SSAB GLOBAL BUSINESS DEVELOPMENT

A study of the International Market Expansion Model for HWP in China

Using in Mining, Quarrying, Recycling and Construction Equipment Industry

(Anderson, June 2012) & Own

Märlardalen University
School of Sustainable Development of Society and Technology

International Marketing Program (IMF)
EFO703 Bachelor Thesis in Business Administration
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Abstract

Course:
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Research Question
How can the franchising concept be adopted as an applicable model for the Hardox Wearparts international market expansion in China? What are the appropriate suggestions for the improvements to the further implementation of the model?

Purpose of the research:
The purpose of the research is to assess if the franchising conceptual model is an applicable model for the HWP international market expansion in China. The assessment will be carried out through the extensive investigations into SSAB/HWP internal and external forces including transfer of knowledge in the MNC, position building in business networks, products positioning and sales situation on the Chinese market to define the risk and opportunity. As well as the theories of the internationalization, marketing strategy and models will be referred to evaluate the franchising model, which can be adopted in China.

Method:
By adopting four research methods of qualitative research strategy, a multidimensional purpose of the research has been conducted in order to gather first-hand data, study a specific case and investigate the multidimensional environments for the implementation of the HWP international market expansion model. The main research methods include 1) questionnaire & survey, 2) qualitative interviewing, 3) observation, and 4) collection and qualitative analysis of texts, document, e-research materials and data.

Conclusion:
There are several internal- and external factors, which have affected the HWP’s market expansion in China negatively during the year. It is a sensible decision to emphasize China as a single largest market for the HWP business development. Together with the significant improvements on four key components/success factors, the franchising concept can be adopted as an applicable model for the HWP international market expansion in China.
Acknowledgement

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## Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>APAC</strong></td>
<td>Asia-Pacific</td>
</tr>
<tr>
<td><strong>Application Library</strong></td>
<td>The technical drawing and descriptions of the HWP</td>
</tr>
<tr>
<td><strong>Construction Equipment</strong></td>
<td>Manufacturing machinery for the construction industry</td>
</tr>
<tr>
<td><strong>EMEA</strong></td>
<td>Europe, the Middle East and Africa</td>
</tr>
<tr>
<td><strong>Hardox (wear plate)</strong></td>
<td>The global reference in wear-resistant steel plate made by SSAB and one of the SSAB trademarks</td>
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<tr>
<td><strong>HWP</strong></td>
<td>Hardox Wear Parts</td>
</tr>
<tr>
<td><strong>Heavy Industry</strong></td>
<td>Industries that evolve the production of large goods</td>
</tr>
<tr>
<td><strong>Mining</strong></td>
<td>The work or industry of getting gold, coal etc. out of the earth</td>
</tr>
<tr>
<td><strong>Quarrying</strong></td>
<td>Open pit mine operations as a form of surface mining used when the rock is close to the surface of the land</td>
</tr>
<tr>
<td><strong>Recycling</strong></td>
<td>The process of treating used objects and material so that they can be used again</td>
</tr>
<tr>
<td><strong>RMB</strong></td>
<td>Chinese currency</td>
</tr>
<tr>
<td><strong>SEK</strong></td>
<td>Swedish currency</td>
</tr>
<tr>
<td><strong>SSAB AMERICAS (Division)</strong></td>
<td>Business area of North America, Latin America</td>
</tr>
<tr>
<td><strong>SSAB APAC (Division)</strong></td>
<td>Business area of Asia, Australia and New Zealand</td>
</tr>
<tr>
<td><strong>SSAB EMEA (Division)</strong></td>
<td>Business area of Europe, Middle East and Africa</td>
</tr>
</tbody>
</table>
# Table of Contents

1. **INTRODUCTION** .................................................................................................................. 1  
   1.1 Background ......................................................................................................................... 1  
   1.2 Problem Discussion ............................................................................................................ 2  
   1.3 Problem Dimension and Specification .............................................................................. 3  
   1.4 Purpose of the Research ...................................................................................................... 4  
   1.5 Target Groups .................................................................................................................... 4  
   1.6 Limitation .......................................................................................................................... 5  

2. **SSAB MULTINATIONAL CORPORATION PRESENTATION** ............................................. 6  
   2.1 SSAB as a Multinational Corporation .............................................................................. 6  
   2.2 Products and Trademarks .................................................................................................... 6  
   2.3 Organisation Structure and Coordination ........................................................................... 6  
   2.4 APAC Division ..................................................................................................................... 7  
   2.5 HWP Section ....................................................................................................................... 7  

3. **HWP, a Delivering Value-Added Service** ....................................................................... 8  
   3.1 The Extensive Network of Hardox-certified Repair Shops ................................................. 8  
   3.2 Target Market and Technical Applications ....................................................................... 8  
   3.3 Value-added Services and Business Experience ................................................................. 9  
   3.4 HWP Sales Score in China .................................................................................................. 9  

4. **THE RESEARCH AREA AND PROCESS** ....................................................................... 10  

5. **THEORETICAL AND ANALYTICAL FRAMEWORK** ....................................................... 11  
   5.1 Internationalization Entry Model ..................................................................................... 13  
      5.1.1 Entry Strategy .............................................................................................................. 13  
      5.1.2 Franchise Entry Model .............................................................................................. 13  
   5.2 Transfer of Knowledge within the MNC ......................................................................... 14  
   5.3 Learning in the Foreign Market Network ......................................................................... 15  
      5.3.1 Market Demand Learning .......................................................................................... 15  
      5.3.2 Business Culture Learning ....................................................................................... 16  
   5.4 Position-building in the Business Network ...................................................................... 16  
      5.4.1 Firm’s Position-building in the Business Network ...................................................... 16  
      5.4.2 Industrial Product’s Positioning in the Target Market .............................................. 17
6. METHODOLOGY .................................................................................................. 18

6.1 Selection of Central Research Theme .................................................................. 18
6.2 Using Qualitative Research Strategy .................................................................... 18
6.3 Adopting Four Practical Research Methods .......................................................... 19
    6.3.1 Questionnaire & Survey .............................................................................. 19
7. EMPIRICAL FINDING ............................................................................................ 23

7.1 Franchising as an Entry Model in China .............................................................. 23
    7.1.1 Efficiency Seeking or Market Seeking Strategy ............................................ 23
    7.1.2 Business-to-Business Franchising Concept Entry Model ......................... 24
    7.1.3 Learning China’s Regulation on the Franchises ........................................... 25
7.2 Transfer of Knowledge between the HWP Unit and HWP Section ...................... 26
    7.2.1 Technical Support Transfer ......................................................................... 26
    7.2.2 Customers’ References Transfer ................................................................. 27
    7.2.3 Transfer of Market Development Strategy .................................................. 27
    7.2.4 Transfer of Sales Skills and Experiences ..................................................... 27
7.3 Learning Market Demands & Business Culture in the Chinese Market Networks ........................................................................................................... 28
    7.3.1 Learning Market Demand .......................................................................... 28
    7.3.2 Learning Business Culture ........................................................................... 31
7.4 The HWP’s Position-building in the Business Network ......................................... 31
    7.4.1 The HWP Section Position-building in the Chinese Market Networks ........ 31
    7.4.2 The HWP Products and Services’ Positioning in Target Market ............... 32

8. ANALYSIS AND SUGGESTIONS ......................................................................... 34

8.1 Franchising, an Appropriate Model for HWP in China ....................................... 34
8.2 Transfer of Knowledge within the HWP Global ................................................... 36
8.3 Market Demand and Business Culture Learning .................................................. 39
8.4 Building up the HWP’s Position in the Chinese Market Networks ....................... 40

9. CONCLUSION ....................................................................................................... 43
REFERENCES AND SOURCES ........................................................................................................... 45
INTERVIEW QUESTIONS ..................................................................................................................... 50
APPENDICES ..................................................................................................................................... 54

Appendix 1 the General Research Questions ........................................................................ 54
Appendix 2 the Internal Organization Documents ............................................................ 57
Appendix 3 the Tighter Specification of the Research Questions .................................. 58
Appendix 4 the Regulation on the Administration of Commercial Franchises .......... 60
1. INTRODUCTION

1.1 Background
“A stronger, lighter and more sustainable world together with our customers” is the vision of SSAB. In 1978 when the prevailing economic and international steel crises occurred, SSAB was formed by the recantation of three commercial steel companies, Domnarvets Steel, Norrbottens Steel and Oxelösunds Steel in Sweden. For over three decades, SSAB has evolved into one of the most profitable steel producers with a well-defined strategy focused on selected niche segments in the world (AB, 2012). Today, SSAB has grown into a Multinational Corporation (MNC) by its business network covering 45 countries.

Since 2007 when SSAB established the APAC Division and a wholly owned production subsidiary in Kunshan, China, SSAB has gained knowledge and first-hand experiences of doing business and manufacturing production in China. The wholly owned subsidiary named “SSAB Swedish Steel (China) Co., Ltd.” performs the finishing lines for processing before delivery to the Chinese customers. (AB, 2011). The subsidiary becomes also the First Wholly Owned Member of Hardox Wearparts in China (henceforth referred to as HWP section). The HWP section consists of production operation and a sales section managing the sales activities for HWP in China. (Qiu, Sep 2012) In fact, the HWP is providing a total solution of products, services, logistics, technical support and corporate image for the customers or the end-users by delivering value-added services based on a product segment, Hardox plate.

Outside China, the economic crises in both Europe and the United States of America have massive impacts on SSAB’s production and sales negatively for over the years. SSAB’s sales have declined by 17.8% since 2011. Consequently, SSAB issued third quarter results of year 2012 with a loss of 789 million SEK (AB, Sep 2012), that resulted in 450 employees’ redundancies in three manufactories in Sweden (AB, Oct 2012).

Due to the gloomy and uncertain economic situations in both the United States of America and Europe, SSAB is today facing a serious challenge of its global business development. The major issues are which market to focus on and if the Chinese market is emphasized, which product segment will be selected, which applicable model can be used, and how to implement the model. A panel of five professionals in HWP Unit Sweden has recognized the circumstances and approached a new internationalization model, Business-to-Business Franchising Concept (henceforth referred to franchising concept) for HWP international market expansion in China. This franchising concept approach is based on the successful business model used in the EMEA business area. Today the HWP extensive networks are the vital role of the SSAB’s international business development. By the implementation of the franchising concept, SSAB will invest less in the assets and facilities, but still has some degree of control. Furthermore, the HWP’s business can expand speedily by establishing franchisees in China. (Anderson, 2012)
Franchise is also one of the internationalization models (Vahlne, 1977) in which the franchiser provides a standard package of products, systems and management services, and the franchisee provides market knowledge, capital and personal involvement in management (Cateora, 2010, p. 278). The contents of franchises include the franchise agreement, franchise structure and franchise context which are the crucial components giving attention (Lee, 2004).

With the franchising concept, displaying SSAB’s high ambitions for HWP market expansion in China, there are nevertheless a number of uncertainties about the implementation of the model. For instance, where are the risks and opportunities? Is the franchising an appropriate model for HWP marketing expansion in China? Therefore, the research undertaken becomes a part of the project and investigates these uncertainties to examine the facts in multi-dimensional perspective for SSAB and HWP.

1.2 Problem Discussion

Even though SSAB is a MNC and has obtained internalization knowledge and profits through its global business network for over one decade, the APAC Division remains in a basic developing phase and structure since 2007. According to the Annual report 2011, the sales score of APAC reached 6% of the Group’s total sales and the proportion of employees was only 2% of the whole group after hundreds millions SEK investment and five years experiences in China. However, during these five years, the Chinese economic development and growth have been constantly strong by 9.9% on average and the Chinese government has invested billions of RMB in the infrastructure, energy and mining sectors (Mundi, 2012). These sectors are strongly associated with SSAB’s product segments, including HWP, hence would provide a great opportunity to expand HWP’s market in China. It is time for the SSAB leaders to reconsider the business development strategy and to make the right choice of product segments for adapting to the local industries in China.

The recognizable rationale behind the Business-to-Business Franchising Concept are firstly, the declining economic growth in both Europe and the United States influences SSAB’s production and sales score negatively. Conversely, the China’s economic growth has been strong. Secondly, the investment in developing franchises is lower than establishing the wholly owned production subsidiaries. Nevertheless, the franchising concept is still a conceptual project requiring further marketing research before it steps into the implementation phases, especially on China’s regional, industrial and monetary policies. In addition, the Chinese Government has strict regulations on Business to Consumer and Business to Business franchising (Council, 2012). Therefore, the required adaptation to local business culture and environment is an underlying issue for the HWP market expansion in China.

“We have no particular person right now for this project in our APAC business area,” declared the director of APAC division. SSAB needs to recruit a visionary or professional who has marketing development skills for performing this project in China (Observation, Sep 25-26 2012). It will take time to find the right person who has not only the ability to develop the markets, but also a better understanding of international marketing perspective and local
business cultures and language. This visionary is going to lead the franchising project and preform the HWP sales in China. Currently, the HWP section in China has limited human resources, who consists of one manager and four engineers who are responsible for the entire sales on the Chinese Market. Even though the sales engineers have tried to develop the target market in eight provinces in China, the sales score in 2011 is low and the target market contains merely the customers in the cement industry. (Qiu, 2012) A lack of transfer of knowledge and experiences within the HWP business network from the EMEA business area to the APAC business area including China, has posed an additional challenge that defines as the fundamental issue for the future implementation of the franchising model.

Because the HWP product segments and services highlight the mining, quarrying, raw material production and construction equipment industries, SSAB will deal with a complicated situation in that these industries closely attach to the local government. Namely, the companies in these branches are owned or controlled by the local government, except the construction sectors (China, 2009). Facing these circumstances, the leaders of SSAB needs to adapt themselves to a new perspective, Guan Xi (Wang, 2005, p. 82) on the business culture and business relationships with the Chinese actors and entrepreneurs in the market networks.

Although the top leaders have emphasized the HWP business development in China during the years, there is no particular marketing strategy for HWP performance in China (Observation, Sep 25-26 2012). The marketing and sales activities in China have performed mostly through the exhibitions and conferences. The Bauma exhibitions in both Germany and Shanghai have been the main channels for the HWP section to attract the customers and build up the product image on the Chinese market. (Qiu, 2012) Consequently, nearly 90% of the potential customers do not recognize the SSAB/HWP trademark and the fact of HWP high quality when the sales engineers visit them for the first time. The customers also wonder why HWP’s total price is much higher than the local solutions, so that deeply affects their purchase process. (Brion, Sep 2012) Inevitably, the situation shows that the HWP image has not improved and the marketing position is indistinguishable on the Chinese market. Certainly, HWP needs to identify its competitiveness in the local business network.

To sum up, the risk for this franchising project can be posted by the organization’s internal factors, such as the leaders’ wrong strategy decisions, the limited human resource and a lack of knowledge transfer. The risk can also be posted by the environmental factors, such as the modification to the regional, industrial and monetary policies in China, the strict law or regulation in franchises and the distinctive local business culture and language. However, the opportunity is great and it is a good timing for the implementation of this franchising project, thanks to the China current economic climate, the beneficial condition of the new regulation on the franchises and the potential market demands of related actors and industries for the HWP.

1.3 Problem Dimension and Specification
The above problem discussions have viewed that the research is obviously raising a range of issues of SSAB globalization in China, from the internal forces to the environmental factors. Therefore, the research question is perceived as a multi-dimensional perspective on the HWP
international market expansion in China. The multi-dimensional perspective of conducting the research, in layout 1, comprises the investigations of the HWP product segments and management, the local industrial branches, business networks within entrepreneurs in order to adopt an applicable international market expansion model and provide the appropriate suggestions for the further implementation of the model. The research questions are:

- How can the franchising concept be adopted as an applicable model for the HWP international market expansion in China?
- What are the appropriate suggestions for the improvement to the further implementation of the model?

1.4 Purpose of the Research

The purpose of the research is to assess if the franchising conceptual model is an applicable model for the HWP international market expansion in China. The assessment will be carried out through the extensive investigations into SSAB/HWP internal and external forces including transfer of knowledge in MNC, position building in business networks, products positioning and sales situation on the Chinese market to define the risk and opportunity. As well as the theories of the internationalization, marketing strategy and models will be referred to evaluate the franchising model, which can be adopted in China.

1.5 Target Groups

Because the research is directly involved in the SSAB current franchising project, the target groups are SSAB´s leaders of the HWP global, APAC division and HWP section in both China and Sweden. The further analyses and assessment of the research will be a crucial part of the final report about the HWP market expansion in China by Johan Anderson, Head of HWP Global. On the other hand, this research will be an empirical and a scientific study of the international marketing strategy including entry model, transfer of knowledge within MNC, learning market demand and business relationships, and position building in the Chinese market networks under the multidimensional circumstances.
1.6 Limitation
SSAB has seven main product trademarks as Domex, Docol, Prelaq, Hardox, Weldox, Armox and Toolox, which are selling all over the world. However, the Hardox Wearparts and its section in China is the emphasized segment in the research.

Some of the technical and functional applications of HWP products and services are strictly confidential and will not be described in detail. As well as some of the internal organization documents showing on the list in “appendix 2”, are confidential and will not be as the attachments.

There are four phases for the implementation of the franchising concept: Pre-start, Build-up Business, Production Start-up and Up Running and Sales, which will stretch over two to three years. However, the research is merely involved in the Pre-start phase by assessing an applicable model and providing several appropriate suggestions for the further implementation.
The presentation of SSAB within its APAC Division and HWP Section gives an overview of specific relations between three organizations and their involvement in the research.

2.1 SSAB as a Multinational Corporation
A multinational corporation consists of a group of geographically dispersed and goal-disparate organisations that include its headquarters and the different national subsidiaries. The entity can be conceptualized as an inter-organizational network that is embedded in an external network consisting of all other organisations. (Bartlett, 1990) SSAB is a Multinational Corporation (MNC) containing a business network within 106 members and national subsidiaries covering 45 countries. The company has 9 000 employees and operates production facilities in Sweden, Europe, Americas and China. The headquarters is located in Sweden and R&D centres are constituted in Sweden, the United States and China. (AB, 2012)

SSAB is a leading manufacturer of high strength and quenched steels. SSAB offers products developed in close cooperation with its customers to create a stronger, lighter and more sustainable world. The company has a 6 million tonne capacity for crude steel and the sales of niche products (the high strength steels) amounts to approximately 37% of the total sales. The goal is to increase the portion of high strength steels to 50% by 2015. SSAB is also listed on the NASDAQ OMX Nordic Exchange, Stockholm. (AB, 2012)

2.2 Products and Trademarks
High Strength Steel contributes to lighter weight of the output product as compared to the use of ordinary steel and increases strength and longevity. In the present day, the high strength steel is sold all over the world by seven trademarks: Domex, Docol, Prelaq, Hardox, Weldox, Armox and Toolox. (AB, 2011) In the research, Hardox wear plate and Hardox wear parts in figure 1 are focusing. Hardox Wearparts is the leading producer of the wear parts and wear services in the world. The further presentation about HWP shows in Chapter 3.

![Hardox Wearparts Trademark](AB, 2012)

2.3 Organisation Structure and Coordination
According to SSAB’s organization, structure the company comprises of three geographical business areas: the EMEA division, Americas division, and APAC division. The HWP Global and Tibnor are the separate functional divisions showing in figure 2, thus SSAB is a MNC of Division Management (AB, 2011). Division management (Holm, 1993) in SSAB is characterizing by a decentralized work method in which responsibilities and powers are, to a large degree, delegated to the respective business areas and subsidiaries. The matrix
organisation (Randolph, Jun 1992) structure by the *horizontal communication* between the different levels is the internal coordination in SSAB.

**Figure 2: SSAB, a MNC of Division Management, Own & inspired by (AB, 2011)**

### 2.4 APAC Division
The APAC division is located in the same place as the wholly owned production subsidiary in Kunshan, China, and both of the organizations were established in 2007. The APAC business area stretches across Asia, Australia and New Zealand. The subsidiary in Kunshan is structured under the APAC division leadership. The production subsidiary Kunshan ships steel from SSAB in Sweden to its finishing lines in China for processing before delivery to the customers. Year 2011, a R&D centre opened for supporting the local research. The product segments consist of Weldox, Hardox plate and Hardox Wearparts. (AB, 2012)

### 2.5 HWP Section
The HWP section is responsible for the Hardox Wearparts sales in China and the section structures under the APAC division leader ship. The HWP section is the first wholly owned member of HWP in China business area. The section consists of a production operation (in the production subsidiary), a manager and four engineers who are responsible for the HWP sales on the Chinese Market. The figure 3 illustrates the HWP section’s structure.

**Figure 3: The HWP Section in China, Own & inspired by (Qiu, Sep 2012)**
3. HWP, a Delivering Value-Added Service

The HWP’s product and service is the focused object of the research. Actually, HWP is delivering value-added service based on a product segment, Hardox plate, which is the global reference in wear-resistant steel plate. It goes beyond the steel to deliver Value-added Services via an extensive network of Hardox-certified repair shops in the global perspective in figure 4 illustration. (Wearparts, 2009) Overall, HWP is providing a total solution of products, services, logistics, technical support and corporate image for the customers/the end-users.

3.1 The Extensive Network of Hardox-certified Repair Shops

The extensive network contains totally 106 international members who are committed to providing the highest quality wear parts with professional service in three business areas. According to the drawings and instructions of the customers, the experts and certified craftsmen of the manufacturer of Hardox guarantee that the Hardox wear-resistant steel will be bent, drilled, cut, welded or milled to the highest standards. By optimizing the service lifetime of the wear parts, assisting in anticipating and planning repairs, the HWP members can involve in the customers (end-user’s) repair strategy from reactive to pro-active. (Wearparts, 2009)

Regarding figure 4, “Hardox Wearparts International Business Network”, it illustrates 106 members spread through three business areas, EMEA, AMERICAS and APAC. The members are located around the world where the wear parts and service require. (Anderson, June 2012)

Figure 4: Hardox Wearparts International Business Network, Own & inspired by (Anderson, June 2012)

3.2 Target Market and Technical Applications

HWP is aftermarket business with the target market in heavy industries for mining, quarrying, recycling, raw material industry and construction industries in the global perspective. The figure 5 illustrates the HWP’s variation of applications for mining and quarrying industry as an example of showing the wear parts (the technical applications from a. Shovel to l. Final screening).
3.3 Value-added Services and Business Experience

_VALUE-added Services_ is the core competence of HWP. The core competence is about the harmonizing streams of technology and the organisation of work and the delivery of value (Hamel, 1990). HWP contributes a supplementary profit to the sales of wear parts plate for both SSAB and HWP members. The end-user, customer will make the profit of optimizing the lifetime of machine or equipment, enhancing machine’s performance, therefore increasing productivity (Anderson, June 2012) as figure 6, the Value-added Service and its profit of HWP illustration.

![Figure 6: The Value-added Service and its profit of HWP, Own & inspired by (Anderson, June 2012)](image)

3.4 HWP Sales Score in China

The HWP section structures under the APAC division, also the first wholly owned member of HWP in China. The section consists of a manager and four engineers who are responsible for the HWP sales on the Chinese Market. They have developed the target market of the existing – and potential customers in the Cement Industry. The sale region is covering eight provinces, which in size is larger than Germany. (Observation, Sep 25-26 2012; Qiu, Sep 2012) Despite the big sales area, the sales score is unexpected low and the target market contains merely the customers in Cement Industry in 2011 (Qiu, 2012). The ambition of the sales target in 2012 will achieve higher than 2011. (Anderson, 2012).
4. THE RESEARCH AREA AND PROCESS

The whole research is conceived of as a production process, which goes from input through production to output. The research area stretches across a range of contents shown in Layout 2.

The “Input” portion of the research area and process contains the contemporary situations of SSAB, APAC and HWP in China including the idea of franchising concept by SSAB, the problem discussion and specification. The “Production” portion of the research and process comprises a set of theories on internationalization IP-model, the business network model of internationalization, besides the contemporary view of international marketing strategy. They are the guidelines and help to formulate the empirical findings, analysis of the theme and to provide several appropriate suggestions for the further implementation. Finally, the “Output” results in an international market expansion model and the phases of the performance. The layout gives a picture of the research purpose, context and goal.

The Research Area and Process

Layout 2: The research area and process, Own
5. THEORETICAL AND ANALYTICAL FRAMEWORK

To proceed with the research area and process in chapter 4, the *Internationalization Process Model (IP-model)* (Vahlne, 1977) refers to a fundamentally theoretical framework for the research. Indeed, over three decades, the economic and regulatory environments have changed dramatically after the IP-model was introduced. The firm’s internationalization has evolved into a second degree/a complex business networks construction, such as the MNEs or the MNCs. The new model of the business network view of the firm’s internationalization has been developed by combining the IP-model and the network approach (Vahlne, 2009). Therefore, the *Business Network Model* and the contemporary view of international marketing strategy are clear guidelines for the firm’s globalization today, as well as for this research.

To begin with, Jan Johanson and Jan-Erik Vahlne introduced the *internationalization process model (IP-model)* of knowledge development and increasing foreign market commitments in 1997. It focuses on the gradual acquisition, integration and use of knowledge about foreign markets and operations, and on the incrementally and successively increasing commitments to foreign markets. Because of the *psychic distance* as the sum of factors preventing the flow of information on the market, for instance language, education, business culture and industrial development, it causes the uncertainty and lack of knowledge in international operations and markets. Therefore, the international operations progressed in small steps from starting export activities via agents, then establishing a sales subsidiary, later eventually beginning production/manufacturing in the host country. Experience builds a firm’s *knowledge of a market*, and that body of knowledge influences decisions about the *level of commitment* and the activities that subsequently grow out of them: this leads to the next level of commitment. (Vahlne, 1977) In figure 7, it demonstrates the applying strategies of implementation of the internationalization models. The successively increasing degree of commitments from the lowest level of “Export via Agent” to the highest level of “Production or Manufacturing Subsidiary” are progressing on the knowledge of foreign markets and the degree of control forms.

![Figure 7: The internationalization Process and its models, Own & inspired by (Vahlne, 1977)](image-url)
The above Behaviour Theory characterizes the commitment of the long-term mutual benefit on the foreign markets as network and relationship within trust and knowledge sharing (Hadjikhani, 1997).

Since 1977, the firm’s internationalization has been deeply affected by the rapid development of information, communications and logistics technologies during the last three decades. The intensity of information exchange is constantly decreasing both psychological and physical distance between the companies, regions and counties. As a result, the firm’s internationalization has emerged to the second degree. (Forsgren, 2001) Now the business environment is viewed as a web of relationships, a network, rather than as a neoclassical market with many independent suppliers and customers (Vahlne, 2009). Hence, the firm’s internationalization expands into the MNEs, or MNCs, complex business networks embedded in the business relationships between a range of internal and external actors. Outsider-ship, in relation to the relevant network more than psychic distance, is the root of uncertainty. Therefore, knowledge learning, trust and commitment building take place in the business relationships. (Vahlne, 2009) Illustrated in figure 8, the MNC’s business network operates production and services in an amount of countries in order to obtain the market share, revenue and competitive advantage globally (Forsgren, 2001) with a range of actors and their mutual business relationships.

![Diagram of Business Network & its Business Relationships](image)

*Figure 8: The Business Network Context and Business Relationship, Own & inspired by (Forsgren, 2001)*

Four key components/success factors of the business network model of internationalization perspective are chosen to conduct the empirical finding in order to forward the analysis and suggestion for this case: 1) internationalization entry model, 2) transfer of knowledge within the MNC, 3) learning in the foreign market network, and 4) position-building in the business network.
5.1 Internationalization Entry Model

5.1.1 Entry Strategy

The business network model of internationalization can be used to study both resource-seeking and market-seeking internationalization (Vahlne, 2009). Normally, companies have three main objectives when entering a foreign market and they are market seeking, efficiency seeing and resource seeking. **Market-seeking strategy** means that the company is looking for a considerable market for its products or offers, because the company believes that it has a strong product or brand that can penetrate into new markets. **Efficiency seeking strategy** means that the firms want to enter countries or markets where they can achieve efficiency in different ways, e.g. R&D and other infrastructural effects. **Resource seeking strategy** means firms try to enter into countries to get access to raw material or other crucial inputs that can provide cost reduction and lower operation costs, (Cateora, 2010, p. 267) The decision, if a company makes the commitment to go international, should reflect an analysis of market potential, company capabilities and the degree of marketing involvement and commitment management is prepared to make (Cateora, 2010, p. 275). There is a variety of foreign market entry models and franchise/franchising is one of the models.

5.1.2 Franchise Entry Model

According to figure 7, there are six internationalization entry models can be used and Franchise model is one of them. Franchising is a rapidly growing form of licensing model in which the franchiser provides a standard package of products, systems and management services, and the franchisee provides market knowledge, capital and personal involvement in management. Franchising is the combination of skills permitting flexibility in dealing with local market conditions and provides the parent firm with a reasonable degree of control. The franchise system provides an effective blending of skill centralisation and operation decentralisation. (Cateora, 2010, p. 278). The contents of the franchise agreement, franchise structure and franchise context are the crucial components giving attention (Lee, 2004).

5.1.2.1 Franchise Agreement

In a franchise relationship, the franchisor grants franchise identity rights to franchisees, either directly or indirectly. Depending on their needs, parties to franchise agreements can adopt different types of franchise structure. There are three types of franchise agreement: master franchise, joint venture and licensing. The **master franchise agreement** is the most inclusive agreement and the method used in the International franchises. The master franchise gives the franchisee the rights to a specific area with the authority to sell or establish sub franchises. (Lee, 2004)

5.1.2.2 Two Types of Franchise Structure

Two types of franchise structure present a direct franchise or a franchise that allow master franchisees to distribute the franchise out to sub-franchisees. Under these structures, franchisors can directly franchise from the business’ country of origin or from a branch office to the guest country. They are named “**Wholly Foreign-owned Enterprise**” and “**Master Franchising Agreements**”. (Lee, 2004)
5.1.2.3 Two Types of Franchise Context

Two types of franchises context and they are business format franchises and manufacturing franchises. They displays in the following.

- **Business Format Franchising** is the process of licensing the rights and obligation to copy a unique retail positioning that profitably serves a need for a viable customer segment. It may contain products and/or services and may or may not be location-specific. Including the support systems to implement and operate it, the format typically also involves access to sources of supply, as well as specified equipment and detailed operating instructions. Overall, the business format is comprised of various elements that manifest four distinct components: product/service deliverables, benefit communicators, system identifiers, and format facilitators. (*Eroglu, 1998*)

- **Manufacturing Franchise** is defined as the granting of a license by the franchisor to franchisee, which entitles the latter to customise, manufacture, market, distribute and/or support goods and/or services. Whereby the franchisor agrees to provide central commercial and technical support, and imposes the obligation to conduct a business in accordance with the franchisor’s concept for the term of a written franchise agreement. (*Carrie, 1998*)

5.2 Transfer of Knowledge within the MNC

The business network starts and adds that exchange within a network allows a firm to acquire knowledge about its relationships partners, including their resources, needs, capabilities, strategies and other relationships (*Vahlne, 2009*). *Knowledge transfer* represents a cost to the source of knowledge in terms of time and effort spent helping others to understand the source’s knowledge (*McEvily, 2003*). The MNC, as a business network, can be viewed as an inter-organizational network in which the relationships between the operating units form a multinational network (*Mats Forsgren, 1997*). Inside the multiunit organization, associative learning involves the transfer of knowledge among different organization units.

Knowledge transfer occurs also in a *shared social context* in which different units are linked to each other. Organization units are embedded in a network coordinated through processes of knowledge transfer and resource sharing such a network of inter-unit links enables organizational units to gain critical competencies, which contribute to their competitiveness in the marketplace (*Tsai, 2001*). The figure 9 demonstrates the transfer of knowledge within the MNC.

The *tie strength of an interpersonal connection* can affect how easily knowledge is transferred from the source to a recipient when the source and the recipient have knowledge in common. Consequently, knowledge is more likely to be transferred between people with similar training and background characteristics. The *social cohesion* has a positive effect on knowledge transfer, primarily though influencing the willingness of individuals to devote time and effort to assisting others. Like tie strength, cohesion affects the motivation of an individual to transfer knowledge to a co-worker or colleague. (*McEvily, 2003*)
5.3 Learning in the Foreign Market Network

Because of the psychological and physical distance, a range of actors and outsider ship in the cross-functional business network in different countries, the foreign dynamic environments require the MNC’s adjustment and adaptation by learning and understanding each other to enhance the competitive advantage (Alan Bryman, 2011, p. 15). The business network is embedded in business relationships with those actors such as suppliers, customers, complements and competitors. They construct a value net, which can perform a variety of marketing activities, operations and functions through the activity links, actor bonds, resource ties and schema coupling (Thomas Ritter, 2004). The above-mentioned outsider-ship in relation to the relevant network, is the root of uncertainty more than the psychic distance, therefore, the learning and commitment building take place in the business relationships (Vahlne, 2009).

5.3.1 Market Demand Learning

Market demand refers to the aggregate of the demands of all potential customers for a specific product over a specific period in a specific market (WebFinance, 2012). Defining the demand for the company’s product helps to develop effective strategies to promote and sell the product to as many potential customers as possible. Market demand is depending on environmental factors called “Market demand factors”, such as the sales of a related product or service or the current economic conditions in the country. (Government, 2012)  First, it is the business cycle: Developed economies often follow a pattern known as the business cycle, where periods of faster growth are followed by years of slower growth or even recession. Some sectors for instance, construction, advertising and leisure are more susceptible to the impact of the business cycle. Second, it is inflation: This can affect a business in many ways. For example, if the rate of increase in the price of raw materials is greater than the rate of inflation for the business’s products, then the business will experience a fall in profitability over time. (Chapman, June 2012)
The local, national and international political changes can also affect both costs and demand. The relevant issues to highlight 1) public spending by central and local government has a direct impact on the level of demand with the economy. 2) Regional and industrial policy can affect businesses at a micro level, and the availability of regional grants or other forms of assistance will boost local economies. 3) Monetary policy and the level of interest rates will affect demand and a business’s ability to service its debts. 4) Regulation and deregulation can have a dramatic impact on the business environment and individual business sectors. (Chapman, June 2012) Three interrelated trends will spur demand for technologically advanced products: 1) expanding economic and industrial growth in emerging markets, 2) the liberalisation of most markets, and 3) the privatisation of government-owned industries. (Cateora, 2010, p. 373)

### 5.3.2 Business Culture Learning

Shifts in a country’s demography and social cultural values usually occur over many years. However, with improvements in communication and increased employee mobility between countries, the speed of social and demographic change can be expected to increase. The major issue is the social and business culture. Norms and values can change because of the composition of communities and the presence of ethnic groups. (Chapman, June 2012)

In relationship exchange, the choice behaviour is constrained through the trust and commitment that develop between the parties in the business network (Vahlne, 2009). Guan xi, as a China’s traditional relationship in a long history has been considered the Chinese version of business relationship that is the key determinant for a successful business in China. (Wang, 2005) Guan xi provides a special perspective on the social and business culture in China. To enter into the Chinese market, the companies enable to understand the context of Guan xi. (Dong-Jin Lee, 2001) Guan xi is composed of two Chinese characters, guan (gate) and xi (connection). One must pass the gate to be connected to networks. Guan xi generally refers to relationships or social connections based on mutual interests and benefits. (Yang, 1994) Specifically, it refers to a special type of relationship that bonds the exchange partners through reciprocal exchange of favours and mutual obligations (Dong-Jin Lee, 2001). In particular, in the Chinese business community, Guan xi is given a new and narrower definition: a strategically constructed network of personal connections selected from among all the potential personal relationships. (Woo, 1998)

### 5.4 Position-building in the Business Network

#### 5.4.1 Firm’s Position-building in the Business Network

With the business network view of internationalization, the firm’s decision on models of entry into the foreign markets should be taken as a position-building process for the firm in a foreign market network. The business network model of internationalization is also seen as the outcome of firm actions to strengthen network positions by improving or protecting firm’s position in the market. As networks are borderless, the distinction between entry and expansion in the foreign market is less relevant, given the network context of the revised model. The existing business relationships have a considerable impact on the particular geographical market a firm will decide to enter and on which model to use. Learning leads to trust and trust
does lead to commitment, it implies that there is a desire to a willingness to invest in it, continue the relationship, even recognition of the necessity of making sacrifices that benefit another for reasons of long-term interest. (Vahlne, 2009)

5.4.2 Industrial Product’s Positioning in the Target Market

On the other hand, industrial product-positioning concept is the notion that an evoked set of products, which can be described as different bundles of attributes, these attributes are capable of generating a stream of benefits to the buyer and user. The company will develop these attributes in order to generate the benefits for matching the special requirements of the product segments. (Thorelli, 1985) There are two types of product positioning: strategic and tactical positioning. The strategic positioning refers that brands can build up the position on the market without the other brands of the competitors who have the same or adjacent product categories. The tactical positioning means that the strategic transferred into action and manifested through communication activities on the market, for instance, brand name, packaging, slogans and more. (Agndal, 2005, pp. 153-154) Positioning is also what the company do to the customer’s mind, namely, positioning creating an image of the product and its quality in customer’s minds. For that reason, the most effective way of positioning a product is to know the customer segment and concentrate on understanding this target group, and create an image that matches with their needs or wants. (Cateora, 2010, p. 252)

Using brand name and brand naming are important to manufacturers of industrial products in establishing marketing positioning in the Business-to-Business sector. Branding is valuable to marketing success and is a major corporate asset. For industrial products, branding is a multidimensional construct that includes not only the customers view of the physical product, but also providing the total solution to the customer groups that encompass the product’s technical, logistical and customer support, besides corporate image and policy. It provides the degree of differentiation to better identify the product, to emphasize the product as a specialty product, and to develop a loyal customer. (McQuiston, 2003) Furthermore, the main asserted benefits of branding is that the branding contributes are increasing in purchase confidence, enhancing reputation, more scope for competitive advantage, commanding a price premium and reducing imitation. (Paul Michell, 2001)
As mentioned earlier, the multi-dimensional perspective of conducting the research is using for investigating into SSAB/HWP contemporary business situation, finding the risk and opportunity for the franchising project, and assessing an applicable international market expansion model for HWP in China. The methodology is a precise study of methods to help this research on going. To base on two literatures of Business Research Methodology, the research adopts several research methods through variations of channels to gather first-hand information and data for studying this project.

6.1 Selection of Central Research Theme
Selection of central research theme considers an initial step in process and it challenges the research going on the right trail. The other rationale is that this research is actually involved in a real case of SSAB’s HWP international market expansion in China. Therefore, selection of the accurate research theme has been progressed beyond the opening communications between the researcher, supervisor and respondents in SSAB during the pre-works. The research theme is not only full consideration of academic disciplines (Fisher, 2010, pp. 35-37), but also developing practical marketing strategies and offering appropriate suggestions for the SSAB’s leaders. The theme contains a study of international market expansion model for the HWP in China.

6.2 Using Qualitative Research Strategy
In layout 3, it illustrates four methods associated mostly with the qualitative research, which has been utilized to go through eight proportions both inside and outside SSAB for gathering the first-hand data about the HWP business situation since September. Because the qualitative research strategy usually emphasize words in the collection and analyse of the data, the collections of the words of ideas, feelings, opinions and attitudes are essential for the underlying material for the research (Alan Bryman, 2011, p. 368). Therefore, the qualitative research was decided to be used and the research has adopted several methods of the qualitative research. These methods include the questionnaire, interviewing, observation, and collection of organization document in order to gather the first-hand data of SSAB.

The research began by finding the SSAB/HWP contemporary situation in both China and Sweden in two aspects: the internal forces and the environmental factors in order to get a multi-dimensional picture of the HWP international market expansion’s possibility. Both primary data and secondary date were collected via a number of methods and channels that explains in section 6.3. For this case, a business trip to the HWP section in China was necessary, because during the visit, the researcher could be able to meet and interviewed different people in the front-line and participated in the project meetings. The first-hand facts and people´s opinions could be assembled directly, as well as the HWP´s production, sales and marketing in China could be observed. In addition, the face-to-face encounters enabled to build up the
relationships with those correspondents for the further questionnaire and contacted via internet or email between Sweden and China.

Overall, a qualitative research strategy had mostly been utilized for this research in order to study a specific case and to investigate the HWP product segments and business development, the local industrial branches and entrepreneurs.

After accumulating all the information and data, the five groups’ data was classified such as SSAB, the divisions, the HWP, the franchising model and the internationalization perspective in order to measure the empirical evidences multi-dimensionally. In addition, the research area and process in chapter 4 was the guideline for selecting the theoretical and analytical frameworks in four perspectives shown in layout 2. There are 23 professional articles related to the internationalization theories, which were assembled via the MDH’s internet searching system, and by using key words in Google Scholar, the articles could be find quickly. Finally, the analysis conducts and the appropriate suggestion could put forward in the research.

*Layout 3: The finding model of using methodologies for achieving a multidimensional purpose of the research, Own*

### 6.3 Adopting Four Practical Research Methods

Shown in layout 3, four research methods were used: 1) Questionnaire & Survey, 2) Qualitative interviewing, 3) Observation, and 4) Collection and qualitative analysis of texts, document, and e- research materials and data.

#### 6.3.1 Questionnaire & Survey

In the pre-work phase, see in appendix 1, the general research questions (Alan Bryman, 2011, p. 389) was formulated basing on the research area in layout 2 illustration and posted to five corresponding sections in SSAB (Questionaire, 2012) for getting a general picture of SSAB. Afterwards, the tighter specification of the research questions (Alan Bryman, 2011, p. 392)
was put to three specific respondents in both Sweden and China for gaining specific data for instance, the customers’ data, internal business problems and business strategy changes in detail. The correspondents comprise of a range of professionals in SSAB in both China and Sweden. They are the directors of the APAC and HWP global divisions, the middle managers of the HWP section, marketing section and EMEA divisions, besides, the operation’s personnel such as the sales engineers in the HWP section. They are currently working for HWP, and have experiences in doing the HWP business development globally and are optimistic about the possibility of the HWP market expansion in China. The open questionnaires (Fisher, 2010, p. 176) were the major form, which the correspondents could make their answers in their own words in order to gathering variations on the opinions and comments. The intensive communication and questioning with Supervisor, Johan Anderson in SSAB was significantly helped to progress the research. Face-to-face meetings, email communications, telephone calls were the effective way to maintaining a good relationship with supervisor (Alan Bryman, 2011, p. 75) for the avoiding the mistakes and getting the professional advices for the research.

Posting “The simple surveys of contract - and visiting customers for HWP in China” was to detect the current customers’ bases and patterns in order to assess the further choice of the HWP product segments in China. Survey was the pre-coded questionnaires and structured research methods for collecting the material (Fisher, 2010, p. 207). Even though the survey research methods was in form of collecting quantifiable data, the simple surveys had been limited by maximal 50 qualitative customers data which enabled to give an overview of the sales situations in China. The answers of the surveys, which were sent by the sales engineers in the HWP section in China.

6.3.2 Qualitative Interviewing
The term qualitative interview is often used to capture the different types of interview that are used in qualitative research (Alan Bryman, 2011, p. 465) and the interviews can be conducted in an open or in a structured manner (Fisher, 2010, p. 174). Because the qualitative interviewing could be specified in the particular business area and professionals in the HWP global, six individual interviews (see interviewing 1 to 6 in the attachment “Interview questions”) had been taken place in SSAB in order to gather the first-hand information. The interview questions were crucially related the SSAB internal and external factors and forces: the global business development, the HWP technique, operation and the HWP marketing development and strategy. The answers comprise of a variation of the opinions and comments about the sales situation, marketing strategy and segments industry for the franchising project. The focused interviewing (Alan Bryman, 2011, p. 205) was conducting predominantly open questions to ask from the top leaders to the operation personnel about the specific situation that was relevant to HWP business. The above-mentioned interviewing contained firstly five face-to-face interviewed in SSAB, Oxelosund, which were very beneficial for gathering a first impression and first hand data. Secondly, one telephone interview was seeking the answer of the email questions about the HWP trademark register in China.
The structured interviewing dealt with a certain range of topics and interviewee respond freely the questions and a semi-structured interviewing which dealt with a list of questions on fairly topics to be covered (Alan Bryman, 2011, p. 467). So that both the *structured and semi-structured interviewing* had been operated during the research, see the contents of the interview 1 to 6 in the attachment “Interview questions”. These answers of the interviewing were completely relevant for the four key success factors of the HWP international market expansion in China and interpreted forward into the empirical finding and analysis for the research.

6.3.3 Observation
The participant observation immerses the researcher in a group for an extended period, observing behaviour, listening to what they said in conversations both between others and with fieldworker, and asking questions (Alan Bryman, 2011, p. 426). By participating in several SSAB’s internal meetings for instance, the sales meeting, the marketing strategy meeting and the franchising concept meeting in both countries, China and Sweden, the front-line business activities was observed personally, especially HWP production- and sales result, the uncertainties, improvements and knowledge transferring between Sweden and China. The first-hand impressions and data were directly gathered through the listening, questioning and recording during these meetings.

6.3.4 Collection & Analysis of Texts, Document, and E-research Material
*Organizational documents* are available within most organisations such as annual reports, mission statement, reports to shareholders, and transcripts of chief executives speeches, press release, advertisements and public-relations material in printed form and on the Web (Alan Bryman, 2011, p. 550). These SSAB Annual reports 2011 in clouding the financial reports, press release 2012, HWP catalogues and instructions, sale weekly reports, internal conferences for the franchising project and SSAB webpage are the underlying information and materials for the presentation part, the empirical finding par and the analysis and suggestion part in the research.

*Public document* provide the source of a great deal of information of potential significant for business researcher. It produces a large amount of statistical information (Alan Bryman, 2011, p. 548). Because of the research theme relating the international marketing development in China, there was a range of statistical data, which was assembled, for instance; the economic growth in China, business culture phenomena, the investments in mining, quarrying, constructions industries and recycling, as well as the regulations of franchising model by the Chinese government. However, these considerably relevant public documents were compiled for assessing the environmental factors, if they enabled to provide a good condition for the HWP international market expansion in China. These public documents were mostly collected via internet, for instance, The World Bank Group, National Bureau of Statistics of China and China Stats Government etc.

*Websites Study* of the relevant webpage as objects of analysis (Alan Bryman, 2011, p. 649) and there were variations of the relevant virtual documents of the other organisations’ Webpages.
had been collected in order to gather multidimensional material for the research. Likely, there were the World Bank, Mining Organisation in China and China State Council etc. Virtual document that appear on the internet where make it a likely source of document for both quantities and quality data analysis (Alan Bryman, 2011, p. 557). Similarly, online email communications with SSAB in Sweden, APAC Division and HWP Section in China had been used efficiently for the research, for instance the online interviewing with Executive Vice President of APAC Division who was difficult to get the face-to-face interview or telephone interview, but through the e-communication, it has done perfectly.

Twenty-three professional articles related the internationalization theories were selected via the MDH’s internet searching system to be the theoretical and analytical frameworks. The MDH library became one of the searching channels as well to help finding the right literatures for the references. The literatures of Professional Marketing, Business Research Methods, International Marketing and Research and Writing a Dissertation by a number of the writers shown in the list of references and sources, were the essential theories for the empirical finding, the analysis and suggestion and the conclusion in the research.

6.4 Source Criticism
Confidentiality agreements to define what type of information can be publish in the research and without permission, the underlying material do owed to pass to the third party (Alan Bryman, 2011, p. 130) and it is one of the ethics in business research. The research has certainly a confidentiality agreement with SSAB, which mean there are several internal organization documents, which cannot publish or attach in appendices without SSAB permission. Consequently, it may expose the facts limitations in the research.

Because the physical distances between Sweden and China, beside a lack of pre-marketing research in China from SSAB, it will be difficult to get the adequate information and data, consequently, it may affect the assessments of the research.
7. EMPIRICAL FINDING

Review of the presentations of SSAB, APAC and HWP in the foregoing chapter 2 and 3, SSAB constitutes today a multinational corporation (MNC) by its widespread extensive business network throughout three dynamic business areas: EMEA, Americas, and APAC covering 45 countries in the world. The mutual business relationships with internal and external actors in the business network have contributed significantly to the business performance and positive results. According to the annual report 2011, the SSAB sales reached 44,640 million SEK. The HWP Global consists of 106 members, eight of them are wholly owned production subsidiaries by SSAB and 98 are licenses or franchises by independent entrepreneurs in different industries and countries globally (Anderson, June 2012). Accordingly, SSAB has already reached the highest level of commitment to the foreign markets and obtained a vast knowledge of the internationalization/globalization. A long-term mutual benefit together with these actors in different regions is the strategy of making the commitment by SSAB top leaders. Today, SSAB has even higher ambitions to expand by 20 to 30 more wholly owned subsidiaries or franchises into the international markets in three years to 2015, especially emphasizing on the Chinese market (Anderson, 2012).

7.1 Franchising as an Entry Model in China

7.1.1 Efficiency Seeking or Market Seeking Strategy
In 2007, the strategy of building up the APAC division within a research and production facility in Kunshan, China was to establish a strong footprint in Asia. The wholly owned production subsidiary includes the production, an R&D centre and a HWP section, which are being led by the APAC division (see figure 2 in chapter 2). The total investment of the production subsidiary containing the R&D centre and two finishing lines (K1 and K2) has amounted to over 300 million SEK since 2007. The product segments have been mainly focused on Weldox and Hardox plate, so in 2011, the sales score reached 6% of the Group’s total Sales (44,640 million SEK) and the proportion of employees was 2% of the whole group employees (9 000 employees) (AB, 2011). It showed a limited share of the group’s results. The HWP section is the first member of HWP in China and presently consists of five engineers who are responsible for the HWP sales on the Chinese market. The target market has been strategically concentrated on the cement industry (Observation, Sep 25-26 2012). Since January 2012, a customer base has been built up within a number of the contract- and potential customers (Survey, 2012), but the sales score is unpredicted low. Currently, there is no specific plan for the HWP expanding outside Kunshan. (Qiu, Sep 2012)

The director of the APAC division has an ambition to expand business on the Chinese market, which is the biggest market in Asia. The APAC division is expected to account for 20% of SSAB’s total output of niche products and continue expanding its local organization by the investments to honour its long-standing commitment to the China market (Release, 2010).
Obviously, the **efficiency seeking** (Cateora, 2010) is the clear strategy, which is utilized today when the APAC division is making its decision on the commitment to the Chinese market.

On the other hand, the leaders of the HWP Global in Sweden have acknowledged that China is the single largest potential market in the world for the HWP product and services, and have a high ambition to expand the HWP in China (Anderson, 2012). Certainly, the biggest challenge of the HWP international market expansion is the macro-strategy decision (Stenstrom, 2012) and it is necessary to run the HWP in a commercial model with a high independence and unique identity (Fenwei Su, Sep, 6 2012). The **market seeking** (Cateora, 2010) is the coherent strategy of the HWP international market expansion in China. Therefore, five professionals in the HWP global approached the franchising concept in June 2012. (Observation, Sep 25-26 2012) The HWP’s target market and product segments are aftermarket business for mining, quarrying, recycling, raw material industry and construction industries in China. Hence, the franchisees or members with their wear part products and services will be located where industries require. (Anderson, June 2012)

### 7.1.2 Business-to-Business Franchising Concept Entry Model

The rationale behind the Business-to-Business Franchising Concept is clearly recognizable:
First, the declining economic growth in both Europe and the United States influences SSAB’s production and sales score negatively. Second, the investment in developing franchises is lower than establishing wholly owned production subsidiaries, but SSAB has still some degree of control by the ties of relationships and economic bonding. Finally, the contemporary China has constantly a strong economic growth and the government has invested billions of RMB in the infrastructure, energy and raw material industries relating to most of the HWP product segments illustrated in section 7.3.1. The sales performance of the HWP section has remained unexpected low in a basic developing phase and it will take time to expand on the Chinese market. A panel in the HWP unit in Sweden (see figure 2 in chapter 2) considers that the successful business model in the EMEA business area can be referred to as a good example to China. It is as well as a good timing to the implement this project in China now, thus the subsidiary in Kunshan can become the first Flagship Store.

#### 7.1.2.1 Franchise Contract

The master franchise agreement is the most inclusive agreement and the method most used in the International franchises (Lee, 2004). A twenty years franchise contract between SSAB and the franchisee, which is similar to the master franchise agreement will be made. The franchise contract gives the franchisee the rights to a geographical sales territory of 50 to 100 km promote to their HWP products and services to end-users, except establishing further sub franchises. In addition, there are several essential requirements from SSAB to the franchisees who should be met and the franchisees profiles are for instance, a strong business background with special emphasis on aftermarket sales, industry understanding and financial management. The franchisees or members will be willing to work hard and concentrate exclusively on the challenge of operating the HWP Centres. (Anderson, May 2012)
7.1.2.2 Three Franchise Structures

It is planned to take a decade to build up the HWP centre within a cluster of franchisees or members who can be a wholly owned subsidiary, a master franchising agreement enterprise or an independent company in China. The vision of the HWP franchising concept is to provide the opportunities for the entrepreneurs in China to own their businesses with support of SSAB’s franchising system gradually becomes a successful franchisee which hundreds of end-users. It will take over two decades to form a HWP national business network in China. However, the team plans to start up at least 10 franchisees at the beginning of the implementation during the first year. (Anderson, May 2012)

7.1.2.3 Franchises Extensive Network Context

The Business Format Franchise (Eroglu, 1998) and Manufacturing Franchise (Carrie, 1998) have been adopted for the franchise concept with several technical and practical components for the further implementation. Because of the business confidence policy in SSAB, these “Fours-Facts contexts” will not be shown in detail. The whole package of support is certainly being given by SSAB to the franchisees, for instance training, marketing, equipment leasing and IT-support. In addition, there are four phases for the implementation of Franchising displayed in figure 10: Pre-start, Build-up Business, Production Start-up and Up Running and Sales, which will stretch over two to three years. The first phase of Pre-start contains the tasks such as marketing, open invitation, headhunting, evaluation, finalizing contract and training. The second phase will be Build-up Business, which encloses company start-up, supply setup, intensive field sales work by the commission and regular reviews etc. The third phase is Production Start-up, which includes recruitment, machine & real estate leasing contracts, inventory and marketing. The final phase is Up running & Sales will be the full operation phase, which emphasizes franchisees training, contribution and achievement on the Chinese market. (Anderson, June 2012)

Figure 10: Four phases for the implementations of Franchising, Own & inspired by (Anderson, June 2012)

7.1.3 Learning China’s Regulation on the Franchises

Due to the franchising concept of SSAB will be performed in China, the strict implementation of the Chinese law and regulation is obligatory. Laws governing business activities within and between countries are an integral part of the legal environment of international marketing (Cateora, 2010, p. 133). The China first rudimentary franchise law was signalled by the government in 1997 and since then franchising as method of business operation has been used by both the local and foreign companies to access a wide range of industry sectors (Zhiqiong June Wang, 2008). For promoting the healthy and orderly development of commercial franchise industry and maintaining the market order, the Regulation on the Administration of Commercial Franchises in “appendix 4” (Council, 2007) was adopted at the 167th executive meeting of the Chinese State Council on January 31, 2007, hereby promulgated and shall come into force as of May 1, 2007 (Council, 2012).
The regulation of the administration of commercial franchises have strictly regulated the importance of signing franchise agreement so-called contract in Article 3, 8, 11 and 13. Article 7 and 14 have emphasized the franchises model shall provide long-term business guidance, technical support, business training and other services to the franchisee. (Council, 2012). If SSAB’s franchising concept will be implemented in China, it will have to make a few adjustments to adapt to the regulations’ clauses and follow the procedures. However, China has a positive development of the franchises, which shows that 70% of the top 20 franchisors in terms of worldwide sales, and 36% of the top 200 franchisors have already entered China (Zhiqiong June Wang, 2008). Overall, it provides a good condition for the franchising concept as an entry model to China.

7.2 Transfer of Knowledge between the HWP Unit and HWP Section

Outside the APAC business area, the sales performances have been strong and successful. According to the Annual report 2011, the sales of EMEA and AMERICAS business areas reached 78% of the group’s total sales, and the proportions of employees remained 89% of the whole group which showed the vital roles of SSAB international business (AB, 2011). The extensive network contains 91.5% of the total members (Wearparts, 2009). Inside SSAB, a MNC extensive business network consisting of multi-units is connecting to each other, and linking by the knowledge and experiences transfers intensively and daily. The transfer of knowledge and experiences is the tie strength deeply embedded in the business network where an associative learning is involving among the different units. However, during the pre-work of the research and the participation in the franchising project since September, an apparent lack of transfer of knowledge and experiences within the HWP business network has been observed, particularly from the HWP unit in Sweden to the HWP section in China. Four phenomena are showing that the transfer of knowledge is apparently being hindered somewhere and somehow.

7.2.1 Technical Support Transfer

The HWP section has performed its sales activities in China without any complete technical catalogue from EMEA or Americas since Jan 2012. The sales engineers have no adequate material in hand to show the potential customers when they perform their sales activities in their territories. Consequently, the target market (the potential customers) cannot be able to clearly acknowledge the context of the HWP products and the value-added services, that leads to difficulties in convincing the potential customers to make the purchase decisions (Brion, Sep 2012). Moreover, the HWP section must create by itself an Application Library for the potential customers. It takes three to six months period together with the R&D centre in China to make the drawings, produce and test the prototypes and calculate the results. (Qiu, Sep 2012) Thus, the uncertainty of the HWP performance is nakely shown to the potential customers. “It is no sense to talk about trust with the customers at the first meeting”, stated the sales engineers. The sales manager of the HWP section has recognized this situation and made the report to the leaders several times, but it seems like the problem had not been solved. (Observation, Sep. 27-28 2012). Right now, the HWP unit in Sweden is on going to arrange a technical catalogue of the HWP applications and it will be ready before 2013 (Stenstrom, 2012).
There is not only lack of a technical catalogue, but also lack of a HWP own homepage adapted to the local product segments and in Chinese language, where the customers can be able to learn and understand the HWP directly (Observation, Sep. 27-28 2012). Homepages are the most efficient internet facilities that could exhibit the HWP products and services intensively for the target market today. However, it is an additional issue of knowledge transfer from the HWP unit to the HWP section and forward to the end-users.

7.2.2 Customers’ References Transfer
As mentioned before, the HWP extensive network contains over one hundred international members who are providing products and services for their Business-to-Business customers covering 45 countries regularly. There are certainly plenty of customer references, which could be valuable sources for the HWP section’s sales activities in China, for instance, Stena Recycling, F.L. Smidt in the cement industry and TEREX in the construction equipment. If the potential customers in China knew about those customers who are fully satisfied with the HWP on the international markets, they would surely be encouraged to speed up their purchase processes. Nevertheless, there are surprisingly not any customer references, which the HWP section can refer to for its potential customers as both technical and empirical evidences. The manager and sales engineers in China require some customer references from the EMEA business area, but it will take time. (Observation, Sep 25-26 2012) (Observation, Sep. 27-28 2012)

7.2.3 Transfer of Market Development Strategy
According to the Annual report 2011, the sales score of EMEA reached 40% of the group’s total sales, and the proportion of employees was 74% of the whole group, which showed a major role of SSAB international business. (AB, 2011) Back into the beginning of the EMEA internationalization process, the business strategy was to start with building up the profound database of the regions’ economic developments, the local industry growths and the target markets. After the market research by the HWP team, the mining industry was chosen as the primary target segment for the EMEA market expansion. (Lindh, 2012) (Anderson, 2012) (Lowgren, 2012) Today, the EMEA is playing an essential role in the SSAB group, but these valuable marketing development strategy and experiences have barely been transferred to the HWP section in China. In Jan 2012 when the HWP section began its business in China, the HWP section made the decision to focus on the cement industry as a primary segment (Qiu, 2012) without any extensive marketing research (Tony Qiu, Sep. 6 2012). As a result, the customer demand is low, merely in the cement industry and the HWP sales result is negative. However, the professionals in the HWP unit in Sweden consider that the HWP section should focus on the mining and construction industries where the strong technical advantages of the HWP can be benefited of (Lindh, 2012).

7.2.4 Transfer of Sales Skills and Experiences
A cluster of sales engineers who have considerable experiences of performing the sales of HWP in the EMEA business area, are achieving theirs sales targets, fulfilling the target market requirements, and maintaining the customers’ relationships professionally (Lowgren, 2012). Conversely, the HWP sales engineers in the APAC division are new with approximately one-
year working experience and some of them lack experiences in performing sales. Moreover, it is difficult to attract experienced people into the HWP section (Fenwei Su, Sep. 6 2012) and every two years some talents leave the organisation (Qiu, 2012). The major issue is the low compensation and encouragement (Qiu, 2012), thus, the sales performance is relatively poor. During the half year since the HWP section started, the sales engineers have not received any internal technical- or business educational training by either the APAC division or SSAB in Sweden. If these sales engineers were dispatched to Sweden for training, they would get a great opportunity to learn from the professionals in the HWP unit and directly communicate with them. Moreover, both sides of the sales engineers are enabled to exchange the knowledge and experiences (Lowgren, 2012) (Qiu, 2012). “We have no particular talent person right now for this franchising task in APAC,” declared the director of the APAC Division (Observation, Sep 25-26 2012). This becomes another barrier to implement the franchising project. SSAB needs to recruit a person who has not only the ability to develop the markets, but also a better understanding of the international market expansion strategy and the local business culture.

7.3 Learning Market Demands & Business Culture in the Chinese Market Networks

When the APAC division, the production subsidiary and the HWP section established its organization and business in China, the leaders and managers should consider a completely new business environment and a new local business network. The psychological and physical distance between Sweden and China was not only the issue of the SSAB commitment to the Chinese market, but also the range of the new actors who constructed the outsider-ship networks in China was the root of uncertainty of constituting the internationalization. So that learning and commitment building should take place in the business relationships (Vahlne, 2009).

7.3.1 Learning Market Demand

Without any extensive marketing research on the market demand or analysis of the target markets in China (Tony Qiu, Sep. 6 2012), the market demand of the potential customers (target market) for the HWP products and services have been assumed to be the companies in cement industry as the initial target market focus (Qiu, 2012). The rationale behind this sales strategy is reasonable because 1) there are more than 6500 plants, which are located mainly in eight provinces where the buildings are and constructed. 2) Over 90% of the companies are owned by private enterprises, which mean it is easy to find the information and get in contact with the decision-makers. 3) By visiting almost 200 potential customers, the HWP sales engineers enable to gain first-hand working experiences, which is an advantage for the business start-up. (Tony Qiu, Sep. 6 2012). Four sales engineers have visited nearly 200 potential customers covering eight provinces since Jan 2012, but there are just a few per cent of the visiting customers who have made the contracts with the HWP section (Survey, 2012). “Finding the right market demand for HWP product segments, is the essential issue of starting the franchising project in China (Stenstrom, 2012)”, considers the professional in HWP Unit, Sweden.
Inside China, the whole country economic GDP growth is constantly strong by 9.2% providing a leading position in the world. In the next five years, the Chinese government will finance billions of RMB in the management of energy resource, environment, public facilities, mining, construction and transportation (P.R.C., 2012), which are the fundamental forces driving the Chinese economic development going forward by the government policy. In fact, these massive investments in the sectors and industries are straightly associated with the HWP product segments and services. According to the official statistic, in table 1, the government has since Jan 2012 invested in four main sectors. Especially, the coal mining output is 2800 million ton and the large and medium tractor output is 284387 sets in 2012 (P.R.C., 2012). These public spending and monetary policy by the Chinese government have the direct impact on the market demands. “If the HWP section can catch a part of these business investments, it will be a profitable success in market expansion in China”, anticipated the leader of the HWP global. (Observation, Sep 25-26 2012).

(100 million RMB)

<table>
<thead>
<tr>
<th>Rank- ing</th>
<th>Main Sectors</th>
<th>Some of the Sub-sectors</th>
<th>Accumulated investment</th>
<th>Growth Rate over Previous year 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>Transportation, Storage and Post</td>
<td>Railway Transport, Road Transport, Water transport, Air Transport, Pipeline transportation and Storage (Large and Medium tractor output: 284387 set)</td>
<td>22817.91</td>
<td>8.6%</td>
</tr>
<tr>
<td>3</td>
<td>Mining</td>
<td>Mining and Washing of Coal (Coal mining output: 2800 million ton in 2012) Extraction of Petroleum &amp; Natural Gas Mining and Processing of Ferrous Metal Ores, Non-Ferrous Metal Ores, Non-metal Ores.</td>
<td>10057.47</td>
<td>14.7%</td>
</tr>
<tr>
<td>4</td>
<td>Construction</td>
<td></td>
<td>3367.38</td>
<td>16.3%</td>
</tr>
</tbody>
</table>

Table 1: The investment in Fixed Assets by Industry in 2012, Own & inspired by (P.R.C., 2012)

Regarding table 2 in the following, it illustrates four main enterprise groups in the construction, energy, mining & quarrying, and recycling industries. Surely, there are many potential franchisees or end-users within these groups for the HWP products and services in the next five years. The recycling industry is a new segment with a rapid growth in China and mainly it develops in urban areas. There are today 8000 enterprises, which are driving the business in three major cities, Shanghai, Beijing and Guangdong. Totally, there are 227 000 construction’s enterprises in China, 4% of them owned by the state and 68% are private investments. By contrast, there are 94 000 mining & quarrying enterprises, nearly 90% of the big-sized mining enterprises are owned by the state or the collective corporations of the local communities. (China, 2009).
Table 2: The Enterprises in Construction, Energy, Mining & Quarrying, and Recycling Industries
Own & inspired by (China, 2009)

The World Bank is a useful source of gathering the sectors and on-going projects in China that the HWP section can use for its marketing research and analysis. Figure 11 shows the geographical territories of three major investments in China 2012 (Bank, 2012).

No1 Investment in transportation sectors and enterprises locate in Guangxi, Yunnan, Guizhou, Anhui and Fujian provinces; No 2 Investment in management of water environment industry places in Zhejiang, Liaoning and Sichuan province; No 3 Investment in mining and quarrying sectors and enterprises is designated in Shandong, Sichuan and Guangxi provinces. The provinces can be found in the geographical map of China.
7.3.2 Learning Business Culture

In fact, the executive vice president and director of the APAC business area is a Chinese – Swedish who has over 10 years working experience in both production and research of primary steels in SSAB. In addition, the director was educated engineer in metallurgy at universities in both China and Sweden. In 90s, he took a PhD from the Royal Institute of Technology in Stockholm. (AB, 2011) By understanding and speaking Chinese, Swedish and English, the director has a good language skill in communications with the Chinese and the Swedish in SSAB. Hence, the director he enables to learn the business culture easily. There are over 90% of the employees are recruited the local people who enable to understand the local business.

The wholly owned production subsidiary is located inside the Kunshan, National Hi-Tech Industrial Development Zone where providing a healthy business environment for the foreign companies. There are also several transport-facilities stretching from Kunshan to Shanghai and Nanjing, for instance, high-speed trains, airplanes and high ways construct a well functional transport network connecting the many towns and cities. The general conditions in Kunshan can attract people to work for the firm. (Government, 2012)

Maintaining the business relationships with the local actors and enterprises have not been observed during the research. However, the APAC division including the HWP section has strictly followed the SSAB´s norms and rules, for instance, the gifts to the customers should not cost over 300 RMB. Obviously, this value of the gifts is not enough to some of the decision-makers who actually want more “personal compensations, building up Guan xi” for making the final business deal with the HWP section. The sales engineers consider it is a “trade barrier” for the business success and do not how it can be handled (Brion, Sep 2012).

As described in the theoretical and analytical framework, Guan xi is considered the Chinese version of the business relationship, which is the key determinant for a successful business in China. The major benefits of Guan xi in the business process in China are identified as the follows: 1) it helps to obtain information on government policies, market trends, and business opportunities. 2) Given the benefit of more information, it helps business partners to reduce uncertainty. 3) It improves efficiency, saves time and eases the procurement of necessary production resources (e.g. government licences, utilities and local supplies of labour and materials). There are also some disadvantages of Guan xi for the firm’s internationalization. The major disadvantages are the major barrier hindering outsider ships, as a substitute to the law and legal contracts, as well as perceived as being the extra time and cost for the company. (Woo, 1998)

7.4 The HWP’s Position-building in the Business Network

7.4.1 The HWP Section Position-building in the Chinese Market Networks

SSAB is a leading manufacturer of high strength and quenched steels in the world that states the SSAB position on the international markets. The HWP is providing the total solutions by high quality wear-resistant steel, value-added services, logistics, technical supports and corporate image for the customers and end-users that note the HWP position in its business
network. (AB, 2011) Unfortunately, this position context has not been constituted to the HWP section in the Chinese market network (Observation, Sep 25-26 2012) (Observation, Sep. 27-28 2012). For example, when the sales engineers in the HWP section visited the potential customers, nearly 90% of them did not recognize SSAB or HWP (Brion, Sep 2012) (regarding the surveys, there was 60%). It was obviously difficult to put the trust in the customers´ mind at the beginning. These potential customers also wondered why the HWP price was much higher than the other suppliers were. Another example, when the HWP section decided to focus on the mining industries, the manager of the HWP section just gave a list of the companies´ name to the sales engineers for calling and arranging meeting with those listed customers. There was definitely not any strategy of the HWP going into the mining business networks by position building in the customers´ existing business relationships before the sales takes action. (Observation, Sep. 27-28 2012)

7.4.2 The HWP Products and Services´ Positioning in Target Market
The HWP is one of the SSAB brands and it displays a name with red colour (see figure 1 in chapter 2) and it has been registered in Chinese language by the wholly owned manufacturing subsidiary in Kunshan, (Tengroth, 2012). The HWP section is using the same brand.

“We have no particular marketing strategy for the HWP brand and positioning in China, we will improve that in 2013” stated the manager of the HWP Marketing during the meeting in Kunshan (Observation, Sep 25-26 2012). The macro marketing strategy is performed by SSAB headquarter in Stockholm (Tengroth, 2012). However, there is tactical marketing strategy performed mainly through the Bauma exhibitions, which is organized every two years in Shanghai, and Munich holds it every three years in Munich (Anon., 2012). The HWP section takes a part of the SSAB booth together with the other product brands. There is not any known particular marketing method performed to attract the existing- and potential customers to visit the HWP´s part of booth in Shanghai, besides, no extra promotion or visibility messages and is performed during the exhibitions. (Anderson, 2012)

Today, there is no particular competitor against the HWP on the Chinese market, thanks to the HWP core capabilities, like easy to bend form, to weld, light to carry more with less fuel, wear accumulation limitation, besides a long lifecycle (Lindh, 2012). However, there are some fake HWP sold on the market, which has been detected by the sales engineers when they visited the customers. (Qiu, W28 2012) This substitute of the HWP is caused both the juridical and sales problem for SSAB and the HWP performance on the Chinese market.

In fact, the HWP position building in the Chinese market networks to the left considerably varies from the HWP products and services positioning in the target markets to the right, illustrated in figure 12 that should be defined.
Figure 12:
Position-building in Chinese market networks v. Products and services positioning in target markets

Own
8. ANALYSIS AND SUGGESTIONS

8.1 Franchising, an Appropriate Model for HWP in China

According to with the context of empirical finding, it has been shown that SSAB has already achieved the highest level of commitment to the foreign markets and developed an extensive business network embedded in mutual business relationships with a cluster of internal and external actors throughout the world. However, this business network context of internationalization has obviously not been allocated to the APAC division and the HWP section in China.

By employing the efficiency seeking strategy on its commitment to the Chinese market since 2007, the APAC division including the HWP section remains a basic organization structure and stays in an initial business-developing phase after five years of running the business in China. Particularly, the HWP section has not entered any of the local cement or mining industries’ business networks, which embed in the intensive business relationships between those actors and industries. Moreover, the HWP section has limited experiences and knowledge of doing business with those related enterprises.

Because using the efficiency seeking strategy requires a huge capital investment in the equipment, facilities and human resources, SSAB has already financed several millions of SEK in the production lines, R&D centre and administration in China. Nevertheless, the resulting market success in the targeted segments is limited, in which the internationalization process emerges slowly. Furthermore, the investments in production and R&D centre should match with an equal investment in local human resources. However, for several years, a lack of personnel’s competence development in China has been the major issue for the APAC division and it will continue to take time and make plenty of efforts to recruit, train and retain the personnel’s competences. Consequently, it has also negatively affected the APAC/ HWP market expansion in China. If HWP will persist with its international market expansion in China, the efficiency seeking will be an inappropriate strategy to implement.

On the other hand, the Chinese economy has been strongly growing and the Chinese government has financed several billions of RMB in four main sectors and industries in 2012 shown in table 1 and table 2. These sectors and industries are clearly associated with the HWP’s product segments and services, which accordingly prove that the HWP is highly applicable for the Chinese market. If today, the APAC division could emphasise on the HWP’s market expansion, it would provide a great opportunity to advance into the HWP segments, expand the HWP markets, speed up the business-developing phase, enlarge the organization’s structure, and finally enhance the total sales score. Nevertheless, there is no specific decision and plan by the leader of the APAC division for the HWP expanding outside Kunshan. It is time to reconsider the internationalization entry strategy and the choice of applicable product segments for adapting to the Chinese market.
The decision on the international market expansion in China should reflect a profound market research and analysis of the macro economic development, market potential, target market, the HWP’s product capabilities and its advantages before the commitment is made. An overview of SSAB internationalization strategy performance in the EMEA business area over the last decades, the market seeking has been the mostly appropriate strategy on the decisions of commitment to the foreign markets and franchising and licensing has been an efficient model. By infusion of the franchising model, SSAB will invest less in the franchisees or entrepreneurs than in the production subsidiary, but SSAB still has the degree of control over the partners by the ties of relationships and economic bounding.

Indeed, the implementation of the franchising concept has been taken into full consideration for the China’s market potential, target market and HWP’s capabilities (whole package of solution to the local market networks for a long-term mutual benefit). The rationale behind the franchising concept is clearly recognizable and essential. The target market and product segments (shown in section 7.1.1 in chapter 7) are certainly matching the local industries’ needs (see table 1 and 2). The franchising concept is also appropriate to both the theoretical model and China’s regulation on the franchises: The franchises contract/agreement for twenty years includes the geographical sales territory with the technical-, IT-, financial- and training support. Two of the franchise structures (wholly SSAB-owned franchise and a master franchising agreement enterprise) are appropriate. There are several requirements of franchisees profiles to be met by the franchisees or entrepreneurs. The designed four-implementation phases of conducting the franchising are reliable, but the marketing research should be emphasized initially. In addition, it is also a good timing to perform the franchising project, because there is a positive and healthy development of the franchises in China right now and the Chinese government is opening up good opportunities for the foreign companies to enter into China by the franchise model. Timing is the key factor in doing business in China.

If the subsidiary in Kunshan becomes the first flagship store of the HWP franchise, the organization structure will be re-constructed (see further analysis 8.2 and figure 13 and 15 illustrations) and the product segments re-considered (see further analysis 8.3) by the researcher’s suggestions. For the implementation of the franchising project, building up a strong team is required and the team should be located in China. The team’s essential task is firstly, to conduct a profound market research on four main sectors, enterprises and industries shown in table 1 and 2 for assessing the right starting product segments and target markets. Secondly, to focus on these selected sectors and industries and try to enter their business networks, gain knowledge, and build up relationships before engaging in any sales activities. Thirdly, start to establish 1-3 franchises from the same market network in 2013 and strictly follow every article of the China’s regulation, because of several stringent entry requirements for the implementation franchise.

There are six franchisees, which can be established at the beginning of the phase during two years according to the market demands finding. The geographical territories of industries and sectors and the future franchisees locations are given in figure 11 in Chapter 7.
These six franchisees should be developed where the related sectors, industries or enterprises are located: Two franchisees in management of water environment industry can be possibly placed in Zhejiang, Liaoning or Sichuan provinces. Two franchisees in transportation sector can be chosen in Guangxi, Yunnan, Guizhou, Anhui or Fujian provinces. One franchisee in recycling sector can be selected in Shanghai or Guangdong areas. One to two in mining and quarrying sector may be designated in Shandong, Sichuan or Guangxi provinces. These future franchisees can be the insider ships/enterprises in the corresponding industry networks and the outsider ships/individual entrepreneurs. Regardless of the different backgrounds or franchise contracts, the learning relationships in the business networks are essential in order to build up the trusts and develop the loyalties for the long-term benefits with the franchisees in China. The future six franchisees will be located where the end-users have projects.

8.2 Transfer of Knowledge within the HWP Global
SSAB’s extensive business network consists of the multi-units, which are connecting to each other and linking by the knowledge and experiences that transfer intensively and daily. These transfers of knowledge and experiences mainly comprise the technical support, the customers’ references, the market development strategy and the sales skills and experiences, which in fact are the valuable resources to the business networks performances. However, during three months research, an apparent lack of transfer of knowledge and experiences between the HWP unit in Sweden and the HWP section in China has been detected.

The rationale behind these four phenomena is the matrix-organisation with a complex organization structure by both geographical business areas divisions and the functional divisions. The decentralized coordination and horizontal communication methods inside the MNC have been crossed over different units that made the flows and conflicts. (Randolph, Jun 1992) (Holm, 1993). The main disadvantages of SSAB’s matrix organization are observed during the research 1) easily creates own power protection and hindrance of flows with the other units, 2) the horizontal communication is not efficient and more focus on discussions than taking actions, and 3) inability to respond quickly enough to the rapidly changing demands of the multinational environment in China. (Observation, Sep 25-26 2012) In addition, the position of the HWP section in the knowledge network is low which affects the HWP section’s performance. The several empirical finding shows it takes a long time to get things done from the report to the decision and the actions.

The direct negative consequences of the lack of knowledge transfer demonstrate that:
- It influences straight the customers´ purchase processes and delays the decision-makings.
- It is difficult to build up the trust with the potential customers in the local business networks.
- The HWP section can hardly advance SSAB’s business network view and its business relationship on the Chinese market.
• Without any profound market research learning, the HWP section has been focused on the wrong target segment, the cement industry for nearly one year which resulting in lost markets and high costs. Conversely, the construction and mining industries would be focused in the beginning.
• The sales engineers have low sales skills and experiences to achieve the high sales ambitions and scores that affect the employees’ loyalty to SSAB negatively; as a result, it is difficult to retain experienced people in the HWP section in China.

Whether SSAB is planning to enhance the HWP section’s position as the first flagship store for the franchises or implement the franchising project in 2013, the suggestion is that the current HWP section’s structure should be re-organized to an individual unit under the HWP global leadership. The purpose of re-organizing is to remove the hindrances and increase the flows of transfer of knowledge within the HWP global.

To begin with, the HWP section restructures under the HWP global and named “HWP China” (henceforth referred to as the HWP China unit) shown in figure 13.

**Figure 13: The re-constructed HWP China, Own**

The HWP China unit should get a parallel position to the HWP unit in Sweden to create a knowledge network of inter-units. Two units link to each other and coordinate through processes of knowledge transfer and resource sharing. By linking two units together direct, the HWP global can provide a flexible learning condition and an unobstructed flow of knowledge.

Secondly, the transfer of knowledge and experiences between the professionals in the HWP section in China and the HWP unit in Sweden will be improved by interpersonal connection (McEvily, 2003) with each other, exchanging technical support, customers’ demands and marketing information and strategy intensively and daily without any hindrances. It is illustrated in figure 14. The HWP global can make decisions without any difficulties to send Chinese engineers to Sweden for a short-term technical or business educational training. It is conceived as awarding compensation to the sales engineers in order to encourage their learning and willingness.

Thirdly, the engineers from both sides can jointly design the HWP’s technical catalogue and new homepage in Chinese language better adapted to the local market networks.
Finally, an investment needs to be made in the new HWP China unit. This will empower the unit to recruit people for building up a strong team to develop the franchises and perform the sales illustrated in figure 15.

The HWP China unit could consist of one head officer and three managers. The Head of the HWP China unit would be responsible for the HWP’s marketing development strategy, franchising implementation, the HWP position building in the local business networks. This “visionary” would have a better understanding of the international marketing perspective and the local business cultures and language. The Marketing Manager would be mainly responsible for 1) marketing research for finding and learning the market demands, and 2) helping to implement the franchisees project. The Sales Manager would be responsible for the sales activities for HWP in China and provided the technical and training support to the franchisees. The production can use the existing facilities in Kunshan and the administration may cooperate with the support section in the APAC division. The location of the HWP China unit is recommended to be placed in a big city where nears Kunshan and has a high attraction of recruiting the professionals has.
Overall, the definite advantages of re-constructing the HWP section into the HWP China unit are to reduce the time, effort and costs for SSAB, to create the healthy transfer of knowledge flows between the professionals and to speed up the franchising project. The convincing rationales behind this re-structure are 1) the geographical size of China is bigger than Europe. 2) The China’s economic growth and the industry developments have the leading position in the world. 3) The potential capacity of the local market is higher than any other countries. 4) The governmental industry and monetary policies in China have the huge impact on four main sectors in next five years in China where the HWP has a good chance to capture the markets.

8.3 Market Demand and Business Culture Learning

The significantly good results for the HWP business in EMEA business area came after the intensive market demand learning. However, the experience of market demand learning has not transferred yet to the sales manager and engineers in the HWP section, China. During almost one year, the HWP section has performed its sales activities in the cement industry without any thoroughgoing market demand research and analysis. As a result, the sales performance is poor, although they have visited nearly 200 potential customers covering eight provinces and struggled to arrange the application libraries for the customers. The learning of the local market demands should take place in China today.

During the research, the profound data on four main sectors and industries have been collected in table 1 and table 2 though a variation of channels. Due to the global environmental issues, the Chinese government has essentially enhanced the focus on improving a better environment for the country and people. Therefore, 2313 billion RMB has already allocated for management of water conservation, environment and public facilities. This is the biggest investment of the four main sectors. The second largest investment is in the transportation and storage, for instance, railway, road, pipeline, and storage by 2282 billion RMB including tractor output. Because the recycling industry is strongly related to the resource re-using and the environmental protection projects, it has rapidly grown in three major cities: Shanghai, Beijing and Guangdong. These above-mentioned investments in 2012 have a direct impact on the level of the market demands, which are evidently related to the HWP product segments and its services. If the HWP section could get a bit of this business, it would be a profitable success for the HWP market expansion in China. However, the HWP section has the selected the cement industry, as the initial market segment and now is trying to work on the mining industry. If the HWP section would start to focus on the mining industry, the market demands research should prove with data that this would be the preferred sector to focus on.

The priority for focused market segments are 1) management of water sectors conservancy, environment and public facilities, 2) transportation, 3) construction, and 4) recycling and processing sectors. This is based on the amount of investments, the number of enterprises and the degree of private ownership. The mining and quarrying sectors have the second priority for the market segments, because the government owns the majority, and its projects spread far away from the urban areas in term of increasing the transport costs. Definitely, adopting Guan xi, as the business relationship with the local actors is the initial phase of entering these
business networks, because Guan xi is considered the Chinese version of business relationship, which is the key determinate for a successful business in China. Once HWP passes the gate (Guan), the business connection will be forever (Xi). Even though it will take time and perceives being the extra cost for SSAB, it is worth for the HWP market expansion in China. The leaders of SSAB should learn this new perspective on the business relationship and business culture in China. The suggestion is that SSAB can bring up the social responsibility marketing issues of the HWP globalization in China in order to match the local government environment policy, which easily builds up trust and relationships with the local government or enterprises. Because SSAB offers lighter, stronger and more sustainable steels together with the customers, for instance, the dump truck can carry more loads with less fuel consumption; lengthen lifecycle and less environmental impact.

Another suggestion is that it is available to start HWP with a standardization of 1-3 HWP applications, for instance, the construction equipment: the duty trucks and dump trucks, which are widely used in those four main sectors: the construction, transportation, recycling and mining. Anyway, this suggestion needs the further investigations by the technical professionals in SSAB before any decision-making.

The director of the APAC division is the certainly right person to manager the wholly owned production subsidiary, because he has over 10 years working experiences in the production and research, high engineering skills in the steels, and three language skills. However, by observation of the sales result and customers´ base, it shows that the APAC division needs a visionary to assist the market expansion in China. This visionary should have a better understanding of the international marketing perspective than the high technical skills (see 8.2 refers in detail).

8.4 Building up the HWP´s Position in the Chinese Market Networks
SSAB has stabilized its leading position of manufacturing of high strength and quenched steels on the international markets. The HWP has established its central position in business networks outside China. However, the context of position building in the business network has not been constituted to the Chinese market. There is not any business strategy for the HWP entering into the local market networks. Instead, the single sales action often takes the first place before the HWP section goes into the market networks, learn the relationships and create a long-term mutual benefit together with the actors. Consequently, the HWP´s customers in China do not know any about HWP being the leading brand and its business covering over the world. The sales engineers have experienced serious difficulties in entering the cement and mining industries networks and getting the opportunities with the potential enterprises. According to the result of the contract customer survey, there are just 35.7% customers, who are satisfied with HWP and consider the repurchase. To sum up, the customers´ loyalty is low. If the HWP section emphasized that the HWP provides a total solution to the customers by encompassing the products´ technical, logistical, customer support and corporate image and in the local business networks, it would enhance the reputation, value and competiveness. Furthermore, it is to increase the sales and customers´ loyalty and surmount the fakes or copies.
The HWP certainly needs to identify its competitiveness in the local business networks in China.

In fact, there is not any particular marketing strategy for either the HWP’s brand or the positioning in target market (customers) in China. The only channel for presenting HWP is the participation in the Bauma exhibitions. Because of the unknown brand in the Chinese market networks, the sales engineers have difficult problems to get contact with the potential enterprises. Consequently, a lack of HWP positioning in the target markets has deeply affected the HWP business development in China negatively. This circumstance obviously shows that the HWP position building has not achieved, the customers’ brand loyalties has not developed (Survey, 2012), the image has not improved, and the marketing position is indistinguishable. Therefore the HWP’s engineers feel not only it is difficult to improve the sales, but also to deal with the fake HWP as the substitute or competitor to them on the Chinese market.

The position building in the Chinese market networks displayed on the left in figure 12 means that the HWP establishes its business by entering these four existing business networks, which embed the business relationships, to become an actor in the Chinese market networks. The products and services positioning showed on the right in figure 12 means that the HWP provides the high quality with a high price on the target market (customers). By matching the customers’ expectations, the HWP could find the appropriate customer groups for its applications. However, the HWP section has not clearly defined these two aspects; therefore, these business driven indications should be clearly recognized and used for the further market expansion in China.

There are many ways to communicate with the target market and positioning is thus considered a systematic way to find a window into the customer’s mind (Cateora, 2010). The team will formulate a marketing plan with careful considerations for strategy, budget, timetable, communication channels and implementation phases for the next three years (2013 to 2015). In the following, there are several suggestions put forward for the HWP China unit to improve both position building in the Chinese market networks and products and services positioning in the target markets through variations of the marketing activities.

1) To focus on the right market segments through a significant market research initially
2) To participate in the local exhibitions where those four main enterprises often assemble
3) To join the local associations linking those four main sectors business networks
4) To write plenty of articles about HWP in the local professional magazines and newspapers
5) To arrange its own conference 2 to 3 times per year for the loyalty customers and potential customers, the local communities and employees
6) To bring up the social responsibility marketing issue for matching the local government’s environmental policy
7) To invest in outdoor promotions in big cities by emphasizing the social responsibility for improving the sustainable society and industry development
8) To link the HWP homepage with local social media, websites of the industry associations and institutions
These above-suggested marketing performances and activities should be done constantly and consistently at the right time and under the right circumstances in the Chinese market networks. The aim is to establish HWP’s brand awareness and favourable attitude, to achieve HWP being a well-known brand with a high demand by the loyal customers in the Chinese market networks three years from now.


9. CONCLUSION

Reviewing the analysis and suggestions in the previous chapter, an assessment can be made that through significant improvements on four key components/success factors, the franchising concept can be adopted as an applicable model for the HWP international market expansion in China.

The current HWP section in China has a low sales score, poor performance in the Chinese business networks and limited human resource in an initial business-developing phase because of a range of internal- and external factors, which affect its market expansion in China negatively. Through the multi-dimensional perspective of the research, the four major rationales behind those problems and their consequences have been investigated. First, the inappropriate efficiency seeking strategy by the sales section/subsidiary model with a weak position in the knowledge network hindered the HWP market expansion and business developing in China. Second, a lack of transfer of knowledge with the HWP unit in Sweden triggered the HWP’s poor performance of the sales abilities, taking the single sales action before gaining knowledge from the customers in the local business networks, plus a difficulty in getting contracts and building up the trust with the customers. Third, a lack of local market demand learning caused the wrong choice of product segments and target segments. Additionally, a lack of business culture and business relationships learning created a barrier to enter the local business networks. Finally, a lack of position building in the local business networks and positioning of the products and services among the customers affected negatively HWP’s reputation, position, image and customers’ brand loyalty. Overall, it caused a difficulty to identify HWP’s competitiveness in the local business networks.

The market seeking strategy by the infusion of the franchising concept is an appropriate decision for the HWP market expansion in China. This decision-making has taken into full consideration for the China’s economic growth, the government industry and monetary policies, the capacity of the potential market demands and HWP’s capabilities conducting business on the Chinese market. As a conceptual project, the contents of the franchising model by SSAB are appropriate to both the theoretical model and Chinese regulation on the franchises. However, to implement this franchising model in China, it requires several significant improvements on those four key components/success factors, whether the HWP section will become the first flagship store or to develop franchisees. Firstly, to organize a strong team is required and it should be located in China. The team should primarily lead the franchising project and conduct a profound market research on the related main sectors and industries to assess right starting product segments and targeted markets. Secondly, to create a healthy and fee flow of transfer of knowledge between the professionals in China and Sweden by re-organizing the HWP section to the HWP China unit which under the HWP global leader ship is necessary. The investment and empowerment will also be infused into the HWP China unit in order to recruit a strong group to develop franchisees and perform sales. Overall, the aim is to
enhance the internal driving forces for the HWP China unit. Thirdly, the market demand learning will take place before any single sales activities. Through the business culture and business relationships learning, the HWP China unit can be able to adapt itself to the local business networks to obtain long-term benefits. Finally, building up the HWP position in the local market networks and positioning HWP’s product and services in the target market are considerably important because that would contribute to awareness of brand, enhance HWP’s reputation, position and image, building up the mutual relationships with the loyal customers. Overall, it is to improve the HWP’s competitiveness in the local business networks. A marketing plan with strategy, budget, timetable, communication channels and implementation of activities and phases for the next three years is strongly recommended.

To summarize, the four-phases of the implementation in 2013 are suggested and they are displayed in figure 16.

<table>
<thead>
<tr>
<th>Phase</th>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Phase 4</th>
</tr>
</thead>
</table>
| Major Tasks | • Team building  
• HWP section re-organizing inside the HWP Global  
• New market demand learning  
• Position-building in business networks  
• Franchisees developing  
• HWP sales continuing  
• Results evaluation and control  
• Up-running Franchises | • Business culture and several market demands learning during 1-3 years |
| Duration | 6 months | 6 months | 12 months | 12 months |

*Figure 16: The phases of the implementation for the HWP international market expansion in China, Own*

The conclusion of the research is that together with the improvements on four key components/success factors, the franchising concept will be an applicable model for the HWP international market expansion in China.
REFERENCES AND SOURCES

Literature and Journal


**Interviewing**


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Questionaire, (. 1., 2012. The questions on the marketing development in China, for the Franchsing Project in China. Sweden: The researcher.

Release, P., 2010. SSAB establishes a research and development facility in Kunshan, China, Stockholm: SSAB AB.


Public Document and Website


INTERVIEW QUESTIONS

Interview 1 about Global Business Development
Date: 2012-06-29
Location: SSAB in Oxelosund
Attendee: Johan Anderson, Head of Global Business Development

Interview’s subject and its questions:
1. Josefina introduces herself about the study and bachelor thesis, which will be written in autumn.

2. Johan introduces SSAB Company and its history, present business situation in Europa and internalization in several countries.

3. Is SSAB in form of a multinational corporation company (MNC)?

4. How many divisions does SSAB have? In which structure, either division of function´s – or market´s organisation.

5. Does SSAB have any R&D outside Sweden?

6. Where is the head office (HQ) of SSAB?

7. How many countries does SSAB have its investment in form of sales subsidiary, join venture, or wholly owned company?

8. Which kind of product segments is produced in Kunshan, China today?

9. Johan presents the Franchising project which he has done the reach for several months in spring and plan to implement in autumn but don’t know how to start it in China where appears a complex circumstance and situation.
   ● Why do you believe Franchising will be the model?

10. The questions asked by Johan?
    ● Is that possible in China?
    ● Where are the risks and difficulties?
    ● Which academic theories or reach can be convinced that franchising will be one of the alternatives?
    ● Could you take this subject in your thesis?

All the answers will be written and performed in the thesis, with an exception of franchising model in detail.
Interview 2 about Hardox Wearparts Market Development
Date: 2012-07-27
Location: At home of my mother in law in Oxelosund
Attendee: Claes Lowgren, Market Developer at SSAB and my brother in law who introduced me for the project.

Interview and questions:
1. What are your thoughts on if I (Josefina) take franchising project in China for my bachelor thesis in autumn?

2. What does franchising project and idea based on? Moreover, why?

3. What are the major issues of the establishment of franchising in China according to your working experiences?

Some of the answers will be written and appear in the thesis.

Interview 3 about Hardox Wearparts technique and operation
Date: 2012-09-17
Location: SSAB in Oxelosund
Attendee: Mats Lindh, Operations Dev. Hardox Wearparts, SSAB EMEA

Interview and questions:
1. Showing Appendix 1 and asking the question about Hardox Wearparts main product knowledge and functions.

2. Do you believe that China will be an essential future market for Hardox Wearpart’s sales? Why?

3. Where are the essential advantages of Hardox Wearparts?

4. Where are the disadvantages of Hardox Wearparts?

5. Which kind of reasons causes a limited sales scope of Hardox Wearparts today in Kunshan China today?

6. Do Hardox Wearparts have any competitor in China?

7. Do you have any comments about “the limited sales scope” to the sales engineers in China?

8. Do you want me to tell then?

All the answers will be written and appear in the thesis.
Interview 4 about Hardox Wearparts Concept Development
Date: 2012-09-17
Location: SSAB in Oxelosund
Attendee: Jakob Stenström, Concept Development, Hardox Wearparts

Interview and questions:
1. If Hardox Wearparts establishes the franchising in China, which product segments will be focused on at the beginning of phases?
2. What are the major issues for you to concern about when Hardox Wearparts goes in to the Chinese Market?
3. What are the challenges for SSAB?
4. Jacob introduces a new on-going catalogue of Hardox Wearparts for franchising project in China.
   ● When will it be ready?

1 to 3 answers will be written and appear in the thesis with expectation the on-going catalogue (answer 4) is strictly confidential.

Interview 5 about Hardox Wearparts´s Sales situation and scope in China
Date: 2012-09-25-26
Location: SSAB Kunshan, China
Attendee: Tony Qiu, Value Added Service Manager, China SSAB APAC

Interview and questions:
1. How is the customer situation? Existing- and potential customer? Which province?
2. How can you find the customer? Via which marketing channel?
3. Do you have any a completely marketing strategy helping Hardox Wearparts sales in China?
4. Which product segments have been sold mostly? Why?
5. Why did Sales Dep. in China begin the cementer segment?
6. What do you (Tony chief) think about this new franchising project?
7. Is the condition or circumstance ready for this franchising project?

2-7 answers will be the context in the thesis, with exception the customers´ name, location in details.
Telephone combines email interview 6 about marketing Strategy

Date: 2012-10-19
Location: Josefina’s home via telephone and email
Attendee: Christina Tengroth, Quality Control, Library and Information Service
          SSAB EMEA

Interview and questions:
1. What previous strategies did SSAB perform before HWP’s establishment in China?

2. What is the marketing strategy for HWP in China now?

3. Hardox Wearparts brand registration in China?
   ● Which year?
   ● Which product segments?

4. Who is response the marketing strategy for Hardox Wearparts in China?

5. When SSAB hasn’t special strategy for Hardox Wearparts in China, then which channel do
   SSAB use to find customer and build up HWP image and brand in China where has an
   enormously opportunities also the tough competitions?

6. What are SSAB going to do while Hardox Wearparts brand is so weak in China right now?
Appendix 1 the General Research Questions

The questions on the marketing development in China of the Franchising project

My questions will consist of five parts, which will be the underlying knowledge of establishment of franchising in China. These questions will be answered by Kunshan’s front-line, Johan Anderson and the other professionals in Sweden and China. I will also take an initiative to find the answers through different channels and during the business trips to Kunshan, China.

Part 1    Strategy
What is the strategic and tactical marketing development in China?
Since the establishment of SSAB Kunshan in 2007, SSAB has gradually developed its sales, R&D and production in China, besides the company has gained a number of customers over several provinces. However, what is the major strategic marketing development within 1 to 2 years on the Chinese market? What is the tactical marketing development on customers’- and products´ segments?

Part 2    Five-forces of HWP
What are the five-forces of HWP in China? The question contains 4 parts.
I will implement an analysis model called Five-Forces to find where HWP’s target customers, competitors, potential competitors, suppliers and substitute are in china, furthermore to analyse their situation. However, Kunshan front-line may provide these first-hand information in the following.

Where are the existing and potential customers in China?
The sales section in China has worked hard to find HWP target customers (according to HWP Weekly Reports) and they have developed a range of the customer segments e.g. mining and quarrying. I would like to have further information on the existing and potential customers, which will fix a pattern of the market target in China and enables to indicate the further franchising project. As conclusion, I will assess where will establish franchising? How many Franchisers in an area? Which product segment?

Chart 1: The existing and potential customers, design by Josefina.

<table>
<thead>
<tr>
<th>Province</th>
<th>City/Town</th>
<th>Company Name *only name</th>
<th>Branch</th>
<th>Product Segment</th>
<th>Intermediary Customer</th>
<th>End user customer</th>
<th>Buying power in RMB/year</th>
<th>Your assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>e.g.</td>
<td>Shandong</td>
<td>e.g. Qingdao</td>
<td>No detail of address, contact person and so on.</td>
<td>e.g. Cement</td>
<td>e.g. Quarrying</td>
<td>Re-produce then sales towards to their customers</td>
<td>Direct use the HWP product</td>
<td></td>
</tr>
</tbody>
</table>
Your answer can be divided into two groups: one is the existing customers who you have contracts with; the other is the potential customers who you have visited or not visited, are interested in HWP product segments. You can use any IT program to form the questions.

It is important that you will give your opinions and assessments on the customer’s situation *freely*.

**Who are the competitors and the potential competitors in China?**

According to HWP product segment in China, you can select the major competitors on the list. Chart 2: The competitors and potential competitor, design by Josefina.

<table>
<thead>
<tr>
<th>Province</th>
<th>City/Town</th>
<th>Company name and county-of-origin</th>
<th>Product Segment</th>
<th>Capability</th>
<th>Turnover in RMB per year</th>
<th>Your assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It is also very important for me to get your personal assessments and pinions on this competitive situation *freely*.

**How are corporations and business relationship with the suppliers of shipment and local road transport?**

There are already several local road transport and shipping companies which have cooperated with SSAB in China for all the deliveries.

A) Have they supplied an effective and quality work for SSAB’s deliveries? If not, which reasons and problems?

B) Which kind of business relationship and economic ties between SSAB and them?

Please provide at least 5 companies and write your assessments. These facts will be a relevant dimension of where franchising will be located.

**What are the Hardox product segments substitutes?**

According to Tony’s HWP Weekly Reports, SSAB has found some fake HWP products selling on the Chinese market, even to Kunshan’s customer, which means the fake HWP is a substitute to Hardox in China. In Addition, the local brands with low quality and price are also substitutes to Hardox. Please give the company name, product segment, location.

**Part 3 The environmental forces to Hardox and PEST- analysis**

There are several environmental forces, for instance, the Political facts, Economic facts, Social facts and Technology facts in China which affect significantly Hardox business, as well as they will affect franchising project. What are your concerns about the following facts?

1) Which political facts \( (P) \) e.g. law, tax rules etc. do you consider having effect on Hardox.

2) Which economic facts \( (E) \) e.g. inflation, economic growth do you consider having effect on Hardox.
3) Which **social facts (S)** e.g. culture, business culture, attitude in the society, education etc. do you consider having effect on Hardox.
4) Which the **technology fact (T)** e.g. Innovation, communication technology etc. do you consider having effect on Hardox.

Please write down the facts affecting Hardox business in China during the current year.

**Part 4  HWP’s SWOT**

**What are the HWP’s Strength, Weakness, Opportunity and Threat in China according to SWOT Analysis?**

The salesperson and manager in Kunshan should have a clear picture of HWP’s SWOT, because they have experienced business for several years. Please write down your opinions, thoughts, assumptions or assessments **freely**.

**Strength (S)**
Please describe these internal facts of HWP’s strength e.g. about product high quality.

**Weakness (W)**
Please define these internal facts of HWP’s weakness e.g. lack of branding in China or deliveries’ problem.

**Opportunity (O)**
Please describe these external facts for providing HWP’s opportunity e.g. the mining industry is growing in China, therefore the strength steel needs on the market.

**Threat (T)**
Please define these external facts again HWP e.g. strong competitors with a lower price on market.

**Part 5  Hardox branding**

**How has SSAB improved its brand (Hardox) in China? How much is the investment in branding during a year? Through which media channels, methods?**

I cannot find any strategy about Hardox branding in China through any report, please help me to find them somewhere. China is a new and crucial market for SSAB, inevitably, Hardox’s global branding is the vital marketing task for enhancing product value, building business trust and relationship and further expansion. As well as the branding will be an initial stage for franchising in China and my thesis.

Hardox name, sign, slogan, symbol etc. are intended to identify the goods or service and to differentiate Hardox from those competitors.

**My extra questions to my supervisor in SSAB**

I have gone through all the materials, which you Johan sent to me, and the annual report 2011, SSAB homepage, and some articles. The following questions are still unclear:

1) Hardox” includes the relevant information about the product features and benefits.
2) Is SSAB whole concern a MNC (Multinational Corporations)? If it’s not, which type?
3) What are Hardox section’s organisation structure and its configuration incl. APAC?
Above five parts plus my extra questions, I would like to work together with you professionals to get some responses during these months. If the Chinese professionals have any addition or unclear part on my questions, please contact me and you can use both languages, in Chinese or English.

Josefina Jie Lowgren, +46-7077776072, email: jln10002@student.mdh.se
2012-09-05

Appendix 2 the Internal Organization Documents

These are several documents, which are strictly confidential:

7. Observation, m., 25-26 Sep 2012. The Records of Franchising ProMeeting Kunshan Day 1,2 (Internal Documents), Kunshan, China, Josefina Lowgren, SSAB.

Because of the strictly confidential police of SSAB, these documents will not direct shown as appendices in the thesis. However, some relevant contents will be referred or written in the context together with the subjects.
Appendix 3 the Tighter Specification of the Research Questions

Part 1:
Dear Martin

It was nice to meet in Kunshan and if I had more time, I would like to talk with you about Hardox Wearparts business in China. Now I am starting to write the thesis and it is going forward gradually. However, some of the research subjects associate to the macro-strategy for SSAB in China and I believe that you can help me to find the answers. Therefore, I send this email to you. If you have time to look at the questions, I will indeed appreciate your comments!

Since 2007 when the APAC Division and a wholly owned subsidiary was established in Kunshan, you have managed the whole business in APAC area and especially gained first-hand experiences of doing business and manufacturing production in China.

1. What are the major difficulties of doing business in China?
2. What are the great opportunities for SSAB business in China?
3. If SSAB expands further in China, which product segments will be prioritized? Why?

One month ago, Mr Johan Anderson presented the new project so-called the franchising concept, which would be a market expansion model for HWP in China.

1. What do you think about this?
2. What are the difficulties and risks?
3. What are the possibilities and opportunities?
4. Which product segments should HWP begin with? For instance in mining, quarrying, recycling, raw material industry and construction industries
5. Which applications of the selected industry segments have high possibility for going into the target market?

Your experiences and opinions will be vital facts for my research and I am looking forward to your response. Any language can be used and sent to me, for instance Swedish, English or Chinese.

Best wishes,
Josefina Lowgren
2012/11/14

Part 2:

**The questions about the exhibitions and conferences for Hardox Wearparts business in China**

The major marketing channels for Hardox Wearparts are through 1) Bauma Exhibitions in both Shanghai (27-30 Nov) and Munchen (15-21 April), 2) the number of corresponding conferences regarding the interviews with Tony Qiu and Christina Tengroth in SSAB.

For this research, the further information about the Hardox Wearparts’s participation in exhibitions and conferences needs to be gathered as the following:
1. How many times per year does HWP sales section (China) participate in Bauma exhibitions in Shanghai and Munchen?
2. How does SSAB/HWP attract the Chinese entrepreneurs, companies or customers to visit SSAB booth? Please describe the activities in detail.
3. How many visitors related to HWP business come to the SSAB booth for either gathering information or sitting down and talking business opportunities?
4. How much is the total costs of the exhibition in Shanghai?
5. Which kind promotion or visibility does SSAB/HWP perform inside the exhibition premises (not for booth or inside booth)? Please give the major methods.
6. Which conferences does HWP participate?
   - Name?
   - Websites?
   - How many times per year?
   - What is the result of gathering the potential customers?

I appreciate indeed your answer as soon as possible! Your answer will be the essential material for the research. Would you please send your answer by this email: jln10002@student.mdh.se latest the 5 Dec 2012.

I am looking forward your responses!

Best wishes,
Josefina Lowgren
2012/11/14
Appendix 4 the Regulation on the Administration of Commercial Franchises

2007-02-06 From the State Council

Order of the State Council (No. 485)

The Regulation on the Administration of Commercial Franchises, which was adopted at the 167th executive meeting of the State Council on January 31, 2007, are hereby promulgated and shall come into force as of May 1, 2007.

Premier Wen Jiabao
February 6, 2007

Chapter I General Provisions

Article 1 This Regulation is formulated for the purpose of regulating commercial franchises, promoting the healthy and orderly development of the commercial franchise industry and maintaining the market order.

Article 2 The engagement in commercial franchise within the territory of the People’s Republic of China shall be governed by this Regulation.

Article 3 The term “commercial franchise” (hereinafter referred to as “franchise”) as mentioned in this Regulation refers to such business operations by which an enterprise owning a registered trademark, enterprise mark, patent, know-how or any other business resource (hereinafter referred to as “franchiser”) confers the said business resource to any other business operator (hereinafter referred to as “franchisee”) by means of contract, and the franchisee undertakes business operations under the uniform business model as stipulated by the contract, and pay franchising fees to the franchiser.

No entity or individual other than enterprises may engage in the franchise business as a franchiser.

Article 4 The principles of free will, fairness, honesty and good faith shall be followed for engagement in franchise activities.

Article 5 The commercial administrative department of the State Council shall be responsible for supervising and administrating the franchise industry all over the country according to this Regulation. The commercial administrative department of the provinces, autonomous regions, or municipalities directly under the Central Government and the commercial administrative department of the people’s government of the cities divided into districts shall be responsible for supervising and administrating the franchise industry within its own jurisdiction according to this Regulation.

Article 6 Any entity or individual has the right to tip off any act against this Regulation to the commercial administrative department, and the commercial administrative department shall, after receipt of such tip-off, handle it in a timely manner.
Chapter II Franchised Operations

Article 7 A franchiser for engagement in franchise activities shall possess a mature business model and the ability to provide long-term business guidance, technical support, business training and other services to the franchisee.

A franchiser for engagement in franchise activities shall have at least two direct sales stores, and have undertaken the business for more than a year.

Article 8 A franchiser shall, within 15 days after having concluded a franchise contract for the first time, report it to the commercial administrative department for archival filing according to this Regulation. If a franchiser engages in any franchised operations within the scope of a province, autonomous region, or municipality directly under the Central Government, it shall be put on the archives of the commercial administrative department of the province, autonomous region or municipality directly under the Central Government; and if a franchiser engages in any franchised operations within the scope of two or more provinces, autonomous regions, or municipalities directly under the Central Government, it shall be put on the archives of the commercial administrative department of the State Council.

For the archival filing, a franchiser shall submit the following documents and materials to the commercial administrative department:
(1) a photocopy of the business license or enterprise registration certificate;
(2) a sample franchise contract;
(3) a brochure for franchised operations;
(4) a market plan;
(5) a written commitment and relevant certification materials proving that the provisions in Article 7 of this Regulation are followed; and
(6) other documents and materials prescribed by the commercial administrative department of the State Council.

In case the product or service for franchise cannot be dealt in until it is approved, the franchiser shall also submit a relevant approval document.

Article 9 The commercial administrative department shall carry out the archival filing and give a notice to the franchiser within 10 days after receipt of the documents and materials prescribed by Article 8 of this Regulation. In case the documents or materials submitted by the franchiser are incomplete, the commercial administrative department may require the franchiser to supplement relevant documents or materials within 7 days.

Article 10 The commercial administrative department shall publish a name list of franchisers that have been put on archives on the government website, and renew the name list in a timely manner.

Article 11 For engagement in franchise activities, the franchiser and the franchisee shall conclude a franchise contract in writing.
A franchise contract shall include the following main contents:
(1) basic information about the franchiser and the franchisee;
(2) contents and term for the franchise;
(3) type, amount and payment method for the franchising fees;
(4) specific contents and methods for providing business guidance, technical support, business training and other services;
(5) quality, standards and guaranty measures for the product or service;
(6) sales promotion, advertising and publicity about the product or service;
(7) the protection of rights and interests of consumers and the assumption of compensation liabilities in the franchise;
(8) alteration, rescission and termination of the franchise contract;
(9) liabilities for breach of the contract;
(10) dispute resolution methods; and
(11) other matters as stipulated by the franchiser and the franchisee.

Article 12 The franchiser and the franchisee shall stipulate in the franchise contract that the franchisee may unilaterally rescind the contract within a certain term after the franchise contract has been concluded.

Article 13 The franchise term stipulated in the franchise contract shall not be less than three years, unless it is otherwise agreed upon by the franchisee.

The preceding paragraph shall not be applicable when the franchiser and the franchisee renew the franchise contract.

Article 14 A franchiser shall provide a brochure for franchised operations to its franchisees, and shall continuously provide business guidance, technical support and business trainings, etc. to the franchisees according to the stipulated contents and methods.

Article 15 The quality and standards of the product or service for franchise shall conform to the laws, administrative regulations and the relevant requirements of the State.

Article 16 In case a franchiser requires a franchisee to pay expenses before a franchise contract is concluded, it shall explain in writing to the franchisee about the purposes of these expenses and the conditions and method for the refund of these expenses.

Article 17 The expenses for promotion and publicity as collected by a franchiser from a franchisee shall be used for the purposes as stipulated in the contract. The information about the use of expenses for promotion and publicity shall be timely disclosed to the franchisee.

A franchiser shall not resort to frauds or misleading in the promotion or publicity, and the advertisements it releases shall not contain any publicity content that any franchisee has obtained the proceeds from engagement in the franchise.

Article 18 Without consent of the franchiser, a franchisee shall not transfer the franchise to anyone else.

A franchisee shall not divulge to anyone else or allow anyone else to use the business secret of the franchiser it has accessed to.
Article 19 A franchiser shall, in the first quarter every year, report the information about the conclusion of franchise contracts in the previous year to the commercial administrative department.

Chapter III Information Disclosure
Article 20 A franchiser shall, according to the provisions prescribed by the commercial administrative department of the State Council, establish and implement a perfect information disclosure system.

Article 21 A franchiser shall, at least 20 days before signing a franchise contract, provide the information prescribed by Article 22 of this Regulation and the text of the franchise contract to the franchisee in written form.

Article 22 A franchiser shall provide the following information to the franchisee:
(1) the name, domicile, legal representative, registered capital, business scope of and basic information about the franchised operations of the franchiser;
(2) the basic information about the registered trademark, enterprise mark, patent, know-how and business model of the franchiser;
(3) type, amount and payment method of franchising fees (including whether the guaranty bonds should be collected as well as the conditions and methods for guaranty bonds);
(4) prices and requirements for providing products, services and equipment to the franchisee;
(5) specific contents, methods and implementation plans for continuously providing business guidance, technical support, business training and other services to the franchisee;
(6) specific measures for guiding and supervising the business activities of the franchisee;
(7) the investment budget for the franchise outlet;
(8) the quantity, distribution and business evaluation of current franchisees within the territory of China;
(9) digests of the financial statements and audit reports as audited by the accountant firm for the recent two years;
(10) the conditions about franchise-related lawsuits and arbitration for the recent five years;
(11) whether the franchiser or its legal representative has ever conducted major illegal business operations; and
(12) other information prescribed by the commercial administrative department of the State Council.

Article 23 A franchiser shall provide authentic, accurate and complete information to its franchisees, and shall not hide any relevant information or provide false information.

In case the information provided by a franchiser to any of its franchisees has been significantly changed, the franchiser shall notify it to the franchisee in a timely manner.

In case a franchiser hides any relevant information or provides false information, the franchisee may rescind the franchise contract.

Chapter IV Legal Liabilities

Article 24 In case a franchiser does not meet the requirements prescribed in Paragraph 2 of Article 7 of this Regulation but engages in the franchise activities, the commercial administrative department shall order it to make a correction, confiscate its illegal proceeds, impose a fine of more than 100,000 Yuan but less than 500,000 Yuan on it, and make an announcement about it.
In case an entity or individual which is not an enterprise engages in franchise activities as a franchiser, the commercial administrative department shall order it or him to stop the illegal business operations, confiscate its or his illegal proceeds, and impose a fine of more than 100,000 Yuan but less than 500,000 Yuan on it or him.

Article 25 In case a franchiser fails to put itself on the archives of the commercial administrative department according to Article 8 of this Regulation, the commercial administrative department shall order it to do so within a time limit, and impose a fine of more than 10,000 Yuan but less than 50,000 Yuan on it; and if it fails to do so within the time limit, it shall be fined more than 50,000 Yuan but less than 100,000 Yuan, and an announcement shall also be made.

Article 26 In case a franchiser violates Article 16 or 17 of this Regulation, the commercial administrative department shall order it to make a correction, and may impose a fine of less than 10,000 Yuan; where the circumstances are serious, it shall be fined more than 10,000 Yuan but less than 50,000 Yuan, and an announcement shall also be made.

Article 27 In case a franchiser violates Paragraph 2 of Article 17 of this Regulation, the commercial administrative department shall order it to make a correction, and impose a fine of more than 30,000 Yuan but less than 100,000 Yuan on it; where the circumstances are serious, it shall be fined more than 100,000 Yuan but less than 300,000 Yuan, and an announcement shall also be made; and if a crime is constituted, it shall be subject to criminal liabilities.

In case a franchiser resorts to frauds or misleading by making use of advertisements, it shall be punished according to the relevant provisions in the Advertising Law.

Article 28 In case a franchiser violates Article 21 or 23 of this Regulation, and a franchisee tips it off to the commercial administrative department and the tip-off is found to be true upon verification, the commercial administrative department shall order the franchiser to make a correction and impose a fine of more than 10,000 Yuan but less than 50,000 Yuan on it; and where the circumstances are serious, it shall be fined more than 50,000 Yuan but less than 100,000 Yuan, and an announcement shall also be made.

Article 29 In case any entity or individual cheats the property of someone else in the name of franchise and a crime is constituted, it or he shall be subject to criminal liabilities; and if no crime is constituted, it or he shall be punished by the public security organ according to the Law of the People’s Republic of China on Public Security Administrative Punishments.

In case any entity or individual engages in pyramid selling in the name of franchise, it or he shall be punished according to the Regulation on Prohibiting the Pyramid Selling.

Article 30 In case any functionary of the commercial administrative department abuses his authorities, neglects his duties or resorts to cheats and a crime is constituted, he shall be subject to criminal liabilities; and if no crime is constituted, he shall be punished according to law.

Chapter V Supplementary Provisions
Article 31 The license of trademarks and patents involved in the franchised operations shall be implemented according to the laws and administrative regulations on trademarks and patents.

Article 32 Relevant associations and organizations shall, under the guidance of the commercial administrative department of the State Council, formulate the provisions on franchises according to this Regulation, strengthen guild self-discipline, and provide relevant services for the parties involved in the franchise.

Article 33 Any franchiser that has engaged in franchise activities before the implementation of this Regulation shall be put on the archives of the commercial administrative department according to this Regulation; and if it fails to do so within the time limit, it shall be punished according to Article 25 of this Regulation.

The franchiser prescribed in the preceding paragraph shall not be applicable to the provisions in Paragraph 2 of Article 7 of this Regulation.

Article 34 This Regulation shall come into force as of May 1, 2007.