A STUDY OF THE CHINESE MARKETING CHANNELS FROM A PERSPECTIVE OF NORWEGIAN SALMON EXPORTERS

By

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A STUDY OF THE CHINESE MARKETING CHANNELS FROM A PERSPECTIVE OF NORWEGIAN SALMON EXPORTERS

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Abstract

The purpose of this thesis is to give an overview of different marketing channels of salmon in China and examine the competitive environment of the Chinese salmon market. Furthermore, we would like to understand how Norwegian exporters do business in China and the challenges and opportunities they have in the future regarding marketing channels, using a case study of Cermaq. We chose to explore this topic because of the continuous progress of Norwegian-China Free Trade Agreement negotiations and the popularity of emerging marketing channels. It is meaningful to understand how Norwegian salmon exporters do business in China regarding different marketing channels and how those different channels work.

A qualitative research methodology is implemented to have a deep understanding of Norwegian salmon exporters do business in China regarding different marketing channels. The data for our research was primarily collected by interviews with the Norwegian Seafood Council and a Norwegian salmon exporter. By conducting in-depth interviews, we wanted to understand Norwegian salmon products, exporters' marketing channels, and their experience in China.

In our study, we found that salmon is mainly consumed through HORECA in China, representing 90% of the total consumption. The remaining 10% is in the retail channels, which can be divided into three parts: traditional retail, new retail, and e-commerce. The competition in the Chinese market is still fierce, while the other channel members have significant influences on profitability. Based on our analysis, we identified the strategic propositioning for Cermaq and consider differentiation strategy would be a sound value proposition for the company.

Table of Contents

List of Figures

Preface

This thesis is written as a part of the requirements to complete the degree of Master of Science in Business Administration, within the major of Strategy and Management at the University of Stavanger. The thesis is written during the spring semester of 2020, in Stavanger, Norway.

The Norwegian salmon export to China showed a historical high in 2018, and the bilateral relationship between the two countries has reformed in recent years. Also, China, as an emerging economy, offers future market growth for imported salmon, given the various marketing channels, consumer preferences, and consumption ability. These phenomena sparked our interest in studying the potential of Norwegian salmon exporter's possible to penetrate the Chinese market, with a focus on the retail channel. Working on this topic has been rewarding, and it allowed us to understand the relevant market and future development.

We extend our heartful gratitude to our supervisor, Professor Ragnar Tveterås, for providing critical and constructive guidance throughout the semester. Thanks for his assistance in directing us to use reliable resources and helping us to reach the Norwegian Seafood Council for interview. Next, we are grateful for all the previous Professors who taught us extensive knowledge in the two years of the study at the UiS. They helped us to form our own prejudice and the flexibility of mind, which enabled us to complete the final thesis successfully. A big thank goes to Adrild and Savinder accepting our interview and giving their precious insights. Last but not least, we thank for the love and support that comes from our family and friends, which allowed us to focus on the thesis with great courage.

Stavanger, 16 June 2020

Gaowa Sulong　　　　　　Lingwen Xu

Chapter 1. Introduction

The purpose of this thesis is to give an overview of different marketing channels of salmon in China and examine the competitive environment of the Chinese salmon market from the perspective of Norwegian salmon exporters. Furthermore, we would like to understand how Norwegian exporters do business in China and what are the challenges and opportunities they have in the future regarding marketing channels, using a case study of Cermaq.

1.1 Research questions

- What do the major Chinese salmon marketing channels look like?
- How is the competitiveness of the Chinese salmon market from the perspective of Norwegian salmon exporters?
- What is the alternative strategy for Cermaq in the Chinese retail channel?

1.2 Motivation

With the economic growth and improvement of life quality, the Chinese seafood market is showing significant prosperity since the reform and opening-up policy of 1978. From the year 2012 to 2016, sales of processed seafood in China increased by 928.6 tons, meaning a growth of around 27% in 5 years (see Figure 1.1) (顺景发, 2019). Furthermore, the normalization of bilateral relations between Norway and China in 2016 gives Norwegian salmon exporters a brand-new opportunity in the Chinese market. More than 300 Norwegian seafood companies are registered in China and the imported salmon is affordable to more Chinese consumers nowadays.

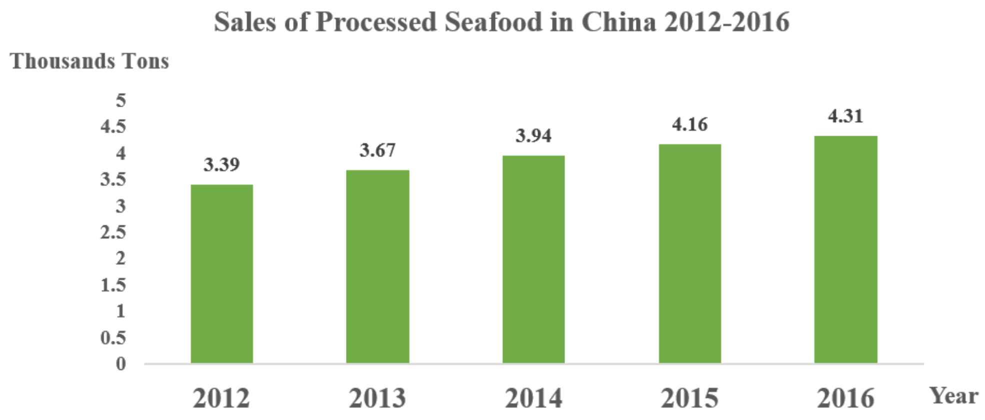


Figure 1.1 Sales of Processed Seafood in China 2012-2016

Source: (顺景发, 2019)

Dating back to the first salmon imported to China in the 1980s, Norwegian exporters have been working in the Chinese market for more than 30 years now. And the Norwegian seafood exports to China continues to grow in 2019. The diversified seafood products have attracted more and more attention, with total exports reaching 168,503 tons, an increase of 13% in 2019 (NSC,2019). Chinese people increasingly care about food safety, and generally imported seafood is considered more nutritious, safer, and healthier because of purer water quality and stricter quality control. In this regard Norway is the most famous producer of seafood, such as salmon in China, according to a survey conducted by the Norwegian seafood council between the year 2016 to 2019 (NSC, 2019).

With changing market environment and diversified customers' demands, it is meaningful to understand the competitiveness of the Chinese salmon market and illustrate the different marketing channel opportunities to Norwegian salmon exporters. There are various marketing channels and emerging modes of retail in the Chinese seafood market and it is important for a Norwegian exporter to choose the right channel to succeed in the market. Because the Chinese market trends and the consumer demands differ from the Norwegian ones makes it crucial to understand the difference to tailor the product for Chinese consumer needs.

1.3 Background of the study

1.3.1 Developments of the salmon consumptions in China 2008-2018

With the policy of reform and opening up, the first salmon was imported into China more than 30 years ago. After that, China has gradually become one of the most rapid-growing salmon consumption countries in the world, it is said that the growth of salmon imports has increased by 166% in the last eight years (see Figure 1.2) (虎晨, 2019). Norway was the first country to enter the Chinese salmon market back to the 1980s. As an emerging market, many other countries export salmon to China as well. Especially from 2000 to 2010, more and more countries joined the Chinses salmon market. For now, the major salmon exporters in China include Faroe Island, Chile, UK, Australia, Canada, and Norway.

Due to the quality of sea waters, infrastructure, farming technology, the supply of salmon in the Chinese market now still mainly depend on import. Even though the consumption of salmon is 60g/per person in China every year, which is relatively low compared to 2kg/per person in the European countries, China has the potential to become a big salmon consumer. It is estimated that if each Chinese consumes 1kg salmon a year, the major salmon producers in the world have to produce 1400 thousand tons more salmon to meet the demand, approximately 70% of the salmon production globally (虎晨, 2019). In the first quarter of 2019, China imported more than 30-thousand-ton salmon from the global sellers, reaching a new high seasonal point in history (朱琳慧, 2019).

Salmon used to be serviced only in fine dining restaurants such as premium Japanese restaurants in China. Now, people can buy it and cook by themselves. The different outlets include the traditional fish market, fish shop/delicatessen, Super/Hypermarkets, local grocery/food hall, online, and subscription (NSC, 2019). Moreover, the customers' demand for different categories of salmon grows too, not just frozen fish but also chilled and smoked salmon have become popular as well.

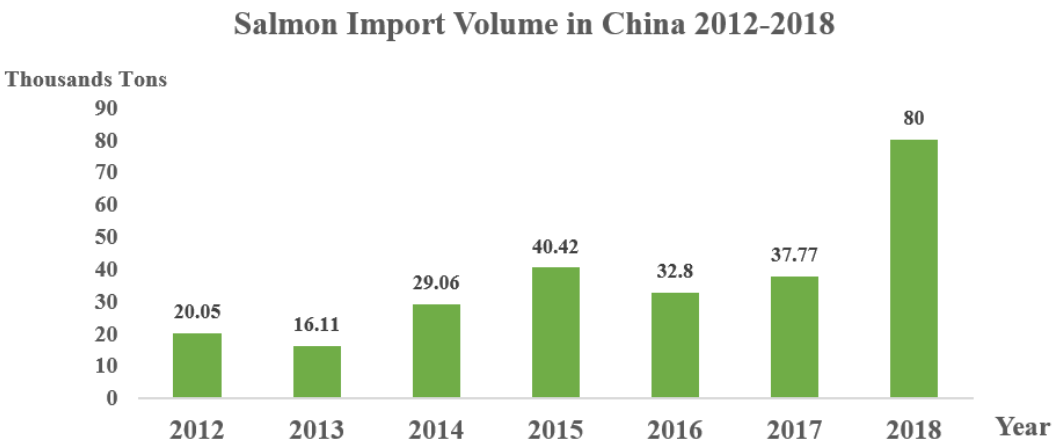


Figure 1.2 Salmon Import Volume in China 2012-2018

Source: (虎晨, 2019)

1.3.2 Norwegian salmon industry and exports in the Chinese market

The Norwegian salmon industry includes three sectors, namely wild salmon commercial sea fishing, wild salmon recreational river fishing, and salmon farming, so-called aquaculture (Li, Gales, Yi and Hu, 2011). Even though the exported salmon comes from both fishing and farming sectors, salmon farming is the majority part, accounting for 72% of the export value (Salmon Business, 2018). The first documented salmon farm in Norway was built in 1970, and the salmon was exported for the first time in 1972 (虎晨, 2019). Atlantic salmon is an anadromous species, which means that they migrate between freshwater and seawater during the life cycle. The roe and fry spend one to four years in freshwater during spawning and juvenile rearing. Then the smolt migrates to the ocean where one to three winters are needed until they become mature salmon (Liu, Olaf Olaussen, & Skonhoft, 2011). After the salmon is mature, farmers can ship them to a processing plant from which the salmon is exported or transported to the domestic or international markets.

The first time Norwegian salmon exported to China was in the 1980s. However, during the time of 2010 to 2016 the two countries' relationship was frozen due to the political issue. In December 2016, Norwegian and Chinese authorities jointly announced a normalization of the bilateral relations, which opened up the opportunity for salmon trade (冯迪凡, 2016). The Norwegian salmon exporting trend has been showing a rapid growth in China since 2017, and Norwegian counties Troms, Nordland, and Sør-Trødelag have gained market access for the salmon (NSC, 2019). In 2018, the Norwegian export of salmon increased by 205% and the total value hit a record high of NOK 3.7 billion (OUR HISTORY, n.d.).

Norway is the top one salmon producer in the world with an exported value of 1.1 million tons of farmed salmon in 2019 (NSC, 2020). The volume is increased by 6% and the value increased by 4.8bn compared to 2018. The value exported to China ranked as the seventh of the export destinations (NSC, 2019). Although China is not the most significant share of the exports, the potential of the Chinese market is significant. First, the market size, purchasing ability, and growing health awareness increase the demand for Atlantic salmon products in China. Second, the Chinese market for Norwegian salmon exporters is in an unsaturated state with plenty of room to grow compared to the European counterparts who have already taken a higher portion but with steady growth.

1.4 Summary

Our study illustrates the different marketing channels in the Chinese salmon market and presents the characteristics of each channel as well as how it meets the market demands. The presentation of the marketing channel structures, and the consumer demands provide a clear view for Norwegian salmon exporters regarding the opportunity to expand the salmon products through the various channels. The finding is that 90% of the salmon goes to HORECA and 10% is in the retail channel (Savindar, 2020). We focus on the retail channel, which has a significant potential to grow given the consumer preferences and market demands. Although the retail counts only 10%, the emerging channel structures offers various platform for the imported salmon products.

To examine the profitability of getting into these retail channel, we studied the industry competitiveness based on Porter' five forces. From the Five Forces analysis, we define the Chinese salmon market as medium attractive market. For Norwegian salmon exporters, the success factors lie on the specific positioning and the Chinese market variety offers potential for grow in niche markets. Lastly, we formulate a strategy for the case based on the industry analysis and the company position, to select a retail channel among all the possible channels presented in the thesis.

1.5 Thesis Overview

Our thesis has been divided into six main chapters. After presenting our research questions in the first chapter, we introduce the background of our study, including the development of salmon in China and the Norwegian salmon industry and exporters in the Chinese market. In chapter two, we present the theoretical foundation of our thesis. In the third chapter, we illustrate the methodology we used to research the thesis. In the fourth chapter, we summarize our findings of salmon products in the Chinese market and major marketing channels in the Chinese salmon market. In chapter five, using Five Forces analysis and SWOT analysis frameworks, we analyze the collected data based on a case study of a Norwegian salmon exporter. Then, we interpret the data and give recommendations to the company. Lastly, in chapter six, we outline the conclusion of the thesis by answering the research questions and suggesting further research.

Chapter 2. Literature Review

2.1 International marketing channels

2.1.1 Understanding the international marketing channels

An international marketing channel of distribution is defined as a system made up by marketing organizations connecting the manufacturer to the product's end-users or customers in a foreign market (Albaum, Duerr, & Strandskov, 2007).

Some fundamental elements are in common for both domestic and international marketing channels, such as channel members, which usually include manufacturers, distributors, wholesalers, retailers, and end-users (both business customers and customers). From the point of manufacturers, the other members such as distributors, wholesalers, and retailers could seem like intermediaries. The presence of channel members depends on channel functions, which add value to the system (Robert W. Palmatier, Louis W. Stern, & Adel I. El-Ansary, 2015).

When entering a foreign market, international firms have to make decisions on entry modes: export, alliances, acquisition, or investment are the usual methods. Complicated marketing channel relationships formed when products and services delivery from a provider in one country to a customer in another country. Compared to the domestic marketing channel, the international channel contains more complex factors. One of the major barriers for international firms to enter a foreign market is that the marketing channel systems are long and involve margins at each stage. Besides, multi-layers channel systems have developed for years, which is hard for international entities to penetrate (Bradley, 2005).

From a strategical perspective, the strategy implemented by international firms affects how they enter a foreign market. The choice of entry mode reflects the firm's international strategy for a specific foreign market. Different entry modes refer to different degrees of control, commitment, involvement, and risk. Based on different modes, the structures of marketing channels are various (Albaum et al., 2007). The channels can be straightforward sometimes, directly from a manufacturer to an end-user. However, it is very complicated for most occasions, involving many channel members, independent or self-owned.

As mentioned before, the most direct distribution channel is from manufacturer to end-user. One of the typical indirect ways is through a marketing or buying firm in a home country such as a large multinational retailer. Trading companies play an essential role when targeting countries with a high degree of government interference. For a country like the U.S, companies can directly build connections with the regional distribution center. Agents and distributors are also very common intermediaries within channels (see Figure 2.1) (Bradley, 2005).

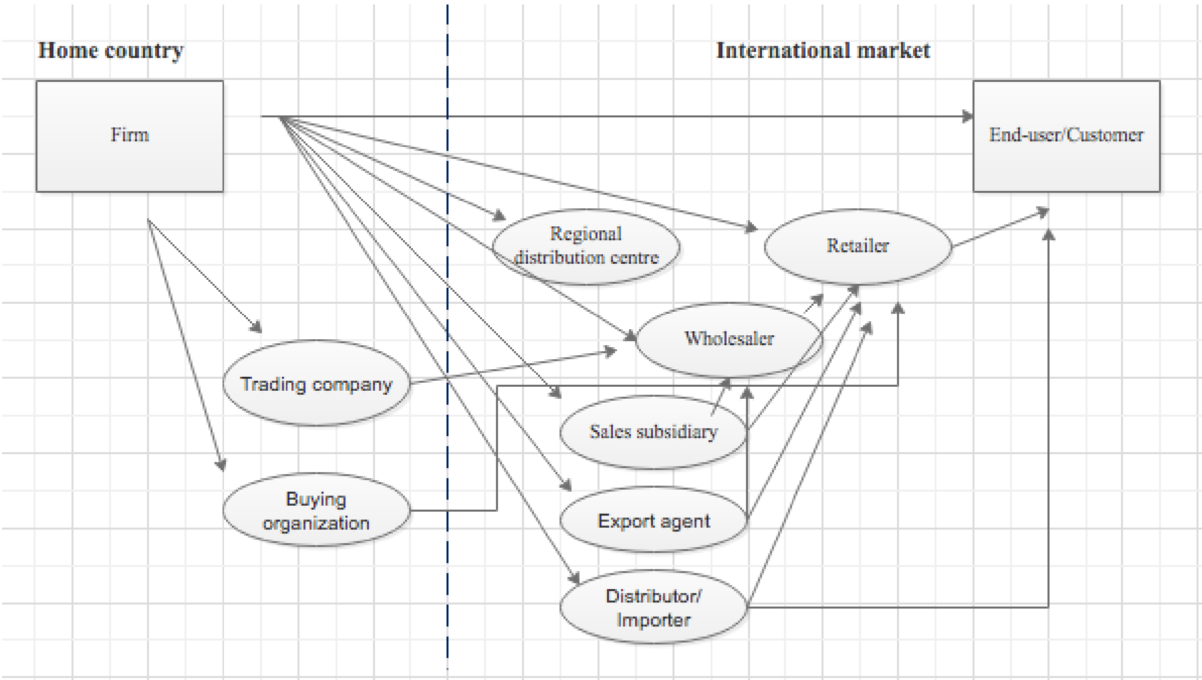


Figure 2.1 Multiple Channels Serve in International Markets

Source: (Bradley, 2005)

2.1.2 Management of international marketing channel

Marketing channels are complicated and changing all the time. The channel flows and overall channel structure of an organization is a key factor to form sustainable competitive advantages and increased profits. Even if the organization has a well-designed channel structure, it still faces the challenge of managing the activities of all the channels members (Alice M. Tybout & Bobby J. Calder, 2010).

When it comes to international content, a multinational organization is sometimes advised to work with independent distributors if the target foreign market has fierce competition (Bradley, 2005). In contrast, the vertical integration of the organization may neither be flexible nor ideal for many reasons such as limited firm resources or commitment, legal barriers, highly dispersed markets and so on. There is a trade-off between control of the foreign marketing channel and the risk of market entry when choosing foreign independent intermediaries (Karunaratna & Johnson, 1997).

The power-dependence influence of exporters on the channel members would be weakened due to the physical distance. The information symmetries are hard to reach for the same reason, posing a greater risk of opportunistic behaviors (Klein & Roth, 1990). Nes, Solberg and Silkoset (2007) also found that national cultural distance would negatively affect international relations through decreased trust and communication. The mutual communications play a more important role within foreign channel relationships. The foreign intermediaries in the target market provide exporters with local market information which is less difficult to access in the domestic market. A well-built information system is a key factor to implement, control and cooperate marketing activities in the foreign markets. This effective two-way communication is essential when fighting against opportunistic behaviors within exporter-intermediaries relation, forming trust and commitment between channel members.

2.2 Marketing channel strategy

Marketing channels refer to an organized network of interconnected organizations and agencies involved in the process of making a product or service available to consumers (Meenal, 2010). Marketing channel plays the role of "Place" or "Physical distribution" in Marketing Mix "4P", Product, Price, Place, and Promotion. Nowadays, the importance of a marketing channel is far beyond merely making goods/services available to the customer and it contributes to both customer satisfaction and distribution efficiency. To reach ultimate customers in the market effectively and efficiently, manufacturers need to design the structure of their marketing channels, choosing from direct marketing or indirect marketing. Specifically, the marketing channel structure is the shape and size of different channel levels from manufacturer to the end-customers, meaning the involvement of intermediaries on the route to market (Robert W. Palmatier et al., 2015).

2.2.1 Different marketing channel structure and members

As shown in Figure 2.2, direct marketing channels refer to zero level techniques, where the products/services move directly from the manufacturer to end-users, i.e., company showroom, online/internet marketing, automatic vending machines. Indirect marketing channel means that there is one or more middleman between the manufacturer and its customers (Meenal, 2010). Channels are dynamic, so the channel structure should be flexible, and manufacturers can use different combinations of the channels to reach the consumers so that it can respond to a changing environment (Fill & McKee, 2011).

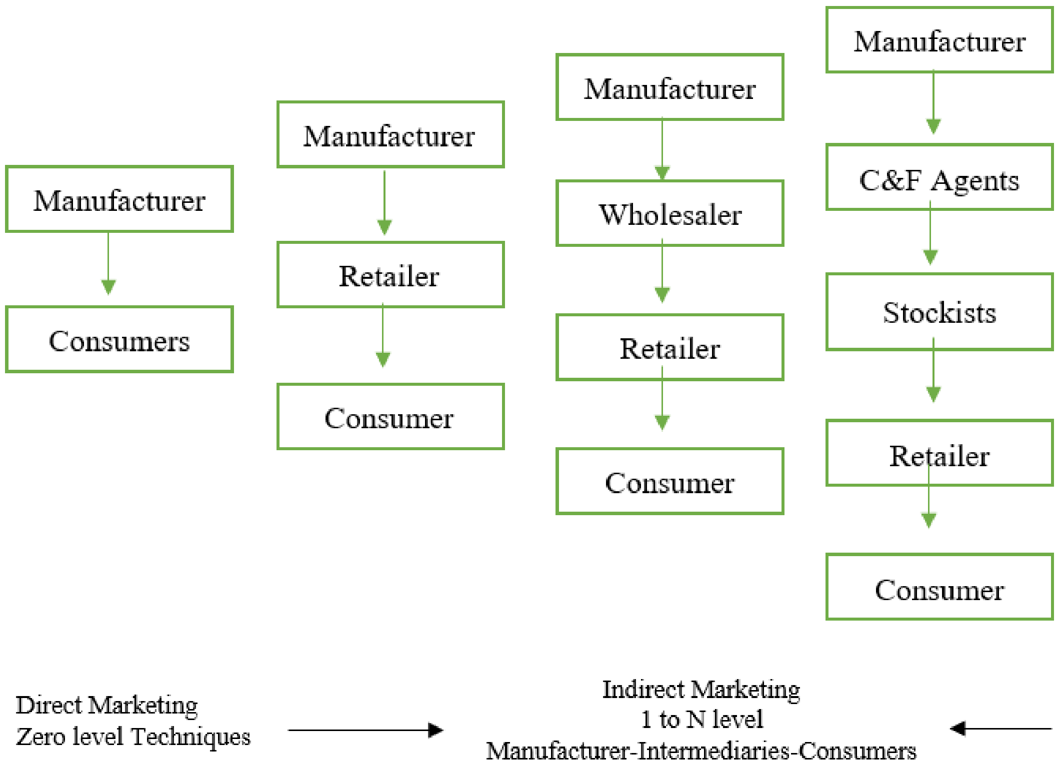


Figure 2.2 Various levels in marketing channels

Source: own author

There are many different entities organized in the complex network or system of marketing channels and we can see this presence in the channel structure diagram (see Figure 2.2). To add to that, some specialized intermediaries (logistics and shipping firms, advertising agencies, information technology firms, and credit card companies) play an important role as well. Therefore, Robert W. et al (2015) identify three key entities involved in every marketing channel as channel members: manufacturers, intermediaries (wholesale, retail, and specialized), and end-users (business customers or consumers) (Robert W. Palmatier et al., 2015). The different channel members can be combined and cooperated in many ways to build an effective marketing channel to serve the customers. The range and selection of channel participants vary from situation to situation and depend on the needs of the ultimate customers and manufacturers.

2.2.2 End-user analysis and service output

Marketing channel decisions in the foreign market are among the most important decisions that international organizations face today, given the accelerating technological change, heightened marketplace demands, increasing global competition (Erin Anderson, George S. Day and V. Kasturi Rangan, 1997). The issues of marketing channels were analyzed by a number of marketing specialists (Robert W, 2015; Kim, 2005), focusing on the elaboration of the strategies of marketing channel design. Distribution/marketing channels, as one of four elements of marketing complex, is an important part of marketing decision which contains all the strategies about the allocation of products to the end-user (Coughlan & Jap, 2016). Although distribution has been seen as peripheral over the last years, many firms have recognized that the neglect of marketing channel strategy is risky and wastes opportunities for competitive advantage (Erin Anderson, George S. Day and V. Kasturi Rangan, 1997). However, there is not too much research regarding the marketing channel of Norwegian salmon exporters to the Chinese market, which leads us to take a look at the emerging channel possibilities in the Chinese salmon market. Considering that customers between geographic segments have varying needs and wants, the suppliers should provide different distribution services and service levels to the target customer segments (Wren, 2007).

While designing a marketing channel strategy, similar to many other marketing activities, it must start with the end-user, even for a manufacturer that does not sell directly to end-user (Robert W. Palmatier et al., 2015), because end-users hold the ultimate “power of the purse”. Therefore, for a specific product such as Atlantic salmon, a manufacturer or channel manager is supposed to understand the end-user’ demand in the first place. The most practical insights are not about what the end-users want to consume, but how they want to buy and use the products (Heide, 2011). In an existing framework studied by Robert W (2015), it codifies and generalizes how end-users want to buy a specific product as a basis for determining channel structure. The framework indicates that the channel system exists to offer additional benefits to the end-users, reducing search time, waiting time, storage, and other conveniences which are called service output/channel benefits. When all other factors being equal (price, product character. etc.), end-users prefer a marketing channel that provides more service output or different customers have different demands on the service output.

The service outputs in turn can be classified into six general categories: bulk breaking; spatial convenience; waiting or delivery time; product variety; customer service; and information sharing (Heide, 2011). Bulk breaking means that end-users are allowed to buy any desired amount/units of products, even if the product was produced in large, batch-production lot size. Spatial convenience is designed to reduce customer's transportation requirements and search costs via market decentralization. Waiting time is the speed of delivery or the time that the end-user has to wait after making an order for the products. Product variety and the assortment is the breadth of the product line and the depth of the product brands. Customer service refers to all efforts of making the shopping and purchase process easy for end-users. Information sharing refers to exposure and illustration that can educate customers about the product attributes, usage capabilities, or other relevant knowledge. Competitive advantage can be obtained by differentiating the service provided by the market segment (Robert W. Palmatier et al., 2015).

2.2.3 Marketing channel design

How to select and improve marketing channels has become one of the most complicated and essential questions for the organization. The distribution of goods and services plays an important role in business management since it contributes to maximum benefit. An efficient distribution system gives companies more advantages in the market (Alijošienė & Gudonavičienė, 2008). The design of the right channel is the main task in the marketing channel challenge (Alice M. Tybout & Bobby J. Calder, 2010). Rosenbloom (2013) defines channel design as to make decisions about how to build new marketing channels which has not existed before, or to modify existing ones.

Many researchers provide their formation of marketing channels. Those designed channels are either new creations or modification of existing ones. (Rosenbloom, 2013) suggested a model with 7 steps (see Figure 2.3). The flow starts with recognizing the need for a channel design decision. Then the channel manager has to figure out clear distribution objectives. After defining and coordinating objectives a series of distribution tasks need to be performed, before leading to specifying the distribution tasks. Moreover, the manager also needs to consider alternative ways to finish those tasks through developing alternative channel structures. Then we move to step five, to evaluate the relevant variables such as channel members that might influence channel structures. Next, the manager can choose an optimal channel structure and select the channel members last.

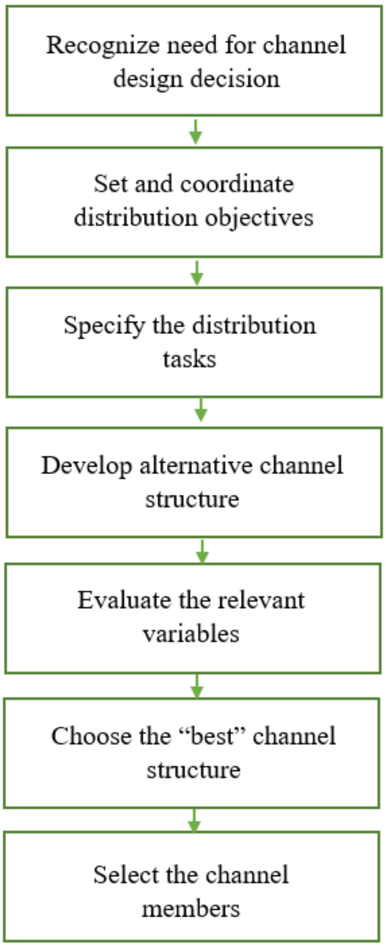


Figure 2.3 A Flowchart of the Channel Design Paradigm

Source: Rosenbloom (2013)

Fava, Zuurbier, and Cortez (2001) proposed a more detailed model consisting of 11 stages (see Figure 2.4). As it shows in the model, 11 stages are involved in 4 major phases, which includes understanding phase, objective phase, implementation phase, and monitoring and revision. The model aims to illustrate every agent has activities in the channel and uses a systematic approach to design channel structure.

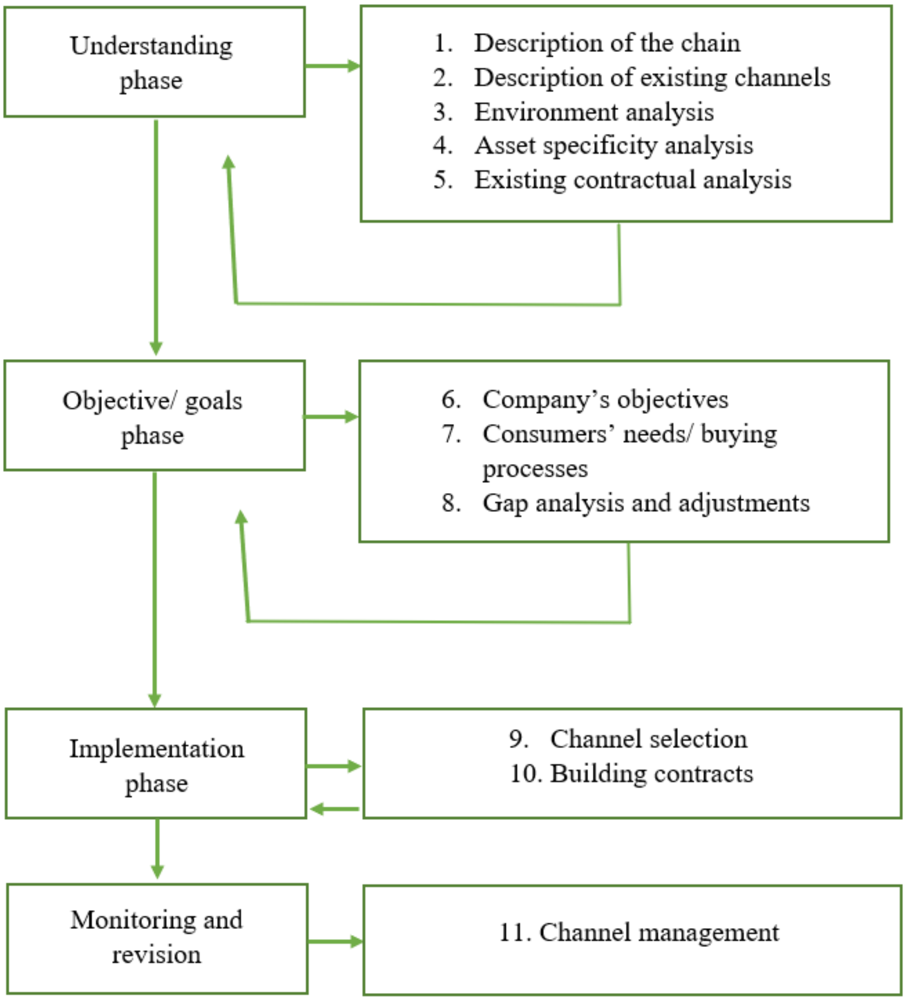


Figure 2.4 A Model for the Marketing Channel Design Process

Source: Fava, Zuurbier, and Cortez (2001)

A simpler channel model is given by Alice M. Tybout and Bobby J. Calder (2010) (see Figure 2.5). It proposes that the channel manager should first focus on the marketing principle of segmentation, targeting, and positioning, understanding the needs of consumers. Using service output demand analysis to segment and target, then position the channel structure. After that, the manager can either build a new channel or restructure the existing channel.

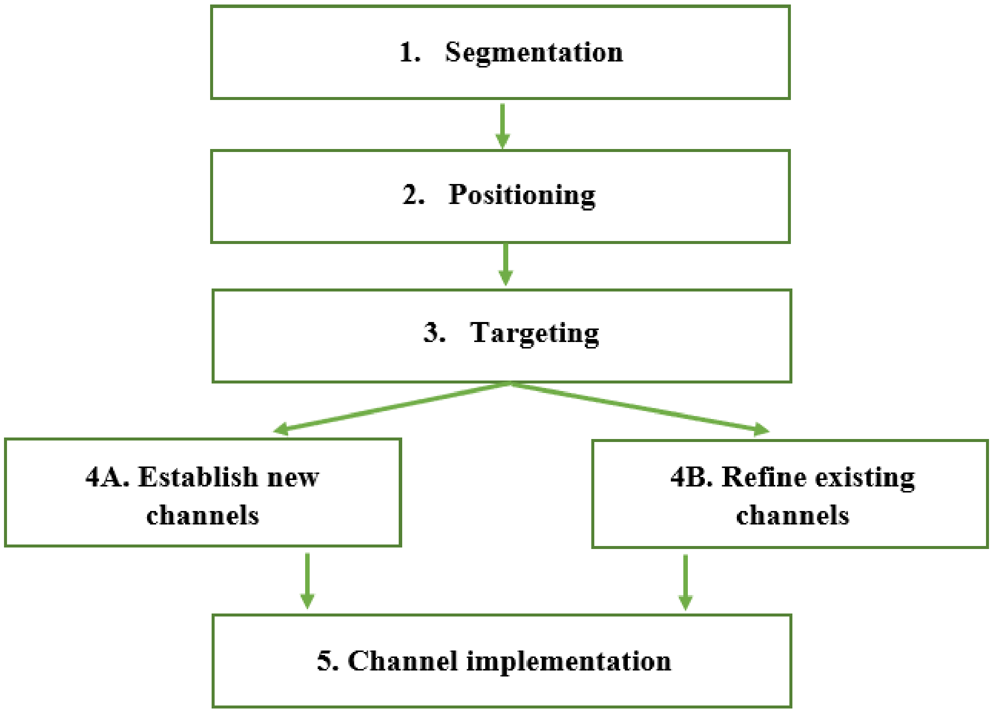


Figure 2.5 A Simplified Channel Model

Source: Alice M. Tybout and Bobby J. Calder (2010)

There is no definite restriction about how to design the marketing channels. Distribution of products or services is an essential part of the marketing complex. The process of marketing channel decisions is both time and capital consuming. The companies should have a thorough understanding of the characteristics of the current model then evaluate the specific needs of companies and finally decide what is best for them (Alijošienė & Gudonavičienė, 2008).

2.3 Strategy framework

2.3.1 Porter's Five Forces

Michael Porter identified "five forces" that examine the competitiveness and the ultimate potential profitability of a specific industry over time (Porter, 1998). The five forces are

1. rivalry among existing competitors,
2. the threat of new entrants,
3. bargaining power of suppliers,
4. bargaining power of buyers, and
5. the threat of substitute products.

The point of industry analysis is not only to assert whether the industry attractive or unattractive but to understand the underpinnings of competition and the root causes of profitability (Porter, 2008). Later, in his update of the study in 2008, Porter also emphasized the application of the five forces on implications for individual firms within an industry. Porter's Five Force model is a simple but powerful tool for understanding where power lies in a given business situation, which has been used over time by numerous professionals to analyse a particular branch (Grigore, 2014).

2.3.2 SWOT analysis

SWOT analysis is a fundamental part of the strategic management planning process. The SWOT framework (strengths, weakness, opportunities, and threats) gives the guide to strategic decision making and implementation. SWOT analysis contains a collection of information that includes both internal and external factors that influence business. More specifically, it is an overview of a firm's strengths and weaknesses plus an overview of a firm's threats and opportunities by analyzing its resources, capabilities, and environmental identifications. The future strategic plan would require strengths parallel with opportunities, get rid of threats and overcome weaknesses (Pickton & Wright, 1998).

A telescopic observations (TO) framework was created in mid-1999 to give a more detailed framework. As suggested by its name, this framework observes distance factors and brings them closer to the analyzers for a more thorough evaluation (Panagiotou, G., 2003). Each letter in the "telescopic observations" represents a factor that can have influence on the organization from a perspective of strength, weakness, opportunity, or threats. For example, the letter "B" means buyers, while "A" means alliances. The TO framework provides decision makers a more systematic and efficient organizational environmental evaluative system.

2.3.3 Competitive strategy – from Porter's view

As studied by Michael Porter, a competitive strategy is about being different, meaning to choose a different set of activities to deliver a unique mix of value (Porter, 1996). In other words, the worst error in strategy is to compete with rivals on the same dimensions, i.e. competing to be the best instead of competing to be unique. The strategy is different from the goal, action, or vision, since it is about how to position yourself and how to create unique value to the customer you choose to serve. Porter identifies three generic strategies to reposition it with respect to competitors: cost leadership, differentiation, and focus. Cost leadership is a way of pursuing overall operational efficiency to provide customers the lowest possible price. Differentiation is to develop one significant aspect of a product in order to set it apart from the competitors (Porter, 1997). With a focus strategy, a company targets the product or service specifically towards the highly defined market segment and aims to achieve both differentiated and low cost.

Strategic positioning, also known as a value proposition, is the heart of generic strategy and one of the ways to pursue competitive advantages. Harvard Business School's Institute for Strategy & Competitiveness formulated three prompts to define a unique value proposition: What customers, which needs, and what price (see Figure 2.6). Specifically, the firm must identify the end-user segmentation, what consumers' needs regarding a product, feature, and services, and the price that fits the production cost and value-added service.

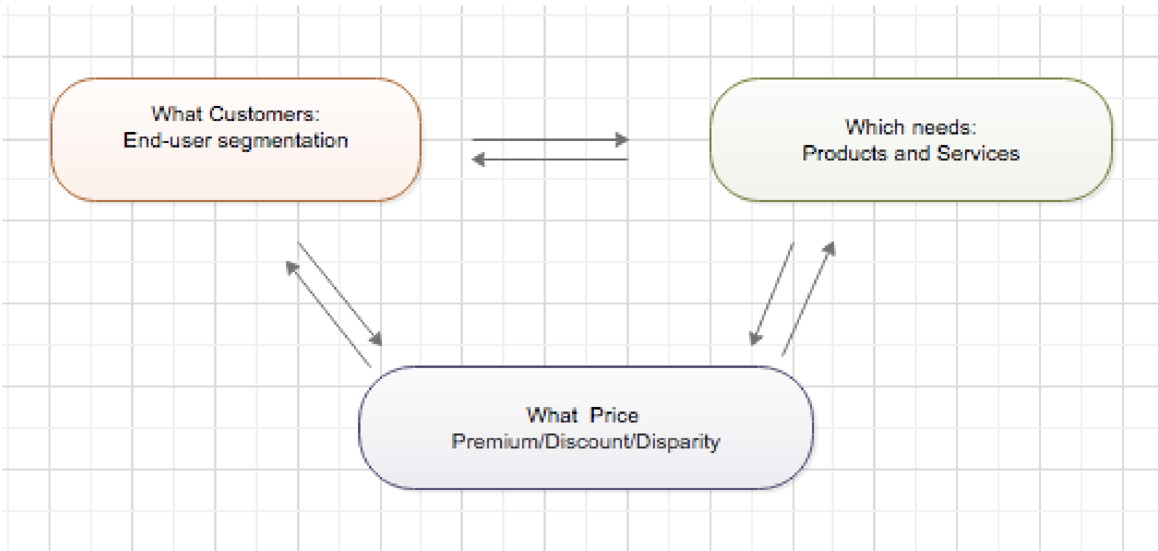


Figure 2.6 Defining a Unique Value Proposition

Source: (HBS, n.d.)

Chapter 3. Methodology

3.1 Research design

This part illustrates how we would design our process of research. Based on the general model used by (Yin 2018), we built a more specific model for our research process. Figure 3.1 shows the steps of our research process, and it will give more detailed illustrations in the next part.

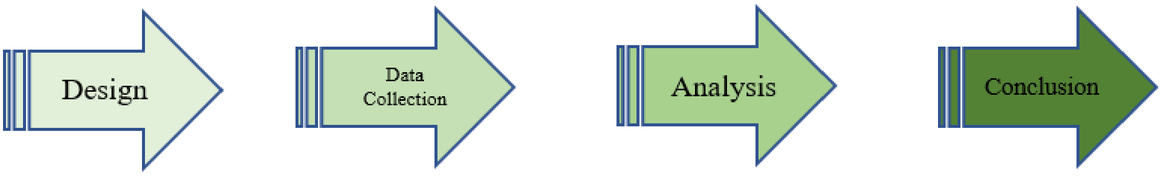


Figure 3.1 The Step of the Thesis Research Process

We tried to find relevant literature on previous studies related to our potential topic at the design stage. Then, we started to discuss and do the brainstorming work, identifying the correct direction of our research. We formulated our main research question and sub-questions that would help us to answer our research question.

We contacted our potential interview subjects during the data collection phase and then decided on our final interviewees. The interview guides were designed and followed the theoretical background. Besides that, we collected a lot of secondary data from news, companies' websites, and database.

The analysis work is conducted after we finish the data collection process. We illustrate the findings we get and do further analysis. Then we give a conclusion based on our findings and analysis.

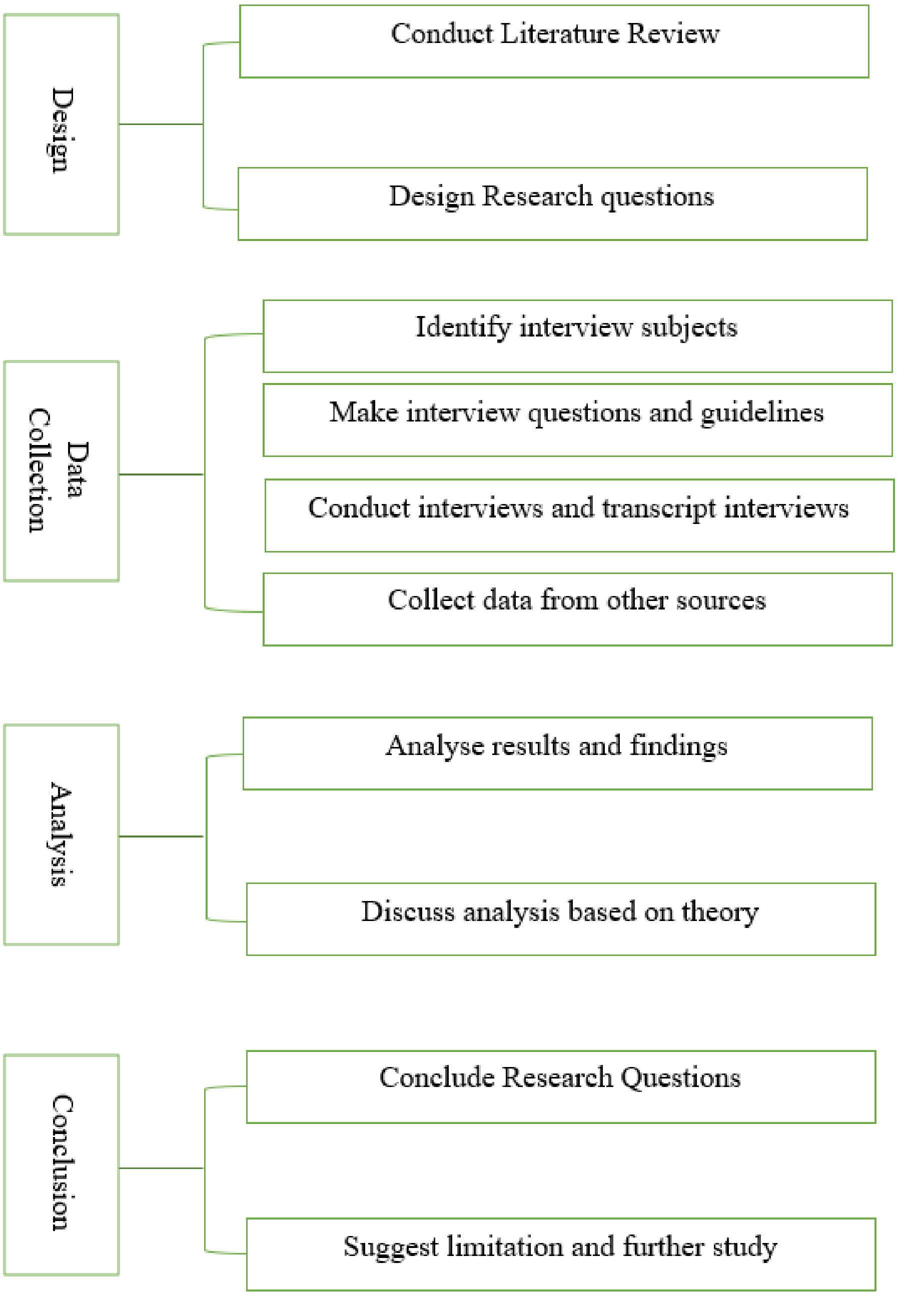


Figure 3.2 Structure of the Research Design

3.2 Qualitative method

Quantitative and qualitative research is often viewed as two ends of a methodological choice (Saunders, Lewis, and Thornhill 2012). Quantitative research is a way to use or generate numerical data through any data collection techniques (e.g., questionnaire) or data analysis procedure (e.g., graphs or statistics). In contrast, qualitative research is considered a method to generate or use non-numerical data through data collection techniques such as interviews or data analysis procedures such as categorizing the data. Which one of the two approaches to choose from depends on the purpose of the study and the research questions (Yin, 2018). Sometimes the two approaches are used in combination. Our thesis aims to understand the Chinese salmon marketing channels and industry competitiveness and opportunities from the perspective of Norwegian salmon exporters. Instead of "how much," we will answer the "how" and "why" the process leads to the outcomes; therefore, a qualitative research paradigm is more suitable to complete our study.

The qualitative research approach is to receive a deeper understanding, rather than demonstrating regularities in the relationships between variables. It can provide unique insights to inspire and guide our marketing channel strategy and tactics. Firstly, qualitative research creates meaningful results that are experientially trustable. Secondly, qualitative studies can improve current practice instead of just assess the value of the studies. (William, 2006). Thirdly, the qualitative studies are more useful for the collaboration of practitioners and research participants, because of its nature of focusing on particular contexts.

3.2.1 Selection process

When selecting a sample to study it should represent the full set of cases in a way that is meaningful, and which can be justified (Saunders et al. 2012). For some research questions, it is possible to collect data from an entire population as it is of a manageable size. However, it would be impractical for some studies to collect data from the whole community due to either budget constraints or time constraints. When it is unrealistic to collect data from the entire population to answer research questions, a sample needs to be selected. There are two types of sampling techniques: probability sampling (or representative sampling) and non-probability sampling. Probability sampling is often used for survey and experiment research, where we need to estimate the characteristics of the population statistically from the sample. The non-probability sampling is used primarily in completing market surveys and case study research, but not to address research questions asking to make statistical inferences of the population characteristics. Some research projects involve both probability and non-probability sampling for the sake of addressing the research question, but either of the techniques can be used alone (Saunders et al. 2012). Considering our research questions need to be discussed with subjective judgment, we conduct non-probability sampling to generalize the Chinese salmon marketing channels characteristics and conduct a case study.

With non-probability sampling, to answer your research questions and achieve the objectives, you need to undertake an in-depth study that focuses on a certain number of cases, or one, selected for a specific purpose (Saunders et al. 2012). There are several sampling techniques for non-probability sampling to choose from quota sampling, purposive sampling, volunteer sampling, and haphazard sampling. We chose the potential participants based on purposive sampling because of the logical relationship between the sample selection technique and the purpose of our research. The purposive sampling is the best practice when you wish to select particularly informative cases and work with very small samples, for instance, case study research (Djamba and Neuman 2002). Our purpose is to understand the Norwegian salmon exporters' situation in the Chinese salmon market; thus, we reached out to the most informative source and market master, NSC Chinese office in Shanghai. As for capturing specific information about the Norwegian salmon exporters' perspective, we chose to contact Norwegian seafood exporters who export salmon to China within recent years. The sample prepares you with an information-rich case study in which you explore your research question and gain theoretical insights (Saunders et al. 2012).

3.2.2 Implementation

We implement our selection of sampling processes meticulously based on the consistent of the research purpose, theoretical framework, and the participant's background. To begin with, we wished to interview someone who has broad market understandings and insights into the Chinese salmon market from the perspective of Norwegian salmon exporters to China. Because the information not only provides fundamental background knowledge but also helps us complete the industry competitiveness analysis. At this point, we have been directed to the NSC under the supervisor's recommendation and assistance. NSC is the perfect match for our target interviewee as NSC has been established its office and worked in China for more than 30 years. It is considered the organization that has thorough understandings and insights for the development of seafood in China. To narrow down to a specific business situation as a case study to better illustrate and address our research objectives, we started the selection process by gaining information from all Norwegian seafood exporters who exported salmon to mainland China. Norwegian seafood companies' profile on NSC.no web page has a list of all exporters from Norway, with short information about what species the organization exports and where the country of destination is. We screened out the potential participants who meet our needs for research questions, have Chinese market development for salmon, in which we found 12 companies at the beginning. However, we decided to do the case study with Cermaq in the end, due to the unavailability of the other companies.

3.3 Data collection

3.3.1 Interview selection

To find our potential interview candidates we went through the registered list on the website of the Norwegian Seafood Council. Our search keywords included China and salmon, and we got a list of exporters that export salmon to China. However, many of them on the list not only export to China but also many other countries. Besides, some exporters sell other species, and salmon is just one of their products. To answer the research questions and meet the objectives, it is necessary to implement an in-depth study that focuses on a small number of cases, or only one. The non-probability sampling may be most practical (Saunders et al. 2012). Therefore, for our search questions, we narrowed down our selection of exporters to the exporters who only or mainly export salmon to China, which can give us more productive information and insights.

We sent out invitations to several different companies with the request to participate in an interview. The invitation included the introduction of our thesis, purpose, and context of the interview. Two of them declined the invitation due to the time schedules, while the others did not reply to us. Due to the time limitation of a master thesis, we finally decided to conduct a single-case study with Cermaq Group. Except for the Cermaq group, who is doing business in China, we believe it would be valuable to hear the voice from others that also have activities in China. So, we contacted with Norwegian Seafood Council's Chinese office located in Shanghai for an interview.

3.3.2 Interview guide

Our interview guide is divided into four categories for both subjects. Because of the different characterizes of two subjects, the context of each category might be different to some degree. The goal of each interview is different. The Cermaq interview aims to have a deeper understanding of their marketing channels in China. On the contrary, we expect the NSC interview to give us a bigger map of Norwegian salmon exporters' activities in China and the competitiveness of Norwegian salmon in the Chinese market. With both meetings, we can systematically learn the whole picture.

For the interview of Cermaq, we first ask some questions about the company and some background information about the interviewee. In the second section, we question about the company's products in the Chinese market, intending to examine the competitiveness of their products. Then, we move to a marketing channel structure, which is the most crucial section of the interview. We attempt to understand how companies do business in China regarding different marketing channels, including channel structure, channel members, channel activities, and channel relationships. In the end, we include several general questions about the company's future expectations, opinions on emerging channels, and so on.

In the interview with NSC, we begin with the information about the interviewee herself, such as her working experience, and the activities they conduct in China. Then, in the second section, our topic is mainly about Norwegian exporters. We want to learn more about Norwegian exporters from a different point of view. For instance, their marketing channels, their challenges in the Chinese market, and their competitors. The third category is about Norwegian salmon products in the Chinese market. Compared to questions for Cermaq, we want to understand the position of Norwegian salmon products in China thoroughly. In the last section, we put our attention on the future development of Norwegian exporters in China from the NSC's perspective and marketing plans for the next few years in China.

When made our interview guide, we spent a lot of time reading through plenty of materials to ensure we have enough knowledge about both the industry and theory we use in the research. Before the interview, we also collected information on our interviewees and the organizations they work for. These works help us to design useful interview guides and have better communication with our interviewees. Although some of the questions were designed not to be that detailed, we used them to extend the topic, guiding us to ask for more sub-questions.

3.3.3 The interviews

Due to the Covid-19 situation and other limiting factors, our interviews were conducted by video calls. As mentioned in the last section, our interview guides consist of four categories. Therefore, we divided the questions into two parts, and each of us was responsible for two categories. Both interviews lasted around 35 minutes. All the interviews were conducted in English.

3.3.4 Secondary data

Except for interviews, we gathered information from other sources as well. That information is used to give us a clearer picture of our analysis. The information sources include other databases, related news and reports, information revealed on the companies' websites, presentation slides, and so on. The same as primary data, the secondary data need to be viewed cautiously. The secondary sources that seem relevant from the beginning might not on closer examination to be suitable for research questions and objectives (Saunders et al. 2012). Therefore, to assess validity, reliability, and bias of data, we compared some information obtained from different sources, ensuring the suitability of the data.

3.4 Data analysis

We use qualitative data analysis in this research, and the nature of qualitative data has further implications for their analysis. The quality of qualitative research depends on the interaction between data collection and the data analysis to allow meanings to be explored and clarified (Saunders et al. 2012). To help this process go smoothly, we identified the analysis approach (inductive or deductive), some preparation tools and aids that can help to record the information for progress, and the type of procedure to undertake the data analysis.

3.4.1 Approach

The way we commence our data analysis is the deductive Approach that is to formulate the research question and objectives using existing theory and as a means to devise a framework that helps to organize and direct data analysis (Yin, 2018). The Five forces framework and SWOT analysis help us start with an initial analytical framework and commencing the information from a theoretical perspective. The deductive approach links the research questions and the existing knowledge of the subject area. This way provides us a good framework to direct the analysis with a combination of our expectation that built from the literature review and the practical information gained from the interview.

3.4.2 Analysis aids

Qualitative data are likely to be characterized by their richness and fullness, and the meanings are principally derived from words, not numbers (Saunders et al. 2012). Therefore, it is critical to display, clarify, and explain the data or information. There are several tools for preparing and analyzing the data. For data preparation, we used the transcribing technique in which the interview was audio-recorded and transcribed afterward. The interview section was recorded on our phone under the permission of interviewees and transcribed into word documents after the conversation ended. The transcript has been corrected several times until there are no errors, and every sentence is accurate. Even though the transcription process is time-consuming, it gives us a clearer understanding of verbal communication. The contextual information provides a more profound knowledge that we may miss during the conversation. For data analysis, we adopted interim or progress summaries, transcript summaries, and research notebook. By writing an interim review of the progress, we outlined the information and findings we have collected and tried to identify the needs that are useful for a further step. Through the transcript summaries, we gain the critical point of the conversations illustrated in the written-up notes. The research notebook is mainly used for record and secondary data.

3.4.3 Data display and analysis

Following the work of Miles and Huberman (1994), data analysis includes data reduction, data display, and drawing conclusions. We reach the data reduction process by the analyzing aids mentioned in section 3.4.2, interim or progress summaries, transcript summaries, and research notebook. After the series of summarizing, we keep and utilize the useful information for the thesis. The data display step is revealed in the matrices and pictures (network) that illustrate the information obtained through both interviews and secondary data collection. The final process, drawing a conclusion, is done by verifying, comparing, interpreting, and summarizing the result from the data reduction and display.

3.5 Data quality issues

We have to consider data quality issues related to these types of research interviews when conducting semi-structured or in-depth interviews. To have well-designed qualitative research interviews, the following factors are related to data quality issues: reliability, forms of bias, generalizability, and validity (Saunders et al. 2012).

When discussing reliability, the concerns lie mainly on whether other researchers would get the same information (Saunders et al. 2012). One way to respond to the issue related to reliability is that the information derived from it might be different because of changing time, so it is hard to say it is intended to be repeatable (Marshall, 2006). The period that we conducted the interview, the FTA between China and Norway was still under negotiation. This may have influenced the interviewees' answers about some related questions. However, if China and Norway have the FTA, interviewees may have different opinions.

The forms of bias consist of three types: interviewer bias, interviewee bias, and participation bias. The prejudice is caused by the interviewer's verbal and non-verbal behaviors, interviewee's perceptions about the interviewer, or the nature of the participants (Saunders et al. 2012). To overcome the bias, we increased our knowledge about organizations and the culture of the groups. Before the interviews, we tried to negotiate with interviewees to ensure an appropriate time and interview location. When making interview guides, we read through many relevant materials and asked for help from professional individuals.

Generalizability concerns whether the research findings can be used under different contexts (Saunders et al. 2012). In our thesis, we tried to study the channels of Norwegian exporters and then gave some suggestions based on existing theories, meaning that allow our study to test whether the existing theory applies to the contexts. Besides, most of the related questions we designed in the interview guides were based on the theories we used in the thesis, increasing the generalizability.

Lastly, validity refers to how many degrees that interviewers can understand interviewees regarding knowledge, experience, and so on (Saunders et al. 2012). To achieve a high level of validity, we clarified questions and asked supplement questions if it was necessary during the interviews. We had an agreement with our interviewees that we might have more contact at the later stage of our study in case we have questions furthermore.

Chapter 4. Findings and discussion

In this chapter, we are going to illustrate the salmon product presentation in the Chinese market and the different marketing channels of the salmon. Firstly, we would like to show how salmon products sold in the different channels, including both restaurants and retail channels. Then, we will talk about how different salmon marketing channels work in China, and we will focus on two channels which are retail channel and e-commerce channel. In the end, we want to discuss how Chinese customers want to buy salmon products based on service outputs.

4.1 Current Salmon products present in each Chinese marketing channel

There are multiple marketing channels in China. Different channels use different ways to present their salmon products. Here, we choose four main kinds of channels that directly interact with customers, illustrating the way how they present the salmon products in the market.

4.1.1 Restaurant

By the year 2017, 90% of the imported salmon would be served in the restaurants. From most Chinese customers' perspective, salmon is mainly served as raw food (see Figure 4.1) such as sashimi and sushi (谢康玉, 2017), which are also the major types sold in the restaurant. Usually, the kitchen is open to customers and they can see how the salmon is prepared while they are waiting. The place of origin is written on the menu; if it is not, waiters will introduce to customers when they check the menu. While at darkened kitchens, they will show the salmon before they prepare it if customers want to check the freshness of the salmon.

Except for traditional restaurants, a new kind of restaurant is emerging in recent years. The new form combines functions of a retail store and restaurant. When entering the store, customers can find fresh seafood like salmon in the freezer and choose it by themselves. Then the seafood that customers choose will be sent to an open kitchen next to the freezer; the whole processes will be transparent to the customers. The meal usually costs less than 200 RMB (250NOK).

Figure 4.1 Salmon Products in Restaurants

Source: （搜狐网, 2019）

4.1.2 Retail

The salmon products in the retail channel are sourced directly or indirectly from place of origin and then sold in different forms of consumer packs. The consumer packages come as fillet (fresh/frozen), sushi and sashimi. With the cold chain control throughout the transportation, the salmon products on the retail shelfs are normally have the good quality and freshness. As shown in Figure 4.2, the production information contains countries of origin, specification, fish farm, processing methods. In addition, there will be cooking recommendations and product features on the package.

There are a large number of retailers in China, both regionally and nationally. Here, we give two examples of national retailers. Metro, the biggest salmon retailer in the Chinese market, has 97 retail stores in 60 cities. The salmon products they provide are directly sourced from fish farms. All the batches of salmon have to pass inspection and quarantine, certificate of origin, the domestic customs declaration certificate, and the domestic customs inspection certificate (三文鱼, n.d.). Another big retailer in China would be Carrefour. The same as Metro, they develop their own direct channel for salmon products. All the products come directly from the Norwegian fish farm. Except the freshness and competitive price, personalized guided customer service is also a selling feature at Carrefour. Different parts of salmon match different cooking style. The fish meat on the sides of the waist is perfect for sushi. The neck part of the fish head contains a high degree of fat because of contacts with cold current and is therefore more suitable for frying and young people. For children, they recommend the middle back for soup and meatballs. In that way, carrefour sells the parts separately and give cooking recommendations (扬子晚报, 2012).

Figure 4.2 Salmon Products in Retail Stores

(both in the stores and on the stores' websites)

Source: METRO

New retail is an emerging marketing channel in China in recent years. Using both online and physical stores, new retail gives regional customers multiple choices for fresh products. The salmon products include fillet (fresh/frozen), fish cuts and fish steak (see Figure 4.3). Customers can go to physical stores or order online for buying fresh salmon products. If buyers would like to consume at the store, they can have the salmon cuisine in a way that they asked, such as sushi, sashimi or salmon salad.

Figure 4.3 The Salmon Products in the Hema Fresh

Source: own author

4.1.3 Fresh e-commerce

Fresh e-commerce is a popular way of shopping among people aged 25-49. As we can see from the platforms, almost all the salmon products are imported from other countries such as Norway and Chile. The product varieties include chilled salmon, frozen salmon, and smoked salmon. Except for different flavors, the size is various as well. For instance, fish fillet, fish pieces and whole fish. A more detailed product variety and prices are presented in the Figure 4.4.

On the product web page, customers usually can get all the information they want. The product information contains the product name, country of origin, cooking recommendations, packing, net weight, nutritive value, and after-sale services. Besides, the digital retailers who work with famous brands like MOWI, they provide customers with brand's information as well (see Figure 4.5). Customers can learn about the brand story, their activities in China and how the two parties work together. All the products would be delivered within 72 hours (JD.COM, 2020). If the region where customers live has the storage, it usually would be se to customers within a day.

The Prices of Salmon Products on E-commerce Platform

Product Type	Weight	Price (CNY)	Price (NOK)
Chilled sashimi	200g	79.90	99.88
Chilled fish section	400g	129.90	162.38
Frozen sashimi	100g	39.90	49.88
Boneless fish fillet	240g	56.90	71.13
Sharing pack	480g	109.00	136.25
Boneless fish fillet	480g	129.00	161.25
Round-cut fillet	600g	109.00	136.25
Gift box	1.8kg	259.00	323.75
Whole fish	4kg	699.00	873.75

Figure 4.4 The Prices of Salmon Products on E-commerce Platform

Source: JD.COM

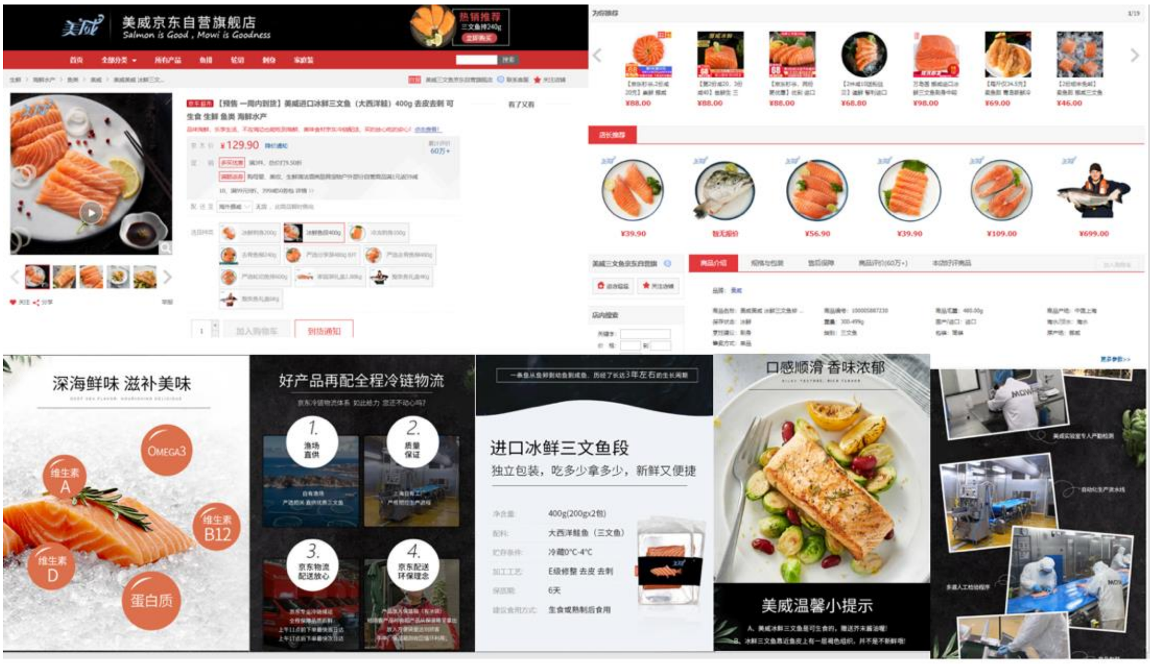


Figure 4.5 The Salmon Products' Page on the E-commerce Platform

Source: JD.COM

4.2 Retail channel in the Chinese salmon market

4.2.1 Development and current trend

In the past, people mainly consumed salmon raw in restaurants. The imported salmon in China would go to foodservice such as Japanese sushi restaurants. At present, as the development of retail channels and the change in consumer dietary preferences, more and more Chinese consumers buy salmon at retail stores and consume at home or purchase it as gifts to their friends. Even if only 10% gets into the retail channel now (Savindar, 2020), we believe that this kind of market demands offer potential growth in the retail channel.

The main marketing channels for retailing is straightforward, directly from foreign fish farms to the retailers. The Chinese retailers would cooperate with fish farms or seafood companies who own the fish farms to supply them without intermediaries. In this kind of channel, the delivery time can be shortened because of fewer channel members. Retailers and fish farms (manufactures) are the two main members involved, except other intermediaries such as logistics companies. Thus, retailers can lower the cost of salmon products, offering a lower price to customers and ensure the freshness of the salmon. The fish would be shipped from farms to stores two times a week, usually taking two days (三文鱼, n.d.). The shelf life of the fresh salmon can be extended to 14 days.

Yong Hui Group, the fifth-biggest supermarket in China, signed a strategic cooperation agreement with Lerøy, an international seafood producer and distributor. The two parties have conducted in-depth cooperation from the entire chain of salmon fry cultivation and breeding to rough processing and chilled air transportation to China, ensuring that the salmon sold in Yong Hui is fresh and fully traceable. Therefore, these salmon will receive better quality certification and a more stable price.

The current Chinese retailing channel is called a “closed-loop industry chain,” meaning that all the processes from the origin to the retailing stores are under retailers’ control, and integration of upstream and downstream members brings comparative advantages. It is a transformation from vertical integration to global supply chain integration. It is showed that more and more retailers are looking for a direct corporation with salmon producers to simplify the channel, making it more cost and time efficient.

4.2.2 Market segmentation

In recent years, seafood has become an essential protein source for Chinese consumers and has even influenced the structure of their diet consumption. However, the seafood market and the consumption volume in China reveal regional discrepancies, depending on the economic situation, geographical background, and dietary habits. The statistics show that 42% of Chinese consume seafood very often, but the remaining 58% ho do not eat seafood frequently are those who mainly live in inland areas (御城雪, 2019). The population in top tier cities consume more than 25-kilograms of seafood annually. In contrast, the Midwest has a much lower rate of seafood consumption due to traditional diets, consumption ability, and geographical reasons. However, with the development of the living standard, consumers' willingness and potential in third-tier cities have been released, becoming blue ocean markets for salmon products. People in third-tier cities have less social and competitive pressure than their peers who live in top tier cities, which gives them more consumption flexibility to buy quality foods and products.

Therefore, salmon retail focused on first-tier cities, and now the retail channel is expanding into the third-tier cities and the coastal regions.

4.3 Fresh E-commerce in the Chinese market

The fresh e-commerce channel is a new e-commerce channel developed in 2005. The products varieties include vegetables, fruits, seafood and other fresh products. However, we cannot illustrate the development of fresh e-commerce for salmon product due to the lack of specific data and previous study. Thus, in this section we will give general background of the fresh e-commerce which is also a potential growth channel for salmon.

4.3.1 Development

- Market size

The foundation of the Chinese e-commerce market can date back to the 1990s, but the time it started to be known and accepted by internet citizens was from 2003 to 2005 (彭波, n.d.). Also, at that time, Alibaba established Taobao, known as China's largest e-commerce platform providing opportunities for both merchandisers and consumers. Consumers can find any kind of products and merchandisers can have bigger consumer base. After that, with the support of state policy and the gradual maturity of the business environment, the e-commerce market grew rapidly from 2006 to 2009 (商业新知, 2019). As the of the e-commerce market matured, the demands of customers became various, which prompted the appearance of a subdivision of the e-commerce market. For example, unlike Taobao.com and JD.com where we can find any kind of products and sellers, some e-commerce companies focus on specific customer segments and market segments. The emerging segments in the e-commerce market are targeting different customer groups such as millennials, women, high-end, etc. The markets are also tailored for specific product as well, such as the platform for imported products, fresh food, or organic products and so on (中国产业信息, 2020). For example, JUMEI.com is only for cosmetic trades and Hena.com is for fresh food merchandise, to name but few. Among these different segments, fresh e-commerce shows significant development.

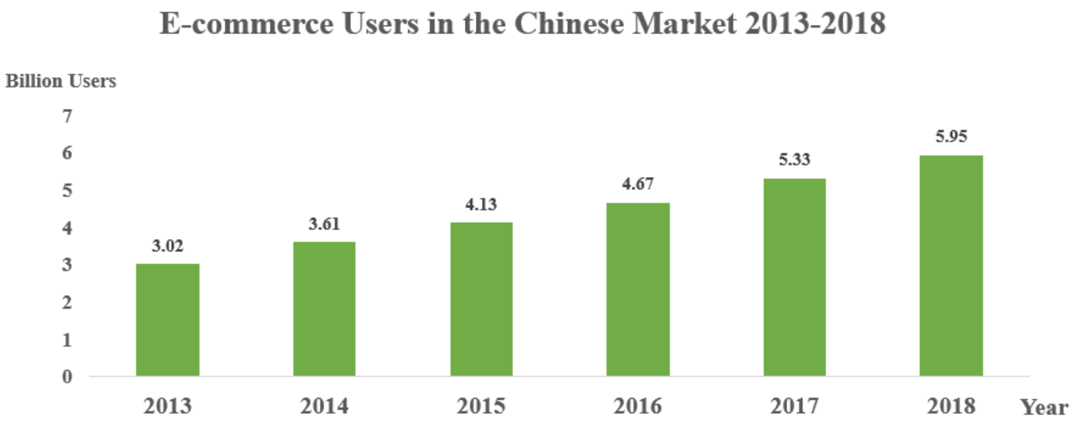


Figure 4.6 E-commerce Users in the Chinese Market

Source: iResearch (2019)

To date, Fresh food e-commerce in China has been going through the infancy stage, exploration stage, and growth stage. In 2005, Yiguo Fresh e-commerce launched fresh e-commerce, which marks the birth of fresh food e-commerce (Liang, 2019). But with more e-commerce merchandisers getting into the market, the expansion of e-commerce in the fresh food market started to stagnate in 2012 due to oversupply. After a series of mergers & alliances, and the industry giant's investment in fresh logistics infrastructure, the fresh e-commerce came to resurgence in 2013, which has continued until today (june, 2020). The transaction value of the market exceeds 200 billion Chinese Yuan (RMB) (250 billion NOK) in 2018 and reached 322.5 billion Chinese Yuan (RMB) (403.1 billion NOK) in 2019 (经济参考报, 2019). The annual growth rate is expected to be around 35% in the next five years (see Figure 4.7).

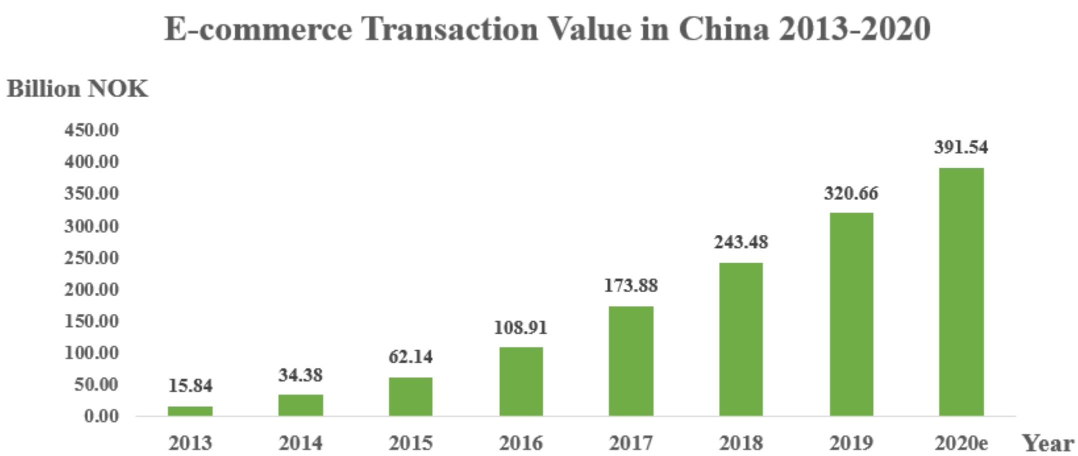


Figure 4.7 E-commerce Transaction Value in China (2013-2020e)

Source: iResearch (2019)

- Characteristics:

Chinese fresh e-commerce presents relatively high concentration and “head effect”, where the e-commerce top five players accounted for 63.1% in 2018 (june, 2020). And in the vertical fresh food e-commerce market, the concentration rate is 37.6%, which is a rise of 12.5% compared to 25.1% in 2017 (iResearch, 2019). Small and medium-sized enterprises faced with financing failure and closed or been acquired during the industry shuffle. While the market giants reorganized the business model and adopted strategic contraction and adjustment through a merger or subsidiary organization. Most of the giant online platforms invested in the supply chain, logistics, and other infrastructure construction of fresh food e-commerce based on their already established scale and financial capacity. Adding fresh food marketing channels into their existing business model is to provide more customer benefits, keep the customer stickiness, and gain competitiveness in the market. Currently, advance in technology development has been adopted into fresh e-commerce logistics. As shown in the Figure 4.8, with the cold logistics technology, the company can implement real time management and ensure the freshness of the products.

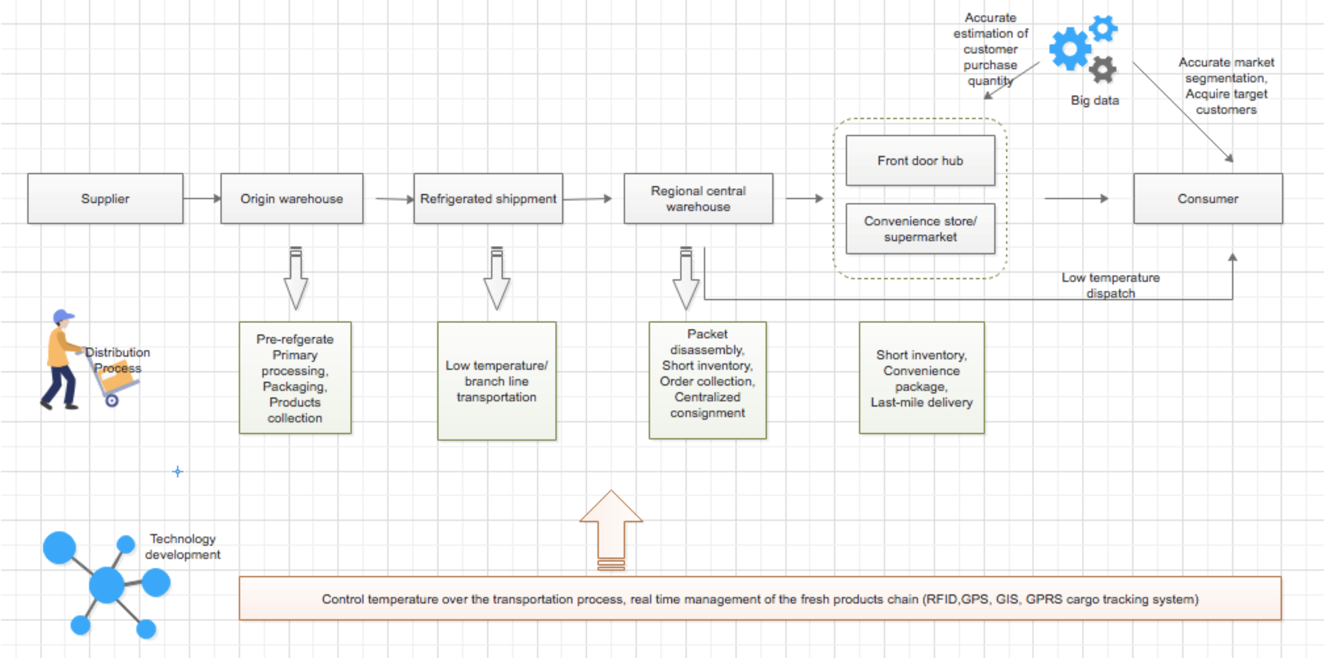


Figure 4.8 Fresh E-commerce Cold Logistics Process in China

Source: iResearch (2019)

- Products

Fresh e-commerce covers different product varieties, from fruits, poultry & eggs, which are with high-frequency demands and vegetables, deli & bakery, to seafood, being medium-frequency demands. The margin differs from 5% to 25%, with the highest margin of 25% in deli & bakery, and 20% in seafood and fruits. The percentage of damaged goods is between 1% to 5% of each product type. The prices for poultry & eggs and seafood are 9%-66.7% higher in the e-commerce channel than physical stores because of the cold chain transportation and the delivery cost (iResearch, 2019).

- Future trends

The market has a significant potential for growth due to technology development in fresh logistics, systematic inventory management, and digitalization. For example, front door hub and click & collect store mode are the two of models used in the e-commerce channel. These business models and operation modes can decrease the damage rate and the operation cost, which will bring more value to the channel and increase the market attractiveness. At the consumer end, the active users of fresh e-commerce are increasing, and the concept of fresh e-commerce has accepted among the inhabitants. As the maturity of the mode of fresh e-commerce, it will serve the customer at the right time, at the right place, in the right way.

4.3.2 Fresh e-commerce marketing channel structure

Within the field of fresh e-commerce, there are several different marketing channels in China that serve the end-users. According to the different business models, their marketing channel structures can be classified into traditional fresh food e-commerce and new fresh e-commerce (see Figure 4.9).

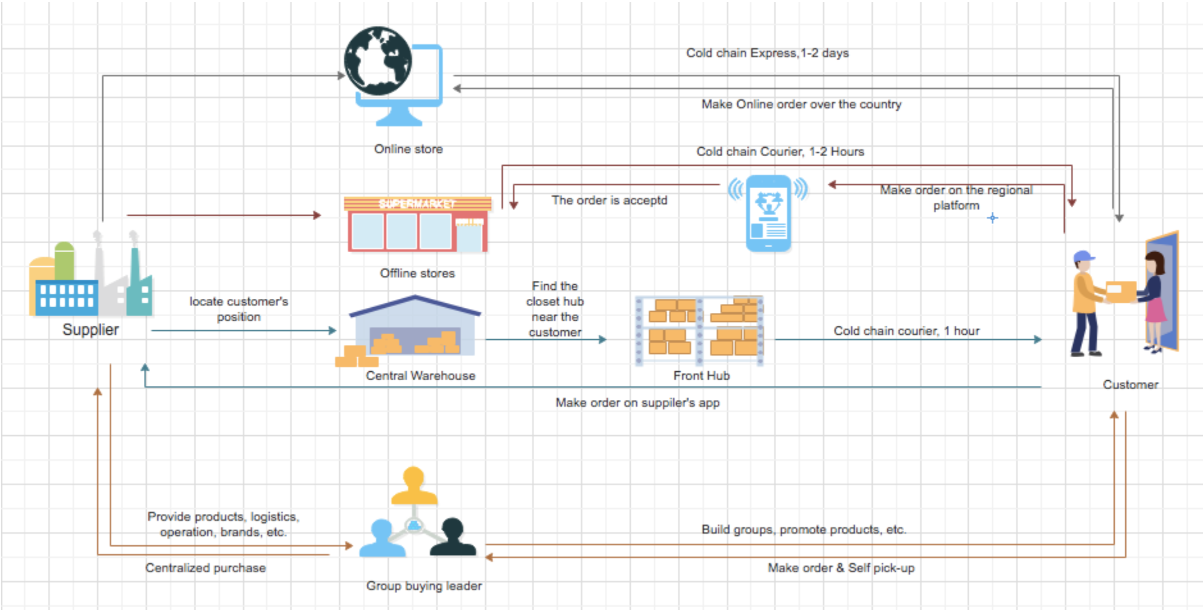


Figure 4.9 Different Types of Fresh E-commerce Channels in China

Source: own author

- Traditional fresh e-commerce

The traditional e-commerce, e.g. JD Fresh, Tianmao Fresh, FruitDay, etc. distribute fresh food products directly to the customers via own logistics or third-party logistics. Normally, this marketing channel covers consumers all over the countries and it takes 1-2 days to receive the goods after customers make online orders. In this channel, the channel members are suppliers, online platforms, retailers/wholesalers, logistics companies, and end-users. Suppliers sell their products through online official flag stores or online retailers. When consumers make online orders, the online stores send out the goods through express delivery (courier company). Lastly, the end-consumers pick up the goods at the delivery point or have home-delivery services.

- New fresh e-commerce

The emerging fresh food e-commerce marketing channels are “platform mode”, “front door hub”, “click and collect”, “community buying” (iResearch, 2019). Compared to traditional e-commerce, these new fresh food marketing channels mainly serve first and second-tier cities and cover consumers within 1-3 km.

- Platform mode: in this mode, various offline stores register into the fresh food e-commerce platform, which is usually developed as mobile apps. When a customer makes orders on the mobile app, the physical store will receive the orders and makes a delivery to the customer. This mode aims to satisfy real-time needs, where fresh food can be delivered in 1-2 hours to customers within 1-3 km.

- Front door hub: e-commerce merchandisers build warehouses closer to the consumers which function as a combination of inventory holding, product classifying, and delivery. The front door hub has coverage of consumers within 1-3 km and a high real-time delivery rate of 1 hour. It has a shorter delivery chain and reduces the cold chain express cost. When consumers make orders online, the supplier will locate the closest inventory hub from the customer and deliver the products to the customer.
- Click and Collect: this is an omnichannel model in the fresh food market. Customers can make orders on merchandisers' website and ask them to cook and prepare the food ready by their arrival to consumer it in the store. Customers can either choose home-delivery service or pick-up at the store after making the online orders. The stores with this type of business model serve consumers within 1-3 km and have the fastest delivery rate of 30 minutes.
- Community buying: this is a group buying platform, especially for imported quality foods, where a group leader is being intermediated between suppliers and the community residents. The suppliers provide products, logistics, brand choice, and all other systematic support to the group leader. The group leader builds customer connections and promotes/share product information to the customer group. Customers make orders according to the shared information via the group leader who will collect the order information and report a summary order to the supplier. The supplier will process the procurement from the manufacturers and send it to the customers.

4.3.3 Market segment

Customers aged between 25-49 account for 68% of the fresh e-commerce users, and the married with kids take majority numbers (iReseach, 2019). Born in the age of economic development and internet bloom, the Chinese millennials pursue higher living standards and are more sensitive to new technology. They used to take advantage of emerging technology such as new mobile apps to make their life easier and have more desire to improve personal consumption standards, putting a higher requirement on product quality and purchasing experiences (see Figure 4.10).

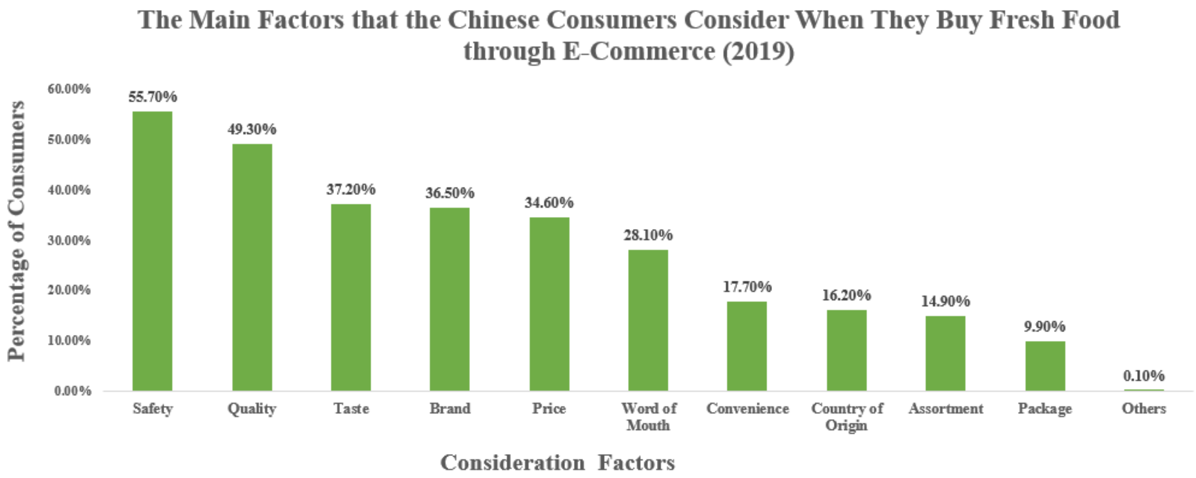


Figure 4.10 The Factors that the Chinese Consumers Consider When They Buy Fresh Food through E-commerce

Source: iResearch (2019)

We can see that the emergence of fresh e-commerce is closely related to the channel strategy that not only satisfying the way how customers want to buy the products but also the product itself. However, if fresh e-commerce wants to survive and develop, it is crucial to define the customer segment and business model to match the concept and the pattern of fresh e-commerce. Fresh food e-commerce currently is a bit luxury consumption and the potential customers are mostly high-income group. Some of the fresh e-commerce merchandisers fail to survive in the market, because they could not target the correct customer segment that fits for the concept and model of the fresh e-commerce (贾敬华, 2017).

Although the above-mentioned characteristics of the customer segments are for both traditional and new e-commerce, we can see the difference on the geographical side. Traditional e-commerce face towards the consumers over the country and people from third or fourth-tier cities also have the access to purchase any of the fresh products that are not sold in their domestic market. The advancement of the internet and online business has reduced the geographical and cognitive differences between urban and suburban economic developments and the restriction of regional traffic on marketplaces. It has become a driver for information exchange throughout the country and broadens the consumer market in urban areas. However, due to the infrastructure and market size, new e-commerce targets the consumer in first or second-tier cities and provides the ultimate service output.

4.4 End user demands for the salmon market

4.4.1 Service output demands for salmon marketing channels

Buying a product is not only paying for the product itself, but also buying a product bundle, here we call it channel benefits/service outputs. Especially in China, the market is customer-driven and service-oriented, which makes it obvious that to win the marked service output should be an important part in a product bundle. Consequently, it is crucial to improve overall channel benefit provision to the target customer segments. In the following text, we will present which service outputs are provided in the Chinese salmon market, which can show what channel benefits can bring value to the marketing channels:

Bulk breaking: The customer packages sold in the retail channel usually weigh as 200g, 400g, 600g and so on. Some of the retailers even have direct sales window for customers that showing the salmon slicing and processing, where customer can buy the desired number of slices or weight. Besides, a small portion of salmon fillet for the kid is available in the market, which is attempting for parents who want to give special care for their kids than themselves. In a word, the bulk breaking is diversified to cater different customers' demand.

Spatial convenience: With the development of e-commerce and the change in shopping habits, Chinese consumers show the increasing demands for fresh food online purchases as well. For people who live outside first/second tiers cities, they did not have easy access to Norwegian salmon at the beginning. Driven by the demands from online shoppers across the country, the salmon products are already available on some of the e-commerce platforms (e.g., JD.com) or through community buying developers. For consumers in big cities, end-users are always reluctant to spend their time and energy on traveling to a specific location to buy something that they want, such as Norwegian salmon. With the use of a fresh e-commerce channel, consumers can overcome geographic limitations, making it easier to get fresh salmon for them.

Waiting time: Due to the freshness of the products and the characteristics of the fast-consuming goods, end users have higher demands on waiting time when they do online purchases. For example, the consumer usually plans for their lunch or dinner just one/two hours earlier or even at the time of lunch/dinner. The most common phenomena is that they use an e-commerce platform to find something good and quick for their tummy. If something (e.g. salmon) is ordered online, they will consider the delivery time, because they want to get the food as fast as they can. To meet this kind of demand, Chinese retailers have adopted a series of new approaches such as the utilization of front-door hub to shorten the delivery time and satisfy the customer's real-time needs.

Assortment and variety: Up until recently, salmon is only eaten at restaurants or as a form of sushi. However, some retailers have developed original Norwegian salmon fillet and smoked salmon since those are suitable for the younger generation and families to consume at home. Some kinds of associate sauce (miso, yuzu, takoyaki…), which Chinese customers do not frequently use in the daily life, is attached to the packed product as well to provide more convenience to the end-users.

Customer service: The customer service we discuss here are mainly: technical support, return, data/record keeping, shipping method, and packaging. Chinese consumers concern more about food safety, so offering good technical support to show more product information is a good way to build customer trust. The development of the blockchain makes it possible for the customer to track the product's origin as well as the other product-related information to assure food safety considerations. Customers also appreciate small samples offering in the supermarket, showing the freshness, and consuming tips to the customer, which can be attractive and educational to the Chinese family that is not currently 100% familiar with consuming salmon.

Information sharing/education: Information sharing/education is something that retailers can put effort into. Even though salmon has become popular among Chinese consumers, the customers still need more instruction about the product, nutrition, and cooking recommendations. For example, some consumers cannot distinguish salmon from trout clearly due to lack of understanding of the salmon, which leads them to buy trout at the lower price. Consumers need to be informed about how salmon differ from other kinds of seafood and why it is worth to pay for the higher price.

Chapter 5. Case study & analysis

In the chapter five, we will firstly use Five Forces framework to examine competitiveness of Chinese salmon market. Then, a SWOT framework will be adopted to analyze a case study of Cermaq. Lastly, we will give a strategic positioning to Cermaq based on our internal and external environment analysis.

5.1 Competitive environment of the Chinese market

5.1.1 Porter's Five Forces analysis

The threat of new entrants

The threat of new entrants is measured by the threat of entry in an industry, which depends on the height of entry barriers that present and the expected retaliation from incumbents. The barriers to entry into the retail channel of the Chinese salmon market appear to relatively high considering the following several factors.

- Government

Government influence can be understood as the social control derived from the values, norms, rules, and practices that result from government regulation or interference in business activities (Li et al., 2011). The Chinese government has relatively strong influences over the market, and exporters face different restrictions depending on their country of origin. Government bilateral relationships pose an essential role in whether foreign companies can have market access to China. For example, Norwegian salmon exporters lost market access because of political reasons since 2010. However, after the two countries normalized the relationship in 2016, the market access for salmon has given to the Norwegian counties Troms, Nordland, and Sør-Trødelag.

The government in China often controls important resources, executive positions, strategic goals (often including social stability), and compensation policies in order to control organizations (Tan and Peng, 2004). However, the central government has implemented business reforms to improve the ease of doing business in China over the past decade. The reforms contain adjustments on foreign companies' getting permits, taxation, and access to utilities. The ease of doing business in China increased from 91st in 2006 to 31st in 2019

(Foreign & Commonwealth Office, 2019), with improved customs administration, port infrastructure, business registration, etc. Despite the improvement of ease of doing business have taken place, foreign companies still should take some other issues into account. For instance, tax compliance and cross-border trade are still ranked 105th and 56th in the world, and China needs to work on to support the international business (Tho, 2019). As for duties and tariffs, Chile has a free trade agreement with China, but Norway, Faroe Islands, and Scotland face with 10% tariffs (Fogel, 2010).

- Incumbency advantage

There are several big players in the Chinese salmon market with significant influences. Firstly, Norwegian salmon has a very solid and mature reputation in the Chinese market. Norway has exported salmon to China for more than 20 years and it is the first country that introduced salmon to China. Norwegian Seafood Council (NSC) established its office in China, Shanghai in 1998. The NSC not only provides market insights to the exporters but also conducts market exploration, educating the Chinese consumers and promoting Norwegian salmon in the Chinese market. Therefore, along the more than 20 years of joint effort and promotion of NSC and the salmon exporters, fresh Norwegian salmon has earned most consumer's trust. It reveals that the incumbency advantage of Norwegian salmon is higher, and the newcomers' barrier is lower for Norwegian companies where they can take advantage of the existing reputation. Vice versa, the barrier is higher for non- Norwegian newcomers.

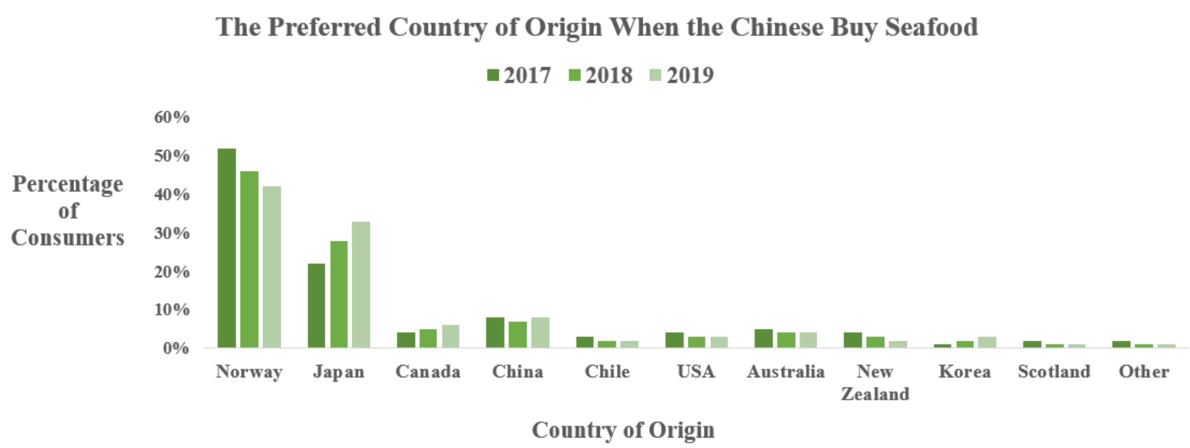


Figure5.1 The Preferred Country of Origin When the Chinese Buying Seafood

Source: NSC (2019)

Secondly, Chilean salmon is well-known in China as well, but they have a more significant market share for frozen salmon products. The offering of Australian salmon affected by seasonality, in which they are active in winter but not in summer (Savindar, 2020). There are different preferences towards these countries of origin, especially in the restaurant channel, because chefs are experts in choosing their raw materials, and they have different considerations for the geographical conditions. While each country has a share of the market, Norwegian salmon is the most familiar and credential among the individual consumers toward consumer packs in retail or e-commerce channels.

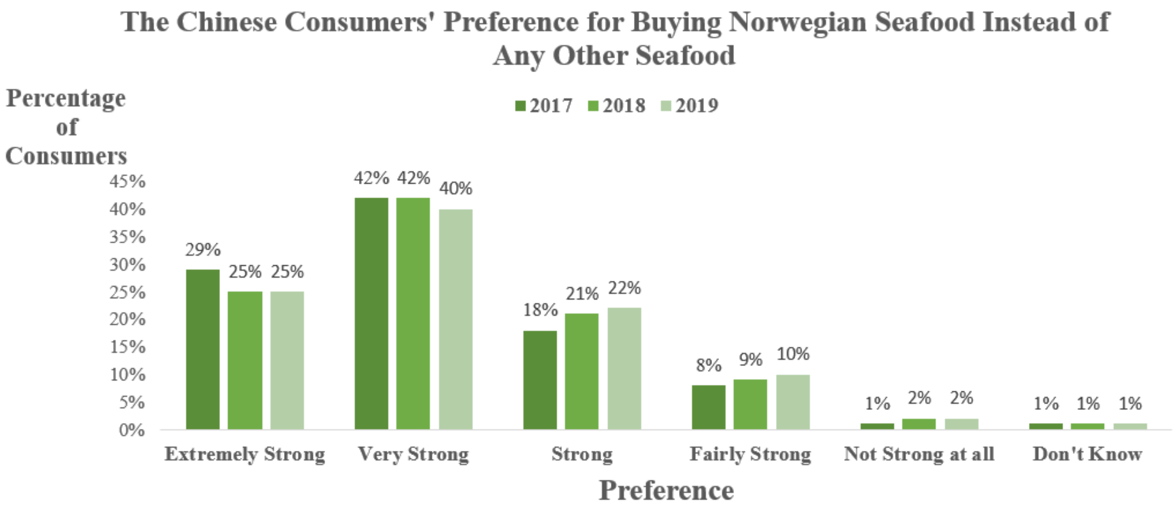


Figure 5.2 The Chinese Consumers' Preference Level for Norwegian Seafood

Source: NSC (2020)

- Access to distribution channels:

The barriers for new entrants regarding the distribution channels are not restricted but it needs time and knowledge to understand each channel and reputable players within the channels. There is a higher barrier for new entrants due to the cultural influence and the business environment where needs time and patience to build up a good relationship with local partner, e.g. distributors, retailers, and other channel members. To do business in China, Guanxi, which means relationship/network in the western term, is one of the important factors. Guanxi is more important than a contract that is simply regarded as a formality and can be adjusted or negotiated afterward (Rakvåg & Sandøy, 2017). The scope and depth of social relationships do matter to business because the Chinese are more willing to do business with the people whom they know properly. It takes months, or even years, to create mutual trust through meetings and to socialize both within the business area and personal life, and long-term commitments are needed to maintain the relationship. However, in the online channel, merchandisers can register themselves into the platform if the relevant standards and certificates are approved. But online consumers tend to look at the ranking and purchase reviews from previous shoppers, in which those with a long history and good words-of-mouth are easy to outstand from the newcomers. Also, it is time-consuming to look through and compare the credence and quality among different stores, as a result, the consumers are easy to stick with the stores that they used to buy seafood from, especially when the product differentiation is low.

All in all, the barriers of entry are relatively high given the policy limitation, incumbency advantage, and the familiarity and credential that is needed in different marketing channels. Therefore, the threat of new entrants is relatively low.

The threat of substitutes

In this part, the threat of substitute is measured in terms of the switching cost of substitutes and the price performance trade-off of the substitutes.

Frist of all, Chinese consumers, especially in top-tier cities, have a wide variety of food options through different channels during the mealtime and the consumer's switching cost is almost zero. For salmon, other seafood, especially imported seafood, are the major substitutes, and less likely to be domestic poultry products. Because the customer's intention for buying salmon is to consume foreign seafood products. In addition to meat and poultry, seafood has become an important source of protein for Chinese consumers. Chinese consumers are increasingly aware of the health benefits of seafood, such as large amounts of unsaturated fatty acids. Consumers want to consume healthy seafood or diversify their food options by introducing foreign healthy food to their diet. Chinese people believe that what they eat is related to their health and in recent years, environmental pollution and food safety have been regarded as key issues (China International Fishery & Seafood EXPO, 2020). Meanwhile, high-quality imported seafood from pure foreign seas is often regarded as a more nutritious, healthier, and safer source of food ingredients. On the other hand, the development of e-commerce and new retail has provided the consumer easy and flexible way to choose and compare between different imported seafood. Many foreign seafood, Norwegian salmon, French cod, Brown crab (Tourteau), American lobster, Argentine red shrimp, etc. can be purchased on the same online store. The most popular new retail channel Hema Fresh, present large variety of fresh food from different countries, showing the freshness and cooking process to the shoppers. Thus, all other fresh imported seafood presented in the same channel could possibly be substitute for salmon, especially when consumers are not determined exactly which species to buy and just hovering over random seafood for the dinner.

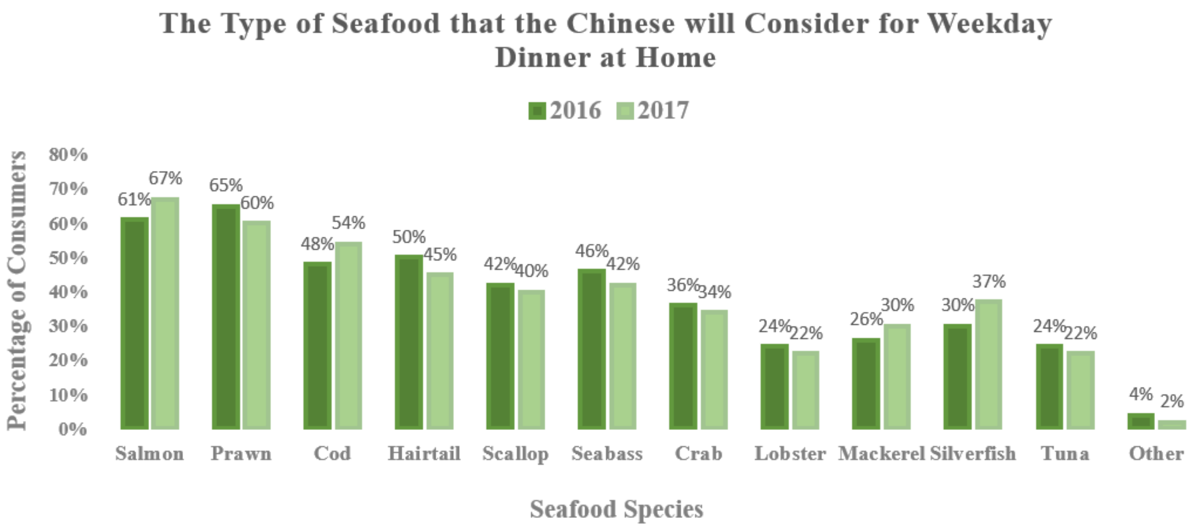


Figure 5.3 The Type of Seafood that the Chinese will Consider for Weekday Dinner at Home

Source: NSC (2019)

Nevertheless, in a survey conducted by NSC for consumer's preference over different seafood options in 2017, salmon is the first choice of the largest group, accounting for 28% of the consumer choices, followed by prawn (13%) and Codfish (10%). We can see that although the possible substitutes are various, the consumer preference toward salmon is quite solid given the freshness, texture, and rich containment of omega-3 fatty acids of the arctic salmon.

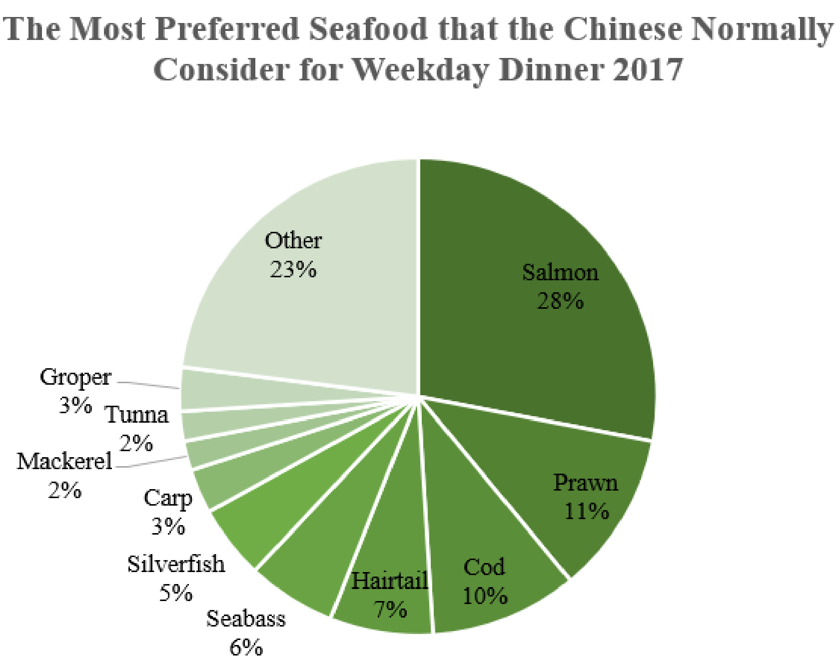


Figure 5.4 The most Preferred Seafood that the Chinese will Consider for Weekday Dinner 2017

Source: NSC (2019)

Secondly, it is less likely for substitutes to offer significant price-performance trade-off to salmon products. Over the last thirty years, the price of foreign seafood in the Chinese market has been changed significantly along the expansion of seafood market and foreign supply (海商中心, 2019).

Nowadays, it is very normal to buy imported seafood around 200-400CNY/kg (250NOK-500NOK) (好顺佳, 2019). However, the seafood customer pack is weighted differently among different kind of seafood depending on the characteristics. Instead of comparing the unit prices of different seafood, the buyers usually tend to compare the price tagged on the consumer packs. Crabs usually sold in one or two pieces in a pack and priced 139 CNY (173NOK), which means 87 CNY (108NOK) for each kilo. While the most popular salmon consumer pack is 69CNY (86NOK)/400g, making each kilo price 139CNY (173NOK). And consumers buy prawn approximately 20-25 pieces (2kg) in a pack with 169CNY (211NOK), where the unit price is 95CNY (118NOK)/kg (链接美味, 2019). As a result, whether consumers choose salmon over other seafood depends on the consumers preferences rather than the price. Consumers do not think salmon is a luxury product that they cannot afford.

However, there was a raging debate in the spring of 2018 among Chinese consumers on whether domestic rainbow trout is the same as imported salmon. The domestic rainbow trout is cheaper, and some merchandisers took advantage of the reputation of Norwegian salmon to boost their sales. But now, most consumers are able to distinguish the difference between the two fish given the market information released by China Aquatic Products Processing and Marketing Alliance. Salmon and trout are the same families, the Salmonidae family, but different genus. Salmon belongs to the Salmo genus and hatch in freshwater but live in the ocean. While rainbow trout belongs to the Oncorhynchus genus and live in freshwater (China Daily, 2018). No doctor or biologist would recommend that freshwater fish be eaten raw because of the parasites that could grow inside human bodies. Saltwater fish can be infected by parasites too, but they are safe to consume raw. Saltwater has higher osmotic pressure and the parasites in sea fish would not grow in the human body and these parasites can be treated by freezing the fish for a certain period (祝 & 曹, 2018). Thus, even though rainbow trout is cheaper and still nutritious, it is needed to be cooked properly before serving. While, Chinese consumers tend to eat salmon raw as sashimi or sushi and they buy salmon for the sake of freshness and as a choice of eating foreign food that comes from the unpolluted ocean, making the trout not a big threat for salmon. Furthermore, the annual production of rainbow trout was 40,000 tons in 2018 (祝 & 曹, 2018). and the percentage of qualified raw consumption was under one-third of the total production. Compared to the 100,000 ton of sashimi and sushi market in China, the influence of 10,000-ton trout is relatively low.

In summary, the threat of substitutes is medium, because of the consumer preferences and product positioning, which are able to overcome the allure from substitute products.

The power of buyers

The buyers here in this section refer to both business buyers and individual consumers. The traditional way for Norwegian exporters to enter the Chinese market is an export entry (Savindar,2020). Usually, Norwegian exporters sell their products to Chinese importers, and then the Chinese importers would distribute to different channels such as wholesaling and retailing. Thus, the Chinese business buyers have larger bargaining power in the channel. However, in recent years, with the emerging of new retail and growth of salmon consumption, many retailers have started to cooperate directly with Norwegian exporters, forming strategic partnerships. Additionally, some of the largest Norwegian exporters have established their own offices and brands in China. In this way, both parties have reduced costs and saved time and all these actions weaken the power of business buyers.

As we summarized before, most of the salmon products in China are consumed in the restaurants as raw food, such as sushi and sashimi. The products present in other channels, retail stores and online shops are mostly packed chilled salmon and only a small portion of products are frozen salmon. Generally, the Norwegian exporters sell the whole salmon to China, then local business buyers will conduct the processing and packing. Most of the products are private-label products and the no presence of Norwegian brands give Chinese business buyers relatively higher bargaining power.

On the other hand, the popularity of marketing channels such as new retail and e-commerce channels demand a more transparent supply chain for salmon products. Consumers care about the source of products and food safety issues. Therefore, the traceability of the salmon products become essential for those channels. Besides, the increasing consumption of salmon in the Chinese market also requires a more stable supply of salmon. Especially, the chilled salmon needs to be delivered to China three or four times a week to ensure freshness. The traceability and stabilization of salmon need the right suppliers (exporters), which make it more difficult to find new suppliers that have the same quality level, increasing the switching costs in changing suppliers. consequently, high switching costs of suppliers weaken the bargaining power of business buyers.

The price of exported salmon in Norway changes every week. The export price ranged from 46.83 NOK/per kilo to 77.04 NOK/ per kilo in the year 2019 (SSB, 2020). Even though, the salmon price fluctuates, the retail price we found in China is quite stable. So, the fluctuation of the price mostly affects the importers and exporters, not the consumers (Savindar, 2020). Moreover, with the improvement of Chinese people' s living conditions, salmon is not a luxury product for most people anymore. According to a survey conducted by NSC from 2016 to 2018, more than 45% of the surveyors from first-tier cities like Beijing and Shanghai eat salmon at least once or twice a month. The salmon price today is not that expensive to Chinese consumers, instead, it is quite reasonable and stable. Therefore, Chinese consumers are not that price sensitive to the salmon now, presenting a relatively low bargaining power of individual buyer.

In conclusion, the business buyers now have the medium bargaining power to Norwegian exporters. Because even though the business buyers have comparative brand advantage, the cost of switching their exporters and the simplified channel structure have weaken their bargaining power. The consumers have a low buyer power due to the weak price sensitivity. We expect that Norwegian exporters would have more power in the future with more developed marketing channels in China and product diversity.

The power of suppliers

Powerful suppliers include a wide range of different supplier groups for inputs. The suppliers we discuss here are mainly divided into three kinds: exclusive distributors, processing plants, and other specialized intermediaries such as logistics firms.

The bargaining power of exclusive distributors is very high. For foreign market entry, using independent intermediaries is very common for international companies. The local intermediaries are familiar with the target market and can help international companies enter the market more smoothly. At present, only a small number of Norwegian salmon exporters have their own offices in China, which means that they can conduct their business activities themselves. For a majority of Norwegian exporters, they can either sell the products to importers or work with exclusive distributors who can help exporters do business in China. The exclusive distributors' jobs may include distributing, selling, marketing of products. Additionally, they would offer information about the Chinese market, and help Norwegian exporters to understand cultural differences. On the other hand, this kind of buyer-supplier relationship might require some degree of investment. For example, Norwegian exporters may have to train suppliers with product knowledge and help build some necessary equipment. In that case, the switching costs in changing suppliers are extremely high since the investment for suppliers cannot easily apply to other suppliers. And finding suppliers with the same quality can be difficult.

The bargaining power of processing plants in China is quite high. More than 90% of salmon sold to China is fresh whole fish (Savindar, 2020). Most of the processing work will be done by local Chinese processing plants. The salmon products present in the retail channel such as supermarkets and online stores have both frozen and chilled ones. Most of the products are chilled ones. The chilled products are sold by different parts: fish section, fish fillet, sashimi, and so on. Except frozen salmon is processed by Norwegian exporters themselves, chilled salmon has to be processed in China because of the costs and freshness reasons. However, only a few big Norwegian exporters have their plants located in China. Therefore, most exporters rely on Chinese processing plants and those plants are irreplaceable.

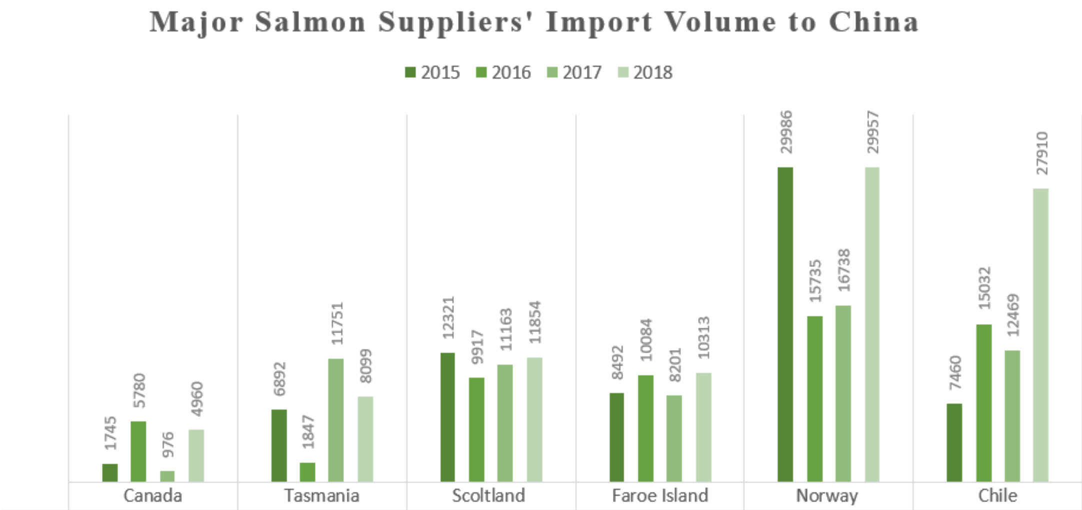
The Chinese logistics companies also hold very high bargaining power. Except for salmon consumed in the restaurants, the other salmon products are mostly sold in the supermarkets and e-commerce platforms. With the convenience of logistics, there are increasingly high preferences on the new retail platforms and e-commerce platforms in China. People can order the fresh products they need on the platform, then the products would be delivered within a given time. For products like salmon require a high level of freshness usually will be arrived from 1 to 3 days after ordered. Sometimes, even within a day. Hence, the service quality of the logistics companies becomes a very important factor to ensure the freshness of salmon when consumers receive it. Each logistics company has its own advantages. Some have their own logistics system; others are more experienced with this kind of fresh products. The switching costs could be high as it is hard to find someone who has the same standards or properties. Meanwhile, maybe there are no substitutes for a certain supplier.

In summary, the switching costs of changing suppliers are relatively high for most Norwegian exporters, and for some suppliers, it is not even possible to find a substitute. Therefore, Chinese suppliers have more power in salmon marketing channels in China.

Competitive rivalry

After the first introduction of Norwegian salmon in 1985, the salmon consumed by the Chinese were all from Norway. However, things changed in the year 2001 after China joined the WTO, which promoted the opening of the Chinese market. Salmon from Chile and Faroe Islands gradually entered the market. Norwegian salmon accounted for more than 90% of share in the Chinese market until 2010 when Sino-Norwegian relations deteriorated (郑小塔, 2019). After that, the imported volume from Norway increasingly dropped and the situation became even worse in 2015 when China issued a partial import ban on Norwegian salmon. Norway suddenly fell from the largest salmon exporters to the sixth one. Many other countries like Chile, the Faroe Islands, Scotland, Australia, and Canada started to occupy the market (中国水产门户, n.d.).

The chilled salmon market grows very fast in the Chinese market. Compared to chilled salmon, the frozen market is relatively stable. Although Norway’s exports have increased after China lifted some import bans on Norwegian salmon in 2018, the other countries remain a place in China. Chilled salmon, as the major product in the Chinese market, Norwegian salmon and Chilean salmon are the two main dominants. The volume of salmon exports from the Faroe Islands to China has gradually increased. Scotland and Tasmania also have a large number of salmon exports (see Figure 5.5). Besides, there are some other countries like Canada that also have some share in the market (沈基文, 2019).



	Canada	Tasmania	Scoltland	Faroe Island	Norway	Chile
2015	1745	6892	12321	8492	29986	7460
2016	5780	1847	9917	10084	15735	15032
2017	976	11751	11163	8201	16738	12469
2018	4960	8099	11854	10313	29957	27910

Figure 5.5 The major salmon suppliers’ import volume to China 2015-2018

Source: (沈基文, 2019)

Chile is an important partner of China in South America. The China-Chile Free Trade Agreement is the first free trade agreement signed between China and Latin American countries. Since its official implementation in October 2006, it has driven the rapid development of China-Chile bilateral economic and trade relations. As the second-largest producer of salmon in the world, Chilean salmon grows under the configuration and nurturing of the icy Antarctic waters in the southern waters of Chile, resulting in the first-class quality and excellent taste of salmon. The Chilean exporters adjust feed formula and improve fry breeding to cater to Chinese taste. When compared to Norwegian salmon, Chilean salmon contains less fat which is more match with Chinese preference. In the past, there was no direct flights from Chile to China, the delivery time usually took about 4-5 days to China. To minimize the risk of salmon damage during long-distance transportation, now several direct routes to China have been opened, shortening the transportation time as well. Additionally, the packaging boxes selected by Chilean salmon companies for the Chinese market are also specially designed which is red representing good luck in Chinese culture.

The Faroe Islands are located between Denmark ’s mainland and Iceland, in a remote location. Despite its remote location, it has icy clear waters, stable sea temperature, strong currents, and fjords that extend deep into the island. The perfect combination of these conditions makes the Faroe Islands an ideal breeding place for salmon. In 2013, China imported 7,672 tons of salmon from the Faroe Islands, accounting for 48% of total imports, ranking first. In 2014, China imported 11,459 tons of salmon from the Faroe Islands, a 33% increase from 2013. In 2015, China imported 15,860 tons of salmon from Faro, ranking first in imports, of which chilled salmon imports were 14,902 tons, 8,169 tons more than Chile, which ranked second (中国水产门户, n.d.).

The unique conditions on the west coast of Scotland are also very suitable for salmon farming. The quality and color of the salmon grown in these peaceful fjords are excellent. According to Chinese customs data, in 2015, China imported 8,503 tons of salmon from Scotland, including 6,045 tons of chilled salmon and 2,458 tons of frozen salmon. Far more than Norway, Canada, Denmark, Australia, and other countries (中国水产门户, n.d.).

In conclusion, when Norwegian salmon was partly banned in China, the other countries’ salmon exporters had had a good performance in China. And even now, they are still the main players in the market. Some of those countries are highly committed to the business and chase for economic performance in the Chinese salmon market, the others hold natural advantages almost as good as Norway. The number, size, and power of competitors are quite big for Norway. Even if now, Norway has already back to the Chinese market, we believe that the intensity of rivalry is still relatively high for Norwegian exporters.

5.1.2 Conclusion of Five Forces analysis

Five Forces analysis gives us a clearer picture of the Chinese salmon market. The barrier for new entrants is high due to government involvement, incumbency advantages and access to marketing channels, and so on. As a quite big player in this market, Norwegian salmon exporters have medium bargaining power regarding business buyers while low to consumers. When speaking of the power of Chinese suppliers, Norwegian exporters have less bargaining power. The threat of substitutes is medium because of the consumers' preference and loyalty to Norwegian salmon. The intensity of rivalry is quite high as other competitors are highly committed to this market. Despite the barriers and challenges, Norwegian exporters still have opportunities to explore profitability in this market given the large variety of channel options and customer groups.

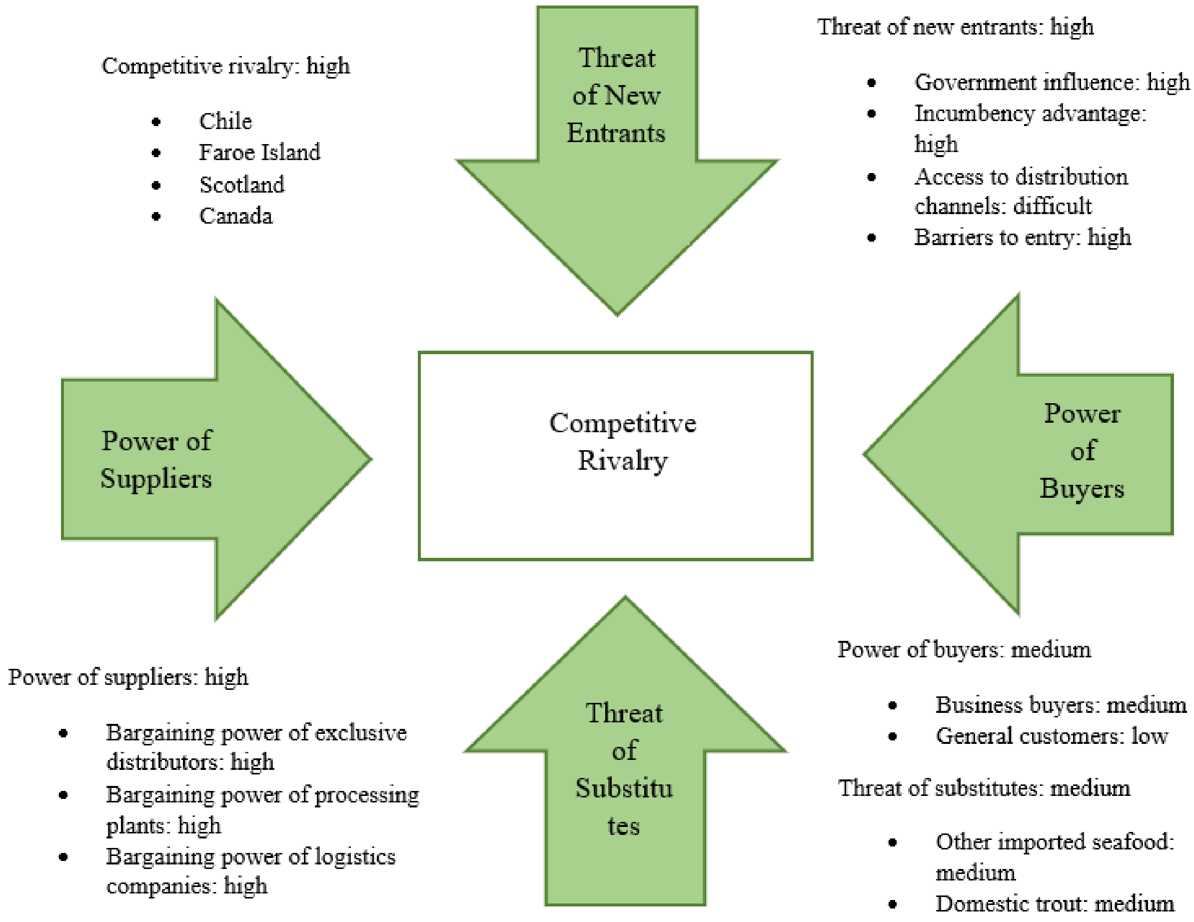


Figure 5.6 Summary of the Porter's Five Force Analysis

Source: own author

5.2 Case study – Cermaq

5.2.1 About Cermaq

Cermaq is a global producer and supplier of salmon and trout, operating in Norway, Canada, and Chile, with more than 3000 employees. The company was found in 1995 as a grain trading company and after a series of transformations, it has been fully owned by Mitsubishi Corporation since 2014. In 2018, the company produced 173 100 tons of salmon products and offered 2.4 million salmon meals daily throughout the main market region: Asia, Europe, North America (Cermaq. 2016). The time Cermaq entered the Chinese market was very early, backing to 18 to 20 years ago. The company mainly exports chilled and frozen salmon to China (Arlid, 2020).

- Products and customers in the Chinese market

In Cermaq, the fish are produced above Arctic Circles. The fish grow slower in the North, because of the cold water. Premium slow-raised salmon is farmed above the arctic circle, which also gives it a stronger colored product, making it becomes a high quality of the fish. In the Chinese market, Cermaq sells most of the fish to restaurants. Under most circumstances, the fish go through the distributors and end up as sushi in most cases. Cermaq mainly sells boxes of whole fish to China. They sell frozen salmon as well, which started 20 years ago. However, they do not have customer packs yet.

When referring to the product brand "Cermaq," it could not say that Cermaq is a brand; instead, it's the plant number. The company has two processing plants, and one of them has a very high reputation in the Chinese market. The logo of the company was blue in the past for frozen salmon. Many customers would ask for a "blue box," and even for new customers, they all mention "blue box." So, a blue box, in a way, has developed into a brand, at least, has a preference in the market.

In terms of customers, Cermaq is trying to limit the number of customers to ensure a stable supply of salmon. Their operation in the Chinese market is divided into three regions: North, East, and South, giving exclusivity to these regions. Cermaq has a long-term relationship with its distributors, and they work together in building up the customers' preference for their fish. The company also thinks about reaching sushi chefs, which is a target group going forward as well. For now, their main customers are still in HORECA and have some developments with retailers.

- Marketing channel structure

Cermaq sells salmon from Norway to a Chinese importer, using a commodity approach, and works with exclusive distributors in China. They divided the Chinese market into three regions: Beijing, Shanghai in the East, Gansu in the North, and Shenzhen and Hongkong in the South. The company uses those top cities as hubs. They send the whole salmon to distributors in the different regions, and then distributors would distribute the fish into the HORECA market. The transaction frequency is three times a week, sometimes even five times (Arild, 2020). Their partners will plan for different sales channels, and Cermaq would participate in the discussion regarding who are the target customers and what could be the promotion. Even though Cermaq does not have an office in China, they work closely with the Chinese partners and HORECA customers. Knowing each other for years, their partnership with distributors mainly based on mutual trust. Exclusive distributors can translate the culture and provide market insights. Cermaq makes sure that they can provide a stable supply to their customers, and that is also the reason why they try to limit the numbers of customers, ensuring reliable supply to customers they already had. As Arild said, the head of Global Sales and Marketing at Cermaq: "*It's important to build the brand that you did not buy Cermaq one day and MOWI the other day*."

5.2.2 SWOT Analysis

Strength

- Technological advancements

Cermaq pursuit a sustainable way for salmon farming. Their research emphasizes on fish health, genetics, nutrition, and technology to ensure that their salmon is healthy and strong, and the farming activities are sustainable. They are searching for innovative ways and new technologies to make a balance between nature and fish.

Now, more than 50 research projects are conducted by Cermaq, aiming to develop and use new knowledge and techniques in salmon farming. The fish health & welfare projects are significant for the productivity and sustainability of farming. By identifying the causative pathogens and revealing the transmission routes of these pathogens, Cermaq develops preventive approaches to against different diseases (Cermaq, 2016). For the disease SRS in Chilean aquaculture and ulcers and lesions in Norway and Canada, Cermaq is working on those issues and trying to find a solution.

Cermaq also focuses on new technology development. The company launches the iFarm project in January 2020. This technology is based on image recognition and identification of each salmon and individual follow-up of each fish (Cermaq, 2019). With iFarm, a fish with sea lice can be sorted out for treatment. Meanwhile, the need for fish care is reduced as well. According to Geir Stang Hauge, the CEO of the company, which develops the sensor-based solutions for iFarm, the critical fact about iFarm is that it can be used to monitor each salmon, record a health condition for each, and can sort aside from the ones who need follow up. This is beneficial to not just farmers, but also consumers.

Cermaq has research facilities in both Chile and Norway, where it has operations. They believe that it is essential to conduct tests under relevant conditions and situations. Cermaq Norway has four R&D licenses for Arctic Salmon Salmon Research Centre in Finnmark, Norge, working with the University of Nordland, Norwegian University of Life Sciences, and other institutes. Besides, a global fish health research team owned by Cermaq is based on the Technology Centre of the University in Bergen.

In summary, Cermaq keeps trying to develop and implement technical measures to ensure the fish's health and welfare. At the same time, the company intends to find a more sustainable way to conduct its activities. The R&D process of Cermaq is valuable for both organizations and consumers, becoming a strength of Cermaq.

- Organizational culture

The organizational culture of Cermaq lies on five values. Firstly, as a company, Cermaq has the same purpose as others that make profits and reduce costs. Secondly, Cermaq shoulders the corporate responsibility to society. The organization understands that they should be responsible to the people, communities, and environment when they implement business activities. The third value is integrity. It stresses loyalty, fairness, and respect in the company. Fourthly, Cermaq weights sharing success and concerns. They believe that transparency and involvement create trust and improve the quality of decisions and outcomes (Cermaq, 2016). Last but not least, Cermaq shares a long-term perspective. The value created over time and long-lasting customer satisfaction is the standard to measure success.

From the perspective of Cermaq, it supports the 3Ps (profit, people, planet) in the triple bottom line. Except for the profit, it also cares about people and the planet. It considers the sustainability of the system. Nowadays, customers increasingly want to know whether the products they buy are safe and produced responsibly. The positive company image may help Cermaq get more customers now and in the future. Many companies are now measuring their carbon footprint, trying to reduce the carbon emission during the production process, so does Cermaq. This is a way that directly and indirectly helps the company cut costs and supports economic sustainability. The value of integrity helps Cermaq build morale and pride. The respect and fairness within the organization usually strengthen employees' loyalty, becoming intangible assets of the company. The transparent information-sharing mechanism with shareholders and partners builds trust between parties, resulting in more efficient decision-making.

In conclusion, the five values of Cermaq improve the company's sustainability, form harmonious relationships with shareholders and partners, and build morale among employees, strengthening the company's capabilities.

- Alliance

As mentioned before, Cermaq uses exclusive distributors in the Chinese market. The relationship between them is quite close after years of cooperation. Those independent distributors help Cermaq make plans for each marketing channel and sell products to each channel, reaching to the consumers. These partners also educate Cermaq about the Chinese market and Cermaq gets many insights from its distributors.

Independent intermediaries play an essential role in the Chinese market for Cermaq since Cermaq does not have an office in China. On the other hand, this importance becomes a strength to some degree. As mentioned by Arild: "*the one close to the market is the one that knows the market best*." The Chinese distributors that Cermaq works with are the ones who know the market best. They understand what consumers demand, how to do the promotions, how to go through the marketing channels.

- Suppliers

Cermaq considers that the suppliers play a significant role in innovation in the salmon industry, and the company has cooperated with the leading suppliers in the field. The suppliers we talk about here are closely related to the quality of salmon, which include vaccine suppliers, feed suppliers, and suppliers of transport of live fish.

The vaccines developed by vaccine suppliers are effective against bacterial and viral diseases, avoiding fish diseases. High-quality feed contributes to fish health. The innovation of feed even reduces the carbon footprint from salmon. The advanced system provided by transport suppliers ensures a stable environment when fish are transferred to the sea and the processing plants. All these suppliers are connected, becoming the guarantee of the fish quality during the whole farming process.

To summarize, with the efforts of these suppliers, Cermaq could produce health and premium salmon. The sustainable way they conduct parallels with Cermaq's sustainable strategy as well. They strengthen the competitiveness of the products and become an advantage of Cermaq.

- Products

The salmon is produced above Arctic Circle at all Cermaq's farming in Norway, compared to other salmon producers who farm salmon all over Norway. Cermaq utilizes natural elements that are exceptionally favorable for salmon to achieve the uniqueness of the product. Specifically, in the north of the Arctic Circle, the mountain plunge straight down into the water to meet seabeds where the cold water is circulating (Cermaq, 2019). Given the frigid water of the North of the Arctic Circle, it takes 3-4 more months to grow salmon. This kind of Arctic effect gives the unique salmon quality with stronger color and fattier taste, resulting in the premium slow-raised salmon. Thus, Cermaq raises salmon in an optimized natural environment with the most sustainable farming practices. At Cermaq, the salmon has a CV that indicates the background of the lifelong process of salmon growth, providing the full traceability of the products. All those unique attributes make Cermaq's products outstanding than others regarding the quality, becoming a competitive advantage of Cermaq.

Weakness

- Bargaining power

Cermaq monitors and controls each step of the value chain themselves, from the farm to the grocery store. In this section we focus on marketing & sales activities where Cermaq does not have much strength. In China Cermaq has been focusing on B2B, which is in the food service segment where they have a close relationship with their partners that have given them market insights. Nevertheless, they have lower engagement in retail where 10% go through the distributors. Cermaq does not involve themselves in the downstream activities and they have no direct relationship with the end-user. Therefore, the distributors hold more of the bargaining power. Independent intermediaries play an essential role in the Chinese market. The value that can be added at the secondary processing and the retailing is beyond the company's control.

Also, Arild said that Chinese customers prefer big fish because salmon is mostly prepared as sushi, which is tastier when it is fattier. However, only 2% of the salmon produced in Norway reaches above 6kg (Arild, 2020) since it is unreliable. This is not only a weakness for Cermaq but also a global challenge for the salmon producers. Any producer could enter the Chinese market as long as the fish they offer has the desired size since large salmon is the type Chinese consumers would be willing to pay premium for. Therefore, the bargaining power of Cermaq is limited because of the salmon size.

- Brand

In the Chinese market, Cermaq is well-known because of the plant numbers of its two processing plants that are both located in Norway. The plant number is related to where the fish comes from, the softest salmon can be found in Finnmark (Helander, n.d.), where one of their plants located. That is to say, their plant number is the brand in China, instead of Cermaq itself. For frozen salmon, they used to sell the salmon to their partner with a blue box, and now the "Blue Box" has become the metaphor for the brand. The "blue box" salmon attract new and old business consumers of Cermaq because of its quality and the region.

While they have built up the preference in the market primarily based on the technical quality of the fish as blue box, the company name is not that well-known beyond the distributors, especially not in the retail channels. With consumer demands and the development of new retail and e-commerce channels, Chinese retail sales in the salmon market is expected to grow. However, the lack of brand awareness among consumers causes them to lose the market leader/first-mover advantage. The industry competitors are already presenting themselves in the retail channel. Once they gain consumer trust and build customer loyalty, it is hard for newcomers to break through the market. Due to the extreme variation in product types and producers in the market, some of which are free-riders or forged fake merchandisers, Chinese customers show more brand loyalty and image awareness when it comes to consumer goods. Especially when they buy foreign products since they do not have the expert knowledge to distinguish "good" products from "bad" products, which makes the brand one of the most important criteria for their purchase decisions. Thus, in the retail channel, they would be more likely to choose the well-known brand from the shelf space among different brands to ensure the quality of the food.

Opportunity

- Legal and regulatory requirement

The Chinese import regulation requires that Norwegian farms that export salmon to China must have no outbreaks of infectious salmon anemia (ISA) and Pancreatic Disease (P.D.) within two years. Also, there is a list of regions and organizations that are banned from exporting to the Chinese market. Compared to the peers in Norway, Cermaq obtained market access without any of the limitations mentioned above.

Although the Norwegian salmon is charged a 10% import tax and 9.5% consumer tax now, the two countries are negotiating a Free Trade Agreement to be reached. In May 2019, the top Chinese legislators had an official visit in Norway, expecting to cement the bilateral relations and to make strategic plans for the development of new areas. The two countries have strong economic complementarities, and the outlook of the Sino-Norwegian cooperation is comprehensive, from maritime affairs and fishery, to environmental protection. Once the FTA is signed, the company will gain the price competitiveness and more accessible to forgo market expansion (Xinhua, 2020).

- Ecological and environmental issues

Aquaculture will play a significant role in feeding the growing population, which also applies to the Chinese. For the development of the seafood industry, the Chinese people's consumption power is one of the driving forces. Another driving force that cannot be ignored, is the possibility of a sustainable food source. To assess China's existing cultivated land reserves and resource carrying capacity, China's moderate population is between 1 billion and 6.5 billion. Still, in the next 10-20 years, China's population is expected to reach 1.55-1.65 billion (尹丹, 2012), which is almost moderately carrying two times. Therefore, after 8-10 years, China's land supply and demand gap will reach 865 million acres-1.65 billion acres. The supply of protein from marine products will become a top priority to fill such a significant food demand. This is also why China is eager to implement the 13th Five-Year Plan for fisheries with sustainability. As a result, China does not only strengthen its aquaculture but also increases the import of foreign seafood. Salmon, as one of the Chinese's favorite seafood, shows an attractive market for the company. Norway's aquaculture industry ranks among the world's leading programs, and Cermaq also geared up and focused its vision as a driver for sustainable aquaculture. With this apparent demand for the salmon products and the development of the sustainable salmon farming scheme, Cermaq is in an excellent position to go forward.

- Electronic commerce

The development of Chinese e-commerce creates a significant potential for the company to take innovative promotions through digital technologies. China's e-commerce food consumption is expected to take up approximately 20% of the retail market share by 2020 (Karlsdóttir, 2017). The Chinese are enthusiastic users of online shopping and their shopping behavior is influenced by social media and online videos to a great extent, where they can find new trends and inspiration. E-commerce is the most common platform for Chinese to buy imported foods because of the availability, variety, and price. Along with the resurgence of fresh e-commerce, salmon can be purchased anywhere around the country. It provides the salmon exporters like Cermaq an excellent opportunity to excel in the business using the current hubs in the top-tier cities to distribute the products broadly. The biggest online platforms and logistics providers all cooperate with a strategic plan to serve the consumers flexibly. The reduction of transport costs through the cooperation benefits customers with lower price. Thus, e-commerce has been the most successful platform to launch a new product and educate the target group.

– Buyers

For now, Cermaq's consumers are mainly business buyers. We usually call it "HoReCa" in the market, namely hotels, restaurants, and cafeteria. More than 90% of the salmon is consumed in this channel in China, and that is why Cermaq right now mostly does business through this channel. However, with the increase of total salmon consumption volume in the Chinese market, the retail chains are getting more prominent as well. Except for restaurants, people usually buy salmon in the supermarket and fish shops or order it online. More than 60% of people would choose a supermarket, while nearly 23% of people will use online shops (NSC, 2019). The traditional retail channel and e-commerce channel are the two largest channels in the retail channels. Some retailers like Metro AG and Carrefour S.A. have worked directly with fish farms to get salmon from the fish farms. These buyers in the retail channels could be a new opportunity for Cermaq as well.

Besides, some niche market segments emerge in the market with the development of society. The target group for each niche market has been narrowed down—for example, the mother and baby group, high-income white-collar workers, aged people, and others. The Chinese market can now be divided by many groups based on different standards, such as age, income, or personal characteristics. The dominant group that consumes seafood, such as salmon in China, is people aged between 18-34 years old (NSC, 2019). Generally, people in this group received high education, have high standards for life, and have a decent income. With the improvement of living conditions of people, salmon is no longer expensive for most people. It becomes affordable given increased income and lower price of salmon. They pursue a high-quality lifestyle. And not surprisingly, most of them have children. There are many potential niche market segments in this group that can be targeted. For instance, families that have children, single high-income white collars. Customer heterogeneity is a basis for addressing marketing strategy. When reaching the mass market, the next stage should be identifying latent customer heterogeneity. A better understanding of different consumers' needs can give Cermaq a competitive advantage in the future. Therefore, those potential target marketing groups in China could be an opportunity for Cermaq.

- Sociological trends

China has a long cooking history and vibrant food culture. Chinese believe that there is a close relationship between food and health. In recent years, environmental pollution and food safety issues have become increasingly severe in China. Imported seafood is often considered more nutritious, safer, and healthier. Additionally, consumers are increasingly aware of the health benefits of seafood. Therefore, in addition to pork and eggs, seafood has become an essential protein source for Chinese consumers.

When it comes to the reputation of Norwegian seafood, Chinese people believe in its clean water quality and strict quality control. Norway is the most preferred country of origin when Chinese buy seafood (NSC, 2019). And salmon, as one of the most important breeds exported from Norway, has long been hailed as a superfood for its nutritional and health benefits. Chinese love the high-quality, fresh, and safe Norwegian salmon. With the continuous growth of demand for Norwegian salmon in the Chinese market, we consider that Cermaq will have a larger growing space in China.

Threats

- Substitutes

For the imported salmon in the Chinese market, there are different countries of origin that all pose a threat of substitutes to the company. Given the fact that the international relationship between China and other countries is getting closer, it is expected to have more foreign companies from different countries enter the Chinese seafood market. For example, Australia, Chile, Canada, England, and the Faroe Islands, which are other leading players in the market and have a free trade agreement with China.

After the Free Trade Agreement in 2006, Chile and China have signed two agreements aimed at promoting the salmon trade recently. The first one is to establish an electronic certification system for the import of aquaculture products, and the second one is to open up the fish oil consumption market in China. Under the new framework, there will be more Chilean chilled salmon exported to China, compared to the past few years in which most of the salmon from Chile were frozen products. Besides, Chilean exporters supply non-destructive premium large salmon to the Chinese market to satisfy the Chinese customers' demand for the salmon size. Moreover, they pay special attention to the Chinese customers by choosing red boxes, because red symbolizes good luck in China. The products are finely sieved and packed into a more robust and pressure-resistant package to minimize the risk of damage during the long distance (顺景发， 2018).

The trade facilitation policy between China and Canada and the development of cold chain transportation have boosted the Canadian seafood producers to enter the Chinese market. For instance, the import of Canadian salmon, lobster, and oysters are increasing, and the products can reach the first-tier cities within 36 hours. It was reported on the news from Sunkfa.com that the clearance time of several major cities, including Shanghai, Beijing, Guangzhou, has been shortened to less than 2 hours. The policy and geographical advantage open more opportunities for newcomers, putting pressure on the existing merchandisers like Cermaq.

Also, Australian salmon exporters can deliver the fish quicker to the Chinese market due to the frequent and direct flights between the two countries. Last but not least, the other Norwegian salmon exporters reveals threats for Cermaq, because they have the same reputation as "Seafood from Norway" and some of them, e.g., Mowi, Salmar, and Brova have already entered in the retail channel. The market share and the presence of other Norwegian salmon exporters in brick-and-mortar stores and online stores can increase customer awareness and become rivalry for Cermaq.

- New market trends

In terms of the foodservice industry in China, the new retail is the biggest threat to traditional food services, where Cermaq's 90% of salmon goes to (Arild, 2020). Specifically, the convenience stores or supermarkets that are characterized as new retail are not only sell fresh raw material for cooking but also offer catering services. For example, Hema Fresh offers various food processing services and catering at the stores, which is becoming consumers' favorite choice for eating out. Nevertheless, it is a common for many traditional restaurants to offer take-away, functioning as a mode of the restaurant plus new retail to retain the customers. And the trend is that the take-away is taking over half of the restaurant sales nowadays (天财商龙， 2019). But under this kind of business operation, most of the revenues go to the online platform operators, such as Meituan (The biggest Chinese Coupon Corporation), not the restaurant. Because the restaurant themselves are lacking the infrastructure to fully use the online platform operation and they are not taking full advantage of the take-away option. Thus, traditional restaurants would face losing customers to new retailers or getting lower revenue, which eventually affects the upstream suppliers of traditional restaurants, as Cermaq.

5.2.3 Conclusion of SWOT analysis

The investigation of Cermaq outlines their product quality, technological advancement, and the relationship with the leading suppliers, alliances, and sustainable organizational culture as strength. While the weakness includes delicate bargaining power in the marketing channel, and the lack of brand presence in the retail channels. Conversely, opportunities are coined around buyer preference towards the real Arctic salmon, environmental demands for a sustainable food source, broad marketplace from e-commerce, the sociological trends of eating healthy food, and the released regulatory requirement of the Chinese business environment. Finally, the antagonizing threats include competition from new-comers and the various substitute products and services.

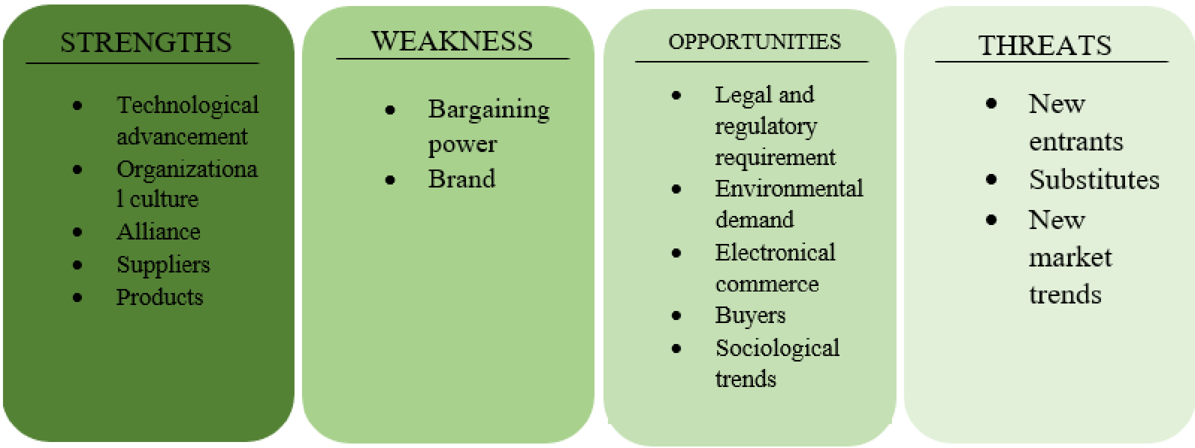


Figure 5.7 Summary of the SWOT Analysis

Source: own author

For Cermaq, they might use their good quality of products to overcome the weakness of bargaining power. They can take advantage of different segments of buyers and other opportunities to reduce the threats of entrants and substitutes. With its significant strengths and the broad opportunities of the external environment, Cermaq could improve its performance and maintain the position in the Chinese market.

5.3 Alternative strategy for Cermaq

5.3.1 Strategic positioning

Business strategy should be based on the industry structure and the strategic positioning of a company. The Five forces analysis in Chapter 5 provides the generic industry structure and the competitive balance of the Chinese salmon market. As we can see, the competition in the Chinese salmon market is still very fierce, and the overall power of Norwegian exporters is at a medium level. The SWOT analysis of Cermaq gives an understanding of the firm-level internal capabilities and constraints and external opportunities and threats.

To form competitive advantages in an industry, the company could either present differentiation or have a cost advantage (Porter, 1994). In the case of Cermaq, we would assume a differentiation strategy in the retail channel under the current Chinese market evaluation. Drawing on the SWOT analysis and putting the Five forces of the overall industry structure in perspective, Cermaq has less advantage on the cost compared to exporters from other countries such as Chile due to the FTA. The current Chinese market is identified as attractive but with fierce rivalry, and the Cermaq's advantage is in the product quality rather than the price competitiveness. The salmon industry's differentiation factors can be close to customer relationships, environmental focus, organic-profile, and branding (Felzensztein and Gimmon 2014). The company can develop a high-quality level and specific customer benefits, regarding its brand image, technology, and the service, to offsets the impact of a higher price. Even though salmon is not a luxury product anymore in the Chinese market, it can still target the high-end market providing niche products and services.

5.3.2 Value proposition

Value proposition, also known as strategic positioning, is a part of a winning strategy. The way to identify the value proposition is various. However, three essential questions need to be answered: what customers, which requires, and at what price. Here, in this section, we will identify the unique value proposition of Cermaq by answering the three essential questions.

– What customers

One of the essential considerations for strategic positioning is to serve most or all the needs of a specific group of customers. Based on strategic positioning, we would mainly focus on high-end customers. We divide the high-end customers into two niche groups: highly educated white collars and families with children. Their characteristics and the intention of buying Salmon is illustrated in the following texts.

- Highly educated white collars

The number of higher educated people in first-tier cities accounts for more than 20% of the regional population, such as 33.7% in Beijing and 21.1% in Shanghai (腾讯网， 2019). For this group, customers' earnings are at least the middle or higher, and they pursue a high-quality life. They have high requirements for food, clothing, and other aspects of daily life. They are more willing to pay a relatively high price to try premium tastes and prefer imported products. From another perspective, their purchasing behaviors are not just a physical satisfaction but also for psychological reasons. The higher price they can afford is a symbol of their capability, and people tend to share this movement on social media. Many people like to post lovely pictures when having a delicious meal or favorite food to show the standard of their life. When the Cermaq's salmon products appear on the white collar's post as a premium product, it will be easy to influence the peers who have the same financial background and pursuit.

- Families with children (the generations after 1980s and 1990s)

The advantage of targeting families with children is that this is an excellent chance to foster the eating habits of children. Usually, the eating habits that people develop from childhood could follow them life-long. Therefore, there would be a probability of acquiring future customers while the new generation grows up. Also, targeting families with children could give more extensive consumer coverage and potential growth, considering the population share and the characteristics of the millennial families.

For the generation of the 1980s, most families have already had one child or more after the abolition of the one-child policy in China in 2016. And for the generation of the 1990s, at least some of them have ushered in their first new-born. According to a survey conducted by NSC from 2016 to 2019, around 56% of the household were 3-member households, while approximately 30% of homes were four or more-member households. The family with any child/ children up to 5 years old accounted for more than 28%, while a family with any child/ children 6 – 12 years old were 26% and household with any child/ children 13 – 17 years old was about 9%. Unlike the older generation, the people born after the 1980s and 1990s are more willing to embrace new things.

Furthermore, the time they were raised was when China started to reform and open up. The culture they received makes them more inclusive. In these families, the parents are very concerned about the nutritional intake of their children. The daily diet is an essential way for them to keep healthy. Seafood, as a vital source of nutrition, is also taken into consideration. Also, most families have more confidence in imported products and prefer to purchase imported products for their children. Because some serious food safety problems have raised the Chinese consumer's concern for choosing credential sources for food. For example, after the Sanlu infant formula milk powder event in 2008, people did not trust domestic brands for a long time. Thus, Salmon, as an essential source of omega – 3 fatty acids with high nutritional, health benefits, and the best country of origin, has more potential to be accepted by these parents.

The two niche groups mentioned above could be Cermaq's new target groups in the B2C market. Even though their salmon product needs are different, their final goal is the same: high-quality imported salmon products. Both groups are mainly high-income people with higher education, so the price is not a limiting factor. Their choice for salmon products is either to enjoy high-quality life or the best for their children. The premium-quality Salmon above the Arctic Circle from Cermaq is their first choice.

- Which needs

In this section, we try to define what kind of customers' needs Cermaq is going to satisfy, regarding the products and services. It's been discussed that the product characteristics such as fresh color, fat content, texture give scope for differentiation, but many of these efforts, to different extents, have been adopted and failed to stem the innate differentiation in the commodity market (Felzensztein and Gimmon 2014). However, Salmon presents a potentially significant advantage in the geographical limitations of its availability (Felzensztein and Gimmon 2014). Thus, we aim to identify the differentiation by compliance with a regional characteristic of the salmon and environmental farming practices with stringent safety regulations.

- Product

For the product itself, Cermaq can deliver premium salmon characterized by the technical quality and specific region of their farming in Norway. As mentioned in Chapter 5., all Norwegian salmon farming in Cermaq is above the Arctic Circle, which raises the unique and premium Salmon. Compared with other Norwegian salmon farming regions, the Arctic Circle has lower temperatures than southern Norway, leading to slower salmon growth and thicker fat in Salmon. Thus, the Salmon has a delicate color, perfect texture, exquisite flavor, and the content of unsaturated fatty acids is richer. The salmon species have become popular in the Chinese market, but the availability and variety in the market are quite similar. To stand in the market with significant differentiation, the company could build the image of Salmon's real taste from Arctic Circle and serve the consumers with the most excellent Norwegian Salmon.

- Feature

Consumers are increasingly concerned about the environmental practice of farming and processing as well as the welfare of the salmon growth. Cermaq salmon farming is based on a well-articulated and high-quality scientific approach, consistent with the consumers 'stringent environmental standards and carbon footprint. Healthy fish comes from both the optimal conditions and the good routines adapted in the different processes throughout the life cycle. (Cermaq,2017). Cermaq ensures and enhances the salmon welfare by keeping them in good condition and a favorable location. The company could offer the customers the highest safety and quality standards that come from strict regulations and measures of farming. Building an image and concept that the Salmon they are eating comes from sustainable farming practice.

- Services

Consumers emphasize added value and qualitative service outputs, as discussed in Chapter 4. As a part of the value proposition, the customer services desired for the target customers are critical, and the firm can improve customer satisfaction by offering unique services (Felzensztein and Gimmon 2014). In our case, we aim to emphasize the dimension of product assortment, information sharing, and spatial convenience. In terms of product assortment, it is good to provide different varieties. These include a ready-to-eat personal pack in the form of poke bowl or sushi, family sharing package of sashimi as a side dish to the dinner, smoked Salmon for a sandwich, etc. These kinds of products can help the high-end consumers to build or adapt the home consumption behavior for salmon products. Gradually, the customers get used to eating Salmon in any form and anytime, instead of only at a restaurant where the customers typically need to pay more. Regarding the information sharing, the company can offer an accurate description of branding and labeling with correct information, such as nutrition content, brand label, generic composition, and pesticide residues. Aside from these, the company development or salmon farming stories is proper to share with the customers by writing on the package as a small informative text. It can not only enhance the customer impression for the brand and products but also builds loyalty that comes from acknowledging exotic food and culture. The traceability of the products from farm to plate is essential and should be adhered to the package to enhance the consumer's confidence in the products.

Concerning the spatial convenience, the stores can locate at the main shopping centers close to the residential area to save travel costs and time for the customers. Last but not least, the package can be a tailored design with exquisite characters to give high-end target consumers emotional satisfaction.

- Price

As another factor of the value proposition, the price creates real revenue for the firm. When the price cannot cover up the product costs, the firm doomed to fail. If the price is too high to be afforded by the customers, the sales target cannot be met. Price is the value that made for a product and services as a result of a considerate mix of market research and understanding of the value chain. According to the Price-Quality matrix designed by Philip Kotler, there is a nine-variable model depending on the interaction between price and quality for each product and service (see Figure 5.8).

Price

		High	**Medium**	**Low**
Product or service quality	**High**	Premium	High value	Superb value
	Medium	Over charging	Average	Good value
	Low	Rip-off	False economy	Economy

Figure 5.8 Price- Quality Matrix

Source: (How to Use the Price Quality Matrix to Optimize Your Product Pricing, 2019)

We want to define our pricing strategy on a premium state (upper left corner) to match the value proposition better. Cermaq can achieve a high-end differentiation strategy by establishing a premium price, to connote the quality and service. Consumers' willingness to purchase a product is related to how closely their price matches their perception of its quality (Engle, Quagrainie, & Dey, 2016). This holds for specific customer segments with a high-income level. Previous research suggests that consumer characteristics have influences on purchase behavior and willingness to pay a premium price, and family living standards directly determine people's consumption demands, level, and behaviors (Zhang et al., 2018). The Chinese consumers, especially the high-end consumers, tend to consider price as the symbol of social standard and willing to pay for the products that are in line with their quality of life. They appreciate the added value of the service and convenience of the products. With the right formula and positioning, the firm can earn the right to set a higher price than the competitors.

In a study conducted by Zhang et al. (2008), the Chinese consumers' purchase intention and willingness to pay a premium price are positively related to the product label, familiarity, and differential cognition. Since we aim to execute a differentiation strategy, the well-explained product label and brand will build high customer trust and make the high price consistent with the product value.

The firm would present the features of the Cermaq salmon that would be considered high-end on the value scale, from the branding, packaging, product assortment, and the market channel. Furthermore, they can highlight the critical elements of the Arctic salmon, characterized by the region and technical quality, which is worth paying a premium price to consume the specific Norwegian Arctic salmon.

5.3.3 Marketing channel design

The crucial elements in the channel design involve identifying target consumers' service output demands and designing the channels to respond to service output demands (Alice M. Tybout, & Bobby J. Calder., 2010). Therefore, here are mainly two steps. Firstly, the company needs to understand consumers' service output demands by using segmentation and targeting, then to position for channel design and choose an appropriate channel structure.

We have illustrated the first step in section 5.3.2. In this part, we will go through the second step about the choice of the channel structure. Based on our target groups, we believe that a suitable channel is import supermarkets with high quality of imported products, targeting high-end consumers. The channel choice not only can meet the customer requirement for shopping experience but also parallel with Cermaq's premium product impression.

Here is an example of this kind of import supermarket: Olé. Olé Supermarket is a high-end supermarket brand owned by China Resources Vanguard Retail Group. Olé lifestyle's business orientation is to create an experiential supermarket for urban life, satisfying the leisure consumption of middle-class and high consumer groups to purchase distinctive goods and gifts. Until June 2018, the total number of Olé supermarkets have reached 46 nationally. It has entered 26 first- and second-tier cities, including Shanghai, Beijing, Shenzhen, Guangzhou, Shenyang, Chongqing, Chengdu, and others (Olé, n.d.).

Olé supermarket is a representative of a new retail channel. It is a combination of restaurants and supermarkets. Except for the physical store, consumers can also order on the online shop. The experiential feature ensures that consumers can not only purchase fresh import products but also taste there. The target consumers of Olé parallels with our segmentation of high-end consumers.

This channel structure enables Cermaq to get into the retail channel with specific customer segments. The main channel members would include Cermaq, Olé, and exclusive distributors Cermaq used in China. The channel intensity should be unique to ensure the competitiveness of Cermaq in this segmentation. The intensive brand coverage would ruin retailers' channel advantage to reduce their capability to differentiate themselves by providing unique offerings (Robert W. Palmatier, Louis W. Stern, & Adel I. El-Ansary., 2015). On the contrary, exclusivity brings some benefits. The reputation of Cermaq now in China is mainly known by business buyers. The brand alone cannot attract consumers to the store, and even when consumers choose to visit. Consumers' trust for Olé might be the reason for them to buy the products from Cermaq at the beginning. Exclusivity would let Cermaq and Olé share the responsibility of promotion, and Olé still has to find some way to get consumers to purchase on the spot for its profit. Furthermore, this a way that can help Cermaq build its brand gradually in the B2C channel, fostering loyal buyers who have low price sensitivity.

Chapter 6 Conclusion

6.1 Conclusion

This thesis presents the different marketing channels of salmon in China and formulates a differentiation strategy that emphasizes exploring the retail channel development, with a case study of Cermaq. The competitive market environment and the company's position in the market were analyzed to provide a holistic view of building the strategy. The purpose of the thesis is to answer the following research questions:

- What do the major Chinese salmon marketing channels look like?
- How is the competitiveness of the Chinese salmon market from the perspective of Norwegian salmon exporters?
- What is the alternative strategy for Cermaq in the Chinese retail channel?

With the objective of answering these research questions, a qualitative methodology is implemented. The varieties of marketing channels were summarized and presented with secondary data and information collection. A deductive approach is used to have a deeper understanding of the competitiveness of the Chinese salmon market and the position where Cermaq stands. In-depth interviews were conducted with NSC and Cermaq separately. The meeting with NSC gave us insights about the status of Norwegian salmon exporters in the Chinese market and Chinese customers' preference. Our interview with Cermaq helped us understand how they do business in China, including their marketing channels and salmon products. Lastly, we formulated a business strategy for Cermaq. Here are our answers for research questions:

- What do the Chinese major salmon marketing channels look like?

In China, salmon is mainly consumed through HORECA, which represents 90% of the total consumption. The remaining 10% is in the retail channels, which can be divided into three parts: traditional retail, new retail, and e-commerce.

The traditional brick-and-mortar retail is very direct for imported salmon trade, where the foreign fish farmers sell to the Chinese retailers. The current Chinese retailing channel is also called as "closed-loop industry chain," meaning that the retailers control all the processes from fish farms to the retailing stores, and the integration of upstream and downstream members brings comparative advantages. Then, e-commerce (fresh e-commerce) is another channel that is popular among Chinese consumers, including different modes of operations that satisfy consumer needs with best practices. For example, traditional fresh e-commerce and new fresh e-commerce (platform mode, front door hub, and community buying). Last but not least, new retail is the emerging retail channel that combining both online purchase and offline experiences.

- How is the competitiveness of the Chinese salmon market from the perspective of Norwegian salmon exporters?

Porter's five force framework is utilized to examine the attractiveness and profitability of the Chinese salmon market from the perspective of Norwegian salmon exporters. The threat of entry is medium, considering the strong Chinese government influences, Guanxi building effort, and the incumbency advantage of Norwegian salmon reputation. The threat of substitute is also medium: despite the possible alternatives for salmon products are various, the consumers' definition and the preference for Norwegian salmon is relatively static, which could offset the pressure from potential substitutes. The bargaining power of business buyers is rated medium, given that Chinese consumers think credible salmon exporters are guarantees of safety and quality products. Most of the suppliers throughout the value chain have excellent bargaining power because the processing plants and logistics providers play an important role in the Chinese market. The competitive rivalry is intensive since the competitors from other countries have advantages on the price and market entry that resulted from the FTA, convenient transportation between the two countries, and the more customized product design.

The Chinese salmon market is an attractive market with increasing consumer purchasing power, the market size, and the changing dietary preferences towards imported salmon. However, the competitive rivalry is high, and the other channel numbers have significant influences on Norwegian exporters' profitability. The threat of new entrants is also high, but the threat of substitutes is medium. Therefore, the overall competitiveness of Chinese market is medium for Norwegian exporters.

- What is the alternative strategy for Cermaq in the Chinese retail channel?

After the industry analysis and the SWOT analysis we found that despite the sexiness of the emerging fresh e-commerce and new retail, it might not be profitable enough for Cermaq to engage in it. The SWOT analysis shows that the company's strength is its product quality, culture, and technology development, and its weakness lies in its brand and price advantage. Then, even if their threats from new entrants and substitutes with better access and price to the market, the opportunity for Cermaq to develop is still significant, which comes from the buyer demands, market requirements, and sociological trends.

Based on these results and the business strategy framework, we identified the strategic propositioning for Cermaq and considered differentiation strategy would be a sound value proposition for the company. The company can explore the target consumer segments that look for a premium product with little price sensitivity and have strong brand loyalty, preventing the commoditization.

Under the differentiation strategy, Cermaq could target high-end consumers who are either highly educated white collars or families with young children. First, this consumer group has less price awareness so that the company can avoid price competition. Second, it is a good step to build a dietary habit from a younger age, and the salmon can become a familiar and life-long food choice as they grow. The needs that the company drives to serve is the premium quality, excellent package, meticulous instruction for cooking. We want to forward premium pricing to make the product image, customer group, and channel choice consistent.

Last but not least, the high-end Chinese consumers prefer to buy imported products from a specific shop, and they appreciate the decent shopping environment and experience. Even though the price in this kind of shop is much higher than that of ordinary boutique, the customers would rather pay for the premium price. We use Olé, a high-end supermarket brand, as an example of the case. The products on Olé shelves are imported goods or high-end domestic products, offering consumers the right marketing channel where they can buy a premium product without worrying about product safety and quality. We drive to satisfy the target consumer segment as high-end and reach them through the consistent market channel to meet their needs for perusing a high-standard lifestyle.

6.2 Limitations

The findings of this study have to be seen in light of some limitations. The main limitation of the thesis lies on access to data. The original thesis design involved surveying certain numbers of people and organizations, but we were having limited access to these respondents. Firstly, the time of the thesis was written during the Coronavirus outbreak, and we could not travel to China. Thus, the market survey, in terms of understanding the previous challenges in increasing retail channel salmon products in China, was difficult to conduct. Secondly, due to lack of social contacts with the relevant Chinese salmon retailers and Norwegian seafood exporters, we could not reach to plenty of organizations for a general research. Therefore, we changed our direction to a single case study, combined with the interview with the Norwegian Seafood Council. Overcoming the limitations mentioned above, we managed to construct the thesis within the available resources and feasibility.

6.3 Future research

This thesis studied the competitive environment of the Chinese salmon market and presents the different marketing channels of fresh food that the salmon exporters could excel in the future. The Chinese market has significant potential, and the different consumer groups and various market channel structures offer extensive opportunities for salmon exporters. Therefore, it is of interest to study the development of salmon consumption in the retail channel, which is now only accounts for 10% of the salmon consumption. Also, it would be beneficial to examine the factors that can prompt salmon penetration in the Chinese retail channel and the factors that can improve the value chain effectiveness in the fresh e-commerce of salmon products.

Appendix A: Interview Guide of Norwegian Seafood Council

Interview: Norwegian Seafood Council (NSC) in Chinese salmon market

This interview, as part of the thesis for the master students in UiS Business School, aims to have a good understanding of Norwegian salmon in the Chinese market. The information will assist us to proceed the further study. Thanks for your time.

About Norwegian Seafood Council

1. What is your position and responsibilities in NSC? How long have you been working with the Chinese salmon market?
2. How long experience does NSC have in the Chinese market?
3. What kind of activities NSC implements in China?

Norwegian salmon exporters in China

1. Do you have a close relationship with Norwegian salmon exporters in China?
2. What do you think about Norwegian salmon exporters' marketing channels in China?
3. What role does NSC play on the channel?
4. What are the barriers or difficulties for Norwegian exporters doing business in China?
5. Who are the main competitors of Norwegian salmon exporters in the Chinese market? How do you think about their performance? (E.g. Is their penetration in the Chinese market is stronger? Or do they have more presents in the retail channel?)

Norwegian salmon products in China

1. Can you give a description of the most important criteria that customers have for purchasing salmon ranged after importance: brand, price, freshness, availability, stability in supply, degree of wastage, different product cut, packaging, the origin of products, product know-how, food safety, etc.
2. What are the advantages/ disadvantages of Norwegian salmon compared to other countries' products?
3. How do you rate the popularization of salmon among the Chinese consumers? Is it still mostly consumed by niche market segments or it is going to accepted by mass society?
4. How do you evaluate the price sensitivity of Chinese consumers for salmon products?

General about the Chinese salmon market

1. What are your expectations of Norwegian salmon in the Chinese market in the future?
2. The Norwegian salmon is mostly sold through the restaurant and only about 10% is going to retail channels, what do you think are the main considerations/reasons that the Norwegian salmon has not to penetrate into the retail chain?
3. Fresh e-commerce has not achieved a mature phase, and many seafood merchandisers are talking about profitability. How do you think about the opportunity of an e-commerce channel for Norwegian salmon exporters?
4. Do you think the profitability of this market is attractive for small and medium-sized companies? (or it's needed the scale of large companies)
5. Are there any major difficulties that Norwegian exporters have in China that need to be addressed in the next 5 to 10 years?
6. What are your marketing plans in China for the next 5 years?

Appendix B: Interview Guide of Cermaq

Interview: Cermaq's marketing channels of Norwegian salmon in the Chinese market

This interview, as part of the thesis for the master students in UiS Business School, aims to have a good understanding of Cermaq's marketing channels in China. The information will assist us to proceed the further study. Thanks for your time.

About your company

1. What is your position and responsibilities in Cermaq? How long have you been working with the Chinese market?
2. How long experience does Cermaq have in the Chinese market, when did Cermaq start to export to China, do you have your own office in China?
3. Why did Cermaq decide to enter the Chinese market?
4. Who are your main competitors in the Chinese market?

Products for the Chinese market

1. What are the salmon product variations in the Chinese market?
2. Do the Chinese market demand for detailed processing requirements for salmon products? (e.g. texture, purity, size of the salmon)
3. Do you produce private-label products? Why?
4. Can you give a description of the most important criteria that customers (business-to-business, end-consumers) have for purchasing salmon ranged after importance: price, freshness, availability, stability in supply, degree of wastage, different product cut, packaging, the origin of products, product know-how, food safety, etc.
5. What are the advantages/ disadvantages of Cermaq salmon compared to other brands?

Marketing channel structure

1. How many different marketing channels you have in the Chinese market?
2. What are the members of each channel? (e.g. wholesalers, retailers, brokers & agents) (which company you work with)
3. What are the roles of your channel members? （what kind of activities they implement and what are their positions in the channel）

4. How is logistics? What is the frequency and amount you export salmon from Norway to China?

5. Does Cermaq execute promotion? If so, how you organize it?

6. Do you have conflicts with your channel members?

General about the Chinese salmon market:

1. What are the biggest barriers or difficulties in doing business in China?

2. What are your expectations of Cermaq in the Chinese market for the future?

3. Does Cermaq have any connections with the Norwegian Seafood Council in Shanghai?

4. Are you interested in the e-commence marketing channel?

5. Is there anything you are interested in or want to learn from the Chinese market?

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