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“This paper is done as a part of the undergraduate program at BI Norwegian Business School. This does not entail that BI Norwegian Business School has cleared the methods applied, the results presented, or the conclusions drawn.”
Jotun Powder Coatings

Due Date: 16.05.2011

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Author Reflection

This bachelor thesis has been written in cooperation with Jotun Powder Coatings.

While working on the thesis we have gained important knowledge and experience, which will benefit our future careers.

Our group has learned about the Chinese market and how the influence process of selecting powder coatings works within the architectural construction industry. The cultural differences have made us realize how crucial cultural understanding is within this sector.

We are very grateful for the opportunity to write this paper for Jotun and we have been given the chance to grow throughout the process and meet people within the construction industry.

Shanghai
May 16th, 2011.

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Executive Summary

The aim of this thesis is to provide Jotun Powder Coatings with further insight into the architectural construction industry in Shanghai. Its aim is to inform Jotun about how the influence process works and how they can change their marketing approach to target these customers.

In 2012, Jotun will have completed a factory in Zhangjiagang, allowing them to offer powder coatings products to the market. Jotun Powder Coatings will be entering a highly competitive market which is home to international firms and smaller local producers and because of this it becomes important that they have a full understanding of the market.

Jotun’s current marketing strategy consists of direct sales and communicating with architects, however this approach has not been criticised and the true identity of those who influence the selection of a brand needs to be further defined.

Based upon information obtained from various people involved in the architectural sector, it can be identified that brands are selected by material departments, which can be influenced by Facade Consultants. Jotun’s prior belief that architects play a critical role in the selection of powder coatings brands is limited, due to legislation which forbids them from recommending a brand. An architect’s only influence is to set the specifications for powder coatings. Because of this, Jotun must position their sales and marketing efforts to enter the buying decision making process of a development firm’s material department.

To do this they need to expand their branding efforts and to satisfy the specifications set by an architect. This will allow Jotun’s brand to be selected for use on a building project in Shanghai.
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Chapter 1
An Introduction to Jotun Powder Coatings

1.1 Background to research
Jotun Powder Coatings is a Norwegian, world leading producer of powder coatings. They will be aiming to expand their market potential in China with the opening of a new factory in Zhangjiagang in May, 2012.

Traditionally Jotun has been present early in new markets and captured a market share, however late entry in the Chinese market presents new challenges for Jotun and they realize the need to further define the market in order to specify their sales and marketing efforts.

The goal of this research paper is to define who would decide upon the use of a specific brand of powder coating and which criteria they evaluate before selecting a powder coating supplier. Specifically defining their customers’ needs will allow Jotun Powder Coatings to target specific individuals for various projects and allow for further segmentation of their marketing approach.

To focus the thesis, it will be beneficial to concentrate on the architectural segment of Jotun Powder Coatings. This segment would make all new building projects where powder coatings are applicable relevant. Developing a clear picture of the selection process of coatings will help to identify the areas that Jotun can take advantage of to increase their profitability.
1.2 A description of Jotun

Jotun was founded by Odd Gleditsch in 1926. The company was first established in Sandefjord, Norway under the name Jotun Kemiske Fabrik A/S.

In 1962 Jotun became a supplier of marine coatings to the Norwegian merchant fleet. The first production plant outside of Norway was in Libya. This played an important role in the international development of Jotun, and with this experience came the platform for their development as a major paints manufacturer in the Middle East and South East Asia.

Today, the Jotun group consists of 71 companies, 40 production facilities and sales offices that are located throughout Europe, South East Asia, Australia and the Middle East. Their headquarters are located in the Arab state of Dubai; this is due to the large market which Jotun has been able to establish in the region.

Jotun develop, produce and sell cost-effective paint and coatings products, and provide customer service and technical support to residential, marine and industrial markets worldwide (www.jotun.com).

1.2.1 Jotun divisions

The ownership of Jotun AS is primarily divided amongst two main shareholders. The Gleditsch family own and control more than 50% of the company’s shares. The other major shareholder is the Norwegian company Orkla, which operates with branded consumer goods, aluminium solutions, materials, renewable energy and financial investment sectors (Orkla ASA, 2011).

As indicated in Figure 2, Jotun Powder Coatings is a division of the Jotun Group. The Jotun group includes Jotun Decorative, Jotun Paint, Jotun Coatings and Jotun Powder Coatings.
Jotun Powder Coatings global goal is to develop, produce, and promote thermosetting powder coatings used for protecting and cost effectively enhancing the appearance of a commodity item\(^1\).

Today, Jotun Powder Coatings is among the biggest international powder coatings manufacturers in the world and is ranked amongst international firms as the world's fourth largest supplier of powder coatings for the industrial surface treatment of metal (www.jotun.com).

1.2.2 Jotun’s segmentation of powder coatings
Jotun Powder Coatings currently differentiates its marketing strategies towards three primary market segments; the architectural segment, the functional segment and the industrial segment. Each segment can potentially use powder coatings to satisfy their needs.

1. Meeting the needs of the architectural segment consists of providing powder coatings for use on architectural aluminium, such as; aluminium frames, window frames, extrusion, claddings, and louvers.

\(^1\) Commodity Item - A commodity item is a product which is the same no matter who produces it.
2. Meeting the needs of the **functional** segment focuses on providing powder coatings for use on pipelines and reinforcement bars for concrete structures.

3. Meeting the needs of the **industrial** segment includes providing powder coating for use on household appliances, furniture, automotive parts, agricultural equipment, computers, and various other utilities.

Each segment has various different needs and the marketing approach and product line differs based upon each segment.

### 1.2.3 The products

Jotun Powder Coatings can be classified as a product used for further processing as it is sold for application. The demand for powder coatings is dependent on the derived demand of Aluminium products for use in construction projects (*Biong and Nes, 2009*).

Powder coatings are considered to be niche products. This is because powder coatings are currently limited to aluminium products of a limited size. Restricted oven size and limited demand to coat larger objects limits the demand for excessive quantities of powder coatings (*Anfinnsen and Kaminsui 2011*).

#### 1.2.3.1 Powder coatings process

Powder Coatings differs from other forms of coatings because it is entirely a dry finishing process. The coating is composed of grinded particles of resins, pigments and other raw materials that are electrostatic charged and sprayed onto objects to be coated (*www.jotun.com*).

The objects to be coated are electrically grounded, so that the charged particles adhere to them. Once the powder coating particles have been applied object, they are melted and fused together into a smooth coating in a curing oven, resulting in a uniform and durable high-quality finish (*www.jotun.com*).
1.2.3.2 *Types of powder coatings*

There are two types of powder coatings, thermosetting and thermoplastic powder coatings.

**Thermosetting powder coatings** are the most commonly used. This form of powder coatings undergoes an irreversible chemical change during the curing process and will not soften back to the liquid phase when reheated ([www.jotun.com](http://www.jotun.com)).

**Thermoplastic powder coatings** will repeatedly melt when subjected to heat and they will solidify when cooled, and are especially well suited for thick film applications capable of extreme performance requirements ([www.jotun.com](http://www.jotun.com)).

1.2.3.3 *Architectural product portfolio:*

To cater to the architectural segment, Jotun Powder Coatings offers four different series of products, which range from TGIC polyester to Epoxy primer.

**TGIC polyester series** have several series of paint, but these are recommended to meet gloss retention and colour stability requirements. This series of products are often applied to architectural aluminium extrusion and claddings ([www.jotun.com](http://www.jotun.com)).

**TGIC-free polyester series** is the same as TGIC polyester but this paint has been created *without toxic chemicals* that might harm the human health and environment during the application process ([www.jotun.com](http://www.jotun.com)).

**Fluoropolymer PVF3 series** is specifically formulated to provide advanced weather resistance and to have an aesthetic appearance with superior levels of resistance to UV-light, humidity and dirt pick-up. It is also formulated to meet the stringent requirements of the building industry for high performance and long lasting finishes ([www.jotun.com](http://www.jotun.com)).

**Epoxy primer series** are epoxy-based zinc rich powder coatings, which are designed to be used as a primer coat on phosphate or blast-cleaned steel objects. Typical areas of use are steel building structures, agricultural machinery, steel fences, outdoor furniture, gas cylinders, and coatings for marine environment applications ([www.jotun.com](http://www.jotun.com)).
Jotun’s product range varies in durability and longevity. As shown in the figure 3, the architectural product portfolio for Jotun Powder Coatings consists of three different categories, low, medium and high quality (Anfinnsen, 2011).

Jotun’s quality is determined by regular testing in the United States of America. Testing in Florida allows Jotun to determine how long their products are able to last while being exposed to various extreme weather conditions (Anfinnsen, 2011).

The lowest quality of powder coatings available from Jotun are categorized under the titled **Value-for-money**. This product category consists of Corro coat PE, which is a versatile polyester powder coatings line that is designed to provide eye-catching finishes as well as combining protective quality with good weather resistance. Another product within the Value-for-Money category is Corro-Coat PE-F Façade, which is a relatively durable, high quality polyester powder coatings line specially formulated to satisfy stringent requirements for exterior color stability, gloss retention and corrosion protection (www.jotun.com).

The medium quality products are categorized under the title **Premium products** and consist of Corro-Coat PE-SDF Super Durable polyester, which is a line of heavy-duty
superior polyester powder coatings, especially formulated to withstand harsh weather conditions, as well as handling and mounting strains (www.jotun.com).

Jotun Powder Coatings only have one line of top quality product. Corro-Coat Durasol is classified as **Ultra premium**, which has been specifically engineered to meet the highest durability criteria and aesthetic requirements. In 2009, Durasol equated to only 1% of Jotun Powder Coatings’ total global revenue and it is typically applied on monumental architectural projects for a premium price (Anfinnsen, 2011).

Jotun’s products do not have a set price; this varies due to the quantity sold. However their products range from around $3.50 per kilo for their lower quality products to $40 for their premium product, Durasol (Qi and Anfinnsen, 2011).

Under each of these products there are different options of paint to choose from to give the customers the best product for their specific need/application. Jotun has a variety of colours to choose from so the customers will have a greater chance to choose the most optimal and best product for their given situation. (Qi, 2011).
1.3 Jotun powder coatings in China

The Chinese Division of Jotun Powder Coatings has 6 employees and Figure 4 gives an overview of Jotun’s organizational structure, indicating the respective persons in charge (Naglestad, 2011).

At Jotun’s global headquarters in Dubai, the Marketing Director Claudio Lurilli controls and is responsible for Jotun China. His main role is to provide direction and support to the offices in China (Anfinnsen, 2011).

The General Manager of Jotun China, Bjorn Naglestad, is responsible for Jotun Powder Coatings China. He reports directly to Dubai on behalf of Jotun China and is also responsible for the Protective and Decorative divisions (Naglestad, 2011).

The Sales Director of Jotun Powder Coatings, Dawson Qi, reports directly to Mr. Naglestad. Mr. Qi leads the sales department at Jotun Powder Coatings China, which
includes Gerry Zhang, who operates in the southern city of Guangzhou and Bill Hao, who sells towards the architectural segment in Shanghai. Bill Hao and Dawson Qi have extensive knowledge about the powder coatings market in China, after working for the competitor Akzo Nobel for several years (Qi, 2011).

Jotun’s commitment to developing a unique marketing approach to the Chinese market is evident in the recent hiring of its own Marketing Manager, Yvonne Wang. Ms. Wang works uniquely to improve the marketing aspects of the Chinese division (Anfinnsen, 2011).

Jotun Powder Coatings has an administrative secretary, Ms. Healthy Wu and the finances of the department are controlled by a centralised finance department supervised by Mr. Chen Qing (Anfinnsen, 2011).

1.3.1 Jotun’s situation in the Chinese market

Jotun entered the highly competitive Chinese market in 1983, but their powder coatings division is yet to sell its product to the open market. They are currently preparing their full entry into the market by May 2012, when their factory in Zhangjiagang becomes operational.

Jotun has provided high quality powder to the high speed railway which connects Beijing to Shanghai. The project required 2200 tons of powder coatings, but Jotun were only able to deliver 700 tons. 150 tonnes had to be imported from India while 550 tonnes were imported from Thailand. Due to the lack of a powder coatings factory being present close to potential buyers, Jotun does not have the capability to meet the needs of the Chinese market. They are not able to produce the quantities which are demanded for large projects and struggle to meet stringent delivery deadlines (Qi, 2011).

Today their only option is to import powder from existing manufacturing plants in Thailand and/or India, and this has to be transported by plane. This limits the sale of large powder volumes (Naglestad, 2011).
Jotun is currently preparing for market entry in 2012. Jotun is selling its products to monumental development projects, which will be used as sales references when approaching future customers. They have predefined market segments, but they have limited knowledge about the Chinese architectural market (Naglestad, 2011).
Jotun Powder Coatings wishes to grow their global architectural segment at a constant rate of 15% every year and to maximize their revenue by selling the products, which have the highest profit margins (Anfinnsen, 2010).

As Jotun Powder Coatings is to enter the China market in 2012, they need to be able to accurately define the market situation in order to position a sales and marketing strategy towards the correct consumers to obtain the highest profit margins possible.
1.4 **Research aim**

*Jotun’s Influence Model* summarizes Jotun’s current understanding of their architectural segment in Shanghai, but they lack a full understanding of the how the market operates. Therefore the aim of this research paper becomes to test and further develop the model, which is seen as incomplete.

1.5 **Jotun’s influence model**

The Influence Model, designed by Jotun’s sales and marketing departments, has two functions. It shows the Jotun’s interpretation of the direction of influence in the selection of building materials and it shows where Jotun Powder Coatings currently sells its products.
The model can be described as follows:

1.5.1 Sales approach
Jotun has three different approaches for selling powder coating. They can target aluminium extruders, who coat the products themselves and deliver directly to fabricators, or the aluminium is sent to an applicator, which then coats the aluminium and sends it to fabricators.

If the fabricator has their own coating facilities that allow them to coat the aluminium themselves, then Jotun can choose to sell powder directly to a fabricator (Qi, 2011).

1.5.2 Influence process
The theory behind the influence process is that the primary need to build specific projects creates a demand for specific Powder Coating requirements.

The influence process of selecting building materials starts with the owner/developer. The model suggests that every sector works to satisfy an owner/developer’s needs, which is to design and build to their requirements.

The architects are responsible for designing the building to the standards of the owner, as well as the local environment.

The role of a Facade Consultant is to advise on the design of the building, they can advise on restrictions, materials and local regulations for a particular project.

These three sectors work together in developing an architectural structure. In the design stages, different requirements are set based upon the buildings needs. Materials are used to satisfy durability, environmental, design and cost needs.

Specifications are sent to a specific contractor, who gathers the materials to the standards of the architects design. They then have a demand for window frames and other aluminium projects to fit the design plans of the architect. Their aluminium products are bought from fabricators who bend and mould the aluminium into the forms appropriate for the demands of a contractor. Fabricators tend to buy previously coated aluminium from an extruder or a specific company which coats aluminium. They require paint which survives the moulding process as well as fits the needs of their customers.
Each part of the process aims to satisfy their customers’ needs. These needs are the source of influence. Therefore the party with the most influence is the owner/developer, who starts the building process.

Jotun wants to further define the influence channel. They want to define the buying process of powder coatings as well as to identify the key needs in the decision of selecting a powder coatings brand. This will allow Jotun to better position their marketing efforts to the local customers.

Jotun’s current strategy is to market their products to architects, but they are unsure if they are the key decision makers in the process.

1.6 Research Question
Jotun needs to further understand who influences the purchasing of powder and to define the best approach to reach potential customers once they have established a Powder Coatings factory.

This question can guide research into understanding a purchasing process to maximize profits:

*Within the Shanghai architectural construction industry, which individuals play a key role in the purchasing process of Powder Coating and how should Jotun as new player approach this and to maximize profitability?*

The question consists of 3 parts:

1. *Within the Shanghai architectural construction industry,*” Allows for focus on the existing architectural construction industry, as well as a specific geographic location. This enables optimal results to be obtained with limited resources. Specifying the research to this market, will provide the framework for the dissertation and it will enable the recommendation of a tangible strategy that Jotun will be able to execute.

2. “*Which individuals play a key role in the purchasing process of Powder Coating,*” This question allows for deeper exploration into Jotun’s current and potential
customers. Its conclusion will allow for a better definition of the architectural market and the understanding of the how a development project operates in selecting coatings.

3. *How should Jotun as a new player approach this industry in order to maximize profitability?* This question defines the direction of any conclusions drawn from the analysis of the data gathered. As well as guiding any conclusions, the question makes it possible to approach the research project from the viewpoint of a new entrant to the Chinese powder coatings market. To answer this question it will be important to understand the market situation and how Jotun Powder Coatings operates.

The thesis question focuses on the goals of Jotun as a company. It allows exploration into who has influence on purchasing powder coatings, what their needs are and how Jotun can influence the decision making process.

By answering the question, we can provide valuable market research to a company like Jotun.
Chapter 3
Methodology

1.7 Research methodology
The process of data collection will primarily be based on two books, “Business Research Methods” by Bryman and Bell (2003) and “Metode og datanalyse med fokus på beslutninger i bedrifter” (2004) by Gripsrud.

To come to an accurate and tangible conclusion, relevant research must be obtained through a pre determined plan. It is imperative to analyse which information is relevant for answering the questions through determining the data types that can give the most beneficial approach.

1.7.1 Research design
Due to the explorative nature of the research objective an exploratory research design will be used. Exploratory research allows for an exploration into areas where information is limited due to little or no prior research being done on the topic. (Churchill and Brown, 2004)

1.7.2 Data collection
Obtaining qualitative data allows for a better understanding of consumer behaviour (Gipsrud et al, 2004). Because of the nature of the research question, it is useful to primarily use qualitative data for analytic description of a consumer’s needs and thought processes. This will allow for further understanding of “Which individuals play a key role in the purchasing process of Powder Coating.”
In order to gather suitable qualitative data, a combination of primary and secondary sources will be used.

1.7.2.1 Secondary sources
The use of secondary sources is considered to be time saving and cost reducing. This is due to the nature of the sources, which have been collected for other purposes other than the thesis aim. (Gipsrud et al, 2004).

Secondary data used to obtain analytical data for answering the thesis question will consist of literature, such as articles, books, journals and reliable internet articles.

Using suitable secondary data will contribute to the analysis of potential customers buying behaviour, the general Chinese powder coating market and provide information regarding Jotun Powder Coatings’ activities and mindsets. Secondary sources on certain needs and desires may be limited, but the use of print and internet sources will be a valuable resource when exploring the external factors which influence potential customer needs and their purchasing roles (Gipsrud et al, 2004).

1.7.2.2 Primary sources
In order to accurately answer the thesis question, it is important to gather insights directly from primary sources, which are seen as possible influencers involved in a purchasing decision.

Analyzing the purchasing process of individuals requires the exploration of personal preferences, which is difficult to gather using secondary information. Therefore obtaining information directly from a source will allow for further understanding of customer insight (Gipsrud et al, 2004).

Data gathered from primary sources will be obtained through various interview forms.

1.7.2.2.1 Interview forms
Questions can be asked through a variety of technological communication forms, such as through a telephone, or over the internet. They can also be performed in various different environments with a varying number of people. Each scenario has various benefits and limitations which must be considered (Gipsrud et al, 2004).
In-depth interviews allow for deeper exploration into the decision making process of powder coatings. This form of interview allows for information to be obtained from an individual in a controlled environment. One on one interaction with a subject allows for flexible question delivery and extensive time with a subject, which allows for accurate observation. Because of this, in-depth interviews are ideal for gathering qualitative data. (Bryman and Bell, 2003)

Group interviews allows for the interaction of interview subjects and the contribution of several points of view at one time (Bryman and Bell, 2003).

Interviews over various communication tools, such as over the telephone and written interviews can also be used to gather qualitative data, however there are restrictions in the flexibility and control of the interview (Bryman and Bell, 2003).

1.7.2.3 Possible Research Limitations
The process of data gathering is prone to limitations. However it is beneficial to try to limit variables that can lead to possible errors in data gathering.

When analysing data from interviews it must be considered that answers may be prone to bias. This is due to interview subjects possibly wanting to satisfy the answer to various questions and not necessarily answer a question based upon factual evaluations.

The amount of time spent on interviews tends to be extensive, which restricts the ability to gather a large collection of information. This restricts the ability to generalize a conclusion to a population due to a small sample size being analysed (Bryman and Bell, 2003).

Each form of interview has limitations due to various aspects being uncontrollable. Group interviews may limit information about individual insights, and it may be unrealistic for individuals to attend group discussions due to their professional positions. Interviews over phone and email allow for limited social interaction, and the flexibility in the communication process can be restricted (Bryman and Bell, 2003).

Limitations can affect the strength of the conclusion to the thesis and it is therefore important to restrict uncontrolled variables. This will help to insure that the findings are valid and reliable.
1.7.2.3.1 Validity

Validity concerns the extent to which data measures what it is intended to be measured (Perreault and McCarthy, 2002, Bryman and Bell, 2003). To ensure validity it is important to ask questions which are interpreted correctly by a subject.

Interviews will be conducted on people with expertise and experience within the powder coatings field. To ensure the validity of these interviews it is essential that a subject provides impartial and relevant information. A poorly worded question can mean different things to different people and can harm the validity of the results (Perreault and McCarthy, 2002).

1.7.2.3.2 Reliability

The tendency toward consistency found in repeated measurements is referred to as reliability (Gripsrud et al, 2004). Various variables may change a person’s answer, which highlights the importance of limiting external variables to ensure that reliability is maximized.

1.8 Interviews

Due to the difficulty of getting specific individuals to meet with, it is important to consider various approaches to get qualitative information.

The challenges of approaching people within the business world are their limitations in time, and willingness to cooperate with unknown individuals. In order to deal with these issues, questions must be short and concise while not sacrificing the quality and quantity of information obtained. A proactive approach to obtaining interview subjects must be done in order to show confidence and persistence. It is also important to know who to contact and to meet their communication needs.

As well as face to face interviews, interviews over email will be used due to time restraints of recipients. This may prevent the asking of follow up questions and limit exploration into various subjects.

When performing an interview it is beneficial to record the results as thoroughly as possible to ensure that no spoken information is omitted from consideration. Therefore every interview possible will be recorded as an audio file.
Validity and Reliability will be obtained through the use of standardizing procedures through the use of a script.

1.8.1 Interview plan
By interviewing Jotun’s staff, it is possible to evaluate their perception of the current Chinese market. This will give a better understanding of the type of questions to ask possible decision makers and to better comprehend the construction industry as well as the current market situation.

For these interviews it will be beneficial to use a semi-structured interview where the interviewee will be given the possibility to ask supplementary questions (Gillham, 2005). Semi-structured questions will allow for a greater understanding of underlying factors affecting consumers buying criteria for powder coatings.

To accurately answer the research question, it is important to get various insights into different sectors of the same branch. This is in order to accurately analyse if the decision making criteria is different for varying building projects. By interviewing different possible influencers who have different positions in the market, it will be possible to investigate the most important aspects of a selection process of Powder Coatings.

1.8.1.1 Interview targets
Interview targets for the project will be employees of companies that are known to influence the purchasing process of Powder Coatings. This includes fabricators, façade consultants, architects and developers whom are involved in different building projects. Interviewing as many individuals as possible, within different construction areas, will strengthen any conclusions made and this will allow for the results to be accurately generalized (Bryman and Bell, 2003).

Other possible interview targets are extruders and building contractors as well as any other individual within each process in the aluminium selection process.

1.8.1.1.1 Fabricators
Jotun works closely with an Italian based aluminium fabricator named Parmasteelisa. They cooperate in quality control as well as market information. By learning more about Parmasteelisa it is possible to explore why they chose to cooperate with Jotun and what
criteria was used in first establishing a strategic alliance. By knowing this it will allow for deeper understanding of a purchasing process and to further explore what requirements fabricators have for powder coatings (Qi, 2011).

**Possible Companies to Approach:** Yuanda, Jangho, Permasteelisa and YKK ap Façade.

1.8.1.1.2 Fascade consultants
In addition to understanding how facade consultants influence the selection of powder coating, interviewing employees of various facade consultant firms enables a better understanding about their role in the development of a building.

A facade consultant may have knowledge about Shanghai’s urban planning projects and different restrictions. Gaining insight into various restrictions and regulations will help to gain a better understanding into the extent that private companies are able to design and build what they want in Shanghai.

**Possible Companies to Approach:** Arup and Aurecon

1.8.1.3 Architects
Currently architects are seen to play a critical role in the decision making process of powder coatings. Architects can be interviewed to determine which criteria are most important in their designs. Due to their traditional roles, it can be assumed that they are strictly focused on the appearance of the building, however it is beneficial to examine if this assumption is correct within firms operating in Shanghai.

**Possible Companies to Approach:** SOM, Atkins, RMJM, Nihon Sekkei, Wong Tung International and Kohn Pedersen Fox Associates PC.

1.8.1.4 Owner/developer
Owners and developers are thought to be critical in the selection of building materials. The local government owns all public buildings and this makes it hard for students to get an interview within the public sector. Private building owners or developers may be easier to approach due to the variety in ownership.

Interviewing an owner will allow for an understanding of the criteria they use when selecting building material and the extent to which this influences the process of paint selection. It is also valuable to determine if they demand specific coating brands or features.
Possible Companies to Approach: Mori building, Sun Hung Kai Properties and Henderson land.

1.8.1.1.5 Other
In order to gather information about external factors of a decision making process it may be beneficial to interview experts of the construction industry. External information can be found from individuals within university, business and government positions.
1.8.1.2 List of completed interviews:

1.8.1.2.1 Jotun employees:

Bjørn Naglestad, General Manager, Jotun Coatings China. (21st February, 2011)

Dawson Qi, Sales Director, Jotun Coatings China. (28th February, 2011)

Bill Hao, Sale Manager, Jotun Powder Coatings China. (28th February, 2011)

Roy Vageskar, Market Analyst, Jotun Coatings China. (3rd March, 2011)

1.8.1.2.2 Non Jotun staff
Hua Yuan Ming, Owner, Hu Jiang Xiang Man Lou Beijing and Shanghai (20th March, 2011)

Shiwen Xu, Assistant to the Head Architect, Shanghai Donghe Building Decoration Co (6th April, 2011)

Wei Xiaodan, Head of Material Selection Department, Shanghai Donghe Building Decoration Co. (6th April, 2011)

Shaw Zhang, Director of Human Resources, Majesty Plaza Shanghai (7th April, 2011)

Liao Qingqing, Quality Control, Gartner Curtain Walls Shanghai (8th April, 2011)

Benson Liu, Quality Control, Gartner Curtain Walls Shanghai (8th April, 2011)

Dick Zhang, Quality Control, Gartner Curtain Walls Suzhou (8th April, 2011)

Tom Y.Z. Lu, Associate Director/Deputy Design Director for Ho and Partners Architects Ltd. Shanghai (21st April, 2011)

John, Reliable Source, Which wish to be anonymous (10th of April 2011)

Witold Kaminsui, Supervisor of Surface Treatment and Coatings, Qingdao (18th April 2011)

San Jian June, General Manager for Parkview Hotel Shanghai (12th April, 2011)
Chapter 4
Theory Introduction

1.9 Theory used in the external analysis

1.9.1 PESTEL analysis
PESTEL forms a foundation for analysing buying behaviour. PESTEL analyses the external macro-environmental that affects all parts of the society, ranging from industry to the individual people. The PESTEL analysis consists of six elements; Political, Economical, Social, Technological, Environmental and Legal. These are factors that are beyond both Jotun and a typical Chinese consumers’ control (Business Knowledge Center, 2011). An overview of relevant macro environmental factors will give Jotun tangible information that be used to take advantage of opportunities as well as minimize and prevent threats.

Figure 7 PESTEL

<table>
<thead>
<tr>
<th>Political Factors</th>
<th>Economical Factors</th>
<th>Social Factors</th>
<th>Technological Factors</th>
<th>Environmental Factors</th>
<th>Legal Factors</th>
</tr>
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<tbody>
<tr>
<td>Opportunities:</td>
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<tr>
<td>- Low labor cost</td>
<td>- High quality products</td>
<td>- Increased demand</td>
<td>- High innovation degree</td>
<td>- less pollution</td>
<td>- Long term contracts</td>
</tr>
<tr>
<td>- Development in Shanghai</td>
<td>- WTO</td>
<td>- Population growth</td>
<td>- High level of knowledge</td>
<td>- less harm to people</td>
<td>- Increased security focus</td>
</tr>
<tr>
<td>Threats:</td>
<td>Threats:</td>
<td>Threats:</td>
<td>Threats:</td>
<td>Threats:</td>
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</tr>
<tr>
<td>- Laws and regulations</td>
<td>- Local distributors</td>
<td>- Less willing workforce</td>
<td>- Copycats</td>
<td>- Non-environmental products</td>
<td>- Export regulations</td>
</tr>
<tr>
<td>- Corruption</td>
<td>- Tariffs</td>
<td>- Appreciation of the RMB</td>
<td>- More advanced solutions</td>
<td>- Technological innovations</td>
<td>- Strict legal laws</td>
</tr>
</tbody>
</table>

1.9.2 Porters five forces
Porters Five Forces is a model, which identifies and analyses 5 competitive forces that shape an industry. Analysis of the model allows a company to help determine an industries market situation and the market opportunities which are available (Kotler, 2003).

The five competitive forces which shape and industry are considered to be:
Industry Competitors (Segment Rivalry)

Defining the competitors within an industry allows for an analysis of Jotun’s current competition within a particular segment and their effect on the market. A purchasing process can be influenced by what the other players in the industry can offer and knowing the competitive situation in the market will allow Jotun to position them in a way which will set them apart from competitors (Kotler, 2003).

Potential Entrants (Threat of Mobility)

Examining the possible threat of new entrants allows Jotun to examine the market situation and if there will be multiple competitors in the near future. If the industries entry barriers are high then there may be a lot of potential for market growth in the region leading to increased profitability (Kotler, 2003).

Supplier (Supplier Power)

Jotun is seen as supplier to the construction industry. If there are many other suppliers in the market then they have a low degree of power. Understanding the amount of suppliers in the market, Jotun can define the market situation and how to influence customers (Kotler, 2003).

Buyer (Buyer Power)
A buyer’s bargaining power is the degree to which customers are able to affect the profitability of the industry. This is a buyer’s ability to choose the criteria that suit their needs. Understanding a buyer’s power will allow Jotun to further understand the purchasing process of powder coatings (Kotler, 2003).

**Substitutes (Threat of Substitutes)**

There are products which fill similar needs to powder coatings. Understanding this threat will allow Jotun to communicate their product’s benefits and to establish a position which will allow for their products to compete with similar products (Kotler, 2003).

### 1.9.3 Model of buyer behaviour

The **Buying Behaviour Model** is used to understand the factors that affect the buyer’s conscious behaviour. The model is a stimulus-response model which involves environmental and marketing stimulus that enter the buyer’s consciousness, as well as the characteristics of a decision process that leads to a certain buying decision (Kotler, 2003).

The Model of Buyer Behaviour consists of external stimuli like those, which are addressed in a PESTEL-analysis. This model categorizes elements of the external environment, which has the potential to influence a buyer’s buying behaviour. Inner stimuli and a buyer’s decision process contain factors that consumers evaluate, and which affects their preferences and decisions. The Model of Buyer Behaviour identifies several perspectives that affect consumers indirectly and directly in their purchase process. This model has been a help to understand the underlying factors that forms purchase criteria (Business Knowledge Center, 2011).
1.9.3.1 **Buyer roles**

A purchase can be considered to be a combination of the needs of various different parties. Different parties can play different roles in the selection process, such as an individual who physically purchases a product may differ from the individual who uses it. This is common in the purchasing process of industrial supplies where a purchase is defined by a combination of different parties.

Purchases in a business are often influenced by several different members within an organisation; this is referred to by Harald Biong and Erik B. Nes as a **buying centre**. The combination of various different parties’ opinions and analytical contributions allows for a company to minimize the risk of a purchase and increases the rationality of a decision (*Biong and Nes, 2009*).

The different roles in a purchasing process in a business to business (B2B) market are considered to be:

<table>
<thead>
<tr>
<th>External stimuli</th>
<th>Buyers Black Box</th>
<th>Buyers Response</th>
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<tbody>
<tr>
<td>• Political</td>
<td>• Buyers Decision Making Process</td>
<td>• Product Choice</td>
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<tr>
<td>• Economic</td>
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<td>• Brand Choice</td>
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<td>• Technological</td>
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<td>• Environment</td>
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<td>• Legal</td>
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</table>
The **Initiator**:

Initiators are those who first identify a need to purchase powder coatings.

The **Influencer**:

Influencers are those who have a positive or negative influence in the buyer’s decision making process.

The **Gatekeeper**:

A gatekeeper is a description of those who gather and distribute information to a business’s purchasing centre. Information passes through a gatekeeper who has the ability to distribute what they deem to be relevant, and information can be lost through this process.

The **Decision maker**:

The decision maker is those who make the final purchasing decision.

The **Buyer**:

Buyers are those who execute a purchase of Powder Coatings.

The **User**:

Users are those who use a product after a purchase. They play a role in providing feedback to a purchasing centre for future reference.
By identifying the buying roles of each party in a purchasing process, Jotun will be able to accurately target the parties which influence the purchase of powder coatings.

1.9.3.2 *Buyers’ decision making process*

For a company it is necessary to try to understand the customer’s overall experience in learning about a product, making a brand choice, using the product, and even disposing of it (*Kotler, 2003*). This is to understand the criteria which consumers use in selecting a product to meet a need.

The buying process is described as *“the decision making process by customers in regard to a potential market transaction before, during, and after the purchase of a product.”* (*Kotler, 2003*) Fully understanding this process will allow Jotun to identify the variables that effect the purchasing of powder coatings.

The traditional description of a consumers’ decision making process suggests that the five stages a consumer passes through are: *problem recognition, information search, evaluating of alternatives, purchase decision and post purchase behaviour* (*Kotler, 2003*). However because of the differences from an average consumer, an organisation will tend to have a more complex purchasing process. This is because of their purchases being influenced by a greater number of individuals, which allows for a more rational approach to decision making.

The buying process of an organisation by Harald Biong and Erik Nes suggests that an organisation will go through 8 stages which affect a purchase. Their stages include:

*Figure 9 Buyer’s Decision Making Process*
Problem identification

Problem identification occurs when a potential buyer realizes a need. This begins the purchasing process.

Development of a solution

Once a problem has been identified a potential buyer will try to find a solution to a problem, which can include a purchase or otherwise. If an alternative solution to a purchase exists then the purchasing process will end here.

Product specifications

When a potential buyer decides that a purchase is necessary they will determine the specifications needed to solve a need.

Information search

A potential buyer will attempt to search for information regarding potential products.

Gathering of offers

When they are finished with searching for information they will then gather various offers for use in the evaluation process.

Evaluation of offers

At this stage in the purchasing process various alternative brands will be evaluated and the product which provides the best value to a buyer will be selected.

Ordering and receiving products

This is the stage where a product is selected and an order is placed. This is different from a typical consumer operating in a business to consumer (B2C) market, which will often collect a product at the point of purchase.

Post purchase Evaluation
This is the process of evaluation which occurs after a product has been purchased and used. At this point a buyer’s level of satisfaction is defined. This can influence a consumer’s evaluation of the brand for future purchasing reference.

1.10 Theory used in an internal analysis

Internal Analysis of Jotun is included in order to identify weaknesses and strengths that might affect possible strategies for Jotun Powder Coatings in Shanghai. Internal analysis can help to analyse the firm in order to strengthen any recommendations.

1.10.1 Attitude – Competence – Embodiment (ACE)

The **ACE-model** is used to analyse the international corporate culture. An analysis of Jotun Powder Coatings’ Attitudes, Competence and Embodiment will be used to analyse possible weaknesses and strengths that may affect Jotun’s success rate in the Powder Coatings industry (*Solberg, 2009*).

1.10.2 Marketing stimuli – marketing mix

The **Marketing Mix** is a set of marketing tools a firm uses to pursue its marketing objectives (*Kotler, 2003*).

The Marketing Mix consists of a set of dependant variables, which can be used to generate optimal response in the target market (*The Executive Fast Track, 2011*). It is used as a framework for defining a marketing strategy. The marketing mix consists of four dependant variables, which are commonly referred to as the four P’s. This includes Product, Price, Promotion and Place (*Kotler, 2003*). For the consumer the Marketing Mix is an external stimulus, which effects the buying decision. Jotun needs to define their marketing mix to be able to generate an optimal response in the targeting market.
1.10.3  **BAKKA Model**

The **BAKKA Model** describes where Jotun Powder Coatings is located in the internalization process. The model describes where Jotun’s Powder Coatings’ is during different stages of their development and helps understand where Jotun is today and where they can improve to achieve the next stage of the company’s development. *(Solberg 2005).*

1.10.4  **Analysis of market portfolio with the aid of a BCG Matrix**

**Analysing of the market portfolio with the aid of a BCG matrix** can aid the corporate management team of Jotun powder coatings analyse the need for marketing efforts and resources in the various markets. This way to classify the markets gives the management team a better basis for making decisions.

The advanced BCG matrix can help further analyze Jotun’s position and which markets they should be in. This will help Jotun focus their marketing efforts and where to distribute resources in the various markets *(Solberg, 2009).*

1.11  **Other models used**

1.11.1  **SWOT**

The **SWOT** analysis is a framework for generating strategic alternatives from a situation *(Kotler, 2003).* It is a useful model for analysing a firm’s competitive position relative to its competitors. A SWOT analysis of Jotun Powder Coatings is based on information from the internal and external factors, and the model is divided into positive aspects (strengths and opportunities) and negative aspects (weaknesses and threats). The main focus of the SWOT analysis is to map out and simplify the existing profile of Jotun *(Kotabe and Helsen, 2004).*
The **External Analysis** Chapter is an evaluation of the powder coatings market in Shanghai and of the external factors which are out of Jotun’s control. By understanding the external factors which affect Jotun’s potential customers it will be possible to further evaluate Jotun’s Influence Model.

In order to understand the selection process of Powder Coatings in Shanghai it is imperative to analyse the nature of the industry, external rules, regulations, trends that influence people’s decisions.

### 1.12 A cultural profile of China

1.12.1 Regional differences

China is a huge country with many provinces, there can be totally different business approaches in the different regions. Just by comparing Hong Kong and Shanghai, Hong Kong has a different currency than Shanghai and also the laws and regulations are different. Shanghai belongs to the Chinese government while Hong Kong is a special administrative region, and they want to be associated as their own “country” with no relations to the overall China. It could be wise to enter the Chinese market with an objective point of view to enhance as much information that is possible about how the businesses operate *(Gesteland, 2005).*
1.12.2 Adaption

It is of great importance to adapt to local buyers. This especially applies to a country like China, whose needs and wants differ from those in western culture.

China is categorized as a relationship oriented culture. In relationship-focused markets the relationship you build with your counterpart will have a strong personal component in addition to the company-to-company aspect. Your customer or partner will want to know you personally. They will also want to know if your company is committed to the success of an eventual venture (Gesteland, 2005).

“Chinese [people] are generally uncomfortable doing business with strangers (Gesteland, 2005).” This is important for foreign companies to understand, because it will be difficult to get customers if the Chinese buyer is not familiar with a seller. Therefore it would be wise to establish good relations.

Language barrier can be important obstacle if you do not have an interpreter when it comes to a major deal. This is due to the fact that most Chinese people speak limited English and information can be lost in the communication process, which can proceed into misunderstandings and a possibly damaging a relationship.

One key factor that might help building rapport and relationship with a Chinese person is by socializing over drinks and dinner. According to Richard Gesteland, “Chinese business people say, first you make a friend, then you make a deal.” It is crucial to know and understand that you cannot jump right into a deal with the Chinese; they need time and build trust before signing a deal (Gesteland, 2005).

1.12.3 Formal vs. informal

“Formality has to do with relative status, organizational hierarchies, and how to show respect to people in high positions. This is why international marketers should always know whether they are dealing with formal or informal cultures (Gesteland, 2005).”

China is a formal and hierarchical country where foreigners must pay attention to the status distinctions in hierarchical culture (Gesteland, 2005).” People have to know that an owner has the final say in any situation due to his placement on top of an organisational pyramid.
Chinese customers like to maintain harmony and to keep a calm interpersonal relationship with their seller. People who are unaware of cultural differences must be careful and watch what they say and do whatever to avoid embarrassing or offending other people (Gesteland, 2005).

1.12.4 Barriers
China is a place where status is important. People with less status in a hierarchy tend to be looked down upon by their superiors. This forces companies to send out the highest ranked person to build rapport rather than someone of lower status. Sending a messenger may be viewed as disrespectful. By treating their customer with the utmost respect a company can achieve better results (Gesteland, 2005).

1.12.5 Guanxi
“Guanxi” is a social relationship and is an important element for conducting business activities in China. It can be explained as a shared relationship between two business partners. It is seen as an economic organization without any laws and formal bindings.

Chinese businesses typically do not begin a relationship with someone they do not know. If a business party has “guanxi” with another there is reciprocation of social exchange and favours. Gifts are used to maintain the balance and strengthen the relationship. “Guanxi” influences all areas of business in China, and it is very difficult to establish an operation without it (Gesteland, 2005).

1.13 PESTEL analysis
External factors, which are out of Jotun’s control, influence the process of selecting building materials. A PESTEL analysis gives an overview of external factors that Jotun Powder Coatings operates in and allows a company to structure an analysis of their surrounding environment. Analysing their market’s political situations, economic trends, social situation, technological trends, environmental situation and laws and regulations allows Jotun to better understand their customers and what factors may or may not influence their selection process. (Business Knowledge Center, 2011)
1.13.1 Political factors

1.13.1.1 Political System
China’s communist regime has historically been in complete control over a centralized economy. They have the power to determine what business do and how they do it.

As is commonly known, the government in China has the final say in any business decision. They have the ability to prevent and transaction from happening within the Chinese border.

Having an understanding of the development of China will allow Jotun to define future markets and to understand what motivates Chinese construction.

Current figures appear to support the growth of the construction industry. China spends approximately 375 billion on construction annually, which is 16% of its GDP and it is expected that the construction industry will continue to grow 9.7 per cent annually (China Portal, 2011).

Chinese projects are using a large portion of global resources. They are using half of the world’s concrete and one third of its steel on various development projects and this is likely to continue during the next five years.

China’s development is highly influenced by the national five year guidelines. Every five years since the communist revolution, the communist party has set a series of goals for the upcoming five years. Their targets aim to further develop china’s economy.

China is currently on its eleventh five-year plan, which started 2006 and will last until the end of 2011. The twelfth five-year plan will start in 2012 and it will focus on creating an
environment for steady and sustainable growth as well as addressing rising economic inequality. Highlights of the plan include, increasing rural and urban incomes, creating new jobs, and overall GDP growth. *(Chinese Public Companies, 2011).*

The next five year plan will define the market which Jotun Powder Coatings will enter in 2012. One of the main government goals in the plan is to expand the country’s infrastructure. Government goals and project plans have outlined expansion of the country’s GDP through investments. This will allow the cement, steel, chemical and construction industries to continue to prosper within in the next five years. This indicates that there is large potential for Jotun to sell its powder coatings to new city development projects.

### 1.13.2 Development of Shanghai

Today Shanghai is seen to rival Hong Kong as Asia’s international finance centre and the local government’s development goals for the city aim to strengthen this position. As well as to develop Shanghai into a global financial centre, they aim to “promote economical and social development,” which construction has played a large part in. Their goals for a “[blue] sky, clearer water, greener land and better living” lead their vision of how the development of the city should proceed.

Shanghai’s local development goals influenced how the city is shaped and the governments mentality will help define the future outlook of the city. The municipal government of Shanghai defines which buildings they want built within the city limits and understanding their demands and urban development goals will allow Jotun to better understand what influences the selection process of powder coatings.

**Shanghai’s Urban Exhibition Centre (SUEC)** gives some insight into how Shanghai has developed since the 1980’s. 16.2 million Square meters of newly built housing have been erected over the last two decades. 53% of current housing has been built over this period while there are goals to further modernize and develop Shanghai’s urban environment.

42.81 million Square meters of out-dated housing has been removed and replaced with newer buildings due to the “Flat top roof to pitch top roof conversion” project. This has played a large role in Shanghai’s redevelopment and the city consisting of a large amount of tall buildings. *(Barcus, 2011).*
Aside from real estate development, Shanghai’s municipal government construction plans are driven by the goal to upgrade urban tourism-related facilities. This is part of “the objective of building an international tourist metropolis.” Preservation of historical architecture is also a priority for the government in creating city of culture and technology. This motivation has allowed for the construction of new state of the art exhibition centres, stadiums and other facilities which will attract tourism (SUEC, 2011).

Since 1995, Shanghai has aimed to develop the Southern part of the Huangpu River, which runs through Shanghai, into a thriving business sector. Today the area, known as Pudong, has developed into a modern business centre. Excessive demand for private enterprises to have offices in Pudong has spurred the government to develop a plan to double the size of the area, opening up real estate opportunities.

The city’s population’s well being is often prioritized in the development of the city. This is supported by slogans such as the 2010 World Expo Slogan; “better city, better life.” The city planning office sees residential buildings are seen to be a “window to the world,” and they aim to have housing which is energy efficient structures which allow their inhabitants to “enjoy every convenience and benefit [that] science and technology [has to offer].” This is all connected to the city’s vision of being a highly developed financial centre and encouraging modern construction.

Government plans to prioritize residential development aim to cope with the rising demand for apartments within the city limits (SUEC, 2011). In May 2011 the government showed plans of trying to deal with the excess demand by releasing a plan to develop 52 residential projects (Qian, 2011).

Goals to develop the city and large investments in the construction industry have led to a large amount of architect firms establishing offices in Shanghai. This has made Shanghai an ideal place for powder coatings sales forces to be located.

The combined goal of better living and impressive construction design specified by the local government creates a demand for optimal cosmetic design and colouring in buildings. Knowing the buildings that require colouring of aluminium products will allow Jotun to position their marketing strategies to maximize their profit margins. Shanghai’s goals to
develop and build a tourist friendly, thriving city creates a potential market for any company connected to the construction industry, including Jotun Powder Coatings.

1.13.3 Legal factors
Laws and regulations within the construction industry guide actions of various buyers. Government laws restrict and standardize various products and services. To better understand their own influence model, Jotun must be aware of the laws which influence a decision making process.

According to the 1986 Land Arbitration Law, the government can have a large say in the development of a city. The law claims that the government has the potential to determine what areas of land are used for (Barcus, 2011).

There are also laws which restrict the ownership of buildings. Government buildings must be exclusively government owned. Owners of private buildings must be real estate companies with enough capital to maintain the ownership.

According to the Associate Director of Ho and Partners, Tom Lu, Any building process in Shanghai starts with the regional government. The government decides which types of buildings should exist in each location and they define the specifications, such as how the building should be as well as what the building should be used for. These specifications are made public and various real estate developers are able to bid for the project. Each potential developer is audited by the government to ensure that they have the capital necessary to finish the project. They also analyze the design and plan to determine which project best fits their needs.

As various companies bid for the project factors such as price, quality and design all play a large role in the government process of selecting a developer. Companies which win a bid based upon low price will most likely choose less expensive product materials to keep costs down. Because of Jotun’s products being high quality and high price, it is important for them to understand which building projects have won bids based upon high quality criteria.

Government rules restrict an architect’s influence in the decision making process of powder coatings. Architects are not allowed to recommend specific brands to developers. If an
architect prefers the Jotun Brand over another company, they will not be allowed to have a say in the selection process other than the coating criteria to optimize a building design.

Government regulations define various building specifications. Laws and regulations require optimal safety in the event of an emergency. All buildings must fit the regulations defined by the local standards (*Lu, 2011*).

1.13.4 Economic factors
The economic situation in a nation will affect how Jotun Powder Coatings operates. Understanding the developments of a nation and its macroeconomic situation affects the market situation and the demands of a population. Therefore Jotun must analyse the future trends of the nation to examine the potential market and the factors which influence the selection of Powder coatings.

1.13.4.1 Tariffs
China’s economy is becoming less centralised and ever since entering the World Trade Organisation (WTO) in 2001 the nation has been committed to gradually eliminating its trade barriers to foreign enterprises. This commitment started in 2004, when tariffs began to diminish.

Currently, China has tariffs for all imported goods, but after implementing the commitments made to the WTO, China's average tariff level should decrease. For industrial goods the average tariff level will be reduced to 8.9% (*World Trade Organization, 2001*).

The existence of a tariff on imported goods emphasises the importance of Jotun Powder Coatings developing products within China.

Despite trade restrictions being reduced there may be a trend that can worry any potential foreign investors. There appears be an increase in economic nationalism and protectionism amongst companies in China. Chinese firms are often chosen over international firms due to nationalistic pride and the existence of “guanxi” (*Sun, 2011*).

The existence of possible protectionist policies may hinder the ability for Jotun to compete against local companies. They are currently competing against internationally reputable brands, but they may struggle to compete if a Chinese brand was to establish itself in the
high quality segment of powder coatings. It is therefore important for Jotun to be able to identify with possible Chinese consumers (World Trade Organization, 2001).

1.13.4.2 Review of China’s Gross Domestic Product (GDP)

In 2010, China’s GDP totaled 39.8 trillion RMB, which was an increase of 10.3% from 2009. In 2010 there was increase in the primary sector of changing natural resources into useable products of GDP by 15.0%. Within the secondary sector there was a growth of 17.8%. This is the sector of the economy where a finished usable product is created. The tertiary or service sector grew by 16.1%. As a result China’s gross GDP overtook Japan, meaning that China is currently the world’s second largest economy.

China’s GDP composition by sector suggests that agriculture is the smallest contributor to GDP at 9.6%. Services contribute to 43.6% while industry contributes 46.8% of the total GDP.

The Chinese industrial production increased 13.5% in December 2010, bringing overall industrial production last year to 14.615 billion RMB, which is an increase of 15.6%.

As of 2010 China has an estimated GDP per capita of $7,400, which is 127th in the world. This would suggest that despite China having the second largest economy in the world, it still has potential for economic growth due to its vast population. This provides large incentive for international companies to enter the Chinese market and to grow with the development of the nation. Jotun has the possibility to be a part of this growth (Clarkson research services limited, 2011).

1.13.4.3 Inflation

March 2010 saw China victim to severe drought. This affected more than 60 million people in the Southwest regions. Over the last few years, China has been victim to severe droughts across the nation which has lead to raising food prices. This has in turn led to inflation of the RMB (Chen, 2010).

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2 RMB Renminbi, Chinese official currency
Inflation remains a major concern. In February 2010 the people´s Bank of China raised interest rates for the third time to fourth months, after inflation increased from 4.6% in December to 4.9% in January (Information Research, 2008).

In October 2010, inflation reached its highest figure over two years (China's inflation, 2010). As a response, The People’s Bank of China Monetary Policy Committee began to raise interest rates in order to dampen the depreciation of the RMB.

As of June 2010, China’s central bank announced that it would allow gradual appreciation of the RMB. The appreciation of the RMB will make it more expensive to buy Chinese products, which could have an adverse effect on gross export figures. However it will make it less expensive for Chinese companies to invest in foreign made products (China Briefing, 2010).

Inflation has affected the powder coatings industry. This has lead to the cost of materials used in coatings to have risen from 50 to 100 percent (Anfinnsen, 2011).

1.13.4.4 Domestic Production
Looking into the domestic production alone, China cannot fulfil the demand for coatings, especially high-grade synthetic resin coatings. This allows for the importation of large quantities of top quality coatings from abroad, especially into the sector of heavy-duty coatings, anti-corrosive coatings, premium automotive coatings, good quality furniture finishes and marine paints.

Since 2000, gross exports of paint in China have maintained steady levels, but with the volume of imports generally more than double that of goods exported. The total value of import and export increased from $450 million in 2001, to $1.3 billion in 2006. This jump was due to the soaring prices of paint in the international market. From 2001 to 2006 the average prices of import increased dramatically from $80 per ton to $1,881 per ton. Despite the rise in import prices there were no significant changes to the price of exports. This may be due to the increased demand of high quality overseas products in China, but limited demand for Chinese coatings abroad (Information Research, 2008).
The amount of paint products being imported into China has remained at a relatively constant level. Since 2001, imports of paint have been at an average of 250,000 tonnes annually. The products imported are high-grade products. As the price of imported products has increased rapidly since 2001, the value of Chinese paint imports has been increased to $900 million in 2006. *(Information Research, 2008).*

In China there has been a huge imbalance between imports and exports, which concerns the Chinese paint industry. The prices of exported formulations are relatively low compared to the prices of imported paints. This is mainly because the export products are low-graded products with a lack of added value, and because exporters lower their prices to gain entry to the international market *(Information Research, 2008).*

China as a paint market has been experiencing high growth over the last few years and it has exceeded over five million tonnes paint sold in 2006, driven by the continuous boom in the construction development of Western China and major national infrastructure project signal rising paint demand *(Information Research, 2008).*

This shows that there is a good potential market for Jotun Powder Coatings with its high quality product and there is a gap in the market. It shows that the Chinese customers are looking for good quality functional paint rather than low price and poor quality.

China’s economy the 2nd largest in the world and it has massive potential for growth. New markets will emerge and understanding the macroeconomic environment that they operate in, will allow Jotun to better understand their current markets and adjust to the future demands of the economy *(Information Research, 2008).*

**1.13.5 Social factors**

It is important for Jotun to evaluate different social factors that can influence the demand of their products and organization of their company.

**1.13.5.1 Urbanisation**

China has a total labour force of 819.5 million people and their labour situation is changing *(Central Intelligence agency, 2011).* People are emigrating away from agricultural regions and into urban areas which can potentially spur demand for real estate development.
Urbanisation is currently occurring as can be seen when examining the China’s current labour situation. 30% of China’s population work in agriculture (Wang, 2010) and 30% of China’s current labour force consisting of migrant workers, who have increased their incomes by moving from agriculture into industrial and service sectors.

People are moving away from agriculture due to the ability to earn a greater nominal wage. 5% of China’s total unemployment figure is estimated to be from China’s rural population, which suggests that 20 million people in agricultural areas are looking for a sustainable income. As of 2010, migrant workers earned an average of $1,500 a year, which is sufficiently more than they would earn while working in the agricultural sector.

There are several reasons for China’s population moving to urban areas, but the general cause is due to the nation’s industrial development. China’s GDP is developing and cities in coastal regions are developing due to increased demand in the service and manufacturing sectors. This development has led to an increase in the demand for workers and this demand and rising living costs in urban areas increases a nominal wage over time.

As a country’s GDP develops, the amount of people who work in the agricultural sector tends to diminish. As people move away from agriculture due to availability of technology and attractive working conditions in urban areas the wages of rural workers will begin to match that of urban employees. This worker-farmer wage equilibrium would only be reached if the agricultural labour force were to reach only 10% of the entire Chinese labour force. In order to achieve this figure, 150 million new non-farm jobs would have to be created to relocate the agricultural workforce (Gang, 2011).

This demand for industrial jobs will increase the demand construction projects to accommodate the population trends. There may be a need for more offices, factories and other industrial capital. This has occurred in Shanghai and the government has responded by developing residential and business areas. Jotun may be able to take advantage of the economic changes stimulating construction demand.

1.13.5.2 Annual income
Statistics from the National Bureau of Statistics show people’s annual per capital income in China has increased greatly. The urban income in 1995 was 4,283 RMB while in 2008 it
had reached 15,781 RMB. This concludes that the population per capital income is increasing gradually. And in the long run this can affect social factors, it is wise to take every factor into consideration and be able to adapt as early as possible to trends (China Economic Review, 2010).

1.13.5.3 Cost effectiveness

Labour costs in China are continuing to rise and the ability to produce low priced goods due to limited production costs is diminishing.

Minimum wages have increased all over China and in 2010, 14 provinces in China raised minimum wage levels, where the highest was raised by 20%. Labour costs in Shanghai have risen, mainly due to an increase in welfare payments such as housing subsidies and health insurance fees, and this has forced several production plants to move away from the area (CCH Hong Kong, 2011). As has occurred in developed nations, an increase in costs will discourage the establishment of manufacturing companies and it is most likely that Shanghai’s dependence on financial industries will increase.

Despite the rise in labour costs, manufacturing plants in China will continue to maintain their cost effective advantages in the global market. According to Professor Fang Gang of Peking University, labour productivity is increasing at a faster rate than worker wages, which will maintain China’s price competitiveness over 20 to 30 years.

1.13.5.4 Population

Understanding China’s population trends will allow Jotun to further understand the current powder coatings market and to identify potential future markets.

The Chinese market is a optimal market of the majority of industries due to its geographical size, population diversity and growth potential. As of 2011, China is home to the largest population in the world. Its population is estimated to be 1,336,718,015 people (Central Intelligence Agency, 2011) and despite developments in the country’s GDP, a large portion of the population lives below the international poverty line. In rural areas, 21.5 million people live on less than $90 a year. An additional 35.5 million people live on less than $125 a year, which is below the low income line defined by the United Nations (Central Intelligence Agency, 2011). 400 Million people are also considered to be unemployed. Improving the distribution of GDP is a priority for
China’s National Government, and 57 million people living in poverty suggests that there is much potential for economic growth and industrial development.

Looking into the future trends of the population, the One Child Policy will have an impact on the population, there will be an oversupply of labour force in the near future but in the long run there will be a decrease.

As China’s economic situation develops, people will continue to migrate to cities.

Shanghai’s population has grown from 5.3 million in 1950 to 18.8 million in 2008. Urbanization is occurring in China and government policies such as the implementation of an internal passport aim to hinder the rate. Urbanisation will create an increase in demand for apartments, residential, construction buildings and other facilities for the population.

If we take a closer look at the aging of the population in China, the median age in 2000 was 30.1 and in 2005 it rose to 39.5. This would suggest that the overall population is aging and therefore there is increased demand for health and medical treatment.

Due to increases in healthcare and the one child policy, the average age of a Chinese person is increasing. According to the Chinese minister of human resources, Yin Weimin, “The life expectancy of Chinese people is now 73 years and it is expected to rise to 74 during the next five years.” He stated that “[a rise in a country’s retirement age] can be a good way to deal with an aging population and ensure the healthy and stable development of social security.” Today the age is 55 for female civil servants, 50 for female workers and 60 for men, and it is expected to rise (Sexton, 2011).

Jotun Powder Coatings have to consider how this may affect them, trends in social factors affect the demand for a company's products and how that company operates. For example, an aging population may imply a smaller and less-willing workforce, which could increase the cost of labour. Furthermore, companies may change various management strategies to adapt to these social trends (China Economic Review, 2010).

1.13.5.5  
**Corruption**

It is reported that, the People’s Republic of China suffers from widespread corruption. In 2008, China was ranked 72 of 179 countries in Transparency’s International's Corruption Perceptions Index. Means of corruption include graft, bribery, embezzlement, backdoor
deals, nepotism, patronage, and statistical falsification (*Corruption Perceptions Index, 2010*).

Societies in which illegal payments are common happen to share a number of cultural values. Since contacts are useful to business people everywhere, in relationship focused cultures personal connections are absolutely essential. You need to know the right people and it really is who you know that counts. The relationship focused cultures value can lead unwary business visitors into bribery trap (*Gesteland, 2005*). By interviewing Hu Yuan Ming we got to know that there is a lot of corruption going on when people do not know the right people and this can be a dangerous area to move into. When you bribe someone the first time, then you have started an evil circle because the one you are bribing might demand more and more after some period of time. “Illegal payments can become a major business expense and these expenses tend to snowball (*Gesteland, 2005*).” This is not a good way of doing business due to ethical rules.

Ethics are considered to be a cultural variable. In many societies bribery is considered unethical practice which corrupts both giver and recipient of the bribe (*Gesteland, 2005*).” Even though many companies prohibit bribery, it is still common throughout many areas of the world.

*Fraud* is a concern, because it can be a threat to Jotun’s operations. The quality of powder coatings is difficult to see with the naked eye. It can occur that a subpar product replaces Jotun’s products in order to cut costs. This can be a danger for the health and safety of various stakeholders. Paint may lack various criteria, such as fire resistance, which can endanger people’s lives in the event of an emergency.

### 1.13.6 Technological factors

*Technological factors* affect Jotun in the Powder Coating industry. Buildings are getting taller with advancements in the construction industry. They require better quality materials and efficiency solutions for renovation and maintenance. This drives influences the coatings industry and encourages the investment in research and development (R&D) of powder coatings.
1.13.6.1 *The modernizing of China*

China is dependent on Foreign Direct Investment (FDI) to become a highly innovative country and to develop technology. “To keep up, [developing] countries need to make their research and innovation systems more efficient and to find new ways to stimulate innovation in today’s increasingly competitive global economy (*China Will Become, 2006*).” For the first time in 2006, China spent more money on R&D than Japan and became the second largest investor behind the US (*China Will Become, 2006*).

In 2006 China spent just over $136 billion on R&D. This number shows that China is investing heavily on R&D and its government wants China to develop in order to compete with fully developed nations.

This can later affect Jotun’s competitive advantage, smaller companies are able to produce the same products cheaper or come up with better products. This can be seen as a threat for Jotun and this will increase the overall competition globally. Currently, China still needs technology transfers from developed countries. Many production sites set up research labs in foreign countries because of cheaper production and labour cost. This allows for local access of processes and information. This can reduce foreign investors’ technological advantages over time (*China Will Become, 2006*).

1.13.7 *Environmental Factors*

1.13.7.1 *Nature of Aluminium*

Aluminium’s attributes make it a frequently used tool within the architectural construction industry. Aluminium is the most available element in the world. This makes it the least expensive metal and is frequently used within construction.

Aluminium does not need to be treated for rust protection or otherwise due to *passivation*. This means that it is a highly reactive metal which reacts with the oxygen in the air. The resulting aluminium oxide is non reactive leaving a durable exterior layer, which does not need to be treated for rust protection or otherwise.

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*Passivation* - Process of making material non reactive through the process of oxidation.
Because of the nature of aluminium, powder coatings do not need to be applied to aluminium. Therefore it can be assumed that powder coatings are only applicable for colour purposes.

1.13.7.2  

*Environmental Awareness*

Corporate social responsibility focuses on climate change has affected the world’s viewpoints and it has extended the criteria for company standards. It is becoming increasingly important to be energy efficient as well as cost effective. It is also seen that being environmentally responsible can be beneficial to a company’s image as well as its profits.

Third party accreditation for energy efficient design is becoming increasingly popular. Non Governmental Organisations (NGO’s) such as United States Green Building Council (USGBC), which is part of the world green building council, are able to give buildings energy star marks. Certification of energy efficiency can apply to both residential and commercial buildings (*U.S Green Building Council, 2011*).

Weathering of materials heavily influences the construction industry, especially Jotun’s external powder coatings, which are exposed to all weather forms. China’s climate varies across the vast size and geography. Shanghai’s weather is highly fluctuant ranging from snow to high level of heat and humidity. Heavy rains, and high levels of exhaust are common in the large city and exterior materials must meet the needs of the coastal climate. Jotun must have a large product portfolio that meets the needs of the Shanghai climate and when considering expanding into other areas of China their products must meet the needs of the local consumers.

“Tests in Florida have proven that Jotun’s products meet the needs of various climate types (*Anfinnsen, 2010*).”
1.14 Porter’s five forces

Porter’s five forces are used to identify the most relevant players in the market. It analyzes the current situation in the industry divided into five factors (Kotler, 2003).

1.14.1 Industry competitors (Segment Rivalry)

There are an estimated 2,000 suppliers of Powder Coating in the Chinese market. The majority of these are low volume and low quality producers. Foreign suppliers account for around 20 to 30 of these companies.

Jotun’s main competitors are international firms who produce high quality products to customers who demand reputable services. Their competitors have similar product lines to Jotun and are regularly trying to differentiate themselves.
Jotun’s competitors have different product lines, for example some companies such as Akzo Nobel strictly offer TGIC-free products, or they do not offer certain products at various class levels (Anfinnsen, 2011). The majority of coatings companies are not able to provide premium quality of powder coatings as it is only Jotun, DuPont and Akzo Nobel which have premium products in their product range (Qi, 2011).

Jotun’s largest competitor, Akzo Nobel, has a global market share of 16% and holds a substantial share of the North American market. Other notable competitors are Tiger, DuPont “Alesta” Powder Coating, Nippon, PPG and IBA (GCIS, 2011).

International firms have invested heavily into the Chinese market. Companies such as Akzo Nobel have gained market share through horizontal expansion, such as their purchase of two powder coatings plants in 2004. They have also expanded through vertical integration by building two factories in Langfong and Guangdong (Information Research, 2008).

Akzo Nobel has 6 Powder Plants as of 25 October, 2010 which allows them to deliver quick service to their customers across China. Their prices are lower than Jotun and their product line fits the requirements of the local projects (AkzoNobel Corporate, 2011).

During the period between 2004 and 2008, eleven purchases of powder coatings facilities were made by International firms in China (Information Research, 2008).

There are a large variety of international architect firms in Shanghai due to the nature of the construction industry and therefore we can assume that the rivalry among established players China is large

1.14.2 Potential entrants (Threat of Mobility)

New entrants into a market will often be motivated to go into an industry where companies have earnings that are above the normal level. The threat of intruders in the industry will still largely depend on the entry barriers that exist.
There are a large amount of companies producing powder coatings, but few of these would likely enter the high quality market due to the large costs required to sustain high quality products and to compete with billion dollar strong companies.

Jotun has been unlucky and become an intruder itself and thus become a threat to the establishment of other competitors. However Jotun is able to meet the costs of entering a new market.

Another obstacle for new players is the network of already established players in the industry. Since it takes time to establish large networks, the threat of intruders is still considered to be low.

1.14.3 Supplier (Supplier Power)
In Shanghai powder coatings suppliers have limited power when selling to the architectural construction industry. This is because of the large amount of competition in the City and the few buildings which are able to be built over time. Therefore it can be assumed that there is a surplus of powder coatings options for buyers to choose from.

1.14.4 Buyer (Buyer Power)
When a supplier’s power is high, then a buyer’s power is high. A purchaser of powder coatings in Shanghai has hundreds of options when choosing powder coatings, which enables a buyer to choose the criteria which best, fits their own needs.

1.14.5 Substitutes (Threat of Substitutes)
Any company offering aluminium surface treatment products or systems are considered a threat to Jotun Powder Coatings. This includes Anodizing, PVDF paint and the use of composite panels, most companies have both PVDF and Powder, but Jotun does not.

Anodizing is one of the most frequently used substitutes on aluminium products. This product gives aluminium a shine by extending the depth of aluminium oxidation. Anodizing rarely needs fixing, and it looks natural. It has colour limitations and the quality may vary for each unique product. Anodizing is widely available throughout Asia and the Pacific region.

PVDF paint is another strong competitor to Jotun’s high-end product offering. It is a liquid paint, which can be applied to a greater surface area than powder coatings.
is also easier to apply and fix than powder coatings due the fluid nature of the product. It has limited scratch resistance and limited durability.

Composite panels are a simple solution of covering metals with panels. This is less common than other substitutes (GCIS, 2011).

The question refers to substitute alternative substitutes to Jotun’s solutions to the competitive arena. Based on our collected data and there are numerous dangerous providers of substitute products, which makes the threat of substitutions considered to be high (Annfinsen, 2011)

1.15 Market analysis

1.15.1 Market potential

As of 2009 the Chinese powder coatings market was valued at 10.1 Billion RMB (GCIS). Demand for powder coating is growing and new advancements in the technology are widening the possible usage of the product. The Chinese market has the potential to be 40% of Jotun’s Powder Coatings’ revenue within the next 5 years. They have the potential to earn an estimated amount between 500 million to 600 million nok a year. (Bjørn Naglestad, General Manager)

Suppliers have grown an average of 6% in 2009 as recovery from the economic slowdown continued. Supplying roughly 450 kilotons in 2009, China is the largest powder coating
market in the world. The majority of the marked demand factor thermosets over thermoplastic, however approximately 95% of revenues are derived from thermosets. Market concentration is substantially higher in thermoplastics where the five leading suppliers constitute 70% of the market by revenue (as opposed to 30% in thermosetting).

There are an estimated 2,000 suppliers which participate in this marked, the bulk of which are low volume, low quality domestic suppliers.

The suppliers are very optimistic that the demand will continue growing in the coming years. The main drivers of the market are increasing growth in China’s domestic industries such as auto manufacturing as well as those which are closely linked to the real estate market (construction, household appliances and metal furniture) (Senum, The China Powder Coatings Market).

1.15.2 Market segment

Region: The chart shows regional market sizes, designated by the size of each bubble, and the breakdown of sales shares therein. East China represents the largest regional market. Foreign and domestic companies control around half of China’s Eastern and southern markets each.

Industries Consumer markets are big drivers for powder coatings: metal furniture household appliances and automotive are three of the four largest end-user segments. Industrial applications are growing, however; construction and pipelines are using increasing amount of powder coating solutions (GCIS, 2010).
1.16 **Buyers’ decision making process**

To better understand how the consumers make their decision, there has to be three factors analysed: Types of buying behaviour, buying roles and the steps in the buying decision process (*Kotler*, 2003).

Types of buying behaviour are factors that have to be analysed in advance, as they might affect the buying decision process. Types of buying behaviour will tell us if Powder Coatings is identified as a low or high involvement product, this might affect both the consumer’s decision process as well as Jotun’s marketing. Buying roles is included in order to identify what kind of influence the different participants have in the buying process. Identifying these key influencers can help Jotun target their customers more efficiently of the buying process and help to evaluate the right marketing tools.

1.16.1 **Types of buying behaviour**

When examining different types of buying behaviour the consumer decision-making process tends to vary. Henry Assael illustrates four types of consumer buying behaviour on the basis of the degree of buyer involvement and the degree of differences among brands. (*Kotler* et.al)

<table>
<thead>
<tr>
<th>Significant differences between brands</th>
<th>High involvement</th>
<th>Low involvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complex buying behaviour</td>
<td>Variety-seeking buying behaviour</td>
<td></td>
</tr>
<tr>
<td>Few differences between brands</td>
<td>Dissonance-reducing buying behaviour</td>
<td>Habitual buying behaviour</td>
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</tbody>
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Observations it is clear that there are few differences between international brands. Local producers are not seen to be direct competitors to international brands because of large differences in quality.

Powder Coatings can be seen as low involvement products, and therefore powder coatings fall under the category “Dissonance-reducing buying behaviour.” Powder coatings are low
involvement products because their purchase is not seen as expensive in compared to other materials used on architectural construction buildings.

Powder coatings are bought infrequently and usually the durability caters from 5-30 years depending on quality. Powder Coating is not in the consumer’s mindset when building an architectural building. They get informed that the aluminium needs to be coated and find the easiest way to solve this issue. It shows that there are not done any major considerations when choosing powder coatings, it is a relaxed evaluation and they don’t want to waste any valuable time on this purchase (Qi, 2011).

1.16.2 Buyer roles
As explained by Jotun’s Influence Model, there are various industries which influence the selection of powder coatings. Each has a role and it is beneficial to define the roles of individuals in the industries play in purchasing coatings. This will help in designing a strategy to effectively target each individual and sell the optimum level of powder coating.

Different parties may play different roles in the purchasing process and this is evident in the purchasing process of powder coatings.

Figure 15 Buyer Roles

1.16.2.1 Initiator
Tom Lu, the Associate Director for Ho and Partners gave an insight into the role of an architect.
An architect designs a building and defines the criteria for the construction. The criteria for coating vary, depending on the type of building and which applications need to be coated. They decide where paint needs to be used to provide fireproof, water proof and to limit light pollution. They also define the cosmetic appearance requirements. They initiate the purchase of powder coating by defining the buildings painting needs.

In the selection process of powder coating it is against regulation for an architect to specifically suggest a brand to an owner. Often the company who owns the building will have a material department, where they will choose a specific brand. For Government buildings the government has its own auditing team which determines the brand of powder coating. It is therefore possible to conclude that architects have limited power in influencing what products are bought.

Therefore the Initiator in the selection of a powder coatings brand can be seen to be an Architect.

1.16.2.2 Influencer

There may be two roles which consultants play in deciding upon the types of building materials used. As is less typical in mainland China, a facade consultant may help in the design process by advising architects which criteria to set. Another possible role of a facade consultant is to advise owners on which materials can best meet the needs of certain criteria set by architects.

Facade consultants may be used for large building projects, such as offices and stadiums and a consultant company will be chosen based upon their expertise within a certain building area. Large projects require a lot of resources which amplifies the importance of selecting the correct materials for the exterior of a building. A facade consultant influences the purchasing process of powder coatings by advising upon which paint can be used to fit the requirements of a building.

Therefore the Influencer in deciding a powder coatings brand can be seen to be a Facade Consultant.
1.16.2.3 *Gatekeeper*

The gatekeeper in the decision making process for powder coatings can be seen to be the material department of a development company. Information is obtained by members of the department and the information which gets decided upon goes through the organisation.

Therefore the *Gatekeepers* in the selection process of powder coatings can be seen to be the **Material Department** of a development company.

1.16.2.4 *Decider*

The organisation that decides which coating to use on aluminium products is the owner of a development project. They select their preferred colour and texture based upon samples provided by their material departments. On smaller projects the coatings criteria are defined by the architect and provided by a material provider. On larger projects, a facade consultant can influence the selection.

Therefore the final decider of powder coatings brand can be seen to be a owner, which in Shanghai has to be a reputable **Development Firm**.

1.16.2.5 *Buyer*

The requirements and preferences, which have been decided upon by owners are then met by contractors, who initiate the purchasing process. Through a marketing channel they purchase the finished aluminium from a fabricator or aluminium contractor. Their demands define what coating *applicators* buy from a company such as Jotun.

Therefore powder coatings are bought by those that apply the product, who can be **Applicators, Extruders or Fabricators**.

1.16.2.6 *User*

The criteria of powder coating are defined by architects, but various other parties have the potential to influence the process. Fabricators, applicators and contractors are all exposed to powder coatings and have the potential to give recommendations of what types of paints are preferred in the process (*Lu, 2011*).

Those that use powder coatings can be seen to be an **Applicator, Extruder, Fabricator and a Contractor**.
1.16.3 Buyer’s process

Jotun’s influence model simplifies the buying process for powder coatings. A more detailed understanding of the buying process is needed to help identify how they can position their marketing strategy to best target a possible buyer.

The traditional five stage buying process shows the stages that buyer goes through from when a need becomes realized to a purchase has become finalized. The five stage buying process states the process that a buyer will go through to purchase a product. First a need will be recognized and then the buyer will search for information and evaluate the various alternatives based upon the information obtained. They will then decide upon which product to best satisfy the need and after the purchase they will evaluate the extent to which a purchase was a success. This post purchase evaluation will affect the information used when a new need is realized (Biong and Nes, 2009).

Jotun operates as a supplier of powder coating in the B2B market. A buyer decision making process in a B2B market typically differs from the decision process of an individual consumer in a B2C market. A business typically has a sales division, where multiple individuals take part in a purchasing decision. They do extensive research to purchase the correct materials at the best price, while a single consumer is typically more susceptible to emotional influences. This would suggest that a business’ selection process is more rational than that of an individual buying a consumer good.

Due to the differences from an average consumer, an organisation will have a more complex buying process. The buying process suggested by Harald Biong and Erik Nes suggests 8 stages which affect a purchase. Their stages include:

Figure 16 Buyer’s Decision Making Process
This model shows the additional detail of an organisation’s purchase decision making process. When an organisation realizes a problem, they try to find a solution to the problem. This does not necessarily lead to a purchase. If a purchase is necessary to solve a problem, then an organisation will define the product specifications needed to meet the need. After this point, an organisation will search for information which will determine which organisations can offer the correct criteria to fit the defined specifications. They will then entertain offers from various companies. The next stage in the purchasing process is to evaluate the various offers and decide upon which product best fits their needs. They will then order the products. After a purchase the post purchase evaluation will occur, which defines the extent to which the purchased product meets their needs. Post purchase evaluation of a purchase allows for further information to evaluate in the selection process. Reliable service can potentially ensure a long term alliance between companies, limiting the companies and products that would be considered in an information search (Biong and Nes, 2009).

In the development of a building there is a need for window frames and various other aluminium products. The outer layers of a building, often known as a “Curtain Wall” are designed to insulate a building as well as give positive outlook. A curtain wall does not support a building and can therefore be created using light weight materials such as aluminium. Products used in the building of a curtain wall have to fit various standards defined by architects (D.Zhang, 2011).

Understanding the factors which businesses use when evaluating which powder coatings to use will allow Jotun to position their marketing strategies to fit their customers’ needs.

1.16.3.1  **Problem identification**

The first step in selecting powder coating is the development of a problem and a problem allows a possible consumer to realize a need.

The demand for powder coating tends to stem from a colour or aesthetic design need. Colour is not necessary for all aluminium products, because of the elements’ property of passivation. The need for colour is dependent on building type, location and function of aluminium as well as owner preference.
Aluminium which is to be under scrutiny is often treated to add to a positive image. It may be possible to assume that large building projects in Shanghai, such as offices and stadiums tend to require colour on exterior aluminium products because they are under public scrutiny. Therefore we can assume that a need for coatings stems from a need to create or maintain a specific image.

1.16.3.2 Development of a solution
Once a need for colour is realized there may only be two distinct options. A materials department may choose to place an order from an existing supplier, or to pursue a more time consuming process of searching for a new supplier. Ordering from an existing supplier would simplify the selection process, however if no such relationship exists then the purchasing process will continue.

In the architectural construction industry placing an order from an existing supplier will occur in the event of demand for a homogenous product to existing coatings, such as for repairs and replacement work.

1.16.3.3 Product specifications
A material department of a development company will have to determine what criteria best fits a building design. Architects will design a building with various specifications and facade consultants can potentially aid this process.

Architects designs define how a building should look, but they also set various other criteria which should be met. They define environmental criteria such as how much light pollution various materials should give off; they set safety criteria such as how fire resistant various elements of a building should be and they define durability criteria such as how waterproof material should be. A developer needs to find coatings which meet the needs of the building design (Lu, 2011).

There is often no need to coat aluminium other than for cosmetic or aesthetic purposes. If a design does not demand a certain colour or physical texture to the aluminium products, then no form of coating or anodizing is required (Lu, 2011).

1.16.3.4 Information search
In order to determine which products can best meet various specifications, developers must find information which can help to solve an issue. A company or individual wishing to
purchase a product which will satisfy their need for colour, will attempt to analyse which 
products best fit their needs based upon the information available to them.

Information may be gathered through a variety of information channels, such as databases, 
trade fairs, personal sales, and trade magazines or a company will aim to offer a tender to 
the public in order to gain the best product available.

At this stage of a purchasing process, developers will examine various forms of coating, 
such as PVDF Coating, Anodizing and Powder Coating. Companies which supply these 
services will be identified based upon quality indicators and the value that they are able to 
offer. Each potential supplier will have a variety of different products for each need and 
these will also be evaluated.

Coating experts who would have a preconceived concept of various coating options would 
most likely give advice of which coatings to use in which situations.

Information searches are often assumed to be rational in the B2B market (Biong and Nes, 
2009).

However, despite more resources being invested in the search process than a single 
consumer, information tends to be limited.

The architectural construction industry is highly developed in Shanghai and the majority of 
developers have been through a coating selection process. In the event of a reliable supplier 
being found, the information search will become limited based upon the satisfaction gained 
in the purchase.

1.16.3.5 Gathering of offers
At this stage a developer will look to gather offers from various suppliers which are 
deemed qualified for supplying coating. They will offer a coating and price which a 
potential buyer will evaluate.

Potential suppliers have the potential to influence this stage by educating a decision maker 
or influencer about their product. They can alter their marketing mix to influence any 
decision made.
1.16.3.6 Evaluation of offers

The material department of a developer tends to decide which coating will best fit the specifications defined by an architect. For a decision to be made, external factors, other stimuli and marketing stimuli are evaluated. The outcome of a purchase is dependent on a customer’s preferences.

A customer will often evaluate those companies which are in their own evoked set. This means that they will evaluate the brands which are known to them.

A company such as Gartner will evaluate pre approved companies as suppliers of coatings. Tiger, Akzo Nobel and Jotun are approved suppliers to the Permasteelisa group in China (Liu, 2011).

Designers such as Xiaodan Wei will continue to use brands which have satisfied her demands. Owners looking to select a coating will often evaluate companies based upon brand knowledge. San Jian June, the general manager of Parkview Hotels in Shanghai, will only evaluate Nippon and Durex because he knows the brands and with limited time restraints he sees it beneficial to only analyse a few companies which are known to deliver reliable products. This indicates that making a potential customer aware of a product is critical for success.

1.16.3.6.1 Product choice

Price is a defining factor in choosing Powder Coatings. However, durability, environment and culture affect a decision to choose Jotun powder coatings (John, Lu, Hua, 2011).

The Associate Director/Deputy designer of Ho and Partners Architects generalized the importance of price to the Shanghai market. He stated that Architects tend to prefer PVDF coatings over powder coatings, but powder coatings are often chosen due to its lower price (Lu, 2011). Powder coatings are preferred to other substitutes due to its environmentally friendly characteristics, as well as price.

When interviewing different individuals in the decision process we have found similar factors that influence their purchase. It has been indicated that health and environment in very important and prioritized in an evaluation of coating, however it is possible that this is not a defining factor in the selection.
According to one source, “everyone speaks about the environment, because it is the current ‘hot topic,’ however the deciding factor in any industry is the price (John, 2011).”

Decision makers often want the best quality with the lowest price. Identifying the differences in powder coatings is difficult at first glance which makes branding important. It is also emphasized that quality and durability as important factors, but price is the most important factor when choosing powder coatings (Lu and Sun, 2011).

The price sensitivity may be due to the minimal interest of the architect, owner and designer that they don’t see powder coatings as the most important issue. They know that the quality of all the powder coatings works well enough for them and therefore don’t want to waste any money on high quality powder coatings when this is not necessary for them.

Public development projects have a different emphasis on price. Private companies tend to be more sensitive to price due their limited budgets. Private companies are driven by maximizing profits and thus price becomes a defining factor in their selection of coatings. Because of this it is possible to conclude that a public development firm will demand a higher quality product and will be willing to pay for it.

The image of a building will most likely have a large say in the selection in powder coatings. Buildings which are meant to be centrepieces will demand the highest quality building products available.

The table below shows a ranking of the purchasing criteria for powder coatings defined by interview subjects. The table also explains what the criteria consist of and what their decision is based upon.
Interview subjects stated that the environment was the most important factor when choosing powder coatings. This does not appear to be accurate as potential buyers tend to buy cheaper products if the environmental specifications are met by the less costly alternative. Price is a defining factor in the selection process as is a relationship with a supplier.

The targeted participants we have interviewed in Shanghai prefer international brands. This is because they are seen as highly reputable and their products are seen as reliable compared to local companies. A company’s identity is connected to the offerings of the company.

The interview subjects indicated that they could consider choosing powder coatings from Jotun, because Norway is seen as an environmental country with high quality western products. They also said that international brands are more trustworthy than their domestic brands, and usually better positioned in the market. Some of the domestic brands are of poor quality and have no guarantee that they will last and manage the climate compared to international brands.

Most educated Chinese consumers are knowledgeable about Norwegian goods and their reputations. They associate products from Norway as high quality, pure, clean, trustworthy and good restrictions to the products. The economic growth is good and has been ranked as
a rich country and therefore they have a good profile in the Western countries and also in Asia.

1.16.3.7 Ordering and receiving products
In the event of powder coatings being selected as the supplier for a construction project, an applicator would have to purchase the product from Jotun. A developer or contractor would directly specify the supplier and the applicator would purchase the product.

Jotun would deliver the specified powder to an applicator that would apply the product to various forms of aluminium. They would then supply the aluminium to a curtain wall manufacturer or contractor. Jotun sells directly to those that apply their paint, but the decision to choose Jotun as a supplier is made by the material department of a developer.

1.16.3.8 Post purchase evaluation
Post purchase evaluation of a purchase allows for further information to evaluate in the selection process of paint. Reliable service can potentially ensure a long term alliance between companies. Limiting the companies and products that they would consider when they are searching for alternatives (Biong and Nes, 2009).

This evaluation emphasizes the importance of providing value to a customer. Jotun can provide value by offering a reliable product and services.
Chapter 6
The Internal Analysis

The internal analysis chapter examines Jotun Powder Coatings’ current situation allowing for further understanding of the company’s potential for entering the competitive powder coatings market in Shanghai. Analysing Jotun’s goals and competence allows for further understanding of the company’s strengths and weaknesses, which enables an understanding of how Jotun, as a new player, can approach the industry.

1.17 ACE MODEL
For Jotun to have success in the Chinese market, it is important that the whole organization is supportive and engaged in the internationalization process. The internationalization process can be described as the process that develops a company’s international corporate culture. This occurs through the formation of attitudes, development of competence and a further embodiment of both within the organization. (Solberg, 2009)
1.17.1 Attitudes
Attitudes within an organisation can determine the success of any international endeavour. When entering a new market it is important for members of an organisation to be supportive of international expansion. This is because a company’s goals and mindset have the ability to influence the company’s activities and decisions (Solberg, 2009).

When examining if Jotun Powder Coatings possesses a beneficial attitude towards entering the Chinese market, their risk willingness, level of market orientation, attitude towards other cultures and obstacles in the market all have to be taken into consideration (Solberg, 2009).

1.17.1.1 Risk –willingness
Determining a company’s risk willingness allows for the analysis of a company’s attitude under challenges. Successful international companies tend to have a lower degree of risk aversion compared to those who have achieved limited progress in foreign markets.
Jotun have been operating in foreign markets for decades and they have achieved success in these markets. In the Middle East they are considered market leaders and they have achieved success in various markets in the Far East.

Jotun’s major shareholder group, the Gleditsch family has always expressed desire for Jotun to be a global brand. According to the general manager of Jotun China, “it was a goal for the founder of Jotun that the company would be selling their products all over the world.” The attitude of ownership is that Jotun should be an international brand and their actions have reflected this.

Jotun’s risk willingness is exemplified by their first excursion abroad. In 1962, on the initiative of Odd Gelditsh Jr, the company set up a paint factory in Libya. Libya was chosen due to the potential increase in demand after their oil resources were discovered in 1956 (www.jotun.com).

The entry into the Libyan market brought about many unknown challenges for Jotun. Their staff had to adapt to a culture which was entirely unknown, and they had to deal with events, which were highly unlikely in Norway, such as dealing with takeover attempts made by the Libyan government on a regular basis (Vageskar, 2011).

Jotun Powder Coatings also exhibits a certain amount of risk willingness which is shared throughout all Jotun divisions. In 1978, Jotun founded the company, Corro-Coat Thailand, which became Jotun's first powder coatings company outside of Norway (www.jotun.com). Today they are trying to enter a heavily competitive China market, which reflects that the company is positive when approaching new challenges.

Despite the Gelditsch families’ international vision, Jotun exhibits a hesitation to international expansion. When comparing Jotun’s entry into the China market with other international paint companies they are considered to be late entrants.

Jotun entered began to establish itself in mainland China in 1993 after extensive evaluation, despite a recommendation from staff members that the company should enter the market a decade before (Naglestad, 2011). This suggests that there are elements within the company that are risk averse.
1.17.1.2 Market orientation

Market orientation is a management philosophy which emphasizes the need for gathering information from a market with the intention of meeting the needs of customers (Solberg, 2009). Companies, who emphasize the importance of obtaining market information from an export market and actively use the information, tend to benefit from the approach.

It is considered important for a company to have a market orientated focus towards international expansion. This is because, focusing on a market position and customer demands, allows a company to be flexible in a marketing approach.

Being market orientated allows a company to adapt to a market and this is critical for success when operating in new markets. According to the social anthropologist, Richard Gesteland, there are two rules of international business:

1. “In International business, the Seller Adapts to the Buyer.”
2. “In International Business, the Visitor Is Expected to Observe Local Customs.”

These rules emphasis adaption to the market and the importance of being market orientated.

Jotun appears to be market orientated in its approach but has not been able to adapt its product range to the market.

Jotun has traditionally focused on its product development, because their brand is considered to be connected to the company’s products. The sales of powder coatings occur within a business market, which is thought to be rational in the evaluation of product criteria when purchasing a product. In this case it would be beneficial for a company to be product focused. However due to the importance of “guanxi,” the Chinese market does not appear to be rational and therefore a focus on market adaption would be beneficial (Gesteland, 2005).

Jotun appears to be focused on its products, but they show signs of adapting to the market. Jotun has employed sales and marketing personnel that are familiar with the local community and this can help them to utilize the market situation. However their products are not seen to be adapted to fit the needs of the market.

As can be seen by Jotun’s various slogans such as “all the colours in the world,” and their event titles such as “coloured by culture,” Jotun prides itself on its product range and the
colours that they are able to produce. Jotun aims to be associated with high quality products that satisfy international and domestic regulations and offer value to the Chinese market. If Jotun’s powder coatings are seen as poor quality in relation to their cost then the perceived value of the product will decrease and their brand will suffer.

Jotun Powder Coatings uses plenty of resources on R&D of its product line. This is to keep up with market trends and to develop better and more durable products.

Environmental welfare has received global emphasis in recent years (Liu, 2011) and as a response; Jotun has developed more environmentally friendly Powder Coatings products with less toxic components. They have developed their product range to meet the needs of the global market; however they have not tailored their product portfolio specifically to the Chinese market (Anfinnsen 2010).

Jotun has been using the same entry strategy in almost all its targeted markets. One strategy might work in many markets, but not necessary in all markets. They should therefore evaluate the use of different marketing activities, which will help them to obtain valuable information. This is something they should take into consideration rather than using the same strategy in every market.

1.17.2 Competence
Skills and knowledge provide value to a business (Solberg, 2009). Providing a product of value to international firms requires a high degree of competence in the marketing approach.

Jotun Powder Coatings shares the goals of the Jotun Group and therefore their processes can be generalized.

1.17.2.1 Product Competence
Carh Arthur Solberg (2009) suggests that the successful companies that have expanded abroad focus on two areas – production development and cooperation with consumers, rather than focusing on providing better service and delivery systems than its competitors (Solberg 2009).
Dawson Qi, Director of Sales at Jotun Powder Coatings China suggests that Jotun has several key advantages in entering the Chinese market. They offer a wider range of products than their competitors. Their hyper durability powder “Durasol” has a warranty which lasts 30 years and is not offered by the majority of their competitors. They offer products which have continually passed by international inspections for quality as well as environmental standards.

Jotun places its products into various price categories. This allows them to offer products to various different segments. We assume that they are amongst the most expensive in some products. As there are many existing competitors that might have better solutions and higher price, it can be assumed that they operate with competitive prices.

Quality becomes a priority for all parties involved in the production, application and fabrication of powder coatings products. Close cooperation with fabricators such as Permasteelisa allows for quality assurance as well as sales knowledge and customer contact. This cooperation allows information sharing and advancements through shared R&D goals. Providing training allows Jotun to maintain quality in the production of their products as well as to create and maintain a business relationship with all parties.

Luxury buildings and high quality projects demand high quality products and this is something that Jotun will be able to offer after their new factory is completed in 2012 (Qi, 2011).

1.17.2.2 Current brand strategy
Because Jotun Powder Coatings has not fully entered the Chinese market, they have not emphasised brand building. They are currently focusing on obtaining architectural reference projects which will allow them to expand their product portfolio. Their goal with this is to help to build their brand. This will allow them to refer to projects in China when meeting with potential customers (Naglestad, 2011).
Jotun have not been able to create brand equity due to their limited entry into the market. They have not prioritized advertising or promotion of their products and therefore they have not developed a favourable image towards themselves in the market.

1.17.2.3 People competence
According to the Sales Manager Dawson Qi, who is one of Jotun Powder Coatings’ six employees, Jotun’s main competence and competitive advantage is that their office consists of employees with good educational background and experience in the market. This is highly valuable when entering the market.

Jotun operates abroad by having a staff consisting of both Norwegians and locals in the sales offices. Using the local employees benefits Jotun with regards to providing better competence about the markets, a better understanding of cultural differences and understanding of how business is done. This is the case in China where the sales teams visit businesses and can provide them with updated product information, and report any request they may have.

Jotun Powder Coatings’ employees have knowledge over other international brands. Their sales team is entirely compromised of employees who have previously worked for the American coatings giant, Akzo Nobel.

It is of grave importance in China to maintain a good relationship with its business partners or new ones. Employing local salesmen makes it easier for Jotun to communicate with its customers.

Jotun has also a trainee program that focuses on training and hires competent employees. The training consists of a learning program that focuses on, sales, purchasing, management, and operations. These programmes are developed to improve the employees overall competence (Naglestad 2011).
Jotun has developed several relations with firms involved in the construction industry. These relations allow them to be more knowledgeable of the market conditions. Jotun’s current cooperation with fabricators such as Permasteelisa, will allow Jotun to gain knowledge of future development projects.

Jotun aims to provide an internal information system which crosses the various different Jotun divisions. Their aim is to provide a **single source solution** to their customers. The thought process behind this is to differ a customer to other divisions within the Jotun Group, however according to Roy Vageskar, Jotun’s single source solution is currently only a vision.

In China it is common that competence is lost on a regular basis and this is a problem for Jotun. Because of a high turnover of employees, competent individuals are lost. This is because Chinese individuals tend to constantly look for advancement opportunities which are reflected in company loyalty being low. This may be due to the masculine cultural traits which Chinese tend to exhibit *(Gesteland, 2005, Naglestad, 2011 and www.jotun.com)*

### 1.17.2.4 Health, safety and environmental competence

**Jotun has emphasized that health, safety and the environment (HSE) is the responsibility of Jotun’s management.**

In 1998, the HSE standard was developed into Jotun to gain a better understanding of attitudes towards health, safety and the environment related to the chemical industry.

Jotun’s vision states: “Jotun A/S will enhance long term competitiveness and financial performance through responsible approach, attitude and actions regarding HSE”

Jotun also states that all operations shall:

- prevent occupational and work related diseases
- promote physical and psychological good health
- safeguard life and property
- prevent pollution of the environment
- be conducted within the existing code of ethics
The HSE policy if followed by providing quality products that consist of natural, healthy, and environmentally friendly ingredients. They also try to reduce production waste, improving safety standards, and making sure that the regulations are followed in every factory. The HSE guidelines have been implemented in a total of 37 Jotun factories, of which 10 factories produce powder coatings.

This long term competitiveness and performance through a responsible approach regarding HSE will help Jotun establish a long term competitive strength and financial results (Annual Report 2010, Jotun Protects Property 2010 and Jotun HSE Report 2009)

1.17.3 Embodiment
Embodiment of attitudes and competence has major importance to maintain, a strong international organisation. It is also important that the whole organization is a part of the process (Solberg, 2009).

Jotun has been an international player for some time, but it is still important that the management is continuously participates in the internationalization process in showing interest and giving support.

Jotun has been able to implement its values in their China processes. They emphasize on attitudes and know-how through a global international organizational culture as well at the use of a global human resource structure. Jotun has re-localized it´s General Manager, Bjorn Naglestad, from Thailand who has worked in Norway to ensure that their values and image are being kept.
Currently Jotun has not entered the market it is unclear what their future plans are. In an interview with Kjetil Anfinnsen, it was clear that Jotun are not sure which actions should be taken in the Chinese market. Their full focus is on trying to supply large building projects with high quality products.

1.18.1 Product
Powder coatings can be considered to be non reusable. Repeat purchases are limited due to the long lasting nature of the coating as well as the difficulty in gaining access to various window frames and other aluminium products for reparation.

Jotun’s powder coatings can satisfy all the requirements or criteria of national and local standards with their products from the vast products portfolio and even surpass these. They are able to satisfy various demands of price, durability, quality, environmental reliability and colour choice.

Jotun Powder Coatings offers a wide array of Powder Coatings, however there is evidence to suggest that their products cannot satisfy all colour demands. Lux, a building designed by the Japanese Architect firm Jun Aoki and Associates demanded a colour which was very difficult for Jotun to produce. Tiger was able to offer the specific colour to the Lux project. This indicates that Jotun’s colour line is slightly inferior to its competitors’ product options (Qi, 2011).
1.18.2 Price
Jotun focuses on high quality with their product portfolio in every segment. They want to be viewed as a high quality brand and the prices of their products are high.

Once their factory opens, their prices will be comparable to other international firms such as those of their competitors; Akzo Nobel, Tiger, Nippon and Dupont. It is impossible for us to say which products Jotun Powder Coatings will sell the most of when they haven’t entered the market, but their current plan is to emphasize on their high end products (Naglestad, 2011, Anfinnsen, 2011 and Parmesteelisa, 2011).

1.18.3 Place
Jotun currently has no factories in China producing powder coatings. However, as mentioned earlier, their new factory will open in the first quarter of 2012. Unfortunately this is their largest obstacle when competing in the Chinese market. They have to import powder coatings from different countries such as, India and Thailand. This decreases their potential profit margin and multiplies the duration of the delivery.

This distribution represents the link between the manufacturer and the final consumer. The choice of distribution channels can affect other marketing decisions (Schütte, and Ciarlante, 1998). When looking at the huge differences in population characteristics, it is important for Jotun to distribute in the right areas, places at the right time with the right products in order to meet the buyers demand.

Their segment, the architectural construction industry, consists of all sorts of construction buildings such as, Airports, hospitals, hotels, residential, industrial parks, commercial and monumental real estate. Jotun has chosen this segment because the use of powder coatings is particularly used on such building types (Naglestad, 2011).

1.18.4 Promotion
The Shanghai market is undergoing major development in the architectural construction industry. The customers in Shanghai are beginning to be more aware and curious when thinking of brands, they are seeking more information about products, comparing prices and quality.
Promotion is very important for Jotun in distinguishing themselves from their competitors when they provide similar products to their customers. The use of promotion in thinking of brand awareness and buying behaviour is crucial for success (Overseas Market Profile, 2011).

However Shanghai has a high frequency of switching between brands, and this implies how important promotion is to achieve loyalty and identification of their brand.

Because Jotun’s other divisions have been in the Chinese market for some time. They have established some awareness, but the Powder Coatings segment is not as well known in China and therefore need more attention and promotion.

Jotun does not invest on promotion strategies in China, and will not be investing heavily in promotion tools in the near future. They are about to enter the market and they will be using, person sales tactics as this is the most effective tool in the later stages of the buying behaviour process. Jotun has three sales employees and their main focus is to begin to introduce Jotun to the market and try to convince customers to consider Jotun as a preferred Powder Coatings brand. They will be using a push- strategy to promote their brand, with dealer’s functions and some promotion tools.

However they have also printed out brochures that help educate the Chinese customers about Jotun as a Norwegian powder coatings manufacturer and their products. They try to distribute catalogues to potential buyers, because powder coatings customers require information before purchase. Another tactic that is being considered is the use of advertising in typical construction magazines that directly target potential customers (Anfinnsen, 2011).

Jotun do not deem it necessary for them do be advertising powder coatings in, newspapers, ordinary magazines, television, outdoor advertising and so on. Currently Jotun China has some outdoor advertising. They have an advert on Aurora building on the bund. The advert states that “Jotun loves Shanghai.” This is an advertisement for all of Jotun and is an attempt to build the groups’ brand. Powder coatings are categorized as a niche product and therefore mass advertising has limited results. Advertising will not be that effective for Jotun Powder Coatings as it would be for Jotun decorative, which operates in the B2C

1.19 Financial analysis
Jotun is a financially strong company which indicates that Jotun has funds available to make investments.

In 2009, the global financial crisis resulted in low volumes sold in some of Jotun’s markets. However, in 2010 all divisions of the Jotun Group have shown increased sales and improved results and Sales in South East Asia have seen positive growth since the financial crisis. Jotun’s has consistently grown over the past few years and this has been enabled by the company’s organic growth strategy and local adaptation (Jotun Protects Property, 2011).

According to Jotun’s, “Jotun Protects Property report,” they have made large investments in new products, equipment, and factories. They have also invested in reducing the time it takes to identify and establish operations in markets that they deem promising.

Jotun Powder Coatings stands for 9% of the business segment and in 2010 Jotun had a sales income of 12,000 million NOK. In the same year Jotun Powder Coatings’s global operations increased their sales revenue from 928,328,000 NOK in 2009 to 1,118,019,000 NOK in 2010 (Jotun Protects Property, 2011).

According to the report, Jotun Powder Coatings’ volumes improved in the second half of 2010, this resulted in double-digit growth for the division in 2010, despite the rising costs of raw materials (Jotun Protects Property, 2011).

58 per cent of the Powder Coatings division’s earnings are derived from the sale of products to industrial manufacturers of various consumer products. This is their most profitable sales target, however “the company have put in place efforts to identify and align products and services more closely with specific industries and customer needs (Jotun Protects Property, 2011).” This shows that they are trying to further segment the various markets and to gain further understanding.
Activities in the Architectural segment, which make up about 22 per cent of the division’s earnings, performed well in all regions in 2010, but results from this segment slowed in the second half of the year. Because this segment is tied to the construction of residential, commercial and monumental real estate, sales were impacted in some regions due to suspended or cancelled projects. It is also interesting to consider that architectural powder coatings’ results in South East Asia have exceeded Jotun’s expectations.

To maintain a positive financial situation, Jotun Powder Coatings will continue to invest in recruitment and competence development to support a more segment-focused approach in China (Jotun Protects Property, 2011).

Jotun is invests 2 million NOK annually to prepare for entry into the Chinese market. The board of directors has the main objective for Jotun Powder Coatings to grow profitable with organic growth of 15% per year. Their goal is not necessarily to become market leaders. (Naglestad, 2011).
1.20 **BAKKA MODEL**

Through analysis of Jotun Powder Coatings current operations, the BAKKA model can help aid in the understanding of how Jotun Powder Coatings’ ability to operate across international borders. Figure 21 shows where businesses are located in the internationalization process (Solberg 2009).

![Figure 21 BAKKA](image)

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<tbody>
<tr>
<td>Neighbor countries, random</td>
<td>Operative</td>
<td>Operative</td>
<td>Strategic/operative</td>
<td>Mainly strategic</td>
<td>Mainly strategic</td>
</tr>
<tr>
<td>Negligible</td>
<td>Increasing</td>
<td>Large in selected markets</td>
<td>Large in key markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>“One man show” Part-time. Distributor</td>
<td>Export department. Agent</td>
<td>International divisions. Sales offices</td>
<td>Global or transnational organization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade houses. “Piggy back”</td>
<td>Sales office in the main market.</td>
<td>License production</td>
<td>Production alliances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marginal or negative</td>
<td>Marginal or negative</td>
<td>Positive contribution</td>
<td>Interdependence of the home market</td>
<td>Price leader. The main income source.</td>
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</table>

Jotun’s Powder Coatings division has chosen to enter the Chinese without the help of a third party. They have an office in Shanghai and they are in the process of building a factory in Zhangjiagang, this would indicate that they are a developed international company.
The BAKKA model suggests that Jotun Powder Coatings is pursuing marketing efforts across borders. Through analyzing the company’s current efforts we can see that Jotun Powder Coatings are on the verge of operating towards a global market.

Jotun can be seen as a company which markets its products over multiple marketing borders. Their export motives are mainly strategic which indicates that they are highly developed in the process of being an international firm. The market choice can be seen to be in the fourth phase of the BAKKA model as Jotun are looking to expand their markets and their efforts in China.

Jotun’s market share is large in their established markets and it is also big in their key markets, such as in the Middle East. The Jotun organization has international divisions and sales offices which places them in the fourth phase of the process.

Jotun are currently licensing production to certified applicators which would suggest that their entry strategy is located in phase four of the model.

Jotun’s marketing mix is cultural adjusted which comes from other countries they have been successful in. 40% of their income comes from the Middle East and this shows their cultural knowledge in the markets that they are already in. Jotun are building their brand and their company profile. Their products that they sell are high-end and therefore high price.

They have a global product which can be sold in any country. This is because powder coating coats aluminium, which is frequently used around the world. Coating is mostly for cosmetic purposes, for colouring and appearance. In the Middle East they are considered a price leader after achieving high market dominance; however their local economic results are not dependent on their home market. This would indicate that their markets in areas other than the Middle East are still in phase four.

Through placement of Jotun’s efforts it is possible to conclude that Jotun is in the multinational marketing stage of internationalisation process and they are moving towards becoming a global company which uses intensive export methods. Because of this it can be concluded that they are not a global company, but have the potential to be one (Solberg 2009).
1.21 **Analysis of market portfolio with the aid of a BCG Matrix**

Jotun’s current market strategies can be analysed with the aid of a BCG matrix (*Solberg, 2009*).

**1.21.1 Established markets**
Jotun is a market leader in several regions. The countries that they have operations in are considered their primary markets, and therefore they can be categorized as **established markets** according to the analysis of the market portfolio (*Solberg, 2009*). The current situation is that they have established markets in Norway, the Czech Republic, Turkey, the United Arab Emirates, the Kingdom of Saudi Arabia, Pakistan, India, Thailand, Malaysia, Indonesia and Vietnam.

**1.21.2 Pull out markets**
Until now Jotun has not experienced a situation where they have had to pull out of a market.
1.21.3 Investment markets
According to the model, Jotun’s current operations in Shanghai are considered as an investment market. This is due to their goals of expanding their market share, which is currently low. This is reflected in their long-term goal of becoming a leading supplier of powder coatings. Because of their investment into the market, Jotun has the potential to develop the market into a market which they are established in (established markets) (Solberg, 2009).

1.21.4 Exploring markets
For Jotun to develop further, it will be important to explore different areas to analyse their potential for possible market entry.
Chapter 7
An Analysis of Strengths, Weaknesses, Opportunities and Threats

1.22 SWOT-analysis
A SWOT analysis allows for the analysis of Jotun’s Strengths, Weaknesses, Opportunities and Threats. This is done to get a better overview over the factors which influence Jotun and their efforts to better understand the architectural construction market (Løwendahl and Wenstøp, 2009).

The analysis consists of weighting the criterion which defines Jotun’s abilities and possibilities up against the importance within the market situation. Weighting is done based on the secondary and primary data obtained.

The values in the SWOT analysis are arranged from one through five. One is low and five is high.
<table>
<thead>
<tr>
<th>SWOT</th>
<th>Importance (1-5)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths</strong></td>
<td></td>
</tr>
<tr>
<td>A. High degree of R&amp;D</td>
<td>A. 4-5</td>
</tr>
<tr>
<td>B. Product competence and product quality</td>
<td>B. 5-5</td>
</tr>
<tr>
<td>C. Established in many markets</td>
<td>C. 2-4</td>
</tr>
<tr>
<td>D. Financially Strong (Jotun Group)</td>
<td>D. 5-5</td>
</tr>
<tr>
<td>E. Long history as a paint manufacturer</td>
<td>E. 3-4</td>
</tr>
<tr>
<td>F. Employee training program</td>
<td>F. 5-4</td>
</tr>
<tr>
<td>G. Employment and management (Human competence)</td>
<td>G. 5-5</td>
</tr>
<tr>
<td><strong>Weaknesses</strong></td>
<td></td>
</tr>
<tr>
<td>H. Little cultural knowledge in China</td>
<td>H. 1-4</td>
</tr>
<tr>
<td>I. Few employees, inhibitory network</td>
<td>I. 2-4</td>
</tr>
<tr>
<td>J. Little brand awareness in China</td>
<td>J. 1-5</td>
</tr>
<tr>
<td>K. Low market orientation</td>
<td>K. 1-5</td>
</tr>
<tr>
<td>L. Late entry</td>
<td>L. 2-3</td>
</tr>
<tr>
<td>M. Positioning strategy</td>
<td>M. 2-5</td>
</tr>
<tr>
<td><strong>Opportunities</strong></td>
<td></td>
</tr>
<tr>
<td>A1. Development of Shanghai</td>
<td>A1. 5-3</td>
</tr>
<tr>
<td>B1. Relationship</td>
<td>B1. 5-5</td>
</tr>
<tr>
<td>C1. Increasing demand for high quality products.</td>
<td>C1. 5-4</td>
</tr>
<tr>
<td><strong>Threats</strong></td>
<td></td>
</tr>
<tr>
<td>D1. Many competitors</td>
<td>D1. 5-5</td>
</tr>
<tr>
<td>E1. Substitute products</td>
<td>E1. 5-3</td>
</tr>
<tr>
<td>F1. Laws and regulations.</td>
<td>F1. 3-3</td>
</tr>
<tr>
<td>G1. Protectionism</td>
<td>G1. 3-1</td>
</tr>
<tr>
<td>H1. Vulnerable for economical fluctuation</td>
<td>H1. 3-2</td>
</tr>
</tbody>
</table>
1.22.1 Competence matrix

Jotun’s strengths and weaknesses (represented by letters), have been placed in a competence matrix. This allows for a visual comparison of each point.

Each letter has been placed in the model based upon Jotun’s China performance, and its level of significance for the market.

<table>
<thead>
<tr>
<th>(5)</th>
<th>JK</th>
<th>M</th>
<th>GDB</th>
<th>A</th>
</tr>
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<tbody>
<tr>
<td>(3)</td>
<td>H</td>
<td>I C</td>
<td>E</td>
<td>F</td>
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<tr>
<td>(1)</td>
<td>L</td>
<td></td>
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</tr>
</tbody>
</table>

(1) (3) Jotun’s China Performance (5)
1.22.1.1 **Strengths**

A. **High degree of R&D**: The importance of R&D is due to the need to innovate and to improve their products to be able to meet the needs of their customers. R&D allows Jotun to provide extra value to their products.

B. **Product Quality**: This is of a major importance for Jotun and the market to be able to meet the demands of their customer and to establish a high quality brand.

C. **Established in many markets**: Being established in many markets shows the risk willingness of Jotun. However the knowledge of other markets will not have any effect on Jotun when entering China other than the ability to show a portfolio of works, which can differentiate themselves from competitors.

D. **Financially Strong**: This is probably the biggest strengths that Jotun has because they can take more risks, make investments and make large adjustments to reach their goals.

E. **Long history** as a paint manufacturer: Having a long history in the market allows for Jotun to have experience. With over 80 years of experience in producing paints and selling to various customers they have an advantage when promoting themselves.

F. **Employee training program**: Efficient internal branding allows Jotun to create a shared identity within the organisation. This is created through extensive training of employees and HR practices.

G. **Employment and management**: Jotun hire qualified staff with long experience or relevant education. They hire locals, which allows for a better understanding of how the market works as well as to allow Jotun to grow organically within a region. For company development, Jotun relocate staff from Norway and other countries to maintain a high level of competence and company identification.

1.22.1.2 **Weaknesses**

H. **Little cultural knowledge in China**: Little cultural knowledge can harm Jotun and therefore they need to be aware of cultural differences. This will allow Jotun to adapt to the cultural expectations of their customers.

I. **Few employees, inhibitory network**: Jotun is limited to six employees in its Powder Coatings division and this inhibits their ability to operate a large scale sales effort.
J. **Little brand awareness in China**: Jotun’s strongest hindrance to market entry is their limited brand awareness. A lack of brand awareness and a small market share hinder Jotun’s products from getting selected over a competing brand.

K. **Low market orientation**: Jotun has limited information about the Chinese market, which hinders their marketing efforts to be orientated towards their customers.

L. **Late entry**: Jotun is late in entering the Chinese market and this makes it difficult to compete with already established competitors. Established firms have already positioned themselves to attract customers and already have a market share.

M. **Positioning strategy**: Jotun’s current strategy to enter the market is limited because of little information about a customer. Jotun have not been able to segment their customers into different segments and therefore it is difficult to determine which approach and direction they should decide upon in the future.
1.22.2 Opportunity matrix

Jotun’s market opportunities and threats (represented by letters) have been placed in an opportunity matrix and a threat matrix. This allows for a visual comparison of each point.

Each point is placed in the opportunity matrix, based upon the opportunities success probability and their degree of seriousness.

<table>
<thead>
<tr>
<th>(5) High</th>
<th>B1</th>
</tr>
</thead>
<tbody>
<tr>
<td>(3)</td>
<td>C1</td>
</tr>
<tr>
<td>Degree of seriousness</td>
<td>A1</td>
</tr>
<tr>
<td>(1) Low</td>
<td>(1) Low</td>
</tr>
<tr>
<td></td>
<td>(5) High</td>
</tr>
<tr>
<td>Success probability</td>
<td></td>
</tr>
</tbody>
</table>

A1. Development of Shanghai: Shanghai is developing into a metropolitan area and this indicates a future demand for powder coatings in the city. If Jotun can take advantage of this growth then they can increase their profits.

B1. Relationship: In Shanghai having a relationship with your customers is crucial for a deal to take place. Jotun has limited relationships within the industry and has a lot of potential for growth. This is seen as one of the most important opportunities for Jotun to take advantage of.
C1. **Increasing demand for high quality products**: There is an increasing demand for high quality products within the Chinese construction industry. Higher criteria are being set by purchasers of building materials and Jotun has the potential products to take advantage of this increased demand.
1.22.3 Threat matrix
A threat matrix shows the probability of a threat occurring in the market and the seriousness of the threat to Jotun as a company. Potential threats have the ability to define trends and challenges that might influence Jotun’s profitability.

<table>
<thead>
<tr>
<th>Degree of seriousness</th>
<th>D1</th>
<th>E1</th>
<th>F1</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Low</td>
<td>H1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3)</td>
<td></td>
<td>G1</td>
<td></td>
</tr>
<tr>
<td>(5) High</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Probability of occurrence</th>
<th>D1</th>
<th>E1</th>
<th>F1</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Low</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3)</td>
<td></td>
<td></td>
<td>G1</td>
</tr>
<tr>
<td>(5) High</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

D1. Many competitors: The biggest threat for Jotun will be the large number of competitors in the powder coatings industry. There are both indirect and direct competitors which exist in the different segments. Due to the fierce competition within this sector it will be hard for Jotun compete without a strong position in the market.

E1. Substitute products: Substitute products can solve various consumers’ needs and this may threaten Jotun Powder Coating’s expansion into newer markets.

F1. Laws and regulations: New laws and regulations as well as government intervention may negatively affect the demand for Powder Coatings.
G1. **Protectionism**: The Chinese government will likely favour domestic brands to protect their local industries this might negatively affect Jotun.

H1. **Vulnerable for economical fluctuation**: Although Jotun is a financially strong company, it is likely that the RMB will appreciate and this can affect their competitiveness if the prices of raw material increase. Jotun provide high priced products and an increase in costs will decrease their profitability.

### 1.23 Strategic Problem Definition (SPD)

The analysis of Jotun Powder Coatings and their Strengths, Weaknesses, Opportunities and Threats allow for the development of a strategic problem definition.

Jotun Powder Coatings is a financially strong company, which has an extensive product portfolio, however, they need to know how to use their strengths and how to decrease their weaknesses to be able to capitalise on the market situation and to take advantage of the opportunities and to counter the threats which may occur?

Based on Jotun’s most significant Strengths, Weaknesses, and the most attractive opportunities and threat in the market, we developed the following critical success factors:

### 1.24 Critical success factors

#### 1.24.1 Market orientation

Jotun needs to develop a better understanding of the Shanghai market through extensive research and to gain further insight into the cities development and city planning.

#### 1.24.2 Brand awareness

For Jotun to target their specific customers they need to implement a clear brand strategy. This will allow them to enter the evoked set of a customer and to enter the decision making process of Powder Coatings.

#### 1.24.3 Local employment and management

Jotun needs to expand their sales and marketing team. They need to execute good Human Resource Management (HRM) to ensure that their employees share the same values and are motivated to achieve the company’s goals.
1.24.4   Positioning and customer segmentation
Jotun needs to better define their customer segments to target potential buyers. This will allow Jotun to position their marketing strategies to ensure that maximum profit is obtained.

1.24.5   Relationship
Jotun’s appears to have underestimated the importance of relationship building. They need to better their understanding of the cultural aspect of “guanxi” and how it influences the purchase of powder coatings.
Chapter 8
Strategic Recommendations

The Strategic Recommendations chapter will be a suggestion of what Jotun can do to effectively enter the Shanghai market and to maximizing profit.

“How should Jotun as a new player approach this industry in order to maximize profitability?”

1.25 Target
To determine how Jotun should approach the industry, they must be able to target the architectural construction projects that require powder coatings as well as the individuals who influence the selection of a distinct brand.
Due to the nature of the construction industry, powder coatings will be used on large projects that will be in the public perspective. Therefore it is beneficial for Jotun powder coatings to focus on larger projects, which are designed for image as well as functional purposes. This would include buildings designed to look cosmetically appealing, such as a company headquarters, stadiums, tourist attractions and landmarks.

For Jotun to maximize their profitability they must target those within an organisation which select a brand. Their current strategy of approaching architects is inaccurate for the Chinese market due to an architect’s inability to suggest a distinct brand. The Powder Coatings Sales Approach Model shows the newly defined influence process and identifies a Developer’s Material Department as well as a Facade Consultant as having the legitimate right to select a particular brand of powder coatings. Jotun must target their sales approach to these parties to ensure that their products are selected for the coating of aluminium products in buildings.

1.26 **Strategy**

Knowing who Jotun should target their marketing efforts towards allows for the creation of a strategy.

1.26.1 **Finding a consumer**

The current areas of opportunity for Jotun Powder Coatings can be found after analysing the current market factors in the PESTEL analysis. Shanghai is continuing to develop and the areas of expansion in the city are considered to be the Pudong business district, and residential real estate in other areas of the city.

For Jotun to accurately target customers they must know the development plans of the city. They must know the specifications of various buildings which are going to be built from government files as well as general market knowledge. This information can be found from fabricators such as Permasteelisa and various other sources. Knowing this information will allow Jotun to target the material departments within future building projects.
1.26.2 Entering a decision making process
Before Jotun’s Powder Coatings’ products are made available to the open market, they need to develop a strategy which will allow them to enter the decision making process of a material department.

Their information must be available for potential customers who are looking for new solutions to their coating needs and Jotun’s brand image must allow them to enter a customer’s selection process.

1.26.2.1 Building brand awareness
Getting into consumers evoked set can be done by communicating Jotun’s positive aspects towards a consumer. This can be done through various uses of an integrated marketing communication (IMC) strategy. This involves using various different methods to promote their brand, such as advertising, personal sales, direct marketing, sales promotion and public relations.

Jotun’s IMC should be adapted to the local Shanghai consumers for maximum response. This may include changing their company name from a strictly phonetic name into something that will have a positive meaning to the Chinese people.

Jotun must develop a message which will create a positive brand image in a consumer’s mind which will allow them to select Jotun. They need to show a consumer what they can offer in competence and quality.

1.26.2.2 Method
A Chinese consumer values reputable brands and to reinforce this in the minds of a consumer, Jotun would benefit by continuing to communicate their involvement in monumental buildings such as the world’s tallest building, the Burj Khalifa and the monumental Eiffel Tower in Paris. Jotun can use their strong brand appeal in other geographical areas to generate universal appeal for their product.

Based upon the analysis of consumers evaluation processes, Norwegian products are seen as high quality, environmentally developed and trustworthy. Therefore using Norway as a country of origin would benefit Jotun’s communication strategy. This will allow them differentiate themselves from their competitors as well as connect the Norwegian national identity to their products and services.
1.26.2.3  *Message placement*
Jotun needs to communicate their message in places where their customers are. They need to be represented at various industry events which are relevant for powder coatings, such as the Surface finishing exhibition which will last from the 13th to 14th of May in Guangzhou. They should also be present at Asia’s largest aluminium exhibition which starts on the 30th of June in Shanghai.

Jotun’s current method of maintaining direct contact with customers is beneficial before they enter this market, but it may be possible to put their image in trade magazines to increase the likelihood that their brand enters consumers evoked set, which can take between three to four years in China (*Hua, 2011*). Therefore it is important that Jotun Powder Coatings commits to generating brand awareness in China.

1.26.2.4  *Being selected*
For Jotun’s products to be included in a product evaluation, they must meet the design specifications defined by an architect. This includes meeting the aesthetic and visual demands, as well as durability and safety criteria also Legislation and environmental standards.

To be considered in the majority of building projects Jotun should provide an extensive product portfolio which includes a wide range of colours and qualities to fit the needs of architectural designs in China.

The only fixed criteria for powder coatings in all building projects is that they fit the specifications of a building design, and therefore price and relationship become a critical factor in the selection of brand. Because of this, Jotun must be able to offer a competitive price for their products and use their resources in establishing relationships with possible customers.

1.26.2.5  *Pricing*
Being an international company, Jotun is seen as a high quality product. They need to have a product line and price which is consistent with this image as to maximize a consumer’s response. Selling their products at a high market price will allow their brand to be seen as high quality.
As Jotun enters the market in 2012, Jotun needs to provide a large choice of products. Their current strategy of selling premium quality powders allows for limited profitability, but increased marketing potential for pursuing market entry.

Marketing lesser quality products at a lower price should be considered over time to meet other market needs. Marketing other forms of powder coatings will allow for potential market growth as the premium sector is limited.

1.26.2.6 **Relationships**
For Jotun’s powder coatings to be selected by a Chinese customer, Jotun must establish a relationship with various individuals within a development firms’ material departments. This is due to the cultural phenomenon “guanxi,” which is a critical factor in the selection of a brand. Jotun will not be chosen as a supplier if they do not have any connections.

1.26.2.7 **Meeting delivery demands**
Jotun are not being selected due to their inability to provide a large quantity of powder coatings in a short space of time. Therefore they need to establish factories in locations close to nearby applicators and development markets. By 2012 their first factory in China will be completed, and as the company develops it may be beneficial to develop more factories to compete with direct competitors who have factories located all over the country.

1.26.3 **Market growth**
Shanghai’s is developing at an fast rate, however at some point in time this development will slow and the market potential for suppliers to the construction industry will diminish. The costs of city development will rise and new areas of China will develop.

Jotun Powder Coatings must consider rising labour costs and labour availability when expanding their operations in China. In an international perspective, they potentially have 30 years before wage rates and labour efficiency cancel any cost effectiveness for producing products in China. After this point it may be beneficial to pursue other more cost effective locations for production of powder coating to minimize costs (*CCH Hong Kong, 2011*).

Over time it would be advantageous for Jotun to examine sales opportunities in new markets other than Shanghai (*investment markets*). Areas such as Ningbo, Suzhou, and
Hangzhou are in the near vicinity of Shanghai and have developed into strong economic areas. These can be seen as *exploring markets* for Jotun due to their locations being close to the Zhangjiagang factory and their potential for growth make them ideal markets for future investments.

Industrial parks seem to be a possible target for Jotun Powder Coatings. This is because they aim to attract international companies, which require high quality offices and production halls. Therefore Jotun should consider targeting development companies which are building industrial parks.

1.26.4 Internal development

Jotun Powder Coatings is limited to six people and this will restrict them from optimal growth. Therefore as they enter the market it would be beneficial to expand their sales and marketing force.

Due to relationship being a critical factor in selecting powder coatings in China it would be ideal for Jotun to increasing the amount of sales representatives for their Powder Coatings division. This will allow them to invest time in building relations with individuals within material departments and this can help Jotun to be selected as a powder coatings supplier over its competitors.

Jotun’s Powder Coatings division has the opportunity to gain customers through the internal operation of offering projects a single source solution. Strengthening this internal form of reference can help Jotun Powder Coatings build a customer database and it can help establish a platform for customer development.

1.26.5 List of recommendations

Jotun powder coatings situation will change after their new factory opens in 2012 and therefore The strategic recommendations can be categorized as things what should be done before Jotun enters the market *(pre 2012)* and what they should do once their factory has opened *(2012 and onwards)*.

**Pre 2012**

- Strengthen their brand
- Focus on high quality products
• Build relationships with material departments
• Develop a greater understanding of the market
  o Know building development plans
  o Further segment customers

2012 and onwards
• Develop a strong sales force
• Strengthen the Single Source Solution
• Develop product range
  o Customize the products to the Chinese market
• Build more factories
• Look for new markets outside of Shanghai

1.27 Recommendations for further research

Further understanding applicator roles

To gain further insight into the influence model it may be beneficial to further examine the role of users in the selection process. Further analysing an applicators role in advising on a particular brand will allow for a more detailed description of the influence process.

Further understand the role of a facade consultant.

A facade consultant is important in advising upon the selection process of powder coatings, however it is unclear what role they have and which building projects use them. Therefore further understanding of their influence will help Jotun create a better understanding of the influence process.

Further understand consumers’ colour needs

To further increase profitability it may be able to identify which colours are most common in the architectural market. Discovering a customer’s colour needs may allow Jotun to limit their product range and save R&D costs to develop a wide range of colouring which may be found to be irrelevant for the market.
Further understand urban development plans

Developing a further understanding of the urban development plans for Shanghai is beneficial for further success. Research done to explore which buildings are going to be built where is crucial. It would also be beneficial to examine further which types of buildings require the most powder coatings to be able to target the projects which are most profitable.

Further understand the difference in criteria for indoor and outdoor powder coatings

Further understand of what different criteria are evaluated for Powder Coatings on indoor use would also be beneficial in exploring which strategies should be taken in product development and marketing strategies to further satisfy a consumers demands.

Further understand the geographical differences in China

To effectively grow within the Chinese market, it would be beneficial to examine if there are recognizable differences in consumer criteria for powder coatings in various different locations in China.

Further understanding of future laws and regulations

New environmental regulations are to be put in place, and it would be beneficial to further understand what implications this will have on the market and what other regulations for building materials may arise from the development of the Chinese economy.

1.28 Conclusion

Jotun Powder Coatings is a financially strong company with a strong international background and there is no reason to believe that their entry into the market will be a failure. However they lack an understanding of their customers and the Chinese market.

Further research should be done to develop further knowledge of the market. This will allow for the company to adapt its marketing strategies to be able to accomplish the company’s goals of making the China markets profitable.

Further understanding is required, but defining the decision making process is an important step in the process.
1.29 Summary of references:
Articles, books, in depth interviews, other and websites.

Our group will use different sources and some of them are gathered over time. Primarily, books will be used to support our arguments with theories. Articles will be used to broaden our knowledge of the industry and to gain information about current events. In depth interviews will be our main focus because it will answer the second part of our question, which is to determine who the main influencer or decision maker in the selection process is. Jotun has provided several company ppt’s and pdf files that will be used to analyze existing positions. There are many points of error within all sources; therefore we have to exercise the most appropriate methods in order to maximize the accuracy of our results.

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1.29.6 Websites


Tridonic Project Burj Khalifa

Appendix

A. Possible Thesis Questions and Reasoning
B. A Summary of Interviews
C. Architect Interview Questions
D. Owner Interview Questions
E. Architectural Designer Interview Questions
F. Aluminium Fabricator Questions
G. Witold Kaminsui Questions
A

Possible Thesis Questions and Reasoning

Aspects to incorporate and our thinking:

- Which buildings have the most aluminium -> Which buildings are best to use
- What criteria are used when evaluating paint -> What products
- What are their needs and who are the influencers -> Decision Makers
- Which efforts should Jotun focus on -> Execution

Becomes:

- Segmentation of Buildings
- Segmentation of People (needs and desires)
- Execution

By using these overall ideas we have to make a thesis question

Potential Questions:

**Original:** Within the Shanghai architectural construction industry, how can Jotun Powder Coatings segment this market to identify differences in product profit margins?

**What must be kept:** “Within the Shanghai architectural construction industry...”

**Why:** We have gotten pre defined instructions to narrow our segmentation efforts to the existing architectural construction industry, as well as which geographic location to focus on. This is in order to keep the task simple. This part of our existing question is clear, concise and simple for us to focus on.

**After meeting Bjorn Naglestad (GM China)**

**New:** Within the Shanghai architectural construction industry, which individuals play a key role in the purchasing process of powder coating and how should a new player approach this industry?

Our question consists of 3 parts:
4. “*Within the Shanghai architectural construction industry,*” We have received predefined instructions to narrow our segmentation efforts to the existing architectural construction industry, as well as which geographic location to focus on. This is in order to keep the task simple. This part of our existing question is clear, concise and simple for us to focus on.

5. “*which individuals play a key role in the purchasing process of Powder Coating.*” This is what we have to find out. This is the core of our research strategy.

6. “*how should a new player approach this industry?*” This element of the question allows us to approach our task from the view of a new entrant into the market, which jotun is.

**Other directions for thesis question:**

1) Within the Shanghai architectural construction industry, how can Jotun Powder Coatings segment this market to maximize its profit margins?

*Thinking behind question 1:* in order to put less focus on differences in profit margins. We will look towards maximizing the profit margins by segmentation thus, focusing on one aspect instead of several making it easier for us.

2) Within the Shanghai architectural construction industry, how can Jotun Powder Coatings better understand the market situation?

*Thinking behind question 2:* Very general question which incorporates everything.
A Summary of Interviews

Jotun Staff

All of the interviews have taken place in an office setting. The information received from these individuals has been used as background information on Jotun and to create a better understanding of the issues powder coatings is facing.

Below is a brief summary of the interview goals, limitations and general description of interviews with Jotun staff members. All interviews are listed in chronological order.

Bjorn Naglestad

**Interview Goal:** The goal of this interview was to obtain specific information about the thesis and general background information about Jotun.

**Description:** Mr. Naglestad is the General Manager of Jotun’s China division. He has insight into the company and its goals. He is a Norwegian who has lived and worked for Jotun in Thailand and has recently taken charge of Jotun’s Chinese division.

**Limitations of interview:** As General Manager Bjorn does not have specific information the Powder Coatings department. Being Norwegian and not working directly with customers he may have limited information regarding how Chinese customers operate.

Kjetil Anfinnsen

**Interview Goal:** The goal of the interview was to identify the goal of the thesis and to obtain general background information about Jotun Powder Coatings.

**Description:** Kjetil Anfinnsen is a Norwegian who was previously stationed in China as an International Trainee of Divisional Marketing is now operating as Architectural Product Manager of Powder Coatings at the Jotun Headquarters in Dubai. Mr. Annifsen informed us about the company’s limitations and gave us further information about Jotun and its Powder Coatings Division.

**Limitations of interview:** Mr. Annifsen had limited interaction with Chinese customers.

Roy Vageskar
Interview Goal: The goal of this interview was to explore the possible directions for gathering research.

Description: Roy Vageskar is a Norwegian, working for Jotun Coatings. Mr. Vageskar gave us access to Jotun statistics as well as other secondary sources.

Limitations of interview: He does not have experience within the Powder Coatings Division.

Dawson Qi and Bill Hao

Interview Goal: To obtain specific information about how Jotun Powder Coatings currently approaches customers and to explore their existing knowledge of the market.

Description: Dawson Qi and Bill Hao were interviewed together as they are both representatives of sales. Mr. Qi is the Sales director, while Mr. Hao is in charge of selling to the businesses categorized within the Architectural Segment. Both are Chinese and have have previously worked for Jotun’s international competitor Akzo Nobel.

Limitations of Interview: The information obtained applied primarily to the existing sales policy. There was limited information about the role of Architects, Consultants and Owners showing the need for our research.

Telephone Interview: Kjetil Anfinnsen

Interview goal: Gain general information about the current marketing strategies and market trends.

Description: This interview helped us gain further information about Jotun and its current strategies.

Limitations of Interview: Mr Annifsen is currently operating in Dubai and has limited access to information from the Chinese market.

Every interview with Jotun employees has been subject to a time limit. The ability to repeat the interviews and obtain the same results is limited due to the informal nature of questioning. Despite these limitations, the internal interviews of Jotun staff have given useful information when analysing Jotuns current situation.
Non Jotun interview subjects
To be able to analyse customer roles and external stimuli which affect a purchasing process, it is important to question those which can provide further knowledge about the powder coatings market in Shanghai.

All in depth interviews with non Jotun sources were done face to face and below is a brief summary of the interview goals, limitations and general description. The indicated interviews were done with an interpreter, which could suggest that some information may be lost through translation. All interviews are listed in chronological order.

Hua Yuan Ming

**Interview Goal:** The goal of this interview was to better understand the Chinese market and to get into contact with primary sources.

**Description:** Hua Yuan Ming is a restaurant owner of Hu Jiang Xiang man lou in Beijing. He has lived in Shanghai all his life and is a businessman whom operates mainly in Shanghai and Beijing. He is currently on sick leave and he has vast experience doing business in China. Hua Yuan Ming possesses a large network, which includes an architect and two owners.

**Limitations of Interview:** Mr. Ming has limited knowledge of powder coatings and the powder coatings market.

Shiwen Xu

*(interpreter used)*

**Interview Goal:** The goal of this interview was to gain insight into the requirements and the selection process of powder coatings.

**Description:** Shiwen Xu is the assistant to the head architect in the company, Shanghai Donghe Building Decoration Co.

**Limitations of Interview:** Mr. Xu deals primarily with finances, limiting the information he can give on the selection of building materials.

Wei Xiaodan

*(interpreter used)*
Interview Goal: The goal of this interview was to gain insight into the requirements and the selection process of powder coatings.

Description: Wei Xiaodan is head of the material selection department of the company, Shanghai Donghe Building Decoration Co, which regularly decorates high end hotels and restaurants. She has extensive knowledge about materials after having worked within the design industry for more than 10 years.

Limitations of Interview: As a decorator Ms. Xiaodan has most focus on interior decoration limiting the information she can give on Powder Coatings used in the building process.

Shaw Zhang
(interpreter used)

Interview Goal: The goal of this interview was to better understand the requirements for building materials in the hotel industry.

Description: Shaw Zhang is the director of human resources of Majesty Plaza in Shanghai. He is also involved in the rating of hotels in Shanghai. He was able to give us key insight into the motivations of a hotel owner in the selection of materials for inside use.

Limitations of Interview: Mr. Zhang was not involved in the building of a hotel and gave us little information into the selection of Powder Coatings in the building process.

Sun Jian June
(interpreter used)

Interview goal: The goal of this interview was to get a better understanding of the Chinese market and also the hotel industry.

Description: Sun Jian June runs a 4 star and one 5 star hotel in the Pudong area. He was able to give us information of the selection process of materials used in the hotel for refurbishment. His current evaluation of powder coating brands consists of the Japanese firms, Nippon and Dupex due to the hotel customers being prolifically Japanese.

Limitations of interview: Mr June was unable to offer information about the selection process of powder coatings construction of a hotel project.

Liao Qingqing, Benson Liu and Dick Zhang
Interview Goal: The goal of this group interview was to better understand the selection process of Powder Coatings and obtain information about the market in Shanghai.

Description: Liao Qingqing, Benson Liu and Dick Zhang were all interviewed together. They are responsible for quality control of curtain wall building projects. They were able to provide knowledge of the construction process and selection process of powder coatings.

Limitations of Interview: Speculations were made regarding the market.

Witold Kaminsui

Interview Goal: The goal of this interview was to better understand the powder coatings market.

Description: Witold Kaminsui is the supervisor in surface treatment and coatings of oil yards in Qing Dao. Mr Kaminsui has 13 years experience in the coatings industry.

Limitations of Interview: Mr Kaminsui was not able to offer extensive information about the Architectural Construction Industry.

Tom Y.Z. Lu

(Interpreter used)

Interview Goal: The goal of this interview was to obtain information about the role of architects in the selection process and to further define the selection process of powder coatings.

Description: Tom Y.Z. Lu is the associate director/deputy design director for Ho and Partners Architects Ltd. He has extensive knowledge about the industry and the selection process of powder coatings. His contributions have been extremely relevant to the research subject. Information was obtained regarding the powder coatings market and the how the industry operates.

Limitations of Interview: The interview was not audio recorded, which can limit the reliability of the information obtained.
C
Architect Interview Questions

Structure

1) What role they played in the building process and what they set as criteria in terms of building materials.
2) Their role in the selection of powder coatings.
3) The role of facade consultants and other parties in the selection of powder coatings.
4) Other

Subjects

Wei Xiaodan
Shiwen Xu

Questions:

General

Please let us know who you are and what your company does?

What is your role as an architect within the company?

What role they played in the building process and what they set as criteria in terms of building materials.

What role do you play in the design and construction of a building?

Which criteria are used when selecting the types of material used in a building? (Price, Quality, Durability, Colours etc)

An Architects role in the selection of powder coatings.

What criteria do you use when choosing powder coatings?

- How important is environmental responsibility in the selection of powder coating.

Are there different criteria for different building projects in the selection of powder coatings?

The role of facade consultants and other parties in the selection of powder coatings.
What is the role of an owner in the process of designing a building?

What role does a facade consultant have in the design of a building?

- Which influence do they have in the selection of powder coatings?

In your opinion what is the role of a contractor in helping to decide what powder coating to use?

Trends

Have you been involved in the selection process of powder coatings? Can you describe this process?

In your opinion, which building projects require high quality and long durability powder coatings?

For varying building projects how long do you feel that powder coatings should last?

What do you think is the future outlook for the powder coatings market in Shanghai?

Which companies would you consider during the selection process of coating window frames and other aluminium products? Why would you consider these as possible suppliers?

After the interview

Thank you for your help in the research project.
Please let us know if you would like a copy of our results.

Would you know of anyone else that we could contact for further help with our project? Owners, Architects, or Facade Consultants. Any help would be much appreciated.
Owner Interview Questions

Structure:

1) What role they played in the building process and what they set as criteria in terms of building materials.

2) Their role in the selection of powder coatings.

3) The role of facade consultants and other parties in the selection of powder coatings.

4) Other

Subjects

Sun Jian June
Shaw Zhang

Questions:

Pre questions.

Please let us know who you are and what you do?

Which buildings do you own?

Have you been involved in the building and development of a building project?

What role did you have?

Did you play a role in the selection of building materials?

What role they played in the building process and what they set as criteria in terms of building materials.

Which criteria did you use when selecting the types of material used in a building? (Price, Quality, Durability, Colours etc)

How important is environmental responsibility to you in the development of a building?
An owner’s role in the selection of coatings.

To what extent do you influence the selection of coating of aluminium in buildings?

What criteria do you use when choosing coatings for aluminium?

Are there different criteria for different building projects in the selection of coatings?

To whom do you give responsibility for selecting the coating of aluminium? Why not choose the coating yourself?

The role of facade consultants and other parties in the selection of powder coatings.

What is the role of an architect in the process of designing a building?

What role does a facade consultant have in the design of a building?

In your opinion what is the role of a contractor in helping to decide what types of coatings to use?

Trends

Have you been involved in the selection process of powder coatings? Can you describe this process?

In your opinion, which building projects require high quality and long durability powder coatings?

For varying building projects how long do you feel that powder coatings should last?

What do you think is the future outlook for the powder coatings market in Shanghai?

Which companies would you consider during the selection process of coating window frames and other aluminium products? Why would you consider these as possible suppliers?

After the interview

Thank you for your help in the research project.
Please let us know if you would like a copy of our results.

Would you know of anyone else that we could contact for further help with our project? Owners, Architects, or Facade Consultants. Any help would be much appreciated.
E
Architectural Designer Interview Questions

Structure

1) What role they played in the building process and what they set as criteria in terms of building materials.
2) Their role in the selection of powder coatings.
3) The role of facade consultants and other parties in the selection of powder coatings.
4) Other

Architectural designer

Tom Y.Z. Lu

Questions:

General

Please let us know who you are and what your company does?

What is your role as an architect within the company?

What role they played in the building process and what they set as criteria in terms of building materials.

What role do you play in the design and construction of a building?

Which criteria are used when selecting the types of material used in a building? (Price, Quality, Durability, Colours etc)

Which laws and regulations effect the selection of Powder coatings?

An Architects role in the selection of powder coatings.

Define Powder Coatings: Powder coating is a form of coating often applied to window frames and other aluminium products. The coating is applied as a dry solid which attaches itself to the metal when melted. This allows for a continuous solution
Do you take any considerations in choosing various paints for coating aluminium products such as window frames? What considerations are taken?

What criteria are used when choosing coatings of aluminium products?

Are there different criteria for different building projects in the selection of powder coatings?

**The role of facade consultants and other parties in the selection of powder coatings.**

What is the role of an owner in the process of designing a building?

What role does a facade consultant have in the design of a building?

- Which influence do they have in the selection of powder coatings?

In your opinion what is the role of a contractor in helping to decide what powder coating to use?

**Trends**

Have you been involved in the selection process of powder coatings? Can you describe this process?

In your opinion, which building projects require high quality and long durability powder coatings?

For varying building projects how long do you feel that powder coatings should last?

What do you think is the future outlook for the powder coatings market in Shanghai?

Which companies would you consider during the selection process of coating window frames and other aluminium products? Why would you consider these as possible suppliers?

**After the interview**

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Aluminium Fabricator Questions

(Permasteelisa):

Subjects

Liao Qingqing
Benson Liu
Dick Zhang

Regarding the selection process of Powder Coating:

Please answer each question to the best of your knowledge

Market

How do you view the demand for powder coatings in Shanghai? Do you see any changes in the upcoming years?

Do you see any trends in the demands for high vs low quality powder coatings in Shanghai?

What in your opinion is the future outlook for the Chinese powder coatings market?

Do you see increasing demands for more environmentally safe coatings?

Are there specific criteria and regulations for Powder Coatings in Shanghai?

Selection Process

Which criteria do you put on the types of Powder Coating used on your aluminium products?

What influence does a customer have in the type of coating used on aluminium?

From your viewpoint, which types of products are the most popular?

Is there variation in the type of coating for different architectural building types?

From your experience, which types of firms tend to have the final say on the type of Powder Coating used in projects? (Example: Architects, Owners, Facade Consultants)
Jotun

How would you describe your relationship with Jotun Powder Coatings? Why did you choose to use them as one of your suppliers?

In the Chinese market what do you see as the biggest challenge for Jotun when entering the Chinese market?

After the interview

Thank you for your help in the research project. Please let us know if you would like a copy of our results.

Would you know of anyone else that we could contact for further help with our project? Owners, Architects, or Facade Consultants. Any help would be much appreciated.
Interview Profile:

Supervisor in surface treatment/coatings

Witold Kaminsui

Questions

Do you coat oil yards?

Why no Powder coatings?

From your experience, which types of firms tend to have the final say on the type of Powder coatings used in projects?

What brands have you heard about within Powder Coatings?

After the interview

Thank you for your help in the research project.
Please let us know if you would like a copy of our results.

Would you know of anyone else that we could contact for further help with our project?
Owners, Architects, or Facade Consultants. Any help would be much appreciated.
General Market Questions

Designed for less knowledgeable subjects

Subjects

John (wishes to remain anonymous)

Regarding the selection process of Powder Coating:

Please answer each question to the best of your knowledge

Market Situation

How do you view the demand for powder coatings in Shanghai? Do you see any changes in the upcoming years?

Do you see any trends in the demands for high vs. low quality powder coatings in Shanghai?

What in your opinion is the future outlook for the Chinese powder coatings market?

Do you see increasing demands for more environmentally safe coatings?

Are there specific criteria and regulations for Powder Coatings in Shanghai?

General Selection Process Questions

Which criteria do you put on the types of Powder Coating used on your aluminium products?

What influence do other parties, other than you, have in selecting the type of coating used on aluminium?

Is there variation in the type of coating for different architectural building types?

From your experience, which types of firms tend to have the final say on the type of Powder Coating used in projects? (Example: Architects, Owners, Facade Consultants)

After the interview

Thank you for your help in the research project.
Please let us know if you would like a copy of our results.
Would you know of anyone else that we could contact for further help with our project? Owners, Architects, or Facade Consultants. Any help would be much appreciated.