

In collaboration with China-Europe International Business School



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The successful market entry of Belcolor Ltd Flooring into China

ABSTRACT

In 2012, Belcolor AG was a Swiss SME offering parquet flooring solutions primarily for the Swiss real estate market. While having focused traditionally on its role as a trading company and intermediary between private as well as corporate end customers and local craftsmen, the changing market conditions forced Dr. Stefan Krummenacher, CEO of Belcolor Ltd Flooring, to rethink the company's existing business model. Given his experiences in other manufacturing industries such as Schindler Elevator Corporation and Forbo Flooring Systems, he was clear that his company could only survive if it would achieve two changes at the same time. Firstly, it needed to transform itself slowly from a pure trading company (with low margins and eroding market values) to a high-end niche manufacturer. Secondly, Belcolor Ltd Flooring needed to open up new markets for its niche manufacturing activities focussing on parquet flooring solutions. Stefan strongly believed that China offered most potential for the company's new manufacturing products but as a small SME he was not sure how to handle such a market entry challenge.

This case was written by Assistant Professor Dr. Roger Moser and Gopalakrishnan Narayanamurthy (University of St. Gallen, Switzerland / IIM Kozhikode) as well as Professor Tom Callarman (China-Europe International Business School). The case was compiled from interviews with the management team of Belcolor Ltd., internal documents, and publicly available sources. The case was developed without external funding.

ASIA CONNECT Center, University of St. Gallen, Version 1.5, June 2014

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It was January 2012 when Stefan finally decided to bet on the Chinese market for Belcolor's newest product [swissfloors®]. However, he had limited financial and human resources as well as no initial networks in China that could support the company's market entry.

Belcolor Ltd Flooring

The philosophy of Belcolor Ltd Flooring was simple:
“To be the best specialist in unconventional parquet flooring”

Belcolor Ltd Flooring was a 100% (wholly) owned subsidiary of Europe's largest flooring distribution company Headlam Group plc. Headlam Group plc. markets, supplies and distributes an extensive range of floorcovering products to independent flooring retailers and contractors throughout the UK, France, Switzerland and the Netherlands. In order to provide high level service, the Headlam Group plc. had developed an autonomous operating structure which included 52 businesses across the UK and a further five in continental Europe (France, Switzerland and the Netherlands, etc.). Branches of Headlam Group plc. were throughout the UK, France, Switzerland and the Netherlands. The autonomous operating structure was a key contributor to the group's success since it provided an opportunity for experienced management teams to develop the individual identity, market presence and take full ownership for the profitability of their business. Each business was supported by the group's continuing commitment to invest in people, products, operating facilities and IT. This commitment had underpinned the group's overall development and enabled it to grow into Europe's leading floorcovering distributor. As CEO of Belcolor Ltd Flooring in Switzerland, Dr. Stefan Krummenacher had full responsibility for the P&L (Profits & Losses) of all activities in and out of Switzerland.

Belcolor Ltd Flooring had the position of the leading general importer of flooring solutions in the Swiss market. Its core expertise was to act as an up-to-date showcase of world-class flooring solutions. Belcolor Ltd Flooring combined personal consultation, on-time delivery of samples and expert technical support with first-class logistics and high-quality after-sales services. However, Belcolor's floors were also timelessly beautiful and outlasted short trends. Whether customers opted for parquet flooring for aesthetic or hygienic reasons, at Belcolor they could find the right floor covering for all areas (one stop shop).

[swissfloors®]

[swissfloors®] was a trademark held by the Swiss company Belcolor Ltd Flooring. This trademark was actually the idea of Belcolor's CEO Dr. Stefan Krummenacher who had understood the value of “Swissness” for the Swiss market but especially the export markets that he wanted to manufacture for. Belcolor's first target customers were the high level elite in Switzerland, including sports and entertainment celebrities, top managers of Swiss Market Index (SMI) listed companies to start with and later similar people in foreign markets.

In fact, Stefan was not only a great CEO but also as great salesman. As a result, he personally developed the story of [swissfloors®]. Stefan wanted to position [swissfloors®] along the following characteristics:

At Home in Nature

For many of us, trees and forests are always fragments of our childhood memories: the smell of conifers, the soft ground beneath our feet, mysterious noises, and dense branches.....The forest is not only full of happy time and fun, but also a place that fascinates us. Here we find the quiet and seclusion that rid us from the bustle of life. It is good that we can carry this feeling of peace and comfort into our everyday lives. Only a wooden floor, which is made from the raw material of wood, can help us to regain these beautiful memories. If you decide to have a wooden floor in your own home, you are choosing nature and health, for body and mind.

Swiss Forest: Centuries of Tradition

In Switzerland, almost a third of the country consists of woodland. The great care that the Swiss take of their forests can be seen in the results: here grow healthy, strong trees with high-quality wood. Thanks to consistent care and conservation, no longer is wood used faster than it grows back. Swiss pine can only be collected with FSC certificate. Felling living trees is prohibited, only trees from natural death or blown down by wind can be collected for use, thus making the few Swiss pines scarcer. But we have always lived this philosophy: small but fine.

Health

Many factors influence our well-being. Work, family life and leisure activities provide us with many pleasant but also demanding experiences, day after day. Time is racing along and the moments in which we can restore our strength and recharge our batteries are becoming more and more infrequent.

What we need in everyday life are oases of calm, of quiet. Many people find these in nature. But the most effective way is to recuperate in one's own home, the place where we can plunk ourselves down. It has been long since be proven that the construction, decoration and furnishings have a major influence on the living atmosphere and on whether or not we can really switch off. In addition, as regards the material used, the closer to nature, the better for us.

Truly Sustainable

Sustainability is the magic word of our times. But what is genuinely sustainable? Three hundred years ago, in a book, an author was already calling for "consistent and sustainable" use of the forests for the first time. What he meant was that only as much wood may be used as can be grown in the same period. This was equivalent to doing without maximum instant profit, in favour of long-term prospects.

It is still consistently implemented now in the Swiss forestry industry. Of the annually re-growing ten million cubic meters of wood in Swiss forests, only around half is used. Because of the country's history, the Swiss have developed a deep, heartfelt relationship with the forests. Wood still plays a major role in their lives. Therefore, everything that is made from wood is developed with the greatest care and affection. This conviction is deeply rooted in Switzerland, and therefore also in us.

Based on these principles, the story he wanted to tell to customers in Switzerland and especially in foreign markets included a 300-year-old hotel in the scenic area of the Alps in Switzerland where guests hiking and touring were irresistibly attracted by the magic fragrance in its rooms when they entered (Exhibit 1). This good smell of crude wood was

exuded by Swiss pine from the Alps, which were used in the room for decoration, and its fragrance could last three hundred years or even longer!

The Swiss stone pine grew at 2000 meters above sea level in the Alps in Switzerland (Exhibit 2). Its leaves were the only five-needled pines worldwide - ordinary pines were only two-needled. No other tree species could also grow at 2000 meters above sea level in the Alps; only the Swiss pine could withstand the cold. Since it grew only during three months in a year, it was especially slow to grow into full timber.

Scientific test result showed that the resin aroma of the wood contained about 0.5% of Pinosylvine, which produced a wood fragrance with a therapeutic effect (Exhibit 3, Exhibit 6). It was assumed that it helped to reduce the heart rate and improved the speed of cell regeneration. Living in a room with a floor made of Swiss stone pine wood could reduce the average daily heart beats by 3500 times, saving energy equivalent to what was required for one hour of cardiac activity; simultaneously it promoted relaxation, improved the room atmosphere and sleep quality.

The production process that made [swissfloors®] so unique was the limited supply of the basic material Swiss stone pine and spruce that came from Swiss Alpine lodges which were removed and replaced by new constructions. With each such construction site, the story of a new series of [swissfloors®] started (Exhibit 4). New technologies and a rethinking of the handling of raw materials had made the reuse of this wood possible (Exhibit 5).

More and more people were discovering their taste for the past and their desire for old things. The charm of used wood could also hardly be imitated since it had already experienced a lot.

An increasing number of top designers had also specialized in interior designs made of used wood, and more and more furniture collections were being made from such material because it had soul and a history. However, Belcolor's access to Swiss stone pine and spruce from refurbished Swiss Alpine lodges provided the company with a unique product.

Belcolor's Market Entry in China

Before Stefan decided to enter the Chinese market he had performed two market studies. At first, he had commissioned the Asia Connect Center at the University of St.Gallen with a comparative study between China and India. Not surprisingly, the business potential for Belcolor's offering was more promising in China given its fast rise of the luxury customer segment over the last two decades. However, given the sheer size of China and the limited resources of Belcolor to be physically present in China, Stefan needed to decide in which cities he wanted to invest his time and make available financial resources. As a consequence, he had collaborated again with the same research institute to better understand whether the coastal region including Beijing and Shanghai was more attractive or the Western region including cities such as Chengdu or Chongqing or the North in the Beijing area.

The market study results of the ASIA CONNECT Center based on several expert interviews in China indicated pros and cons for both the coastal region as well as the Western or Northern region.

While Stefan was consequently already investigating his options, another potential Chinese business partner from Zhangjiagang had contacted Stefan via LinkedIn to propose a flexible collaboration for the market in and especially around Shanghai.

In this situation, Stefan became aware that he had to decide how he wanted to enter the Chinese market.

- *Option A:* He could enter the market based on people who had proactively expressed their interest to distribute Belcolor's new product [swissfloors®] and were willing to take some limited personal financial risk in doing so but who he did not really know – let alone the value of their network to attract potential customers.
- *Option B:* He could enter the market by searching for potential distributors that were already established and known in the respective local markets but also worked for other companies with similar products such as [swissfloors®].

Although Stefan knew that choosing A was somewhat risky he preferred option A over option B because he perceived the risk from Belcolor's perspective to be manageable. He strongly believed that he only needed to have two or three showcase projects to win a local market in China because word-of-mouth marketing among his target group was still the most important source of recommendation. However, he was also aware that working with Chinese business partners that he literally had met the first time via business platforms such as LinkedIn and where he did not have any additional networks to follow up when problems would occur was not ideal. The other option (B) would have been to collaborate with established distribution partners where Belcolor's [swissfloors®] simply would have been another product in their portfolio. This was not what Stefan envisioned for his unique and unconventional product.

Having chosen option A, Stefan had then to walk his talk and developed detailed marketing and public relations plans with his representative in Zhangjiagang, close to Shanghai. In Zhangjiagang, Stefan chose new way to test the waters for his product. The local representative had to develop detailed meeting plans for a few potential customers such as luxury hotels and private holiday resorts that were mostly visited by Chinese party officials and wealthy entrepreneurs in the vicinity of Shanghai. During his trips to China, Stefan would then meet these contacts jointly with the local sales representative to try to convince the relevant decision makers in Zhangjiagang that an investment into Swiss stone pine from [swissfloors®] was worthwhile the money.

Stefan wanted to promote [swissfloors®] primarily based on two factors. First, he wanted to emphasize the exclusivity of the used material (Exhibit 4) making each floor a unique product. Second, Stefan strongly believed that the health aspect of the Swiss pine [swissfloors®] was something that no other company could offer (Exhibit 3).

Stefan's focus on option A quickly provided some first results as Stefan's local representative in Zhangjiagang was quick in finding a holiday resort that was willing to renovate one of its rooms with [swissfloors®]. This showcase project offered the opportunity to significantly improve the sales opportunities in the greater Shanghai area. After the inaugural event took place in March 2014, the [swissfloors®] room in the holiday resort grew quite into an attraction within the high-level community in Zhangjiagang during the following weeks and on May

26, 2014 Stefan's local representative visited Belcolor's premises and its [swissfloors®] production in Switzerland with a potential customer, the wife of a SME owner from Zhangjiagang. There were also 3-4 other projects in the pipeline for floor and wall applications of Swiss stone pine in China.

Way Forward

However, given the limited financial resources of Belcolor Ltd Flooring and Stefan's own travel and time restrictions he had now to decide where in China to invest the available budget and market development resources. On June 2, 2014 Stefan and his sales representative from Zhangjiagang listened to a group of 4 MSc students of the University of St.Gallen to get further input on the potential future sales and marketing activities in China.

Exhibits

Exhibit 1: A 300-year-old hotel in the scenic area of the Alps in Switzerland



Source: *Belcolor AG*

Exhibit 2: Swiss stone pines grow at 2000 meters above sea level in the Alps of Switzerland



Source: http://en.wikipedia.org/wiki/File:Pinus_cembra_cones_in_Gr%C3%B6den_crop.jpg
/ <http://en.wikipedia.org/wiki/File:Zirbe01.jpg>

Exhibit 3: Swiss Stone Pine - living in a room with a floor made of Swiss stone pine wood reduces the average daily heart beats by 3500 beats, saving energy equivalent to what is required for one hour of cardiac activity



Inter-regional project partners

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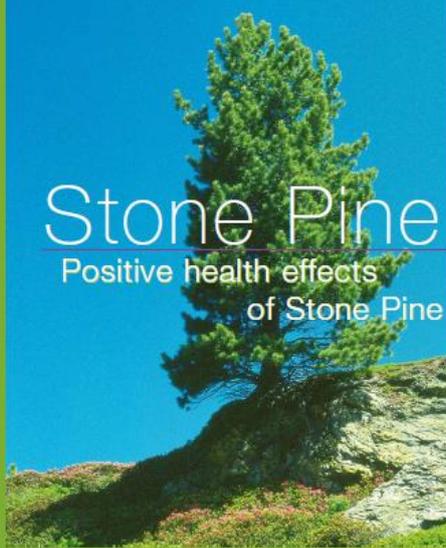
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INNOVATION by INTUITION



Stone Pine
 Positive health effects
 of Stone Pine furniture

Institute of Health Technology and Prevention Research

The positive characteristics of the wood known as "the Queen of the Alps" (Stone or Cembra Pine; lat.: pinus cembra) has been valued and used for centuries. For the first time this know-how has been subjected to an experimental scientific analysis. In a blind study on 30 healthy adults – under the auspices of an inter-regional research program – scientists of HUMAN RESEARCH evaluated the effects of Stone Pine on stress and the ability to recover.





Institute and methods




The application of the most modern sensor technologies and evaluation methods of the Human Research Institute (HRI) opens new possibilities in the measurement of stress and recovery in the normal daily routine, whether at work, during spare time or during sleep. The measuring method repertoire used and constantly further developed at the Institute makes it possible (among other things) to observe the autonomous nervous system as well as functions of the brain system in a non-invasive manner.

The heart frequency is the most important control variable in a complex regulatory network, in which heart, blood circulation, respiration, temperature, metabolism and psychosomatic influences are involved. This gives the heart frequency its typical temporal structure, which becomes measurable as heart frequency variability.

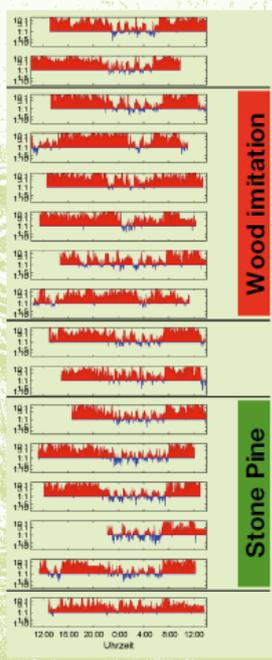
Experimental procedure

A balanced, crossed repetitive measuring design was carried out under psychological and physical stress situations in the laboratory over 24 hours in everyday life situations of the test subjects. With the help of high resolution electrocardiogram recordings the heart frequency and its variability, vegetative parameters and the biological rhythms characteristic of recovery were investigated. Psychometric methods were implemented for the measurement of well-being, vigilance and subjective sleep quality.

Stress and recovery ability in Stone Pine room

For the battery of tests carried out in the lab significant differences were found between the quality of recovery of subjects spending time in Stone Pine rooms and those in identically arranged "wood imitation" rooms. This expressed itself in a lower heart rate during physical and mental stress situations and following rest phases and/or during an accelerated autonomic recovery process. The heart frequency of the test subjects in the wood imitation room is dependent on the atmospheric pressure. This meteorosensitivity is a sign of an unstable circulation. In the Stone Pine room the heart rate seems to be independent of the atmospheric pressure.

Stone Pine – the natural way to a good night's sleep!

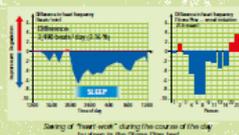



Quality of sleep in the Stone Pine bed

In the second study a possible influence of the bed material on the quality of sleep was investigated. The volunteers spent their nights, this time for a longer period (~3 weeks), first in a Stone Pine (green), then in their own bed and/or in a wood imitation bed (red). The long-term investigation confirmed a significant influence of the construction material on the physical and psychological condition. The sleep quality was clearly improved in the Stone Pine bed compared to that of the wood imitation bed.

The improved recuperation was accompanied by a reduced heart frequency and an increased oscillation of the organism in the course of the day. The average "heart rate" in the Stone Pine bed was about 3500 heartbeats per day, which corresponds to about an hours' "heart work". The subjective feeling of well-being of the test subjects matched these physiological results. The Stone Pine subjects reported feeling more relaxed, less generally tired and, surprisingly, were socially more extraverted than beforehand. Could this be a reason why pubs and other social rooms (in this region) were parcelled with Stone Pine in former times?

Material for furnishing would appear to have a more significant effect on well-being and health than hitherto imagined. This opens up new fields of application for the high-grade wood of the "Queen of the Alps".



Study Focus

The positive characteristics of the wood known as “the Queen of the Alps” (Swiss Stone or Cembran Pine; lat.: pinus cembra) has been valued and used for centuries. For the first time this know-how has been subjected to an experimental scientific analysis. In a blind study on 30 healthy adults – under the auspices of an inter-regional research program – scientists of HUMAN RESEARCH evaluated the effects of Swiss Stone Pine on sleep quality, stress and the ability to recover.

Research Method

The application of the most modern sensor technologies and evaluation methods of the HUMAN RESEARCH Institute (HRI) opens new possibilities in the measurement of stress and recovery in the normal daily routine, whether at work, during spare time or during sleep. The measuring method repertoire used and constantly further developed at the Institute makes it possible (among other things) to observe the autonomous nervous system as well as functions of the brain-stem in a non-invasive manner. The heart frequency is the most important control variable in a complex regulatory network, in which heart, blood circulation, respiration, temperature, metabolism and psychosomatic influences are involved. This gives the heart frequency its typical temporal structure, which becomes measurable as heart frequency variability.

Experimental Procedure

A balanced, crossed repetitive measuring design was carried out under psychological and physical stress situations in the laboratory over 24 hours in everyday life situations of the test subjects. With the help of high resolution electrocardiogram recorders the heart frequency and its variability, vegetative parameters and the biological rhythms characteristic of recovery were investigated. Psychometric methods were implemented for the measurement of well-being, vigilance and subjective sleep quality.

Stress and Recovery Ability in Swiss Stone Pine Rooms

For the battery of tests carried out in the lab significant differences were found between the quality of recovery of subjects spending time in Swiss Stone Pine rooms and those in identically arranged “wood imitation” rooms. This expressed itself in a lower heart rate during physical and mental stress situations and following rest phases and/or during an accelerated autonomic recovery process. The heart frequency of the test subjects in the wood imitation room is dependent on the atmospheric pressure. This meteorosensitivity is a sign of an unstable circulation. In the Swiss Stone Pine room the heart rate seems to be independent of the atmospheric pressure.

Quality of Sleep in a Swiss Stone Pine Bed

In the second study a possible influence of the bed material on the quality of sleep was investigated. The volunteers spent their nights, this time for a longer period (~3 weeks), first in a Swiss Stone Pine (green), then in their own bed and /or in a wood imitation bed (red). The long-term investigation confirmed a significant influence of the construction material on the physical and psychological condition. The sleep quality was clearly improved in the Swiss Stone Pine bed compared to that of the wood imitation bed.

The improved recuperation was accompanied by a reduced heart frequency and an increased oscillation of the organism in the course of the day. The average “saving” in the Stone Pine bed was about 3,500 heartbeats per day, which corresponds to about an hour’s “heart-work”. The subjective feeling of well-being of the test subjects matched these physiological results: The Swiss Stone Pine subjects reported feeling more relaxed, feeling generally fitter and, surprisingly, were socially more extraverted than beforehand.

Could this be a reason why pubs and other social rooms (in this region) were panelled with Stone Pine in former times?

Material for furnishing would appear to have a more significant effect on well-being and health than hitherto imagined. This opens up new fields of application for the high-grade wood of the “Queen of the Alps”.

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Source: http://www.zirbe.info./files/pdf_zirbenholz_folder_en.pdf

Exhibit 4: The life cycle of Swiss stone pine [swissfloors®]



Source: Belcolor AG

Exhibit 5: Swiss stone pine parquet produced by Belcolor Ltd Flooring



Source: Belcolor AG

Exhibit 6: Health Benefits of Swiss Pine (Example) leveraged by Hotels and other Institutions in Europe



Idyll Heckenrose
Ihr Suitenhotel auf Langeoog

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ROOMS & SUITES
WELLNESS & SPA
ARRANGEMENTS
HEALTHY AMBIENCE
WORLD NATURAL HERITAGE

Healthy Ambience

- Low-Electrosmog
- Climate Protection
- Swiss Pine



Vergrößern

Gratis Magazin "Logbuch"

Swiss Pine Beds for Best Sleep

Wellness Bedrooms for Your Island Holidays

Our bedroom furniture is made of pure Swiss pine wood. Surveys impressively showed that Swiss pine wood increases physical and mental well-being.

Wellness and Health

Furniture material has greater effects on well-being and health than previously assumed. Scientists of Forschungsgesellschaft Joanneum Research in Graz now achieved astonishing results regarding the features of Swiss pine. In lab tests, significant differences were established between the restorative quality of rooms furnished in Swiss pine and identically designed rooms in wood veneer.

Better Sleeping Quality

Swiss pine wood lowers the heart rate under physical and mental stress. During the following resting phases, the vegetative recovery process is accelerated. No weather fluctuation sensitivities were discovered in the Swiss pine room. A better quality of sleep in Swiss pine beds was proven as well. Prof. Maximilian Moser says: "The average work the heart saves this way amounts to 3500 beats or one hour of heart work per day."

Informative brochure for download:

Positive health effects of Swiss Stone Pine furniture" (PDF | 2,94 MB)

Source: <http://www.idyll-heckenrose.de/en/healthy-ambience/swiss-pine-beds-best-sleep>



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About Us

**Love of Tradition.
 Courage for Innovation**

NATURE & DESIGN Arvenmöbel-Schreiner has been manufacturing high quality traditional and modern furniture in the Switzerland since 2003, and has grown from a handful of skilled craftsmen into a modern factory that is capable of supplying our customers throughout the world. During this time NATURE & DESIGN has maintained the traditional qualities for which we are renowned.



interior fitting

Throughout our history, the company has made a wide range of classic Swiss-Renaissance period furniture in Swiss-Stone-Pine (solid wood), with designs based on those of the 16th Century up to



Source: <http://www.naturunddesign.ch/en/company>



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FRESH AND CLEAN



REVOLUTIONARY BENEFITS | NATURANOVA | ZIRBANA |

SWISS PINE PROVIDES VERIFIABLE BENEFITS FOR HEART FITNESS!

Within the Swiss pine trees - the King of the Alps – an essential oil can be found which, after scientific laboratory tests, has shown a significant positive effect upon the quality of recuperation encountered by people.

Swiss pine – the natural Fountain of Youth!

These sensational findings, established by the expert research body of IOANNIDIS RESEARCH in Austria, found

Source: <http://www.seibersdorfer.com/index.php/en/products/swiss-pine-bed-frames>