in their mind is not “fresh enough”. So offering chilled cod fillets in China is likely not an advisable choice. Under the same price level most Chinese would choose whole chilled fresh fish, not fillets.

#### d. Restaurants

From 2000 to 2006, the sale of restaurants increased by over 10%. In 2003 the growth rate was up to 28.2%, almost an economic wonder. In 2005 it was 17.7%. Referring to the figure below, sales of restaurants have grown almost twice as fast as inhabitants’ income. That means the restaurant market is not for common inhabitants in China. The high growth speed and rate come from public money. The inhabitants’ income is increasing more slowly. (China National Statistic Bureau 2006)

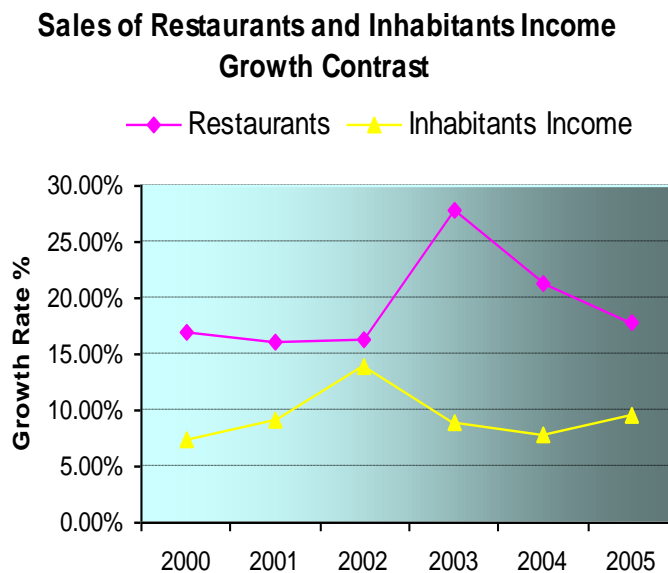


Figure 10: Sales of restaurants and inhabitants’ income growth contrasted (China Seafood market Trend in 2006)

### 2001-2005 Sales Growth of Restaurants & Consumable Retail

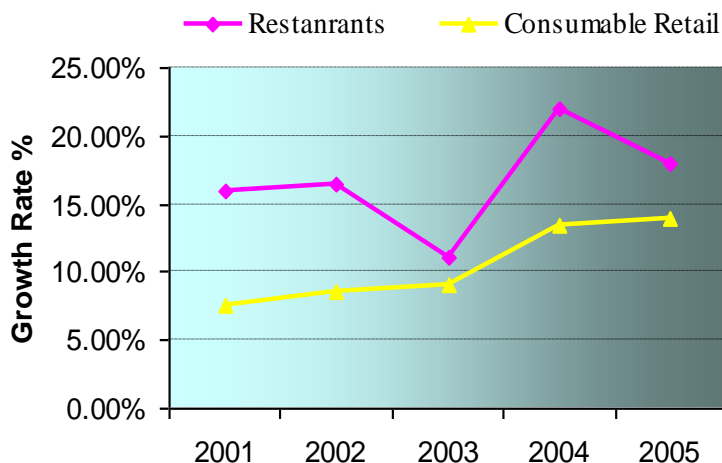


Figure 11: Sales growths of restaurants and consumable retail(Food and Production Developing Trend Analysis II 2006)

Top grade fish consumption as maintained a high level in these past few years. Most top grade fish are deep marine fish. The supplement is for restaurants, especially high star restaurants. Most top grade fish are imported from abroad. The top grade fish market is a seeking a novelty market. It is also the preferable market for new international thoughts, new conceptions and new tides. In 2005 the retail sales of restaurants was US \$1124.9 billion USD, increasing by 17.1% compared with the same date of last year. The growth extent is 7.8% higher than the GDP, 3.8% higher than social consumable retail. (China National Statistic Bureau 2006)

In east coastal big cities there are many super restaurants with more than twenty types of dishes made of cod. Chinese regard cod as classic fish with more nutrition and deep sea water species without pollution. Most material comes from local factories, with bone and skin- very primary processed. Of course the price is also not too high. For Blueice Company the restaurants provide more chance to expand their trading in China. The product with higher quality and good package has comparative advantage from domestic products. If the company aims to a stable position on China seafood market, there is one thing it has to do first – open the door of Chinese restaurants.

#### 4.2.4.2 Dealers

The most common distribution methods for importing and distributing products in China are:

##### a. State owned distributors

State owned distributors are commonly used for large bulk commodities (barley and canola) and niche products (wine and spirits) requiring specialised import licenses. They seldom import small quantities of goods. It is estimated that 70% of food imports, including bulk commodities, enter the country through state owned distributors. Often, state-owned distributors own their own transportation and logistics companies.

b. Private domestic companies

Private domestic distributors or wholesalers are the most chosen mode of distribution for value-added food products. Distributors represent a series of related, but non-competitive products. They provide customs clearance, basic distribution, warehousing and sales for the product. Depending on the company, a range of additional services may be offered. Additional services may entail issuing credit reports, market information, sales analysis or promotional support.

c. Foreign based distributors

Foreign-based distributors offer a fuller and more modern range of distribution services with wider coverage, on a multi-regional, or near national basis. They have established arrangements with local governments and local companies to solidify their foundation. In most cases, they are multi-national companies operating in more than one world market and their product range and representative services are not limited to food products. They offer a wide range of services from advertising, distribution, transportation and logistics. The better known companies operating in the China market include SIMS Trading, Jebsen and Co. Ltd., Inchcape PLC, EAC and JDH.

d. Establishing a local presence

For companies serious about the market and prepared to make a long-term commitment, establishing a local presence is a useful strategy. There are three main mechanisms that allow foreign companies to operate in China. These include establishing a representative office (RO), joint venture (JV) or wholly owned foreign enterprise (WOFE). Depending on the license, a local presence allows the foreign company better control over the marketing, pricing, distribution and sales of the product. Direct contact with retailers and market players enhances business relationship furthering potential success.

### 4.3 Suppliers

Blueice imports raw material: whole frozen salmon and halibut from Russia and Japan, then transports it to Asia for primary processing or raw material trading. The main raw material suppliers are the following:

Russia: AKROS, TURNIF, HSH, AQUARESOURCE, LENIN-K., BAMR,  
Japan: BROADCOMM, KOYO etc.

Blueice has strong ties with all the major suppliers in Russia and Japan with business relations dating back for over a decade. The strong sourcing power builds up a stable fundamental for Blueice's business activities.

Salmon (pink/chum) - Total imported Quantity to China ABT80, 000~100,000MT

Supplier: Japan/ Russia/ USA

Main fillet customer

Blueice processes 2.500 MT pr. Year.

Halibut - Total imported quantity to China varies greatly

Supplier: USA/ Russia

Blueice has a quota of TAC of 1000 Metric tons.

(Business of Blueice Group-Blueice Group Asia 2006)

#### 4.3.1 Marketing firms

Blueice found a trading firm which is a main camp for various business activities including distribution and logistics in Pusan, South Korea. All the staff has a long experience in seafood trading and processing. The trading firm in Pusan imports raw material from Russia and Japan, trading the raw material to Chinese companies or transporting it to their own processing plants in China. Then it transports the primary processed products to the US for value added processing. The trading firm in Pusan is responsible for all the business activities including distribution in Asia. (Business of Blueice Group-Blueice Group Asia 2006)

Blueice Group trading firm in China, New World Cyber Port was founded in 2004, located in Qingdao. There are 8-10 staff (Chinese only) in this firm; its current activity is raw material trading to Chinese domestic factories. In the future this trading firm is supposed to be responsible for marketing activities of smoked salmon, halibut and flat fish in China (Business of Blueice Group-Blueice Group Asia 2006).

#### 4.3.2 Publics

Since its accession into the WTO, China's range of trade and investment opportunities has grown, making for numerous economic changes. Major changes include permitting foreign wholly owned companies from entering country, and more international participation in distribution, logistics, telecommunication, finance, and professional services, which are expected to benefit foreign exporters.

Distribution improved in the latest years in China. But it still remains the largest challenge for foreign companies striving to achieve market success. It is also the most crucial. China's vast geographical size requires the movement of goods over long

distances, a daunting task given China's inadequate transportation infrastructure, lack of warehousing facilities and different regional characteristics. Despite improvements, the distribution system remains chaotic and inefficient.

Most foreign companies face the same problems in China: a different cultural background brings them confusion and bothers which can obviously effect the management or even the profit. The foreign managers always feel a headache with Chinese employees because the western scientific management sometimes doesn't work in China. How to build up an efficient co-operation and management system combining totally different cultures is undoubtedly a large challenge which is even more complex than business affairs.

Another public problem also arises from culture. Chinese don't like to provide opportunities or show their trust to strangers and newcomers. Foreign companies need try their best to build up a relationship net depending on Chinese partners or employees as soon as they can. It's a very important factor for the company running a successful business in China.

### *4.3.3 Current issues*

#### *4.3.3.1 Legislation*

The most recent government legislation of relevance to the frozen foods market relates to packaging, hygiene and product labelling. The government introduced new hygiene regulations in 1995, which mean that product lines are now inspected, and those products that have passed the inspection can place a hologram label on their product to show consumers that their product is hygienically manufactured. The government has also brought out strict codes on the labelling of product ingredients, and has tightened up laws concerning marketing claims for products, in order to clamp down on companies making false claims about the benefits of their products.

Packaging legislation relates more to hygiene issues, but the government has also been keen to encourage local companies to improve packaging used, and the presentation of products, so that Chinese products can compete more strongly against foreign ones. Chinese companies have certainly responded well, and there has been a marked improvement in food product packaging over the last few years.

China's Regulations on Hazardous Substances (RoHS) has taken effect. The regulations are intended to reduce pollution caused by the disposal of electronic goods and place new requirements for labelling, packaging, and the presence of potentially toxic materials in certain products. Exporters need to take immediate steps to ensure that products shipped to China will meet the requirements of the new regulations.

China's RoHS mandates that the design and manufacturing of electronic information products be environmentally safe and easy for recycling. Exporters, importers, or resellers will need to indicate that they comply with the regulations by labelling:

- The name and concentration values of the toxic or hazardous substances in the product;
- The safe-use period;
- Whether the product is recyclable.

Imports of certain products containing materials mandated for priority control will be restricted or prohibited if they contain lead, mercury, cadmium, hexavalent chromium, polybrominated biphenyl (PBB), polybrominated biphenyl ether (PBDE). As China may add additional substances to this list, companies are encouraged to monitor RoHS developments on an ongoing basis.

#### 4.3.3.2 Food safety

In China, while overall demand for seafood products keeps rising, the demand for safety and high quality is even stronger. The main government body in China for the inspection of fish and seafood products is the Administration for Quality Supervision, Inspection and Quarantine (AQSIQ). The AQSIQ verifies documents, randomly inspects shipments and issues an official quarantine inspection certificate. The Food and Environmental Hygiene Department, a food and safety department set up in 2000, has ordered studies into genetically modified (GM) products, dioxin contamination, viruses and other incidents of large scale food poisoning.

#### 4.3.3.3 Organic production

Originally established by the Ministry of Agriculture in 1992, the CORFC (China Organic Foods Research Centre) is now under the China Seeds Corporation, a state-owned food company. The centre has set up a certification scheme which closely mirrors EU and US schemes to monitor food products. This involves close checks not only on the soil, air and water quality to ensure the absence of toxins which might enter food, but also production methods to ensure they are natural and not harmful to humans or the environment. So far, Japan recognises the COFRC's standards, with Germany and France expected to follow.

Another key institution involved in the promotion of organic food development in China is the Organic Food Development Centre (OFDC), which was established in Nanjing in 1994. OFDC is involved in educating farmers and consumers about what organic products comprise, and helping farmers to change their production practices so that they can have their produce certified as organic. Under the OFDC's help, organic products are now grown in every province in China, with the exception of Tibet.

OFDC is also licensed to certify organic produce, although this costs RMB 5,000 per product, which is still rather steep for many poorer rural farmers. However, many farming communities looking to gain organic certification are therefore organising themselves into cooperative groups, so that the burden of the cost of certification can be shared. This in itself is also helping these farmers to become stronger in terms of how they sell their produce, as larger groups of producers, with greater amounts of produce to sell, stand a better chance of obtaining a good price for their organic produce.

#### 4.3.3.4 Genetically modified (GM) food

In March 2002, China implemented new safety certification and labelling rules for GM products.

#### 4.3.4 *Importation*

China's recent accession to the WTO has created significant new opportunities for Canadian exporters and has facilitated access to the Chinese market. Lower tariff rates, transparent reporting systems, and international standards are creating an increasingly favourable trading environment. The importation system and procedures have greatly improved over the last five years. Nevertheless, there are still significant challenges and barriers. The main hurdles are clearing quarantine, obtaining the correct paperwork and adjusting to the new system. At present, the Chinese government is in the process of reforming their systems and implementing new ones. The transition period has created confusion as companies need to scramble to become compliant with new laws. In addition, an increasing number of new non-tariff barriers are applied during the import process further complicating the procedure.

##### 4.3.4.1 Quarantine

For foreign food exporters, the largest challenge and hurdle begins with the quarantine and health inspection. The General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) in Beijing, is the national bureau responsible for the inspection and quarantine of any export or import of animal, plant and foodstuff products. They are also responsible for creating technical standards, policies, and regulations. Regional offices are established throughout the country to assist with implementation, but have no influence on creating or approving regulations. The Shanghai Entry-Exit Inspection and Quarantine (SHCIQ) normally inspect all agriculture or agric-food products once they arrive at the Port of Shanghai. Exemptions and sampling rates are determined based on the history of the importer or exporter, the products involved and the volume.

Challenges associated with the AQSIQ include import licenses, labelling regulations, lack of transparent regulations, non-scientific quarantine, bureaucracy and inflexibility of the bureau. Exporters largest complaint is that the detention of products is done on an unscientific basis, using regulations against the WTO and that few Chinese producers can meet. The largest example is genetically modified food products and pathogen-free meats. In most cases, there are no written documents stating the requirements.

##### 4.3.4.2 Chinese Customs

Chinese Customs is an implementation organisation. It simply enforces the laws and regulations created from various Chinese government departments. Customs is responsible for assessing tariffs, quotas and verifying appropriate licenses. Exporters and foreign business in Shanghai quote the largest improvement has occurred within Chinese customs. The import-export process has been streamlined and general transparency increased. Customs have written documents and have held workshops outlining the customs procedure. With proper documentation, clearing



products is relatively easy. Whereas clearing a good once took weeks, today, the average time is three days. Classing systems and Electronic Data Interchange (EDI) are allowing certain companies to further fast track their goods. Challenges associated with Chinese Customs are inflexible working hours, bureaucratic nature, non-tariff barriers, HS classification, national favouritism and custom duties. The imported customs rate for frozen Atlantic salmon: common rate is 40%, favorable rate is 10%, value-added duty is 13 % (China Customs 2005).

#### 4.3.4.3 Clearing the product

Once the shipment arrives at the point of entry, the imported products undergo the following before being released from AQSIQ and Customs:

- Inspection and quarantine by the AQSIQ. This process is normally done at the port of entry or at the importer's bonded warehouse. They test for pesticides, antibiotics, visible and non-visible problems.
- AQSIQ will also ensure the label is correct.
- If approved, AQSIQ issues a Pass certificate.
- The product is inspected by Chinese Customs
- Chinese Customs verifies the packing list, commercial invoices and shipping documents. They classify the good and determine the amount of duty to pay. They are also responsible for checking the quality, weight and quantity.
- Once all the correct documentation and payment is received, Customs will release the product to the importer.

#### 4.3.4.4 Licensed importers

Under China's current trade regulations, Chinese companies must obtain an import license before entering goods into the country. Import licenses are issued by the Industrial and Commercial Administration Board of the newly founded Ministry of Commerce. The Ministry of Commerce is a joint government department combining the old bureau responsible for external trade, the Ministry of Foreign Trade and Economic Co-operation (MOFTEC) and the bureau responsible for internal trade, the State Economic and Trade Commission (SETC). Currently, full import licenses are only available to large state-owned and domestic private companies. Private Chinese companies must meet certain criteria (import levels, annual revenue, and number of employees) before qualifying for an import license. Full import licenses allow companies to sell directly to the public, act as an agent for smaller Chinese or foreign distributors who do not possess a license, import goods for internal manufacturing and import materials for manufacturing. Also, these companies have access to foreign capital. Foreign distributors, joint venture companies (JV) and wholly owned foreign enterprises (WOFE) can only import goods for internal manufacturing and materials for the manufacturing process. They cannot function as a trader to re-sell the imported products directly to another buyer or the end-user. As a result JVs, WOFEs and smaller Chinese companies commission an import agent (company with a full license) to import goods on their behalf. Once cleared, they are free to distribute the product and sell directly to end consumers. The import agent will also organise payment for the goods to the foreign party. Restrictions on import licenses are scheduled to be removed. In 2004, JVs are permitted to obtain import licenses, followed by WOFEs in 2005. The import licence system will be abolished completely in 2006.

In addition to labelling and packaging requirements, some products may need to obtain China Compulsory Certification (CCC) to demonstrate compliance with the new regulations. The list of products requiring CCC will expand with the implementation of RoHS to include further products as specified by the Ministry of Information Industry (MII). The MII, however, has not yet issued the catalogue of products which will require CCC as part of the compliance process.

#### 4.3.4.5 Import tariff reduction

China has made considerable progress in reducing tariffs on fish and fish products since China joined the WTO in 2001. These reductions began on the date of accession to the WTO and will continue to 2006. In terms of average import tariffs, China has decreased the rate from 47.2% to 10.4% in 2004. Although this reduction has not put an end to imports through illegal channels, the number of products entering by these channels has been significantly reduced and will continue to decline in the future.

#### 4.3.4.6 Import tariffs and value added tax

China's accession to the WTO has resulted in a significant reduction of tariffs on key agriculture and argufied commodities. On average, tariffs for all goods range from 15.3% to 12%, a 21.6% decrease from their original levels. In 2003, agricultural tariffs will be cut from 18.1% to 16.8% (Food Distribution in Yangzi Delta 2006). Tariff reductions will occur over the period of the next three years. In addition, a value-added tax (VAT) is applied to all products entering into the market from abroad. Though improved, the VAT plus the tariff can significantly increase the cost of the import. The following chart demonstrates the tariff rate and the VAT on key import products. The VAT is 13% on unprocessed, unpackaged food and 17% on processed, packaged food.

Table 7: WTO tariff rates

WTO Tariff Rates			
	2003	2004	2005
Fish frozen, excluding fillets	12%	10%	10%
Fish fillet (frozen)	16%	13.3%	10%
Fish fillet (fresh or chilled)	16%	15%	12%
Lobster	16.7%	13.3%	10%
Shrimp & prawns (shelled)	8%	8%	8%

Source: The Fish and Seafood Market in the Yangzi Delta Region (2005)

With WTO entry, China has to comply with non-tariff issues, notably those covered by the SPS and TBT agreements. This includes the concept of equivalence, i.e. achieving similar levels of protection against health hazards and quality defects whatever the system of control that is used. It also incorporates the principle of transparency in setting national rules. Overall China is expected to deal with issues associated with non-tariff measures by 2007 (China Customs 2006).

#### 4.3.4.7 Foreign exchange rate

Foreign exchange rate risks are common threats bothering all the players at any time in international business. Sometimes companies lose part or total profits only because of the negative foreign exchange rate.

The exchange rate of RMB has been increasing from 825/100 USD to 787/100 USD from 2004 to 2006. Foreign companies are greatly benefited by the favourable change. It brings an extra income to the importers. If the RMB keeps increasing or maintains a stable level, foreign exchange rate risks are expected to be avoided.

Table 8: Exchange rate and foreign exchange reserve

Exchange rate and foreign exchange reserve					
Year	Month	RMB/100USD Yuan	RMB/100JPY Yuan	RMB/100HKD Yuan	Foreign exchange reserves 100 million USD
2005	11	808.40	6.8362	104.21	7942.23
	12	807.59	6.8085	104.11	8188.72
2006	1	806.68	7.0071	104.04	8451.80
	2	804.93	6.8264	103.73	8536.72
	3	803.50	6.8519	103.55	8750.70
	4	801.56	6.8441	103.34	8950.40
	5	801.52	7.1947	103.37	9250.20
	6	800.67	6.9904	103.14	9411.15
	7	799.10	6.9064	102.80	9545.50
	8	797.33	6.98824	102.54	9720.39
	9	793.68	6.7788	101.99	9879.28
	10	790.32	6.6474	101.52	
	11	786.52	6.7043	101.06	

Source: <http://www.china.org.cn> (2006)

## 4.4 SWOT analysis

### 4.4.1 Strengths

- Good and stable quality and product specifications: The company controls the quality from raw material to export. Blueice will through the implementation of its own global quality standards ensure that the products meet the quality goals of the Group and all the legal requirements for food safety. For this purpose Icelandic Group operates a central Quality Assurance Division through its own company Icelandic Services. The division issues quality standards, quality manuals and product specifications, and supervises inspection of product quality and quality systems in the processing facilities.
- Lower cost: If the company builds up a salmon farm in China, the total investment (including building, equipment working capital) and costs are lower than in developed countries. Most employees are Chinese; it takes low labor costs to the company. (Icelandic Group 2005)

- Successful salmon farming experiences in other countries and traditional Icelandic smoked salmon processing technique.
- Strong product development: The company runs its own R&D department, employing highly skilled, technical people. Their success depends on continuous innovations in processing and product development, whether they are marketed under the company brands or private label for distributors, retail and food service. Worldwide consolidation is taking place in retail and food service distribution. (Icelandic Group 2005)
- Strong brand awareness and image: Blueice has emphasised the brand SAMBAND in food service. The brand has an extremely strong position in US markets, based on its quality image and performance for years. The brand has also gained a firm foothold in other markets of the Group (Icelandic Group 2005).
- Efficient Services provided by Icelandic Services Ltd. for customers.
- Icelandic Services has since 2000 taken over various functions within Icelandic Group around sourcing in Iceland and in other countries. The core functions are Supply Chain Management, Quality Standards Inspections and audits, IT & eServices, Icelandic Packaging, Finance and Accounting (Icelandic Group 2005).

#### 4.4.2 *Weaknesses*

- Limitation of raw material
- Salmon farming faces many problems in China
- Communication needs to be developed further to build up a powerful business net
- Lack of awareness about the market and its culture, which will mean difficulties and risks to the marketing activities.

#### 4.4.3 *Opportunities*

- Increasing demand for imported species on the market
- Increasing purchasing power and customer groups are supposed to bring more opportunities for the company
- Smoked salmon fits well with Chinese taste preferences
- Salmon has been accepted as an imported high quality species by Chinese people
- Target markets for smoked salmon in future are wider than for cod/Pollock
- Continuing opportunities through strategic alliances for referrals and marketing activities
- Increasing sales opportunities beyond its target area.

#### 4.4.4 *Threats*

- A shortage of raw materials and consequently high prices will increase the costs
- The price of value added products is not very easy to be accepted by Chinese consumers. No comparative advantage on price.
- Water pollution in China brings biological and technological problems that need to be solved
- It's difficult to find suitable areas for salmon farming because of temperature varieties
- There are no successful salmon farming cases in China, no experiences can be followed as references
- Smoked salmon is a new product for Chinese customers, which means more costs on marketing activities and a comparatively longer time to become accepted.

## 5 TARGET MARKETS ANALYSIS

### 5.1 Target markets analysis: products and target markets

#### 5.1.1 *Products*

The products offered in China are supposed to be smoked salmon, halibut and flatfish. Blueice Group accepts the marketing plan and the author's suggestion about smoked salmon trading in China. As a Chinese, the author gave the company a living description of their taste preferences, eating habits and the Chinese attitude towards smoked salmon. Smoked salmon is favourable because of its special smell, fat and soft flesh, delicious taste, and beautiful colour. It is absolutely fit to sensitive Chinese tastes.

Another important factor also shows a huge opportunity to the company. No company sells smoked salmon in a large scale on the Chinese seafood market yet. Consumers seldom can find smoked salmon on the domestic market. Some people who have had a chance to travel to northern Europe, sometimes bring back packages of smoked salmon. Not many or powerful suppliers means no strong competition.

Norway is the biggest fresh/frozen salmon supplier in China. Most Chinese consumers have accepted salmon as an imported, delicious species with high nutrition. Light salty smoked salmon is fit to most Chinese taste preferences. It should own a wide market including middle and eastern China, from north to south. It can expect more favorable prospects than other products.

#### 5.1.2 *Target markets for halibut*

Through analysing the Chinese seafood market situation, we choose four cities as entrances to China for halibut: Shanghai, Beijing, Guangzhou and Shenzhen. Halibut is a very expensive species; the company needs to find high income and consumption areas as targets. The four cities have a dominant position in terms of disposable income, seafood consumption volume, middle-class proportion, high sales of restaurants, total population, busy life style, new purchasing conception, etc.

The four cities are in the east coastal region but distribute from north to south. Referring to the map of China (Figure 5, page 13), Beijing is in the north, Shanghai in the middle, and Guangzhou and Shenzhen in the south. Market situations are totally different in each city. The managers of Blueice Group can make a holistic marketing strategy for China. According to the distinct market situation of each city the keystone of its marketing should be extruded on the base of holistic strategy.

Beijing is the capital of China with a huge population and busy life style. Though it is an inland city the inhabitants with high purchasing power prefer more marine fish than fresh water. Seafood transported from coastal cities or other countries are mostly frozen or chilled, and sold in significant percentages in supermarkets in Beijing. Compared with supermarkets, free markets are more the arenas of domestic fresh water species.

Shanghai is an international big city leading new tides and conceptions for a hundred years in China. It is a favorable market for many foreign suppliers. The citizens are wild about dainty just like people in Guangzhou. Maybe this can explain why Shanghai turns into the biggest imported seafood consumption area in China. Walking on avenues and alleyways in Beijing or in Shanghai, you will find all kinds of Chinese and foreign restaurants standing in great numbers. Food services suppliers don't want to lose the chance to attain a piece of cake there.

In south China, in cities such as Guangzhou and Shenzhen frozen seafood is not easy to sell out on supermarkets, people prefer more living fish and fresh fish. However, sales of restaurants are so high in these two cities, especially sales of imported good quality seafood. Higher grade Yue meal system restaurants and Min meal system restaurants have many types of dishes and cooking methods for halibut. So as to these two target markets the most important distribution channel should be restaurants.

Among the four target markets, we pick Shanghai for deeper analysis, making marketing strategies, and financial objectives for target products, forecasting the sales and expenses to present relevant financial reports.

### *5.1.3 Target markets for smoked salmon*

Smoked salmon should own wide markets including middle and coastal areas, from north to south. Blueice Group can choose the targets according to Table 4: Basic conditions of urban households by top ten cities in 2005 as entrances, then expand its products to other coastal or inland big cities gradually.

## **5.2 Target market analysis: Shanghai**

### *5.2.1 Regional overview*

The Yangtze Delta region encompasses the provinces of Zhejiang, Jiangsu and Anhui and the city of Shanghai. With only 10% of China's population, the East China region accounts for a quarter of China's GDP and is the richest region in China. East China has grown to be the gateway to many of the major cities of the interior. Products imported to East China are either locally consumed or re-distributed to inland China. Shanghai is the gateway to the Yangtze Delta region market and is one of China's

commercial centres with an average annual income at CNY 24,398 (equals around USD 3050) in 2004 and a population estimated at over 20 million. Shanghai's economy has sustained a double-digit growth for over ten years.

### 5.2.2 *Shanghai image*

Located on China's east coast, Shanghai is the country's biggest and busiest port, also the most important industrial and commercial centre. The Shanghai port is now the third largest container port in the world, behind Singapore and Rotterdam. The city is China's most fashionable and international, boasting the best shopping and nightlife. Its 20 million people are known for business acumen, quick wit and sophistication.

There are over 5,000 modern retail outlets operating in the city, (each over 700 square metres in size). Four of the top ten supermarket companies in China are headquartered in Shanghai. Shanghai's modern distribution systems, established retail system, and adventurous consumers are creating significant opportunities for foreign exporters. The GDP per capita/year in Shanghai was nearly US \$4,544 in 2005. Shanghai residents spend 43% of their budget on food. Of this percentage, close to 10% is spent on dining out. Overseas expatriates and high-income Shanghai residents are able to buy imported food on a regular basis. Shanghai's drive to become an international city has heightened the city's growth. Key events such as the Expo 2010 in Shanghai will accelerate the flow of investment and people into the city from both international and domestic sources. As a result, Shanghai will continue to be an ideal market for high-quality processed or imported food products.

### 5.2.3 *Shanghai seafood market*

Shanghai is a highly competitive, complex and rapidly developing market. Consumers are willing to pay a premium price for imported foods, as they are viewed as being more nutritious and of a higher quality. Since many imported foods are new additions to the Chinese diet, significant promotional campaigns are needed to educate consumers. Careful planning and consideration should be undertaken before entering the market (Best 2004). Understanding the market and its preferences can make the difference between success and failure. Customer preferences must be thoroughly examined and appreciated when formulating an entry strategy. A key success factor in the Chinese market is to be attentive to local market needs. Shanghai consumers are sensitive to issues of convenience, sanitation, flavour, nutrition, and price.

Increasing income and health awareness makes eastern China a major consumption market of aquatic and fishery products. The per capita consumption of aquatic and fishery products in eastern coastal areas is higher than inland areas. Consumption is also related to the diet tradition and availability, as people in western or inland China consume more red meat. Most Chinese consumers are still price sensitive while purchasing aquatic and fishery products. Freshwater cultured products are popular at home and restaurants due to their cheap price; high quality imported seafood is mostly consumed in hotels and restaurants. Along with the increased middle class in large cities and coastal regions, the potential of these imported seafood products remains increasing.

Although incomes in East China are relatively high, East China consumers continue to spend a large proportion of their income on food. In Shanghai, per capita spending on food is higher than in any other province or city in China. Census also shows that Shanghainese spend more on aquatic products (nearly three times the urban average) than most of other places in China. The relatively large amount of money that East China consumers are willing to spend on aquatic food makes them excellent potential buyers of imported aquatic products.

Shanghai leads China in aquatic product consumption. The 2001 annual per capita expenditure of US \$109.05 is four times the national average of US \$26.57. Additionally, from 1998 to 2001 annual consumption has grown 7% in Shanghai. Disposable income is the key growth factor in Shanghai. Shanghai residents had an average annual disposable income of US \$2504.4 in 2005 (nearly double the national average), which has been increasing by roughly 10% per year.

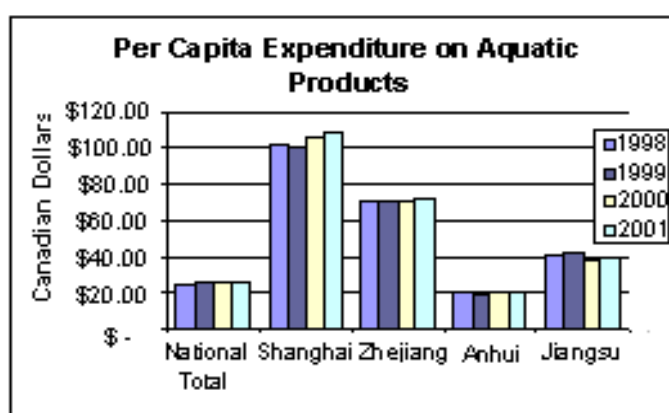


Figure 12: Per capita expenditure on aquatic products (The Fish and Seafood Market in the Yangzi Delta Region 2002)

In China, aquatic products are distributed by wholesale markets, retail markets and restaurants. Retail markets comprise mainly wet markets and supermarkets. Although wet markets continue to be the major sales outlet for consumers and restaurants, supermarkets are growing in importance, especially for processed seafood products. The restaurants buy in bulk from wet markets or wholesale markets, seldom from supermarkets.



### 5.3 Asses the market in Shanghai

The single greatest challenge of nation-wide distribution is the development and management of an effective distribution system. Achieving a broad and deep penetration of agric-food products in key population centres is a challenge. Difficulties stem from a variety of problems:

- Legal constraints and regulations
- Accounts receivable
- Fragmented distribution systems (wholesalers, distributors, retailers)
- Intellectual property rights
- Outdated or ill-equipped transportation system
- High costs to enter the market (establishing a presence, price of imported foods)
- Establishing relationships

#### 5.3.1 *Legal constraints and regulations*

Since 1979, China has made significant advances in legal reform. The increased economic activity, foreign investments and foreign companies operating in the market will continue to act as a catalyst to further legal reform. Under the WTO, China has committed itself to the development of an independent, transparent, and impartial legal system.

Although, China has opened its doors significantly to the outside world significant legal restrictions remain in place. For example, foreign companies establishing a local presence must obtain the correct licensing requirements. Licenses narrowly define the activities (hiring practices, business activities and required capital) a company can perform in the market. Certain industries still require a joint-venture partner to open and operate (restaurants). In addition, the use of import licenses is considered a non-tariff barrier.

Protectionism remains a problem for international companies accessing the market. Local governments tend to support the domestic industry to the foreign one. Protectionist practices occur on a national and provincial level. Practices include support packages, reduced property rental, reduced taxes, and government assistance. In addition, laws and regulations are interpreted and applied differently from region to region. Export subsidies and quota requirements are still employed to develop the domestic industry.

Another key concern for foreign companies operating in the market is dispute resolution. Under WTO requirements, China is required to establish a dispute resolution system. Although improvements have been made, international lawyers and foreign companies prefer to settle disputes through business practices or international arbitration centres. Reasons cited are time and costs of the judicial process, lack of judicial independence, professional capacity of the judicial system, high levels of corruption and lack of real enforcement mechanisms.

### 5.3.2 *Accounts receivable*

A key legitimate concern for any business is receiving payment for their goods or services. Distributors can be slow in rendering payment for the goods or simply defaulting for various reasons. The problem occurs for both foreign and domestic enterprises. All too often, credit is extended on the strength of relationships and transactions are performed on a cash-only basis. Exporters who extend credit to their wholesalers or distributors do so at their own risk and are advised to perform their own due diligence.

The problem is compounded by a weak credit system. However, in the planning stage, there is no national credit information bureau. Trial run services have begun in Shanghai and Beijing. Performing credit assessments can be a daunting task. With no central information base, financial history and debt repayment is difficult to ascertain. Various third party service providers, such as Duns & Bradstreet, offer credit assessments. The Chinese government recognises the need to develop a sound credit system in order to ensure financial stability, further economic development and to compete internationally.

The system is further affected by an under-developed judicial system, lack of real enforcement mechanism in which to collect defaulted payments, a developing banking system and tightly controlled foreign currency. The next section focuses more specifically on receiving payment in China. (Food Distribution in Yangzi Delta 2006)

### 5.3.3 *Receiving payment*

Receiving payment from your Chinese buyers should be given special attention. Export risks can be minimised depending on the method of payment. Payment terms should be well negotiated, understood, and mutually accepted between the exporter and the Chinese company before any trade transactions occur. As the Chinese government maintains tight control over foreign currency exchange and the Renminbi is a closed currency, it is important to ensure that the Chinese importer can access foreign currency. Using an established, reputable distributor or buyer should mitigate this problem. The possible methods of payment include (in order of risk) payment upon receipt, consignment, letter of credit and payment in advance. They are explained further below:

- Payment upon receipt should only be pursued if a long-term relationship has been established with the Chinese buyer and extensive due diligence has been performed to establish credibility. Money is commonly transferred using a telegraphic transfer (TT).
- Payment on consignment is received only when the goods have been sold in the market. If the Chinese buyer is inexperienced with the imported goods or is not convinced the product will sell well, consignment may be their preferred payment option. Alternative payment arrangements may ensue depending on the success of the product.
- The most common and encouraged method of payment is a letter of credit (L/C). An L/C is a letter from the Chinese importer's bank confirming and guaranteeing the payment once the goods and proper documentation (Bill of Lading) are received. An L/C can be issued based on receipt, or on a term basis. Exporters are protected as they are guaranteed payment for their goods.

If the Chinese buyer defaults on payment, the bank is obligated to pay. Although many banks can issue L/Cs, the Bank of China is the major issuing bank. The Bank of China has an established L/C program, a good reputation and is recognised for its neutrality. Other issuing banks include the People's Construction Bank, the Industrial and Commercial Bank of China (ICBC), the Agricultural Bank of China, the Bank of Communications and foreign banks with branch offices (HSBC, Citibank, Standard Chartered) in China. It is important to note that obtaining a confirmed letter of credit is impossible, as China does not allow letters of credit issued by its banks to be confirmed by others, Chinese or foreign. (Food Distribution in Yangzi Delta, 2006)

- Payment in advance is the less risky financing option for the foreign exporter. Exporters are assured payment and have the added working capital prior to the goods' delivery. Depending on the contract, a down payment is often negotiated as a guarantee of later payment. Advance payments are common for seafood, or high value goods. In general, Chinese buyers are not willing to pay in advance for goods.

### 5.3.4 *Transportation*

#### 5.3.4.1 Freight transportation

Depending on the nature of the product and the company, transportation is a key element in achieving success for the product. Great strides have been made to improve the transportation infrastructure in Shanghai and other eastern coastal cities. Good roads, frequent trains, and waterways also connect the major cities in the neighbouring provinces.

Though improvements have been made in transportation and logistics, retail demand and China's own export market have grown at a faster pace. Distributing westward, nationally or away from regional hubs continues to cause significant challenges. The infrastructure system is archaic, undeveloped, and over-burdened with users. Co-ordination between different modes of transportation and provincial interpretation of regulations are also problems. Now, there are four different government bodies regulating air, water, rail, and road travel. Provincial protectionism impedes the development of the system and adds to transportation costs.

Creativity is required when incorporating transportation into a distribution system. While there is no blanket approach, some companies have strategically established regional distribution centres to effectively warehouse and distribute their products. While others out-source the entire transport process to a third party logistics company. Others, string together various local licenses and modes of transport to reach the end destination. Companies need to choose the system, which works best for their product and their future strategies.

Given the complex nature of transportation and distribution in China, companies may wish to employ a freight-forwarder or third party logistics company to assist with the process. Recent years have seen the Chinese market flooded with a variety of small, multi-national or domestic providers. Under current Chinese regulations, with the exception of three, third party logistic companies require a joint-venture partner to operate nationally in China. Wholly owned foreign providers can only operate within

designated free trade zones. Under China's WTO accession, this restriction is scheduled to be eliminated by 2006. The three exceptions include Maersk, APL and P&O Nedlloyd. (Food Distribution in Yangzi Delta 2006)

As with choosing a distributor, third party logistics companies should be chosen carefully. Onsite visits, client testimonials, word-of-mouth, client portfolio, and infrastructure can assist in discerning the capabilities of the company. Researching different avenues and providers should be performed before making a final decision. The right match will make the difference in the market.

#### 5.3.4.2 Package

Good packaging is necessary to protect against the damage. Goods should be packaged in tamper-resistant materials to protect against rough handling and bad weather. Special arrangements will need to be made for special requirement goods.

Proper labelling of the goods (in both English and Chinese) will facilitate the transportation and import formalities. Markings on containers should identify the buyer, the port of entry, gross and net weights, the country of origin, and any handling cautions (fragile, refrigerated etc.). A packing list identifying the contents of each container must also be included, and all markings must agree with those on the bill of lading (or other shipment documents).

#### 5.3.5 *Assess the market*

##### 5.3.5.1 The retail system

Over the last decade, the Chinese retail market has undergone remarkable growth. The change has accelerated and facilitated the access of imported goods to the end consumer. Traditionally, food products were purchased daily from local wet markets and dry goods from local state-run stores. Western-style retail stores have begun to replace the traditional structure. Today, food retail outfits house flashy displays and a complete set of goods in one location. Hypermarkets, supermarkets and convenience stores have proliferated in the city providing convenience, reasonable prices and improved sanitary conditions. The Shanghai consumer has accepted the evolved system with enthusiasm. There are over 3300 retail food outlets (over 700 square metres) operating in the city, of which 2000 were established in 2002. (Food Distribution in Yangzi Delta 2006)

Table 9: : Food stores retail in Shanghai

Type of Store	# of Stores	Total sales BUSD	Market sales of store
TOTAL	7700	8.53	30% of consumption sales
Supermarkets	2500	4.84	19.6
Convenience stores	3500	0.55	2.2
Hypermarkets	64	1.84	7.4
Fast food Outlets	490	0.28	1.1
Others	1146	0.98	4

Source: Food Distribution in Yangzi Delta (2006)

### 5.3.5.2 Restaurant and hotels

Five star hotels, stand-alone five star restaurants, and fast food outlets have become and continue to become an integral element of Shanghai's food industry. A vibrant hospitality industry has appeared in recent years catering to Chinese and foreign business people, residents and tourists. The number of visitors (business and tourism) to Shanghai has grown, on average 8% a year and is projected to reach 140 million by Expo 2010. In 2002, Shanghai attracted 80 million domestic and international travellers to the city. In 2002-2003 alone, the Four Seasons, the Hilton, the Westin, the Sofitel and the Shangri-La have all opened new ventures in the city. (Food Distribution in Yangzi Delta 2006)

The four and five star hotel, tourist, and restaurant industry offers one of the largest opportunities for imported seafood foods. The need to cater to the varying international cuisine and food preferences of this growing sector has created opportunities and will continue to do so. To date, imported food products enjoy a high penetration rate and are well accepted with these retailers. In addition, end users have the financial capital to purchase the more expensive food.

### 5.3.5.3 Hypermarkets and discount warehouse stores

Hypermarkets are one of the newest market players to the retail industry. At their advent on the scene, sceptics quickly predicted their failure as Chinese traditionally bought daily, small purchases. The store's ability to offer convenience, variety, and low prices to the consumer won their loyalty and acceptance. Today, there are over 50 hypermarkets operating in Shanghai. Hypermarkets are normally foreign and joint venture owned. Defined by size (7800 square metres plus) and product selection, a "hypermarket" is a large retail concern selling a wide variety of products from frozen goods to household products in one location. (Food Distribution in Yangzi Delta 2006) One floor may also be dedicated to restaurants and services. Stores are often two or three floors and have extensive frozen food, produce, fresh meat, fresh fish and household sections. Additional features, such as bakeries, pre-made foods and alcoholic beverages are the norm.

Prices are kept down due to the unique nature of their distribution system. Retail concerns, such as Carrefour or Wal-Mart (2003 Shanghai opening), are now planning to establish a nation-wide procurement system to further streamline their operations. Hypermarkets often buy directly from the manufacturer or importer. Effective supply chain management systems and foreign expertise also contribute to their success. Hypermarkets are an important driving force for changes in the industry. Distributors or importers are forced to update their systems and be effective. To supplement their income further, hypermarkets charge high “slotting” fees for goods to be displayed on their shelves.

The largest foreign presence is French based Carrefour. Carrefour was one of the first retailers to enter the Chinese market and to pioneer the hypermarket movement. Since 1994, they have opened 32 stores nationally; six of which are in Shanghai. Metro, a German based retailer, is also prominent in the market. Local Chinese retailers have quickly adjusted to the new process and have entered the market. A 2003 merger of the four largest Shanghai state-owned retail outfits will create significant new competition in the hypermarket and supermarket industry.

Though import food selection differs greatly by hypermarkets, these outlets are a good entry point for imported food. Their target market has the disposable income to try new products. In addition, their streamlined system is relatively easy to access and to navigate. At present, the imported selection is relatively small, but is continually expanding.

#### 5.3.5.4 Supermarkets

The advent of supermarkets in the mid 1990s was the beginning of the retail revolution in Shanghai. In 1991, the first supermarket opened its doors. Today, in 2003, there are over 2500 supermarkets operating throughout the city representing the most widespread outlet for food procurement. (Consultation for Terminal Pluralized Channels 2007) The largest supermarket operators are Chinese-owned companies. The top leading companies in Shanghai are Lianhua and Hualian. Each company also operates a set of convenience stores and hypermarkets. Lianhua and Hualian are now members of the newly formed Bailian group.

Table 10: Supermarkets in China and Shanghai

Store name	# of stores	
	Shanghai	China
Lianhua supermarket	1217	704
Hualian supermarket	391	719
Nonggongshang supermarket	672	30
Jiadelu	84	7
Jiaqiang	139	110
Tops	43	n/a
City supermarket	3	n/a

Source: Food Distribution in Yangzi Delta (2006)

Stores (700 to 1,200 square metres) are located in city neighborhoods and cater to individuals in their vicinity. Neighbourhoods with higher disposable income or foreign populations tend to carry higher priced items, higher quality and imported foods. Shelves are cramped with a variety of dried goods, beverages, certain dairy products, and a limited frozen food selection. Depending on the store, fresh produce and meat can also be purchased in the outlet. While some of these retail outfits carry imported food, the penetration is rather low. Foreign brands (Coke, Dove, Kit Kat) produced in China can be purchased from all stores. Certain supermarkets such as Parksons or City Supermarket cater solely to expatriate and high-income Chinese by carrying exclusively imported products. (Consultation for Terminal Pluralized Channels 2007)

In 2001, 75% of supermarkets operated as part of a larger chain. The chain store approach facilitates and co-ordinates distribution. Stores rely on close relationships with local food distributors. The hypermarket distribution system remains the more effective of the two. As the retail and distribution system continues to evolve and the acceptance of imported food deepens, penetration will also grow at the supermarket level.

At present, the current deduction rate for food sellers in supermarkets is between 12% and 14%. (Consultation for Terminal Pluralized Channels 2007)

#### 5.3.5.5 Convenience stores (C-stores)

Convenience stores have and continue to sprout up on every street corner. At present, there are over 3500 stores in Shanghai. By 2005, the estimated number is 5000. The majority of Shanghai's chain stores are locally owned, with the exception of a few foreign funded enterprises. 7-11 owns 30% of the Lawson stores. The convenience store market in Shanghai is extremely competitive, and has limited room for expansion. (Food Distribution in Yangzi Delta 2006)

It is important to note that convenience stores carry a majority of local products, or local foreign joint venture products. Imported products rarely adorn the shelves. Convenience stores are often operated by larger retail concerns, as supermarkets or other food producers. For example, Kedi stores are owned and operated by Shanghai Bright Dairy & Food Corporation, the main dairy producer, processor, and distributor in Shanghai. Lianhua (Kuaike) and Hualian (Lawson) also operate a set of convenience chain stores. Few independent stores exist in the market. This link facilitates the distribution of goods as stores tap into the system of their larger counterpart. (Food Distribution in Yangzi Delta 2006)

#### 5.3.5.6 Wet markets

Traditionally, wet markets were the main centres for food procurement. Fresh meat, fish, vegetables, fruit, and grain can be purchased from a multitude of different vendors. Wet markets predominantly cater to the low-income and older population, as prices are low and the produce fresh. (Food Distribution in Yangzi Delta 2006) Purchases are generally small and intended only for daily consumption. Although, today wet markets are declining in importance, they remain an important source for food procurement. The majority of fruit and vegetable purchases continue to be made

at this level. Wet markets are found throughout Shanghai and outlying areas. They tend to be located on side streets and back lanes.

#### 5.3.5.7 Kiosks

Small kiosks are often found on street corners or hidden in back lanes. Kiosk shelves are crammed with a miscellaneous assortment of goods. Neighbourhood patrons or passer-bys purchase small convenience goods such as a beverage product, cigarettes, snacks, instant noodles or tissue. Imported foods have not reached this level of the retail structure. Purchase amounts are normally quite small, as patrons do the majority of their food shopping at bigger retail outlets such as the supermarket or hypermarket (Food Distribution in Yangzi Delta 2006).

Kiosks are normally owned and operated by independent families. Family members are responsible for the procurement of the products in their stall. Accessing and distributing to this sector of the retail section is complicated, costly and time consuming. The independent nature, the size and physical locations of the kiosks makes distribution a key problem.

#### 5.3.5.8 Department stores

Normally department stores are operated as independent units and sell the same products as the supermarkets or hypermarkets. The department stores primary purpose is not to sell food products, but to sell a host of products from clothing to electronics. Food retail is an added convenience for the shopper. Depending on the store, a certain degree of imported products is sold in this medium.

## 6 MARKETING STRATEGY

### 6.1 Marketing the product

#### 6.1.1 Advertisement

Advertisement increasingly affects consumers and their decision-making habits (Best 2004). As a result, foreign food companies have and continue to invest significantly large sums of money in developing marketing and advertising campaigns. The key is to find an outlet and an image that appeal to the Chinese consumer.

#### 6.1.2 Brand

Developing and marketing a brand is increasingly important. Creating a recognisable brand will make the difference between success and failure. Branding is a relatively new concept in China's retail sector. Prior to the 1980s, no real brands existed in the market (Food Distribution in Yangzi Delta 2006). Today, brand names have become one of the top decision making factors influencing consumer-purchasing decisions. Recognising the importance, Chinese producers have also jumped into the game and are building effective brand names for their products. Premium branding will assist in ensuring repeat purchases of the product.



### 6.1.3 Promotion

An important element of promotion is education. Western products are often new to Chinese culture and tastes. Certain products require significant education. (Food Distribution in Yangzi Delta 2006) For example, historically, dairy products have been viewed as a supplement for the young, weak and elderly. The challenge is now in convincing the society of the importance at all age levels. A western product may need to employ a different strategy in China. As the local Chinese does not consume huge amounts of bread, peanut butter was advertised as a sauce for noodles, rice and vegetables. As a result, the product has been successful in the market.

### 6.1.4 Packaging

Other key elements of effective marketing are ensuring the product is attractively packaged, Chinese language information correct and catchy advertisement slogans are used. Brightly coloured, innovative packaging will help differentiate the product on the shelf. As the majority of residents, walk or bicycle to the store, package size should be relatively small. Special care should be given in translation and Chinese language information. (Food Distribution in Yangzi Delta 2006) For example, Coca-Cola's success can be attributed partly to its Chinese name. Coke's Chinese name is "Ke Kou Ke Le", which means "delicious and happiness". Imported products may consider including Chinese language information on its origin, potential use and recipes.

Recognising the importance of marketing and promotional activities, exporters should not rely on their distributor to provide such service. Distributors are "order takers", and do not necessarily have the resources or the money to provide added services. Exporters may want to develop their own marketing strategy, or provide additional finances or promotional material to their distributor to assist in marketing their product. In-store promotions and taste tests have been successful in introducing products to the market.

## 6.2 Pricing

Although, the Shanghainese are among the wealthiest people in China, price remains an important factor in their purchasing decision. Consumers are willing to pay higher prices for imported food, as it is often viewed as having higher quality and consumers are curious to try something different. Imported food should be priced to maintain its exclusivity, while at the same time not outside an affordable price range for consumers. With exception to certain products, where consumers are willing to purchase at much higher prices providing they believe in the quality and value of the product.

### 6.3 Taste

Creating products that target the Chinese taste is a key to success. Significant market research is required to determine and match local consumer preferences. For example, a leading brand's plain potato chip has a small amount of sugar in the ingredients. Popular chip brands include seaweed, shrimp, roasted pork or curry, whereas in Europe, they are ketchup and sour cream and onion. Another example is the popularity of aloe vera yoghurt on the market. The Chinese eat aloe vera in a variety of dishes, and believe in its health benefits. Though not necessary, products catering to local tastes have enjoyed greater success. (Food Distribution in Yangzi Delta 2006)

### 6.4 In-store requirements

In-store promotion has proven to be successful for the promotion of imported products. Taste tests are a good mechanism to promote the product at the store level. Food festivals are also popular. Festivals are organised individually by the store or with the partnership of a private or foreign public actor. Promotion and marketing alone are not always enough to establish a product in the market. There are a number of other in-store factors that are crucial for success. The product must be constantly available, stocked in good condition and displayed correctly. Products requiring cold storage facilities may encounter problems. The distributor must constantly maintain relationships with the store and check the status of the product. The store will not provide any additional services. Due diligence on distributors is a fundamental, if frustrating, requirement that will help alleviate this problem.

It is also a worthy investment to pay the "slotting fee" for friendly eye-level shelf space (Food Distribution in Yangzi Delta 2006). The customer will not be able to miss the product. "Slotting fees" are a common practice in China retail outlets, and a constant issue between suppliers and retailers. The slotting fee is not necessary shelf placement, but the right to enter into the store's product portfolio. As more and more products rush to the market, current rates are increasingly steep.

### 6.5 Strategy summary

- Imported food accounts for 5% of total food stocks in Chinese hypermarkets and supermarkets.
- Imported brands produced in China have greater success. They are able to compete on price, market awareness, and production costs.
- Price, taste, and branding are key elements to understanding the Shanghainese consumer. Effective and adequate market research should be performed to ensure an understanding of the market.
- Additional requirements may be needed to ensure that the product reaches the consumer. These include the placement of the product on shelves, packaging, and market timing.

## 7 MARKETING ACTION PROGRAM AND IMPLEMENTATION

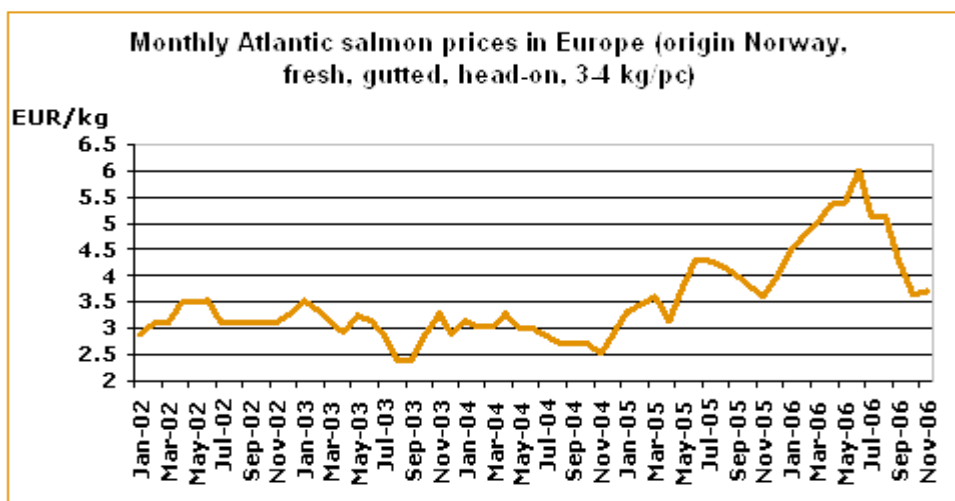
### 7.1 Stage I: Trial selling

#### 7.1.1 Importance of trial selling

As a new product, smoked salmon marketing should start from trial selling in one or two target markets. It can help the company to know about fitting customers' needs and market information during the course. So product promotion will be attained before large scale selling. Additionally, it can help the marketing firm to correct the action plan in accordance with the experiences of the first step on time, reducing mistakes before expanding the sales. After a period of trial selling the company gains enough evidence to forecast the prospects and decide the investment scale. So unrealistic strategies or financial risks will be avoided. Trial selling also wins the time for the company, Blueice doesn't need to start their business a few years later after it solves pollution problems and founds a salmon farm.

#### 7.1.2 Step I: Raw material importation

Farmed salmon prices weakened in November in the European market leading to concerns among farmers and exporters. Average prices are somewhat lower than those of last year in the same period, but of course much higher than in 2004. Producers are still making good profits so the main concern is the Minimum Import Price level in the EU markets. November is, however, a weak month while volumes started to pick up in December with rising prices as a result.



Source: EPR, 3-6 kg/pc from 04/2006

Figure 13: Monthly Atlantic salmon price in Europe (J.L.Anderson, Seafood Market Analyst, Salmon Edition, 2006).

To build up a salmon farm before any marketing activity will expand the risks. It's a wise choose for the company to import raw material farmed salmon from Norway during the trial selling stage. Norway is leading salmon farming in the world. Both price and quality are favourable to buyers.

Blueice's highest cost forecast of smoked salmon is 8-9\$/kg, the profit forecast is 10-15%. (Jonasson 2007)

The Norwegian farmed Atlantic salmon exportation price to China in November 2006 was 4.56\$/kg. (J.L. Anderson, Seafood Market Analyst, Salmon Edition 2006) There is at least \$3.44 to \$4.44/kg space left for smoked processing and marketing costs. Lower costs for the two parts in China and no import tariff in 2007 are not supposed to fulfil the space.

### *7.1.3 Step II: Building up smoked salmon processing plant*

The company can build up a smoked salmon processing plant in Dalian, the same area as its cod/Pollock primary processing plants. It's an easy way to manage and operate the plant, as employing more staff is not necessary.

Blueice Group has found a smoke material supplier in China, but the company would like to keep the details of the business secret.

### *7.1.4 Step III: Marketing*

During the trial selling period the company should start small sized advertisement and other marketing activities instead of large scale. The main reasons are:

- The company needs to know customers' reaction to the product to improve or correct the marketing mix. It ensures that the company will be able to offer the products and services which the market needs and also build up a good image before expanding sales.
- To avoid large input before knowing the market's reaction, reducing investment risks.
- To try to find efficient marketing/advertising channels during this period.

## **7.2 Stage II: Salmon farm founding**

### *7.2.1 Salmon farm current issues in China*

#### *7.2.1.1 Salmon farming description in 2004*

China is gearing up for domestic salmon farming production. The Chinese are experimenting with salmon farming in Shandong Province. According to Bill Atkinson's News report, fingerlings weighing 0.5 kilos were placed in pens in March, with the salmon reaching a size of 0.75 to 1.2 kilos during the first month. Growth is reportedly "proceeding well". (Staniford 2004)

China's first Atlantic salmon farm was established in early 2004 at an abandoned Russian sturgeon farm in the Dalian region. "The goal is to produce five million pounds of Atlantic salmon for the Chinese market, according to project consultant Wayne Gorrie of Nanaimo, BC-based PRAqua Group," reported Intrafish (16 December 2003). Gorrie told IntraFish that his re-circulation company, along with BC-based JLH Consulting Inc., was hired by the Chinese company to provide advice

on the feasibility of salmon farming in the region and to design the land-based hatchery. (Staniford 2004)

The company flew the consultants to the area, which lies to the southeast of Beijing, in early August to meet with the management, whose principal executive has ties to Canada. It is difficult to find suitable conditions for net pen rearing in China. There are extreme temperature variations. To date, no one has been successful at it. (Staniford 2004)

#### 7.2.1.2 Fresh water salmon farming experiment in 2005

In Tianjin the fisheries experiment farm imported 10,000 fingerlings and was successful in fresh water farming (News 2006).

#### 7.2.1.3 Problems of salmon farming in China

There are two problems to transport Icelandic smoked salmon to China: it is difficult to keep fresh after long transportation and high freight costs. Blueice Group is planning to found a salmon farm in China to solve these problems.

##### a. Pollution

As it is a sensitive species, salmon farming requires strict standards of environment, such as temperature and water. Blueice needs to support high quality products to customers as it has been doing since it was built up. This is also its main strength against the competitors. So a challenge comes with the action plan, how to get pure seawater overcoming the serious pollution in China is the key question to the marketing plan implementation. The company is paying attention to solve it through biological and technological methods. Smoking material can be supported by a local Chinese company. (Jonasson 2007)

##### b. Temperature

Water temperature and oxygen levels play a major role in determining how quickly eggs hatch and their rate of survival. Generally, eggs are kept in water between 4°C and 8°C. To speed hatching, hatchery operators may raise temperatures to 10°C for eyed eggs. (Weber 1997) It is difficult to find suitable conditions for net pen rearing in China. There are extreme temperature varieties in China. So it seems difficult to find a suitable area for salmon farming.

#### 7.2.1.4 Salmon farming physical requirements

Salmon production is carried out in two phases; the first is a fresh water phase where the ova are hatched and the young (smolts) reared in tanks or in cages in fresh water lochs. This takes around 10 - 15 months (although new technology enables fish to be put into the sea from 6-7 months).

The second phase involves growing the smolts in cages in sea water until they reach market size, which may take around 12 - 18 months and takes place in units varying in size from under 100 tonnes to over 500 tonnes production per annum.

The average fish weight at harvest is 3 – 4 kg with larger fish used for smoking. The industry is mostly in the hands of medium or large-scale limited companies, but there are a number of small or medium family-run businesses.

Land: Onshore base to service cages, feed store, general store, workshop, net washing and repair area.

Water: Production of cage salmon, shelter and unpolluted water with a good water exchange. Production of smolts, fresh water.

Equipment: Vehicles and boats, moorings, cages, nets, feeders and accessories.

General: Net washer, harvest boxes, ice machine, jetty crane.  
(Farm Diversification 2006)

#### 7.2.1.5 Choosing an area

##### a. Tender climate

In China, most regions have four distinguished seasons and temperature varieties. The climate of Dalian and Qingdao are the most tender among coastal cities. In winter the temperature is from -15°C to 10°C, similar as in Iceland. However, in summer the highest temperature is around 33°C, much hotter than Iceland. How to keep normal temperature for salmon farming in summer is the key question as is water pollution.

##### b. Convenience to management

The staff in Dalian and Qingdao now can operate and run the new business at the same time. This also can lower the cost.

Investment scale: The total investment for the salmon farm is 5 MUSD, 150 employees (Oskarsson 2007).

## 8 ORGANISATION

Blueice Group trading firm in China, New World Cyber Port was founded in 2004, located in Qingdao. There are 8-10 staff (Chinese only) in this firm; the current activity is raw material trading to Chinese domestic factories. In the future, this trading firm is supposed to be responsible for marketing activities of smoked salmon, halibut and flat fish in China. (Jonasson 2007)

## 9 BUDGETS AND CONTROL

### 9.1 References for forecast

Farmed salmon margin forecast model:

Farm diversification: Salmon farm (Last modified on 17 November 2006. Corporate Information Office, SAC)

2006 CPI score:

China 3.3 Scotland 8.6  $k = CPIC/CPIS = 0.3837$

Salmon sample price:

Norwegian farmed Atlantic salmon exportation CIF price to China in November 2006 is FOB 4.56\$/kg. (Anderson 2006)

Imported tariff:

Frozen Atlantic salmon 10% (2006, non-tariff in 2007), VAT 13%.  
(China Customs 2005)

Fish meal price: \$1,075/t (13-26 November 2006 in China)

Foreign investment income tax 15%

Foreign exchange rate: GBP/USD 1.90357 (November 2006)

### 9.2 Trial selling stage price forecast

According to frozen Atlantic salmon imported price from Norway in 2006, the forecast of smoked salmon is the following:

Table 11: Price: forecast of per tonne of salmon

Variable costs	Unit	Per tonne smoked salmon USD
Raw material	\$4.56/kg	4,560
Heading, filleting, smoking	\$0.35/kg	350
Packaging	\$0.15/kg	150
Marketing	\$0.20/kg	200
Freight+ insurance	\$0.30/kg	300
<b>Import tariff</b>	10%+13% of IP	1,049
<b>Income tax rate</b>	15%	1,416
<b>Total costs</b>	85%	8,025
<b>Profit</b>	15%	1,416
<b>Retail price</b>	<b>\$9.44/kg</b>	<b>9,441</b>

The price is near the highest costs forecasted by Blueice. The unit cost of smoked salmon is supposed to be \$8- \$9/kg, adding 15% profit; the retail price should be between \$ 9.41/kg and \$ 10.6/kg. If in 2007 no tariff for importation, only 13% valued-added duty left. The total costs should reduce by 10%. In this model total costs reduce \$456.0/tonne. If the retail price doesn't change, the profit should increase 4.8% achieving 19.8%.

Table 12: Sensitivity: change forecast of per tonne salmon

Variable costs	Unit	Per tonne smoked salmon
Raw material	\$0.25/kg	\$250
Smoke material	\$0.05/kg	\$50
Marketing	\$0.10/kg	\$100

Use the retail price \$9.44/kg adding or minusing the sensitivity part, the retail price forecast should be \$9.04 /kg- \$9.89 /kg.

### 9.3 Farmed salmon margin forecast

#### 9.3.1 Costs

The following costing information is general and current prices should be sought for budgeting purposes.

##### 9.3.1.1 Capital costs

Costs vary according to the size of the unit. For a 14-cage unit producing 200 tonnes per annum, they might be as high as \$571,071. These costs could be reduced by working on a DIY system and using second-hand equipment. Capital costs for a large-scale unit c \$2855/tonne. (Farm Diversification 2006).

Running costs:

Production costs/tonne from a large-scale unit are around US \$2855- \$3617. This includes smolts, feed @ \$1561/t, (food conversion ration 1.2:1), vet and medicine at \$133/tonne output. (Farm Diversification 2006) In China, feed price was \$1094/tonne in November 2006, vet and medicine at \$133k/tonne (equal to \$ 51).

#### 9.3.2 Returns

A forecast of the gross margin expected per tonne of salmon is as follows:

Table 13: Output forecast of per tonne of salmon

Output	Per tonne salmon (USD)
125 large salmon 4kg @ \$4.56/kg	2,280
100 medium salmon 3kg @ \$4.36/kg	1,308
80 grilse 2.5kg @: \$4.16/kg	832
<i>Subtotal</i>	4,420
Less smolts 335 @ \$1.40	469
<b>Total</b>	3,951



Table 14: Variable costs and gross margin forecast of per tonne salmon

Variable costs	Per tonne salmon (USD)
Feed 1.2t @ \$1,075/t	1290
Vet & medicine	80
Other costs (water cleaning, haulage, levy)	800
<i>Subtotal</i>	2,170
<b>Gross margin</b>	<b>1,781</b>

Table 15: Sensitivity: change forecast of per tonne salmon

Sensitivity - change +/-	Change in gross margin/tonne (USD)
\$ 0.10/kg salmon price	190
\$20/t feed	24
0.1 in feed conversion ratio	130

Source: Farm Diversification 2006

Corporate Information Office, SAC (Scottish Agricultural College)

Finance: Initial costs of operation for 12 - 20 months before first income generated.

Disease: Both a bacterial disease, furunculosis and pancreas disease can cause major economic loss.

### 9.3.3 Compared with Scotland

According to the returns and costs forecast, the margin of salmon farming in China is \$340 higher than in Scotland. It is mostly due to lower labour costs and lower CPI in China. But water cleaning equipment and relevance costs increase the costs. Otherwise salmon farmers should gain more margins.

Table 16: Salmon farming margins in China and Scotland

Salmon farming margin- China and Scotland				USD
Country	Returns	Variable costs	Margin	Sensitive changing
China	3,951	2,170	1,781	344
Scotland	3,988	2,546	1,441	430
Varieties	(37)	376	340	86

But it will take several years to build up the same know how and experience in China as is in Scotland, and it will take time to come up to the salmon production costs as is in Scotland because they have more experience. Will it take the same amount of time to harvest salmon in China as in other salmon farming countries, such as Norway or Scotland? If an Icelandic firm decides to build a salmon farm in China, it is wise to stay in a close relationship to the existing company in that field because of the access to expertise and such things.

## 10 RESULTS

The China seafood market provides increasing opportunities for high-quality imported seafood. The markets in the eastern coastal region are ready for Blueice's value-added products.

Target markets have been found: Shanghai, Beijing, Guangzhou, Shenzhen, Dalian, and Hangzhou. The author suggests the company should choose one or two of those as an entrance to the Chinese market. There are more large or middle sized cities in this region that are attractive, and also big cities in central China that fulfil the requirements of possible future markets for Blueice to expand its business.

According to the analysis, target products offered in China should be smoked salmon and halibut. The emphasis in this project has been more on smoked salmon, and the author suggests the company should look at that product initially as the main target product. The taste of Icelandic smoked salmon should be adjusted to the taste preference of Chinese customers. Smoked salmon is high-quality imported seafood; therefore its forecast price is at a high level. The price relates to the high quality and nutritional value of the fish. In the case of smoked salmon, the market size and the distribution channel is wider than for other products of Blueice. The author suggests smoked salmon should be distributed in various food stores. Halibut is not the product for general customers because of its high price. The market and distribution channels are narrower than is the case with other products from the company. Blueice should choose the biggest cities, such as Shanghai, Beijing, Guangzhou and Shenzhen as target markets and focus on high grade restaurants.

Customer segments for the target products, smoked salmon and halibut, are of the Chinese middle-class, which is growing, with an actual population of around 100 million and strong purchasing power.

Through careful market analysis, the company is now relatively well informed about the market, compared with its competitors. Its strength lies in high technology, good quality and services. The most significant weakness relates to insufficient knowledge of the market and Chinese culture. There is the opportunity of being the first large company involved in salmon selling in China; and, on the other hand, the threat that accompanies the uncertainty of launching a new product on a new market.

The author suggests objectives including target products, target markets and financial objectives. According to the results from various analyses, Blueice can develop appropriate marketing mix strategies of products, pricing, promotion and packing to achieve its objectives.

The action plan turns the strategies into marketing activities to attain the company's goals. Blueice's action plan of marketing smoked salmon is composed of two stages as follows:

Stage 1: Trial selling with raw material imported to one or two cities

Stage 2: Expanding business by establishing a salmon farm, on the condition the company is able to solve problems relating to water pollution and temperature fluctuations.

The author suggests an initial period of trial selling to win the market, learn about its consumers, and develop skills in applying the marketing tools and gain general knowledge about a foreign market which is very different from other markets where Blueice is active. After the trial period, the company can evaluate whether the time is ripe to advance to stage two.

The marketing of halibut is simpler and carries lower costs than smoked salmon because of its specialised and narrow distribution channel.

The forecast results of retail margins show the potential of smoked salmon marketing in China. The profit forecast, ranging from 10% to 20%, satisfies the company's financial objectives. After some years of experience, it is to be expected that salmon farming in China can be operated at a lower cost than in Europe. As pointed out in the project, there are some key factors in salmon farming, such as salary costs, that favour production in China.

Establishing a salmon farm is currently an uncertain prospect because of pollution and temperature problems, as explained in the project. If the company is unable to develop a salmon farm in China for these reasons, the import of raw material should be regarded as the most realistic future business arrangement.

## **11 DISCUSSION**

The author of this project is a native Chinese. Consequently finding correct information, at least for some aspects of the analysis, was not the biggest challenge in this thesis. How to process the information collected was a more serious problem, especially regarding the building of a salmon farm in China, which was not easy to approach in the beginning. There is inadequate information in this field, because of insufficient experience and know how in China with regard to operations of this type. Dealing with the financial part of the thesis was a challenge, because the author is looking at completely new markets with new products, so no example exists that may be used for comparison. The information from the company relating to that part was very poor. The possibility should be borne in mind that the analysis in the project could have been influenced by the author's personal opinion. That may, for example, have affected the choice of suggested markets. The current research is merely a first step in discovering and evaluating a market entrance in China. There is a vast amount of information that has to be looked into, regarding laws, customs procedures and the import process for the markets suggested in the results. All these issues need to be taken into consideration. This, however, was not the aim of the project. The main goal of the thesis was to evaluate a market entrance in China for the Blueice Group, and try to find out whether the company should expand their marketing efforts there.

In the ever-changing market environment, it is important for Blueice to stay competitive with respect to key factors, and constantly evaluate opportunities and threats in this market area.

## 12 CONCLUSION

As was mentioned in the introduction, the main goal of the thesis was to find out if it is an attractive option to enter the Chinese seafood market with products for end-consumers. As stated in the results and analysed throughout the project, it appears to be a favourable option to enter the Chinese seafood market. Such a plan, however, has to be carried out with utmost care.

According to the results, there are opportunities and possibilities for the Blueice Group to enter China with smoked salmon and halibut, provided the company carefully follows a marketing plan. However, as indicated in the action plan, it is the strategy of the company to invest 5 MUSD in a medium sized salmon farm before they enter the market. In this regard, however, the company needs time to find a solution to biological problems that relate to the establishment of the farm and to salmon farming (20 months later the first harvest is possible). All these activities need a preparation period of at least 5 years. All of them also carry risks. Therefore it is important to proceed with care, taking only one step at a time.

The customers in large cities on the east coast and some big cities of the central region have enough purchasing power for smoked salmon. As to the best way to open the door of the Chinese seafood market, the first step is crucial. Through trial selling the company gains knowledge of the markets, has the opportunity to improve its products, reconfirm its strategies and is thus able to enter the market sooner, than if they had to rely on products from their own salmon farm in China. The company can also decide on the scale of investment according to the results of trial selling. For marketing the new product, the company should start from trial selling. Initially, Blueice can import raw material from Norway or other countries to process the proper quantity smoked salmon for trial selling in one or two cities. At the same time, it can carry out research relating to salmon farming in China. After one or two years of trial selling, the company can decide whether it is advisable to advance to stage two. During the period of trial selling, valuable information and knowledge may be gained.

According to the results that are summarised in the conclusions, it is feasible to enter the Chinese seafood market with smoked salmon and halibut. The current research can be used as a starting point, but should be followed by deeper research, before any decision about further marketing activities is taken. Asia is probably an interesting market for the Blueice Group, but the company needs to prepare carefully in every respect. Hopefully, this project will help the Blueice Group in their preparations for further marketing activities in this part of the world.

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