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**The success of  
Cooperativa Ceramica d'Imola  
in China:**

Analysis of competitive advantages deriving from Country of  
Origin effect and Internationalization process

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***Ai miei genitori...***

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## 前言

随着经济全球化的发展，市场竞争变得越来越激烈。国际企业为了面对全球化的挑战发生了很大的变化。

本论文的题目是“意大利 IMOLA 陶瓷: 从意大利到中国市场的良好成果”。本研究的目的是找到意大利 IMOLA 陶瓷公司在中国市场中的竞争优势的因素。意大利企业怎么进入那么远和完全不同的国家的方式是一件特别有趣的事情。在现代世界上，有很多企业在经历国际化经营的过程中，可是国际化经营这一种现象需要准备初步市场调查和详细资料。这样一来，企业国际化经营可以带来公司很多利益。具体地说，本论文由五个部分组成。

第一部分包括企业国际化经营的原因、方式、潜在好处和所有的风险。首先，企业国际化经营是当代全球化的重要特点之一。通过产品、技术、服务、货币、人员在国际市场的流动，企业为了适应市场新的营销需求，开始从国内市场营销迈向国际市场营销。无论如何，国际化是经济舞台的一种现象和发展过程。国际化经营的过程是企业许多选择和活动的结果。总的来说，最重要的原因取决于企业短期和长期的目标，也就是说公司在别的市场中希望达到那些成功。企业为了抓住成功的机遇、找到低成本的资源、追逐新的趋势、增加自己的顾客量、获得更高的利润，而在别的市场扩大自己的生意。进入市场的方式比较多，而跟企业总体的战略和目标特别有关：企业可以通过进出口产品、并购、合资、对外直接投资以及创造新的全资子公司。基于以上原因和方式，本论文选择分析的公司用合资企业打开中国市场。互相信任、互相帮助、互相成长的概念在中外合资企业关系中扮演关键的角色。与其它方式相比，合资企业这种方式更提升竞争力而分担风险。并且，意大利 IMOLA 陶瓷公司选择合资企业这个方式即是它长期的目标和需求又是很重要的核心竞争力。

第二个部分分析“原产地效应”的现象。原产基本上可以影响消费者对进口产品的评价，而影响消费者购买决策。“原产地效应”包括消费者所有的对莫国生产的产品具有的知觉和想法。由于产品和品牌的竞争力越来越激烈，所以在客户购买过程中这些知觉有很大的影响力。如果客户对一个国家的经济发展水平、提供产品的质量具有不好的想法，没有机会购买了产品。因此，国家的形象直接影响客户的态度。随着经济全球化的发展，产品的所有生产过程不但不源于一个国

家，反而大型企业开始生产产品在更多国家，意大利 IMOLA 陶瓷公司提供的产品偏偏只源于意大利。

第三个部分分析意大利制造的真谛，特别是中国消费者对意大利制造产品的观念。意大利在国际贸易中具有一些极具优势的产业，它们是意大利制造所谓的“4A”产业，也就是说：家具，服装，食品和汽车四个产业。这些产业提供的产品即是高新技术又是传统技术的体现，而且是意大利制造的历史和文化完美集合的货品。因为意大利制造在国际市场上以高品质、高风格、悠久历史、艺术文化、设计而闻名，而且它跟奢侈品有关，所以意大利享受了特别好的信誉和吸引力。目前，意大利制造成为一个大牌，哪些产品具有意大利制造的标志享受很多好处因为它们都是跟高质量有关的。不过，在中国假冒商品的问题越来越严重了，许多国内企业为了增加客户数量时常用意大利名字、名人、旗帜、颜色作为营销战略。于是，对真正意大利制造的产品规格和标志知之甚少的顾客被以上的技巧误导了。

随着中国经济迅速发展，人民生活水平不断提高。国内消费者的习惯逐步改变以及消费者的需求越来越多，可是满足这些不断提高的要求也是越来越难的。从改革开放以后，中国政府欢迎外国投资和进口产品。中国消费者被外国产品吸引了，尤其是意大利制造的产品，因为他们认为跟中国相比，意大利生产的货品质量更高。所以现在跟过去的情况不一样，中国人特别注重产品的质量、先进性和可持续性。本研究结果显示中国消费者更喜欢意大利品牌提供的产品是为了设计、风格、技术的目的，而且它们认为购买意大利产品也是一个表示高社会地位的方式。实际上，中国消费者为了经历意大利生活方式，而购买意大利制造的产品。

第四部分对世界陶瓷生产与消费进行研究，特别分析中国陶瓷生产与消费的情况。按照意大利陶瓷机械及设备制造商协会 ACIMAC 研究部门的 2016 年的报告，中国是全球最大的陶瓷生产国、消费国和出口国。根据估计，中国 2017 年的陶瓷总商量为 64.9 亿  $m^2$ ，占全球商量的 49.7%，而陶瓷总消费量为 54.7 亿  $m^2$ ，占全球消费量的 42.8%。于是，中国陶瓷市场的潜力非常大。

第五个部分包括一家意大利陶瓷公司在中国市场的经验。这家公司是意大利 IMOLA 陶瓷集团，作为具有 144 年历史的品牌，从 1999 年它决定打开中国市场。意大利 IMOLA 陶瓷是所有意大利陶瓷企业中进口中国的第一家公司。在全球市场上意大利 IMOLA 陶瓷集团也是意大利制造的代名词。从贸易方面来说，意大利 IMOLA 陶瓷公司不仅是世界陶瓷工业中领先的企业之一，还取得了中国进口陶瓷砖 65% 市场份额的成绩。IMOLA 陶瓷的定位是高端消费品市场 因为它提供的产品并不是简单的陶瓷砖，它们有质量高，设计雅致，增值服务，还有意大利陶瓷的丰富文化与传统。IMOLA 陶瓷砖收到中国客户的欢迎是不仅为了产品质量，还是为了它的市场战略。企业竞争优势的主要源泉是七个：

- 合资企业有 19 年的合作关系，
- 意大利制造的品牌，
- 陶瓷砖的质量、设计和 创新精神，
- 143 年的集团历史和经验，
- 国际环保认证，
- 按照中国消费者的品味作产品调整，
- 在北京打开旗舰店。

然而，为了进一步扩大市场的份额 以及，意大利 IMOLA 集团在 2017 年决定打开全球第一个旗舰店。这家旗舰店落户中国是因为对中国市场，特别是对北京市场充满信心。

# Chapter 1: The Internationalization process

## Theoretical framework

### 1. The Internationalization process.

“The global imperative is upon us! No longer merely an inspiring exhortation, thinking and acting globally is the key principle for business success. Both the willing and the unwilling are becoming participants in global business affairs.

No matter how large or small your business, ready or not, here comes the world.”<sup>1</sup>

One of the most remarkable aspects of contemporary economic scenario is the way in which all countries increasingly find themselves an intrinsic part of the global economy.<sup>2</sup> Nowadays the world is continuously and rapidly changing. This world’s incessant transformation affects in many ways the different aspects of reality, including the society, the ways to communicate and relate with other people, the culture, the environment, the economic development, and of course the way of doing business and managing companies. Because of the day-by-day unexpected and different challenges to faces with, a manager of a company looks at the firm’s surrounding environment with a feeling of uncertainty. Since the middle of the twentieth century, the biggest challenge to deal with is globalization, a trend unfolded at greatest speed, on greatest scales and with greatest impacts since the middle of the twentieth century. As a matter of fact, as the world becomes increasingly globalized, it is up to the firms to find the best way to adapt its own business strategy to the international contest in order to compete and to survive successfully in the global marketplace, which exists today and develops tomorrow.

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<sup>1</sup> Czinkota, M. R., Tarrant, J. J., & Ronkainen, I. A. (1996). *The Global Marketing Imperative: positioning your company for the new world of business*, McGraw Hill Professional, pp.1-2.

<sup>2</sup> Auerbach, P. (1996). Firms, competitiveness and the global economy. *Economics and Changing Economies, The Open University, London*, 393-425.

Globalization confers to firms access to foreign markets, cheap labor, and other additional advantages, but provides also room for the standardization of products and the location of production centers at economical and convenient places around the world.

Consequently, during the last decades, firms more and more have committed themselves to international markets, operating outside their domestic markets. For this reason, economic exchanges across national boundaries have increased too. Talking about a firm that undertakes an international strategy, the term international can refer either to an attitude of the firm towards foreign activities or to the actual carrying out of activities abroad.<sup>3</sup>

During the last three decades, the international business literature, the international economics and the international finance have witnessed important advances in attempting to explain cross-national activities, but there is a consistent range of extant theories about internationalization so that a univocal definition has not been conceptualized yet. Probably this depends on the complexity and multidimensionality of the phenomenon, which is so broad that it is possible to analyze it in different contexts and through different variables accordingly to the chosen level of study, as for example corporate level or macroeconomic level<sup>4</sup>. For this reason, at the end of the 1980s, Welch and Luostarinen noticed that the term internationalization, because of its widely use, needs a clearly conceptualization. Therefore, they reviewed the evolution of the internationalization concept, broadening the rough description that many researchers were conceptualizing of an “outward movement in an individual firm’s or larger grouping’s international operations”, to give the following definition: “the process of increasing involvement in international operations”<sup>5</sup>,

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<sup>3</sup> Johanson, J., & Wiedersheim-Paul, F. (1975). The internationalization of the firm—four Swedish cases. *Journal of management studies*, 12(3), 305-323.

<sup>4</sup> Ietto-Gillies, G., & London, S. E. (2009). Conceptual issues behind the assessment of the degree of internationalization. *Transnational Corporations*, 18(3), 59-83.

<sup>5</sup> Welch, L. S., & Luostarinen, R. (1988). Internationalization: Evolution of a concept. *Journal of general management*, 14(2), 34-55.

which became one of the most accepted within the specialized literature. Further, other concomitants to the concept were advanced, as for instance “internationalization is the process by which firms both increase their awareness of the direct and indirect influences of international transactions on their future and establish transactions with firms from other countries.”<sup>6</sup>

Although the great number of definitions, there is a clear agreement to the opinion that internationalization is a process that includes the establishment of linkages beyond the borders of a firm’s national context, which can be traduced in terms of “engagement in international operations”, “international transactions”, “transference of not only economic resources across boarders”, “foreign sales” and so forth.

Researches into these dimensions can give an overview of the state of internationalization of a given company and allow comparisons to others.

## **2. Reasons and Advantages of Internationalization.**

It is widely assumed that it is easy to operate in a familiar and well-known market. It is not difficult for a firm to satisfy needs of customers that are in terms of both culture and customs more similar to their environment. However, what happen when firms decide or are pushed by external or internal factors to “take a walk into the unknown?”<sup>7</sup>

Assumed that Internationalization is a major dimension of the growth of a firm<sup>8</sup> it is possible to say that businesses venture abroad for a wide range of reasons and there are many factors that are likely to influence business decision makers. Reasons and advantages are strictly connected.

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<sup>6</sup> Beamish, P. W. (1990). The internationalization process for smaller Ontario firms: A research agenda. *Research in global business management*, 1, p.77.

<sup>7</sup> Schweizer, R., Vahlne, J. E., & Johanson, J. (2010). Internationalization as an entrepreneurial process. *Journal of International Entrepreneurship*, 8(4), 343-370.

<sup>8</sup> Peng, M. W., & Delios, A. (2006). What determines the scope of the firm over time and around the world? An Asia Pacific perspective.

The most popular reason for a firm turning to internationalization might have roots in firm's internal dimension or in the external one: the internal environment involves potential products' characteristics, specific marketing strategies; while the external one includes the presence of a saturated and stagnant domestic market, the declining sales, no customer's growth, regulatory obstacles, slow market growth and tax incentives for foreign investors. These reasons are strictly linked to the concept of profitability, which is an important factor affecting businesses strategic decision and that the most push to internationalization. Profitability is a key point for most private-sector businesses operating abroad. Consequently, a possible way to increase sales and to achieve a consequent business growth may only be possible through the overseas operations.<sup>9</sup> However, most firms go international also with the purpose of diversifying risk, because with an alternative market in a foreign land can be greatly of help in offsetting negative results various uncertainties such as economic downturns or political intolerance. Starbucks is a good example of companies that enjoyed the advantages of going international during U.S. recession, which significantly devastated sales within the home market.<sup>10</sup>

It is through the overseas operations that firms can acquire substantial advantages, by having the chance to sell products in a foreign marketplace, increasing sales and getting access to a larger base of possible customers.

The many advantages that firms are likely to be obtain through the expansion of the businesses across the globe are:

- *Economic growth*: is the most important result of the adoption of a solid international strategy. It consists in all the revenues earned through the exports of goods, supplies and services in the overseas marketplaces. The economic growth can be translated into the capital derived from foreign market penetration. There can exists 2 situations: company's products already gaining

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<sup>9</sup> Harrison, A. (2011). International Entry and Country Analysis. *Lecture Programme delivered at the Technical University of Košice, UK.*

<sup>10</sup> Gillespie, K., & Hennessey, H. D. (2010). *Global marketing*. Cengage Learning.

great amount of sales or not sales at all. The way of selling overseas the product can be a chance to generate continued repeat business, in the first case, while an opportunity to find abroad a profitable marketplace reaching a different target of consumers more interested in the product in the second case. Indeed, downturns in consumer demand at home are offset by upturns in consumer demand in international markets.<sup>11</sup>

- *Gain competitive advantages*: going international is a phenomenon that enables firms to gain *competitive advantages*<sup>12</sup> over competitors or to improve existing potential advantages, indeed some firms have advantages in a particular activity, and they might find profitable to exploit these advantages by establishing foreign operations.<sup>13</sup> As affirmed in the Resource-Based View theory (RBV)<sup>14</sup> the competitive advantage, either to gain or to improve, can involve resources and capabilities. Resources are the firm-specific assets, which create a cost or differentiation advantage as trademarks, patents, proprietary know-how or internal resources like human resources. For instance, the General Electric CEO Jack Welch emphasized this point: “Globalization has changed us into a company that searches the world, not just to sell or to source, but to find intellectual capital – the world’s best talents and greatest ideas”. Instead capabilities refer to the firm’s ability to use its resources effectively, as for instance the ability to faster market a product rather than competitors. Capabilities instead of resources, are difficult for rivals to imitate. Firm’s capabilities and resources shaped together its distinctive competencies, which allow quality, efficiency, customer responsiveness, **innovation**, and therefore creates value for customers.

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<sup>11</sup> Twarowska, K., & Kąkol, M. (2013). International Business Strategy-reasons and forms of expansion into foreign markets. In *Management, knowledge and learning International conference*, pp.1005-1011.

<sup>12</sup> Porter defined the two ways in which an organization can achieve competitive advantage over its rivals: cost advantage and differentiation advantage. Cost advantage occurs when a business provides the same products and services as its competitors, albeit at a lesser cost. Differentiation advantage occurs when a business provides better products and services as its competitors. In Porter's view, strategic management should be concerned with building and sustaining competitive advantage. (Porter, 1985)

<sup>13</sup> Hymer, S. H. (1976). *International operations of national firms*. MIT press.

<sup>14</sup> The Resource-Based View is a theory used to determine the strategic resources available to a firm, which can be exploited by the firm in order to create a competitive advantage. (Barney, 1991)

It's particularly important to stress the strong connection between innovation and internationalization. As sustained by Caves, companies that expands in other markets can benefit from higher returns on innovation.<sup>15</sup> When firms exposed themselves to diverse environment are more "open" to learn from the different contexts it presents, thus a knowledge transmission both via products or via interaction between people across different nations occurs. In fact, geographical diversity exposes a firm to a rich array of environments, which leads to higher innovation levels.<sup>16</sup><sup>17</sup> Furthermore, as Kotabe proposes in his essay, companies that are doing business internationally can improve their capacity of innovation by being able to better use the wide range of resources available all around the world, often not available at domestic level.<sup>18</sup>

- Access to new markets: the attraction of new markets either in large developed economies, either in **emerging economies** with growth potential is often irresistible to businesses with international ambitions.<sup>19</sup> A dominant and actual theme concerned emerging economies' attractiveness, such as Asia, Eastern Europe, and Latin America, which started growing faster, even surpassing most developed countries, while becoming great players in the world's economy. Some emerging countries' main characteristics attracts businesses for the vastness of resources, the youthful workforce and the very strong company's balance sheets. Firms accessing to new markets can operate through market diversification, exploring new avenues of business. Firms expanding abroad can also enjoy a sort of "market exclusivity", namely first-mover advantage<sup>20</sup>, if that particular market has not been exploited yet. However, the access to international marketplace permit to increase scale of production, while lowering

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<sup>15</sup> Caves, R. E. (1996). *Multinational enterprise and economic analysis*. Cambridge university press.

<sup>16</sup> Ghoshal, S. (1987). Global strategy: An organizing framework. *Strategic management journal*, 8(5), 425-440.

<sup>17</sup> Kim, W. C., Hwang, P., & Burgers, W. P. (1993). Multinationals' diversification and the risk-return trade-off. *Strategic Management Journal*, 14(4), 275-286.

<sup>18</sup> Kotabe, M. (1990). The relationship between offshore sourcing and innovativeness of US multinational firms: An empirical investigation. *Journal of International Business Studies*, 21(4), 623-638.

<sup>19</sup> Harrison, A. (2013). *Business environment in a global context*. Oxford University Press.

<sup>20</sup> Gain benefits from being the first operating in a particular foreign market.

unit costs. Succeed in reaching economies of scale is particularly important for companies because an economization of the transport and distribution network is allowed. Therefore, economies of scale give firms the opportunity to produce their products cheaper in some countries because of supplier availability, component costs and so on.

A demonstrative example is the Apple, who started manufacturing iPhones in China to exploit the lower costs of production and engineering's working hours' flexibility, which US cannot offer and this gives Apple a competitive edge over companies that produce their products in US.

- Access to resources: the presence in a foreign and specific country usually can grant access to strategic resources that can be acquired at a lower comparative cost or to profitable resources that may not be available at all in the firm's home country. The resource seeking companies are those investing abroad in order to obtain resources.<sup>21</sup> The term *resources* can refer both to natural resources, as minerals (oil, zinc, coal etc.) or raw materials (tobacco, sugar, etc.), or it can refer to cheaper labor force (skilled/ unskilled). As in the previous Apple's case, China perfectly fits in the example of a country that offers low-cost labor force. However other resources can be represented by country's unique capabilities and know-how, which are shared through the interaction with people of totally different country and culture. In particular, this can allow the share of different points of view and relevant knowledge, which can be really important when managing an international business strategy.
- Cost reduction: the access to international production gives companies an international procurement of components and supplies, international relocation of production operations or outsourcing of business functions that can be undertaken at lower cost abroad (known as 'offshoring').<sup>22</sup> Outsourcing is an easy and cost effect activity of engaging other companies in order to perform

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<sup>21</sup> Dunning, J. H. (1993). Internationalizing Porter's diamond. *MIR: Management International Review*, 7-15.

<sup>22</sup> Harrison, A. (2011). International Entry and Country Analysis. *Lecture Programme delivered at the Technical University of Košice, UK.*

tasks, manufacturing products, provide services and it has been used for many years as a way of obtaining specialized expertise or reducing costs. Developed countries prefer to outsource their business process to developing countries as India or China. Indeed, the opening up of China has attracted firms seeking low-cost production, but this advantage will in the longer term be dwarfed by the country's market potential as the wealth of China's massive population rises.<sup>23</sup>

- Improvement of company reputation: Internationalization phenomenon has significantly changed the landscape for most business, becoming a very dynamic market controlled by severe competition.<sup>24</sup> When firms offer their products to new markets they can build or increase brand awareness on a global scale, and so as a reflection can obtain prestige in its domestic market. A relevant example can be the brand Nivea that have expanded overseas through advertisements containing testimonials of different ethnicities in order to give the sense of an internationally known brand. This strategy meets many customers' feeling of being cosmopolitan and sophisticated since make use of this international products, and thus creating appealing competitive advantages over company's domestic market.
- Risk diversification: is another benefit of the international firm. The risk diversification has been studied from financial and strategic perspectives. Internationalization means also diversify the possible risks because the great variety of the foreign markets allow firms to minimize the effects of possible undesired changes, as for instance the frequent and quick changing trends in consumption, government regulations, inflation, decline in demand. When a firm decide to operate in different countries a distribution of risks among various locations is permitted. When companies experience financial crises, executives sometimes attempt to save what remains of the company by reformulating the

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<sup>23</sup> Harrison, A. (2011). International Entry and Country Analysis. *Lecture Programme delivered at the Technical University of Košice, UK*, pp.5.

<sup>24</sup> Azuayi, R., (2016). Internationalization Strategies for Global Companies: A Case Study of Arla Foods, Denmark. *J Account Mark* 5: 191. doi:10.4172/2168-9601.1000191

budget and moving overseas.<sup>25</sup> But as in the case of Zara and H&M risk diversification can be also a reaction to the actions of a competitor. The Spanish chain Zara in 2010 opened its first store in India, setting the benchmark as the fastest-growing, and H&M in 2014 followed Zara's strategy opening its first store in India too, and selling merchandise at lower price which enables H&M to double sales<sup>26</sup>. Sometimes, it is simply necessary to act as a follower.

### 3. The entry problem: *where, when and how* questions.

When companies undertake an internationalization process the choice of the most appropriate foreign market entry strategy is of crucial importance, due to the direct implication they have over firms' chances to success. Through the decision of the entry modes a company automatically settle a plan of actions that determines how it would be presented into the target market, what kind of product it will supply to target customers and the position it will have in the market compared to competitors. Since every option represents a set of incredible advantages and disadvantages of different nature, accurate analysis and researches must be made. As we have seen in the above section there are some several aspects to consider in order to judge a foreign market attractive, as the politics, social and economic environment, the market potential and growth, sales forecasting and competition, which all together represents the "*why to enter a foreign market*" question.

Along with the reasons expressed so far, during the internationalization process the first thing a company considers is the optimal entry mode according to its objectives, followed by some questions, as for instance: *where, when and how to enter*.

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<sup>25</sup> Elmuti, D., & Kathawala, Y. (2001). An overview of strategic alliances. *Management decision*, 39(3), 205-218.

<sup>26</sup> Malviya, S. (2017). "H&M sales double as pricing strategy pays off", The Economic Times. <https://economictimes.indiatimes.com/industry/services/retail/hm-clocks-in-rs-700-crore-sales-in-nine-months/articleshow/60870770.cms> (14/02/2018)

- **Where to enter:** the location of entry's decision is made on the basis of the appealing foreign market's intrinsic characteristics as: the market dimension and its potential growth, the national and international political factors affecting the target market (if there are restrictive legislation that can limit the company's activities or if there are some taxes incentives encouraging foreign investors), the purchasing power of the target customers, the affinity between target customer's trends and the foreign investors' offer, the cultural distance, the customers' education, the availability of distribution channel and resources (both natural and human). As a matter of fact, after having considered geographic, economic, cultural, political, demographic aspects, the country that ensures long-term return on investment should be the investment destination.
  
- **When to enter:** The timing of entry is a very important strategic decision because of its subordination to many other factors, as for example: host country characteristics and host country's culture, education of the foreign country's customers to a specific product, threat of competitors, level of innovation and last but not least the level of firm's international experience, since firms with a higher level of international experience will enter an overseas market earlier than firms with a lower level of internationalization.<sup>27</sup> Furthermore, in the view of companies as players in the overseas marketplace they are divided into: first movers (pioneers), early followers and late followers. Pioneers can clearly benefit from incentives (in terms of taxes) provided by local governments, the more time to learn and acquire local knowledge than late followers<sup>28</sup> and all the first-mover advantages, which are defined as "the ability of pioneering firms to earn economic profits."<sup>29</sup>

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<sup>27</sup> Gaba, V., Pan, Y., & Ungson, G. R. (2002). Timing of entry in international market: An empirical study of US Fortune 500 firms in China. *Journal of International Business Studies*, 33(1), 39-55.

<sup>28</sup> Pan, Y., Li, S., & David, K. T. (1999). The impact of order and mode of market entry on profitability and market share. *Journal of International Business Studies*, 30(1), 81-103.

<sup>29</sup> Lieberman, M. B., & Montgomery, D. B. (1988). First-mover advantages. *Strategic management journal*, 9(S1), 41-58.

According to Lasserre (2012), when going international in the interest of gain competitive advantages firms inevitably pass through four phases, based on what firms can benefit from and in which way and they are: *premature phase*, *window phase*, *competitive growth phase* and *mature phase*.<sup>30</sup>

- *Premature phase*, characterized by a foreign target market where there is no demand for a specific product or service, which is very common in emerging countries and can affect in negative way in terms of revenues the firm investment. In this step representative offices, listening posts, distribution agreements are recommended.
- *Window phase*, namely “*Window of Opportunities*” represents a chance to take great competitive advantages from because of its absence of competitors and the take-off of the market. At this point the company’s manager can opt for a first move in the market or for a follower action. If he chooses to be the first-mover he can enjoy the advantage of pre-empt resources, the time to learn about customer’s trends and education, the establishment of the brand but on the other hand he will face also some drawbacks, as the larger amount of pioneering costs and also risks due to the possible and fast imitation by competitors that will build on the first-mover’s experience. On the contrary, if the manager chooses to be a follower it can learn from the past first-mover’s experience and in the mean while take the window of opportunity, deciding whether to invest or not.
- *Competitive growth phase*, a stage where in one hand there are high market growth, higher demand and purchasing power, while in the other hand there is already a consistent presence of competitors. Consequently, due to the higher risks’ presence entering this market can be dangerous, unless the firm takes the acquisition or joint venture strategies along with a highly differentiated strategy.

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<sup>30</sup> Lasserre, P. (2012). *Global strategic management*. Palgrave Macmillan, p.221.

→ *Mature phase* refers to a scenario composed of a higher degree of competition and well-established market, which is difficult to penetrate and for this reason direct investment with an original product or acquisitions are the only possibilities that could open a door on the foreign market.

- **How to enter:** is the final and most essential stage during which the above considerations are actualized and put into effects taking the concrete decision of which strategy use to enter the overseas target market.

Foreign entry strategies can be broadly distinguished into three main categories: Exports, Strategic alliances and Foreign Direct Investment.<sup>31</sup> Meanwhile, each of them implies a different level of resource commitment, a different level of risk and provide a different level of control and are showed starting from the lowest level to the highest one.

**Export** is the most traditional and easy way to get access to foreign market since it permits a fast entry in the new market and it is characterized by lowest resource commitment, the lowest level of risk, but, at the same time, also by low control.<sup>32</sup> In addition, the export is also a “low cost” strategy because let firms avoid establishment of overseas operations’ expenditure. Besides, it offers the possibility to gain knowledge about the host country. A firm selecting the export strategy has its production, development of human resources and know-how based in the country of origin, while services and products are sell in the overseas market. Export can be of two types: direct or indirect one.

**Direct export** occurs when a company decides to sell its products and services in a specific foreign marketplace with its own commercial structure having direct contact first with another market reality and then with overseas clients. To reach directly foreign clients the company has to accurately build its own commercial

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<sup>31</sup> Lasserre, P. (2012). *Global strategic management*. Palgrave Macmillan, p.221.

<sup>32</sup> Agarwal, S., & Ramaswami, S. N. (1992). Choice of foreign market entry mode: Impact of ownership, location and internalization factors. *Journal of International business studies*, 23(1), 1-27.

structure and even though it takes up plenty of energy it is said to be the most efficient way of maximizing profits and long-term growth. Long-term strategies and ad-hoc organizations are a direct export's prerogative.

According to the specific target market characteristics, by using direct export firms choose suitable marketing politics and have a more general control over international commercial activities in a way which allow them to effectively face competition. Through this type of presence in the new country's market, the reach of some commercial and strategic objectives, as the spread of brand awareness across different countries, is granted. Above all, the advantages that catch enterprises' attention, especially small and medium one, consist in the simple way of getting access to the foreign market and in the possible higher earnings that overseas sales generate. In addition, as the business develops in the foreign market, companies gain greater flexibility to improve or modify marketing efforts.

Export modes take place through: *sales representatives, foreign retailers, local agents, local distributors, representative offices*. The role of distributors, also called importers, is noteworthy because provides support and service for the product since he possesses the exclusivity of the product's sales in a certain area. Therefore, he imports the product and sell it to foreign customers, relieving the company from many responsibilities.

To sum up, even if this method is appealing for the higher profitability and the closer relationship with foreign buyers and marketplace, it should be remembered that firms have to commit more time, personnel and corporate resources than are needed in the indirect export.

**Indirect export**, on the contrary, occurs when a firm decides to export in the external market via intermediaries. As a matter of fact, export process' costs and risk are delegated to a third party and the role of the company which want to export its products is rather limited, since the relations with the foreign market are delegated to the mediator company, who handle customer's demand according to its own management policies.

Firstly, operating through the indirect export strategy companies faces lesser risks and complexities than using the direct export's one, because they can lean on specialized companies (intermediaries) that already possess the sufficient knowledge to operate in the specific foreign market and offers many services in order to satisfy both the exporter company and the host country's clients. Secondly, it should be underlined that the main advantage consists in the opportunity to expand the brand and to catch new business possibilities, without sustain onerous investments or alter organizational structure that much. Nevertheless, the degree of control over the foreign market still lower due to the existing distance both for the company that doesn't know well the foreign market customers' specific characteristics and for the consumers who do not have a sufficient brand perception. As a result, a high percentage of failure in the strong brand loyalty's process exists.

Indirect exports examples are: *export management companies, export buying agents, export trading companies, broker and piggyback.*

However, if in direct and indirect export the company's production processes are based in the domestic market, the following strategies can see production directly located in the foreign market.

**Strategic alliances** see firms that seeks to enter the foreign market possessing a higher degree of participation in the foreign activities. When companies decide to locate production in another country or even if they simply intend to develop significant part of resources, skills and know-how in a specific country, strategic alliances and foreign direct investment are the optimal choices.

The choice of entering the market through strategic alliances, derives from enterprise's will of increasing its international influence and therefore they engaged themselves in relations with intermediaries, which means increasing costs and risks. Meanwhile, intermediates join an increasing relevant role since there is no full ownership by the parent firm, but the control becomes shared among firm and local partner and is regulated by a non-equity cooperation agreement between two or more firms. The main common and intrinsic purpose

of this cooperation is the achievement of a competitive advantage, via collaboration with the local partner as regards production, marketing and R&D. Strategic alliances can be divided into:

- *collaborative strategies*, including: licensing, franchising and contract manufacturing. All of these are mid- or long-term agreements between two or more independent companies, which allow a low commitment of personnel and capital, and a low political risk exposure; although the shortcoming arises in the moment parent firms find it difficult to interact and manage the relation with the foreign partner.
- *joint ventures (JVs)*, represent this thesis' strategic entry mode selected by the company of the case study further analyzed. A joint venture is a contractual agreement between two or more companies, individual or business party, usually of different nationality, with diverse strengths and weaknesses which pursue the same objective for an agreed timeframe. Joint ventures are governed entirely by legal agreement, but a JV is not a legal entity capable of hire employees or enter into contracts. The most important document is the JV agreement that sets out the partners rights and obligations as well as JV objectives, partners initial contributions. Along with the cooperation in a unique project, the two parties involved in the joint venture agreement accept to share control, profits and risks. It is through this capital and resources sharing that savings in costs and risks are higher than other many strategic entry modes. As a matter of fact, this low-control mode minimizes the resource commitment, while incrementing expenditures.<sup>33</sup> First of all, this strategy is preferred because enable firms to transfer knowledge, new capabilities, know-how, technologies through the collaboration with the partner company. Secondly, another greater and strategic advantage is the secure access to developing and emerging markets, as a result of overcoming political and

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<sup>33</sup>Anderson, E., & Gatignon, H. (1986). Modes of foreign entry: A transaction cost analysis and propositions. *Journal of international business studies*, 17(3), 1-26.

economic barriers to entry. Indeed, this option has been used by firms seeking or enter foreign markets where full ownership is considered too risky or simply not allowed. By sharing control with the host country partner, the firm is thus able to alleviate risks and difficulties of operating in a different country.<sup>34</sup> There are also a majority of existing possibilities of reach some goals, due to the cooperation with another business, that alone wouldn't ever have been reached. In fact, one company may not have the necessary financial, physical or managerial resources to enter a foreign market alone. Nonetheless, a high percentage of success of the established joint venture rely on the partner's choice, which depends on the mixture between legal requirements and specific capabilities the firm possesses.<sup>35</sup> The partner's choice can yield important benefits, on the contrary an incompatible partner will lead to failure possibility. For this reason, especially when cultural, economic development, legal aspects and infrastructure present great differences between the partner's original context, complexities arising and increasing and therefore more efforts to overcome differences must be made to let the JV generates value for all joint partners. Selecting the optimal partner involves the analysis of two relevant factors: size and experience of the firm partner mixed with a lot of complex considerations (technological, financial, legal analysis). In this process a firm that wants to increase its business through a JV experience have to find in the suitable partner a series of precise characteristics as: unique competencies, complementary resources, goal compatibility, financial resources and organizational culture. Joint ventures, as will be seen in the fifth chapters, is a very strategic tool to emerge in the global markets, getting a fast access to the target market while exploiting the existent distribution channels.

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<sup>34</sup> Anderson, E., & Gatignon, H. (1986). Modes of foreign entry: A transaction cost analysis and propositions. *Journal of international business studies*, 17(3), 1-26.

<sup>35</sup> Lasserre, P. (2012). *Global strategic management*. Palgrave Macmillan, p.221.

**Foreign Direct Investments (FDI)** consists in the process of a company that decide to go international by investing money (at least owns 10% or more) by the going international company in an existing business located in the overseas marketplace. These cross-borders investments are characterized by a peculiar feature which distinguish them from all the previous entry strategies: the investment in the foreign market. All the above described strategies involve just trade agreements not an equity investment. Reasons at the basis of foreign direct investments can be of different nature: get a closer approach to the final and international market, reduction of production costs and resources' acquisition. However, foreign direct investments have become more and more relevant in the current market and represent also the most advanced and favored strategy which better fit the international competitive environment companies have to work in. Due to the increasing competition in the international markets, companies are frequently called to assume a continuous and long-lasting presence in the international marketplace. Advantages and disadvantages are often a matter of perspective. A main benefit is represented by the opportunity to promptly obtain products, services and human resources in the target country and effectively use consolidated distribution networks. They are important for developing and emerging country, because can be in some cases the only way to overcome trade barriers' difficulty, while stimulating the target country's economic development and creating a "win-win" environment, where both the foreign investor and the local business gain advantages from activities, know-how, technologies they both establish, share and realize. Through cross-borders investment it is possible to obtain a higher integration with the foreign market reaching a greater degree of control over foreign operations, too. Nevertheless, in spite of those benefits, acquiring a foreign company might involve coordination problems between the two different teams (local and foreign one), the managing of risks because of political

changes<sup>36</sup> without any prediction or the negative influence on exchange rates. Foreign direct investments can take place via *acquisition, mergers* and the most complex internationalization mode, which is the *greenfield investment*. The latter is an entry mode that offers at the same time the higher control over operations but also the greatest risks. In fact, the *greenfield investment* consists in the realization of a new production unit composed of: factory, machinery, research and development center and logistic organization in the new country from ground zero, for example by purchasing a local property.

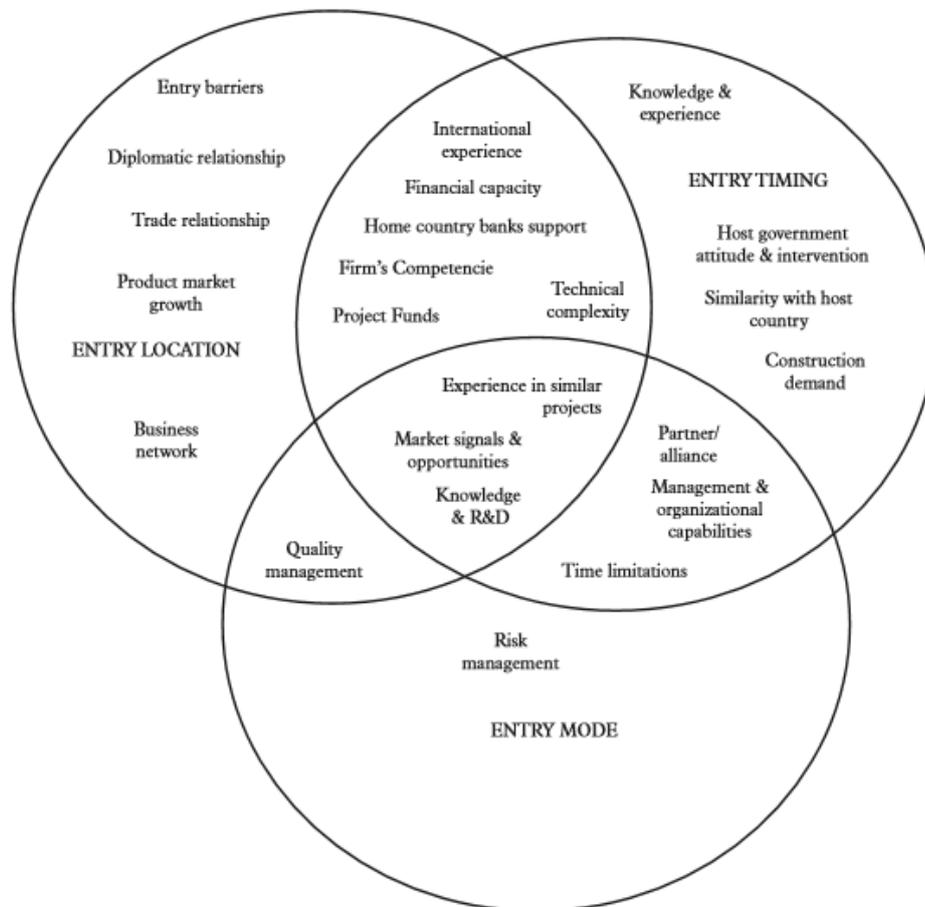
In conclusion, each entry strategy involves a great number of benefits and drawbacks and the selection and the pursuing of each entry mode is defined through the evaluation of a great range of opportunities, as well as according to each company's main objectives, resources and structure.<sup>37</sup> To sum up each of these strategies are linked to firm's size and economic and politic conditions of the target country. A smaller firm is likely to begin its foreign activities via exports, while a larger firm with a bit of business experience will prefer acquisition to get a faster access to the foreign market or achieve economies of scale; while an emerging country affected by some cultural or political barriers will necessitate a "middle-of-the-road approach" (licensing, franchising or better partnerships). As a consequence, entry location, entry timing and entry modes are part of a bigger picture, which sees companies everyday facing different challenges due to the increasingly internationalization and trying to obtain more competitive advantages over competitors in order to success and survive. An attempt to summarize the subtle interdependencies between the above three questions can be the

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<sup>36</sup> Expropriation is a very common risk due to the political changes and represents the control that local government obtain over foreign investors' assets and properties.

<sup>37</sup> Anderson, E., & Gatignon, H. (1986). Modes of foreign entry: A transaction cost analysis and propositions. *Journal of international business studies*, 17(3), 1-26.

ELETEM<sup>38</sup> model for international market entry proposed by Preece et al. (2016), which is one of the first experiment to integrate all the critical factors linking the entry location, the entry timing and the entry mode, since all the previous studies dealt with these three different entry dimensions in an isolated way.



**FIGURE 1.1** ELETEM Model for International Market Entry.

**Source:** Preece, C. N., Mat Isa, C. M., Saman, H. M., & Che Ibrahim, C. K. (2016). Development of entry location, entry timing and entry mode decision model for construction firms in international markets. *Construction Management and Economics*, 34(4-5), 236-257.

<sup>38</sup> ELETEM: entry location (*where to enter*), entry timing (*when to enter*) and entry mode (*how to enter*). (Preece,2016)

#### 4. Barriers to internationalization.

Barriers to internationalization are obstacles that firms have to face with during the process of going international and are often unpredictable and heavy to overcome. These barriers can be of different types and nature, depending on the country to which they refer and can involve: governmental and political sphere, economic sphere and socio-cultural sphere. It's important for the understanding process of this thesis, to put a particular stress on the socio-cultural sphere, emphasizing the importance of cultural distance, which can have irreversible and critical effects on companies' foreign activities. A general accepted definition of culture among different researchers refers to culture as the set of norms, beliefs and values shared among a group of people as members of a nation or organization<sup>39</sup>. When deciding the optimal entry mode is important to take into consideration the five cultural dimensions<sup>40</sup> of the different market, which enables to better comprehend how regions or nations can be similar or totally different. These five cultural dimensions are: power distance, uncertainty avoidance, individualism versus collectivism, masculinity versus femininity and long-term and short-term orientation.<sup>41</sup>

Power distance concerned attitudes toward hierarchy, specifically is the degree to which people accept inequality in status and power distribution. If a country is characterized by high-power distance, like Malaysia, people will accept social inequality seeing the subordination to a leader as a natural order, the power centralization, the autocratic and paternalistic relations, some hierarchical positions and the idea that power has its privileges. This type of societies is characterized by: centralized authority, autocratic leadership, paternalistic management style and a large number of supervisory stuff, too. On the contrary, if a country is characterized by low-power distance, like Netherlands, hierarchy

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<sup>39</sup> Spencer-Oatey, H., & Franklin, P. (2012). What is culture. *A compilation of quotations. GlobalPAD Core Concepts*.

<sup>40</sup> Hofstede, G., & Hofstede, G. J. Minkow, M., (2010). *Cultures and Organizations. Software of the mind. Intercultural Cooperation and Its Importance for Survival*, McGraw-Hill.

<sup>41</sup> Ibidem.

will be established just for convenience and people will relate to each other more as equals regardless of formal positions feeling entitled of a certain amount of power and preferring more consultative and democratic relations. This type of societies is characterized by: decentralized authority and decision-making responsibility, a sort of consultative and participative management style, a great rights consciousness, a flat organizational structure and a tendency toward egalitarianism.<sup>42</sup>

Uncertainty avoidance refers to the extent to which a society is able to deal with the unpredictability of the future without experiencing a great stress. Indeed, in countries as Japan and Spain with strong uncertainty avoidance, people will be less able to control unusual circumstances and future evolving of events. Therefore, the anxiety due to the occurrence of the unknown will be minimized by everyday planning and implementing of rigid and strict rules, codes of belief and behavior, laws and regulations. In this way, these countries try to avoid risks by creating organizations with clearly delineated structures and standardized procedures, for example in a company trying to avoid the “unfamiliar” reaction, promotions will be based on seniority or age, because of the greater level of knowledge through experience. In contrast, cultures with weak uncertainty avoidance are distinguished by a more relaxed attitude in which practice is more important than principles.<sup>43</sup> People belonging to this type of culture, as American one, are firstly characterized by a greater pragmatism and secondly tend to be less rational accepting risks, better tolerating different opinions and behaviors and are more flexible, adapting to different and unstructured situations, trying also to have few rules as possible.

Individualism versus collectivism refer to the degree to which people in a society are integrated into groups. Speaking from an individualistic side, people behave according personal interests and achievements making a detailed calculation of

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<sup>42</sup> Hofstede, G., & Hofstede, G. J. Minkow, M., (2010). *Cultures and Organizations. Software of the mind. Intercultural Cooperation and Its Importance for Survival*, McGraw-Hill.

<sup>43</sup> Ibidem.

profits and losses before relating with other people; while speaking from a more collectivistic side, people behave according to social norms designed to maintain a general harmony among groups, considering every possible implication of their actions for the collective interest and at least are ready to share resources and sacrifice themselves for others.

Masculinity versus femininity type of culture defines the societal emphasis on traditional masculine values if achievement, career success, high earnings, ambition are dominant and, on the contrary on traditional feminine values if quality of life, interpersonal relations before own interests and concern for the weak are considered more important.<sup>44</sup>

Short-term and long-term orientation dimension associates the connection of the past with current and future actions and so it perfectly symbolizes the intrinsic differences in thinking between eastern and western countries. In nations with a short-term orientation where particular attention is paid towards present and past, people with this pure tradition-oriented mentality give a specific value to personal reputation and stability in a way which emphasizes the respect for tradition and reciprocal relations; instead of nations affected by a long-term orientation where the attention to the future plays an important role and in which persistence, adaptation to new situation and dynamic mentality are the main peculiarities of this type of society.

After having showed how cultural distance and its intrinsic differences among countries plays a relevant role in strategic decisions, is important to underline the fact that a company involved in the internationalization process must integrate the cultural component into its overall strategy in order to be successful in the overseas marketplace. This can be done by a deep foreign country analysis and, moreover, through an incremental process of establishment the company market presence.

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<sup>44</sup> Hofstede, G., & Hofstede, G. J. Minkow, M., (2010). *Cultures and Organizations. Software of the mind. Intercultural Cooperation and Its Importance for Survival*, McGraw-Hill.

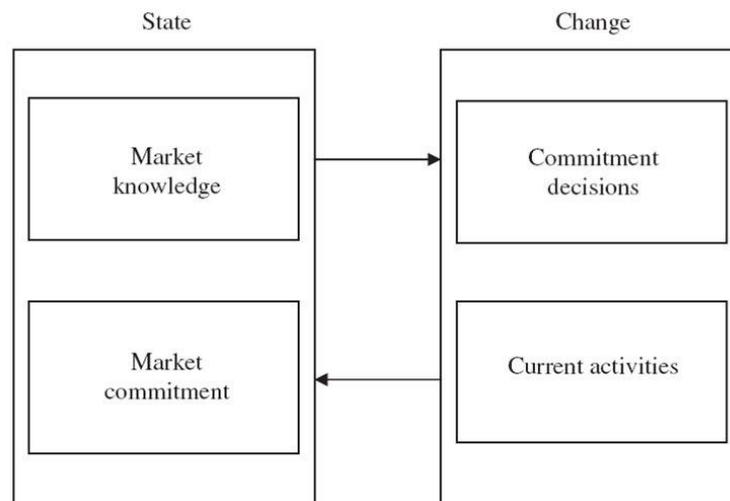
## 5. Internationalization theories

### *The Uppsala Model*

The pioneering work made by the researchers from Sweden's Uppsala University Johanson and Vahlne (1977) lead to the creation of a general accepted model which became the foundation for understanding the internationalization process of firms. This model (the U-model), supported by empirical findings recognize internationalization as an incremental organizational learning process that enables firm to obtain gradually a deeper knowledge about the foreign markets which, in turn, contribute to give a flow of required information to keep on expanding abroad. In this view, the experiential knowledge, which is acquired mainly through operations abroad, is a factor that reduces uncertainty and creates many foreign business opportunities.<sup>45</sup> The model is divided into two basic aspects: state and change, which are relatively composed the first of market knowledge (properly the knowledge about foreign markets and operations) and market commitment (properly the resource commitment to the foreign market), while the second of commitment decisions (decisions to commit resources) and current activities (the performance of current business activities).

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<sup>45</sup> Johanson, J., & Vahlne, J. E. (1977). The internationalization process of the firm—a model of knowledge development and increasing foreign market commitments. *Journal of international business studies*, 8(1), 23-32.



**FIGURE 1.2** The basic mechanism of Internationalization.

**Source:** Johanson, J., & Vahlne, J. E. (1977). The internationalization process of the firm—a model of knowledge development and increasing foreign market commitments. *Journal of international business studies*, 8(1), 23-32.

Basically, assumed that internationalization is the product of a series of incremental decisions<sup>46</sup>, firms starts to export in a foreign country via agent, later through the establishment of a sales subsidiary and then, in some cases, they move production (foreign manufacturing subsidiary) to the host country. According to Johanson and Valhne (1977), the time order of such establishments is related to a specific distance between the home and the host countries, which involves all the barriers (language, culture, education, business practices and industrial development) that mixed together form the so-called physic distance. For this reason, is easily observable that the process begin in the domestic market, moves on to culturally and geographically closer and more familiar countries and then follows the subsequent entry in greater distant ones. This is in part due to the liability of foreignness which very often represent the main

<sup>46</sup> Johanson, J., & Vahlne, J. E. (1977). The internationalization process of the firm—a model of knowledge development and increasing foreign market commitments. *Journal of international business studies*, 8(1), 23-32.

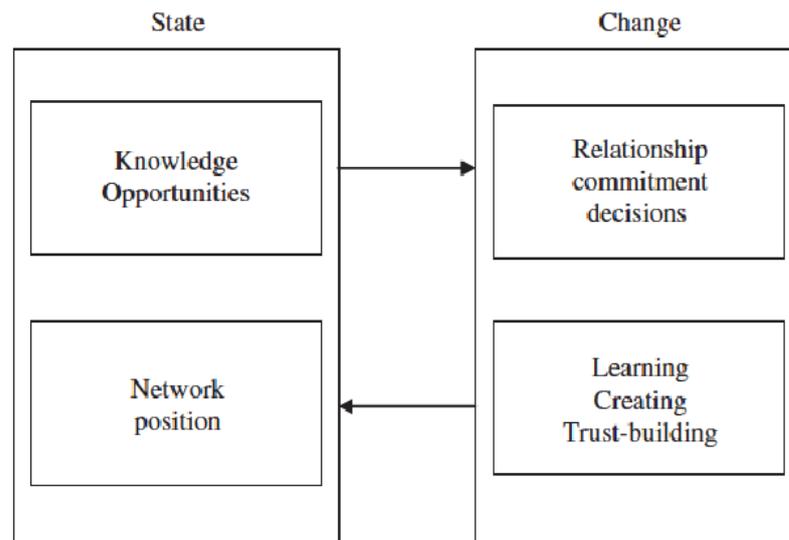
barrier for many firms going international, therefore the larger the physical distance the larger the liability of foreignness and the less firms will be keen to internationalize.

### ***The revisited Uppsala Model***

The so far analyzed model has contributed greatly to the understanding of the internationalization process of companies, but along with the nowadays great changes in economic and regulatory environment, the model has been actualized by the same authors in 2009, with a new focus based on business network research. The core argument is therefore based on the assumption that markets are networks of relationships in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns.<sup>47</sup> But the original model doesn't include any emotional dimension in relationships, which the authors find out through empirical observations to be very important for the understanding of relationships because can have a considerable impact in the internationalization process, since are seen as a potential way to learn and, at the same time, to build trust and commitment, considered as preconditions for internationalization. Indeed, even if trust is a time-consuming a costly process, it can play an alternative and central role when a firm lacks market knowledge.

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<sup>47</sup> Johanson, J., & Vahlne, J. E. (2009). The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of international business studies*, 40(9), 1411-1431.



**FIGURE 1.3** The business network internationalization process model.

**Source:** Johanson, J., & Vahlne, J. E. (2009). The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of international business studies*, 40(9), 1411-1431.

As in the 1977 version, also in the 2009 network business model there are two sets of variables: state and change, which affect each other in the same way of the previous one so an increasing in knowledge may have a positive as well as negative impact on building trust and commitment. In the state box the previous “market knowledge” has been replaced with “knowledge opportunities” since opportunities are the main forces that drives for internationalization, while the previous “market commitment” has been replaced with “network position”.<sup>48</sup> The network position can be achieved through a rewarding process of exchange of trust, learning and commitment. As to the change variables, the original “current variables” are in the new model expressed through the explicit version of “learning, creating and trust-building”, while “commitment decisions” are just replaced by the emphasized formula of “relationship commitment decisions” which underlines the importance of relations for the network position creation.<sup>49</sup>

<sup>48</sup> Johanson, J., & Vahlne, J. E. (2009). The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of international business studies*, 40(9), 1411-1431.

<sup>49</sup> Ibidem.

Firms will establish relations with foreign firms regarding firstly to opportunities and secondly to the host company's network position, basing the process on trust, knowledge and commitment.

## **6. Internationalization of Italian enterprises**

During the recent years, Italy have seen an impressive increase in firms' international involvement, which have been quite active in their international expansion letting them become important players in the international arena. In fact, Italian firms involved in foreign operations turn out to grow and also have higher profits rather than domestic counterparts, on a number of economic, human capital, innovation and financial variables. As previously seen, exist a strong correlation between internationalization and performance. Along with this reason and because of the economic crises and the consequent weakening of the domestic demand, many Italian firms have started seeking foreign opportunities. Indeed, as long as the economic recession of 2008 had relevant impact on the Italian production system, with gross domestic product falling, unemployment and the market downturn in the sales of domestically produced goods and services, the majority of survived firms are those that seek to find a solution taking advantage of the favorable occasions that internationalization process was about (and is still about) to offer. Is through the internationalization and, more specifically, by means of exports that a lot of Italian companies had the opportunity to overcome difficulties, to resist the negative influence of the economic crises, and to give also a large contribution to the overall Italian economy. Going back to the Nineties, all the Italian companies' size of investments abroad was about 8 billion dollars a year, which in the Gross Domestic Product (GDP) percentage-terms is equal to 0,7% (GDP) of that period.<sup>50</sup> In the early 2000s, the annual average amount of investments reached

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<sup>50</sup> ICE, 1986-2016. "L'Italia nell'economia internazionale", Report.

the 30 billion, while during the economic recession of 2008 the amount has passed to 34 billion (1,5% of the national GDP)<sup>51</sup>. Is from 2008 and 2014 that companies invest in foreign activities the total amount of 240 billion dollars, a great number that incentivized the majority of small-medium firms (which dominates Italian economic scenario) in the development of new entrepreneurial realities. As concerned the recent years, the Italian economy's openness to the overseas boundaries, which previously decreased due to the economic crises' impact, have experienced a consistent growth even if not comparable with the Eurozone's one. This drawback refers particularly to the capability to attract foreign direct investments. However, Istat forecasts for the year 2017 point out an economic recovery as regarding imported goods and services' size (4,4%) which will be greater than the exported ones' size (around 3,5%).<sup>52</sup> Focusing attention just on the export of goods, express in volume, there are better economic results that suggest a considerable growth, if compared with them last five years' potential demand in the end market. Export rates raised in particularly toward European Union (3,1%), United States (2,6%), China (6,4%) and Japan (9,6%). From 2016, the international market share of Italian exported goods is appreciably increased in a way that consolidate the general economic recovery, sustained by the global orientation towards made in Italy's products. These factors positively affect the Italian products' demand and intrinsically refer to both the raw material's loss of weight, due to the declining prices, and the increasing demand for personal goods, caused by some emerging countries' medium classes' growth. A rapidly increasing in the exchange of goods with overseas markets (extra EU) characterize the early months of 2017, in numbers of exportation to China (in January-March 27,4%), Russia (24%), Japan (12,6%) and United States (9,4%)<sup>53</sup>. The geographic orientation of Italian exports is still affected by the physic distance and all the principle barriers (i.e.:

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<sup>51</sup> ICE, 1986-2016. "L'Italia nell'economia internazionale", Report.

<sup>52</sup> ICE, 2016-2017. "L'Italia nell'economia internazionale", Report.

<sup>53</sup> Ibidem.

transport barrier) to penetrate less closer markets. Furthermore, an actual economic debate relies on firm's dimension, because in the country prevails the idea that compared with other nations, Italy faces very often difficulties in terms of performance and internationalization due to the fragmentation of industries in many small firms, which often unfit costs and risks of innovation and global competition. But it is thanks to these small firms (the so-called SMEs) that our country's products are classified worldwide as the better ones, because of their focus on every single product' detail and the attentive decisions in every manufacturing processes which only a small organizational structure can control. In the end, SMEs gives birth to a product entirely capable of synthetize our manufacture and technologic excellence, and which aim is to spread the Italian way of life to the entire world. Here again, the internationalization still playing a central role for the companies' growth and the economic development. Nowadays, as previously showed by the above data, the internationalization is a precious tool to penetrate overseas markets and both increase the domestic demand and create new demand, rather than a simply means to reduce production costs. As a consequence, operate to incentivize companies to get involved in foreign operations is of central relevance to support all those industrial sectors, capable of promoting the excellence of the Made in Italy worldwide. Internationalization is significant in terms of survival and persistence of companies in both domestic and foreign marketplace, also because of the increasing international awareness about the outstanding quality of Italian manufacturing sector, as well as food, fashion, design and automotive industry, which all together represents the Made in Italy drivers that make it appreciated by all the world. This moment represents a golden opportunity for all those companies that look beyond Italian boundaries wishing to catch the big advantages and possibilities that both internationalization and the role of the Made in Italy might offer to make them innovate, consolidate and develop in new markets.

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 <sup>(1)</sup>
<b>No. of exporting firms</b>	204,619	205,643	194,255	205,708	207,352	209,090	211,249	213,010	215,170	215,708
% change	-1.1	0.5	-5.5	5.9	0.8	0.8	1.0	0.8	1.0	0.3
<b>Exports<sup>(2)</sup></b>	359,981	364,275	286,281	331,348	368,504	381,442	380,876	389,335	402,357	406,409
% change	9.5	1.2	-21.4	15.7	11.2	3.5	-0.1	2.2	3.3	1.0
<b>No. of foreign affiliates</b>	24,398	25,467	26,008	26,921	27,938	28,234	28,738	29,073	28,589	28,034
% change	7.2	4.4	2.1	3.5	3.8	1.1	1.8	1.2	-1.7	-1.9
<b>No. of workers in foreign affiliates</b>	1,515,228	1,588,253	1,476,138	1,502,694	1,532,945	1,525,096	1,502,300	1,490,963	1,484,784	1,458,035
% change	12.0	4.8	-7.1	1.8	2.0	-0.5	-1.5	-0.8	-0.4	-1.8
<b>Sales revenues of foreign affiliates</b>	470,427	509,208	475,230	513,847	556,407	563,448	548,909	531,689	526,673	516,930
% change	15.0	8.2	-6.7	8.1	8.3	1.3	-2.6	-3.1	-0.9	-1.8

**FIGURE 1.4** Internationalization of Italian firms (amounts in millions of euro).

**Source:** based on ISTAT and ICE data. (ICE, 2016-2017. “L’Italia nell’economia internazionale”, Report.)

## Chapter conclusion

As discussed and proven during this first chapter, internationalization is a process characterized by a great range of micro-processes too, which if well implemented can lead to the obtainment of a huge competitive advantage, acquired through the so-called “walk into the unknow”, that is the internationalization process, which let firms to grow-up thanks to the sharing of knowledge, skills, know-how, expertise between different countries and the consequent relations created during this exchange process. Other aspects to analyze are presented and are country of origin effect (COO) and its consequences among consumers of different nations.

## **Chapter 2: The Country of Origin Effect**

### **1. Country of Origin Effect: the concept**

Along with the globalization of markets, the consumers' buying process is more subjected to countries' comparisons and deeper evaluations about goods coming from different nations than ever before. The reason is to be found in the fact that people are every day exposed to international products and acquire product's specific information through the packaging, the brand name, the price, the distribution channels and the communication tools, which are subject of greater attention because capable of influencing decisions and preferences about a product rather than another one.

The Country of Origin (COO) is considered as a variable that have significant impacts over ultimate consumers' decisions and perceptions, since it clearly highlight the specific country where the product has been manufactured and produced; and moreover, it can be view as a potential competitive differentiator. The effects of the Country of Origin's label on consumers intentions has been widely documented through surveys, experiments and tests. Indeed, for over three decades, COO has been an important research issue in the international marketing and it has been extensively examined and analyzed to better comprehend consumers' behavior in a globalized world. Many studies pointed out the value of the country of origin as an extrinsic variable used as a quality index of the specific product, a phenomenon known in literature as country of origin effect (COE). The COE serves to the consumer as quality cue, characterized by a positive or negative idea of a particular service or product, which is created in relation to where the product has been realized. For this reason, the COO can be defined as a stereotyped information on which consumers rely when evaluating and deciding to buy a product or a service rather than another one.

In the nowadays context, even if the COO issue has achieved a more relevant position, an evolution of its concept is in act. As a matter of fact, the COO is facing some actual international events, as the increasing number of multinational enterprises, the global branding strategies and the change in customer behavior, who is getting day-by-day more informed and less sensitive to prejudices and stereotypes. Consequently, the COO seems to be losing its influence capability over consumers' perceptions.

According to Dinnie (2004), for the following literature review it will be used a chronological perspective, distinguishing three macro phases: a first phase from 1965 to 1982, characterized by a single-cue approach; a second phase from 1983 to 1992, marked by a multi-cue approach and a third but not final phase, which goes from 1992 to 2003.<sup>54</sup>

The very first researches about the Country of Origin effects attempted to identify the relevance of the country of origin of some different products over consumers, as just to demonstrate the effective existence of this phenomenon. These findings have been considered as single-cue due to the unique parameter used, which is the impact of the country of origin over customer behavior and habits, without taking into consideration some other variables affecting the effective choice. It is after the studies conducted by Bilkey and Nes of 1982, which expressively pointed out the previous researches' limits, that a multi-cue approach is undertaken.<sup>55</sup> In this case, the analysis of the COE is not considered into absolute terms, but it appraises also other existing variables which differ from the country of origin and which affect the product evaluations process made by the consumers. In the current economy context, enterprises have the opportunity to distribute and position their own product into overseas marketplaces; therefore, the product's country of origin became a crucial factor that need to be examined. Nevertheless, is now become difficult to precisely

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<sup>54</sup> Dinnie, K. (2004). Country-of-origin 1965-2004: A literature review. *Journal of Customer Behaviour*, 3(2), 165-213.

<sup>55</sup> Bilkey, W. J., & Nes, E. (1982). Country-of-origin effects on product evaluations. *Journal of international business studies*, 13(1), 89-100.

define the concept of the COO due to both the last years' increase of international trade exchanges and the more competitive emerging economies, which all lead global marketers to divide firms' activities in more countries, reconsidering the overall business strategies and constantly relocating production facilities. Because of this, recognize the exact origin of the great variety of products internationally offered is becoming more and more difficult. Moreover, this has led to an evolution of the concept of the COO, now characterized by a multidimensional nature.

### **1.1 First phase: single-cue approach**

First researches on the country-of-origin effect starts in the second half of the 1960s and are attributed to Schooler, who pointed out the relevance of the national origins of the product in the ultimate consumers' mind. Indeed, after having examined the reactions of a group of students by submitting them to similar products originated in different countries (Mexico, Costa Rica, El Salvador and Guatemala) both positive and negative feedbacks appeared.<sup>56</sup> In particular, the negative feedbacks came from the examined students' perceptions and prejudice in relation to countries as in this case El Salvador and Costa Rica, looking at them products with a feeling of rivalry due to politic reasons. Therefore, Schooler stated that some predilections and biases existing within the market economy is rooted in history or circumstances and directed against a whole country<sup>57</sup>, and this affect consumer behavior when deciding to purchase a product or not. Moreover, significant differences in the evaluation of products highlighted preconceptions of product characteristics based on national origin, which clearly tested the existence of the Country-of-origin effect.

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<sup>56</sup> Schooler, R. D. (1965). Product bias in the Central American common market. *Journal of marketing research*, 394-397.

<sup>57</sup> Ibidem.

In the following years, some new researches about COO issue confirmed the crucial presence of some stereotypes among consumers during the evaluation process of the overseas products or services, but these first studies lead to an inevitable overestimation of the COO phenomenon. The influence of national stereotypes in the process of product evaluation was better examined by Reiersen in 1966, whose research try to investigate the nature of national stereotypes and how they can be modified through an appropriate marketing campaign.<sup>58</sup> A few years later, more precisely in 1971, Schooler's findings showed some differences towards products originated in foreign countries: the higher the level of education the higher the preference towards products of foreign origin as well as the older consumers are the higher the reluctance towards international products.<sup>59</sup> Even if the main purpose was just to concisely demonstrate the existence, the importance and the relevance of the COO phenomenon, research's results obviously unlocked doors for future research, which was undertake by Nagashima. In his first article published in 1970, Nagashima defined the "Made in" as it follows:

*"the made in image is the picture, the reputation, the stereotype that businessmen and consumers attach to products of a specific country. This image is created by such variables as representative products, national characteristics, economic and political background, history, and traditions. It has a strong influence on consumer behavior in the international market, as it is associated with mass communication, personal experience, and views of national opinion leaders. Although the basic desires and needs of people are similar throughout the world, the means of satisfying them differ widely. The critical issue for international marketing is adjusting existing marketing strategies to the world*

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<sup>58</sup> Reiersen, C. (1966). Are foreign products seen as national stereotypes-survey of attitudes in college students. *Journal of Retailing*, 42(3), 33-40.

<sup>59</sup> Schooler, R. D. (1965). Product bias in the Central American common market. *Journal of marketing research*, 394-397.

*market by taking into account such factors as language, customs, living standards, religion, and tradition.”*<sup>60</sup>

When defining the “made in” as an *image* associated to a given country in relation to its cultural, political and economic background, he implicitly already pointed out the dynamic nature at the COO basis. The COO is capable of adapting and readapting to countries’ changes in background. As a matter of fact, the follow-up study of Nagashima was a noteworthy contribute to this field of research. According to him, the COO does not possess a static nature, but on the contrary, it has a dynamic nature, since the image of a country can just refer to a well-defined period and then is subjected to an evolution during time.<sup>61</sup> This thesis is demonstrated through two different surveys conducted at a time distance of seven years, the first in 1970 and the second in 1977. Nagashima submitted these surveys to Japanese and American businessmen to measure how their attitudes towards a given countries changes over time. From the Japanese businessmen point of view, there was a primary preference towards products “made in USA”, associated with high costs but considered as a highly regarded label because of the engineering and marketing techniques of the United States<sup>62</sup>; while the label “Made in Japan” was mainly defined inexpensive and associated with careless and poor workmanship. On the contrary, the U.S. businessmen opinions regard to “made in Japan” products as inexpensive but also technically advanced and worldwide distributed. The seven years’ later article showed an improvement in attitudes and considerations towards “Made in Japan” products whereas the overall “made in USA” image had deteriorated.<sup>63</sup> Along with the world-wide inflation, Japanese and German

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<sup>60</sup> Nagashima, A. (1970). A comparison of Japanese and US attitudes toward foreign products. *The Journal of Marketing*, 34(1), 68-74.

<sup>61</sup> Ibidem.

<sup>62</sup> Ibidem.

<sup>63</sup> Nagashima, A. (1977). A comparative "Made In" product image survey among Japanese businessmen. *The Journal of Marketing*, 41(3), 95-100.

products significantly upgraded and improved, starting to have the same price that those of “Made in USA”, becoming more expensive but also more appreciated for their quality and innovative techniques. In other words, this latter article clearly confirmed the thesis supported by the author and the given inputs had been precious for further researches. However, as summarized and demonstrated by Bilkey and Nes (1982) the studies so far examined presents some limitations. All the empirical observations and experiments indicate that the country of origin has a considerable influence on the quality perceptions of a product, for specific products (Schoolar, 1965) as well as for general products (Nagashima,1970), but for example no one attempts to determine and quantify the intensity of the COO effect during the product evaluation process and furthermore, during investigations, is not shown any tangible products to the respondents but only given to them verbal references to products<sup>64</sup>. As concerned Bilkey and Nes’ suggestions for future research, an important achievement was the questioning about the existence of other cues (a well-known brand name, the retail, a product guarantee) capable of influencing consumers’ buying process, which are perhaps to be taken into considerations.<sup>65</sup> In this way, they opened the avenues to the study of the so-called multi-cue approach.

## **1.2 Second phase: multi-cue approach**

According to the findings of Bilkey and Nes, researches from 1983 begin to adopt a multi-cue approach in which the focus still remains the country-of-origin but compared with other variables. In other words, this type of approach attempts to evaluate the country of origin effects in relative terms and not in absolute ones, considering some other variables that might affect the consumer purchase process and, at the same time, might moderate the COO impacts over

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<sup>64</sup> Bilkey, W. J., & Nes, E. (1982). Country-of-origin effects on product evaluations. *Journal of international business studies*, 13(1), 89-100.

<sup>65</sup> Ibidem

consumers' choices. Some researches that took multi-cue information (such as brand name, quality, price) as basis, confirmed that the more the cues used, the less will be the influence COO has on product evaluation.<sup>66</sup>

A first contribution to the multi-cue approach is the study of Johansson et al. (1985). After having examined the previous researches' limits figured out by Bilkey and Nes, the authors of "*Assessing the Impact of Country of Origin on Product Evaluations: A New Methodological Perspective*" suggest a new methodologic perspective based on "a form of multi attribute attitudinal model"<sup>67</sup>, in which other relevant product attributes, differing from the COO, are available to respondents for their evaluations and in addition, respondents' characteristics (nationality, familiarity with the product class) are examined. The submitted survey takes cars as main product and provides many information considered relevant in the consumer purchase decisions. The survey included indeed not only the country of origin but also other 13 features (price, handling, horsepower, durability, workmanship, styling, color selection, acceleration, gas, safety, driving comfort, passenger comfort, reliability). The overall evaluation process confirmed that the COO is not so relevant when compared to other attributes. In this case cars' features have a significant impact over the overall ratings of the considered product and vice versa the general evaluation of the car seems to influence the specific evaluation of the single attributes. Furthermore, even if the country of origin has some impact on ratings on specific features there is no evidence of positive or negative stereotypes referring to the country of origin of the automobile. For example, American cars received a negative feedback due to the gas mileage while the Japanese ones due to the lower driving comfort if compared to the American ones. Respondents' demographic characteristics (as the gender) have relevant

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<sup>66</sup> Vianelli, D., & Marzano, F. C. (2012). L'effetto country of origin sull'intenzione d'acquisto del consumatore: una literature review.

<sup>67</sup> Johansson, J. K., Douglas, S. P., & Nonaka, I. (1985). Assessing the impact of country of origin on product evaluations: a new methodological perspective. *Journal of Marketing Research*, 22(4), 388-396.

impacts over the evaluation process, since men tend to have a negative consideration about American automobile while women put a positive value on Japanese ones.

This model does not contradict previous studies about the overestimated effects of the country of origin, but because of the issue complexity, it recommends a more detailed analysis. As observed so far, the country of origin effect does not influence the general evaluation of a product but has impact on specific attributes' evaluation.

Using this multi-cue approach, COO effects were found to be less relevant because compared to other variables, while other studies have not only compared it with different cues but have also broke it up into its intrinsic components. This attempt was made by Obermiller and Spangenberg (1989) whose major contribution to the existing literature was the introduction of three types of components: cognitive, affective and normative.<sup>68</sup> The origin of this study has its roots in the fact that nobody has ever tried to determine the factors pushing to the creation of stereotypes in consumers' mind when evaluating a foreign product.

- *Cognitive sphere*: At this level, when evaluating the product and its attributes (as design, reliability, functionality, etc.), the image of COO is a quality indicator. In absence of additional information about the product and its quality, the country of origin has the effect of substituting these information, creating the basis for a subjective evaluation. The general opinion that derives from what the consumer knows about the country in which production of the good is made or about the specific sector, to which the product belongs, is capable of generating at this point two effects (Han, 1989): halo construct and

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<sup>68</sup> Obermiller, C., & Spangenberg, E. (1989). Exploring the effects of country of origin labels: an information processing framework. *ACR North American Advances*.

summary construct.<sup>69</sup> As a matter of fact, the two authors observed that if the consumer have no previous experience with the specific product he will evaluate the single attributes by looking at the COO, otherwise if the consumer have familiarity with the brand he will take the COO as means to evaluate the product.<sup>70</sup>

The halo construct represents the situation in which the consumers have no direct experience with the given foreign product. For this reason, costumers make their evaluations about the service or product, just on the basis of the generic image they have of the given country (country's economy, politics, culture).

The summary construct, on the contrary, refers to a higher level of consumer familiarity with the product or service offered. In this case, the evaluation is more personal and is made by collecting all the previous experiences the customers already had with the country of origin of the product.

- *Affective sphere*: at this level the country of origin recall in the customers' minds an affective value, as the native country or the country in which he/she traveled, or a symbolic value, as a means to show the status symbol. Therefore, the consumer can give a positive or negative association to the product referring to the value that country of production has call to his mind.
- *Normative sphere*: the buying process is more rational and is strictly correlated to the choice of support or do not support the economy of the products' country-of-origin. At this level the general opinion about the product do not suffer from the COO effects, but what is relevant is the simple act of buying, which is associated to the idea of support the

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<sup>69</sup> Han, C. M. (1989). Country image: halo or summary construct?. *Journal of marketing research*, 26(2), 222.

<sup>70</sup> Obermiller, C., & Spangenberg, E. (1989). Exploring the effects of country of origin labels: an information processing framework. *ACR North American Advances*.

country politics and economy or do not, regardless of the cognitive or affective spheres.

As the author preciously suggests, these findings can be of crucial importance for those firms that want to enlarge the target of consumers because they should construct more incisive marketing strategies, conferring to COE a greater importance. Along with these findings, the economists Roth and Romeo (1992) published one of the most important work on COO, whose aim was to ideate some marketing strategies useful to let some positive factors connected with some specific products' categories of a nation prevail over COO stereotypes.<sup>71</sup> These positive factors are innovativeness (superiority, technological advances), design (elegance, style, hand-made), workmanship (quality of national manufacture, reliability) and prestige (exclusivity, national brands status). If well managed, the effects COO have over consumers perceptions and behavior can become a crucial competitive advantage both for the manufacturing firm and the country of origin itself, and this represents the ideal case of the product-country *favorable match*.<sup>72</sup> Favorable match situation takes place when the country image is relevant when recognizing products that are referred to a specific country (as in the case of Italian furniture, famous for Italian design and elegance), while an *unfavorable match* situation happens when products main characteristics are not perceived as a specific country's key point.<sup>73</sup> In addition to these situations, a *favorable mismatch* occurs when the general country image is quite positive but do not play an important role during the product evaluation; while an *unfavorable mismatch* takes place when not only the country image is negative, but it is also irrelevant during the

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<sup>71</sup> Roth, M. S., & Romeo, J. B. (1992). Matching product catgeory and country image perceptions: A framework for managing country-of-origin effects. *Journal of international business studies*, 23(3), 477-497.

<sup>72</sup> Ibidem

<sup>73</sup> Ibidem

evaluation.<sup>74</sup> Although the interesting approach to the issue, the use of only four dimensions to measure country image in relation to its product categories can be a weakness that does not contribute to the evolution of the COO theories.

A branch of study focused more on costumers' ethnocentric attitudes as basis to better comprehend the COO phenomenon. Many investigations used the CETSCALE<sup>75</sup> model, formulated by Shimp and Sharma (1987), to understand consumers' "tendency" of buying foreign product and the role which ethnocentrism can play in this process. The term "ethnocentrism" has origin in anthropological studies and was firstly a sociological concept which then has developed in a psychological construct. In general, the term could be view as people's identity and pride to belong to the nation of origin (a sort of patriotism) and to the national culture. For this reason, different nations and contexts are rejected because seen as too different from the belonging one. This reluctance derives from the fact that the own nation and the inherent set of values are positioned in people's mind as the only existing ones and no space is left for more dissimilar ones. In international business terms and specifically according to the authors, consumer ethnocentrism mainly refers to a nationalistic evaluation of foreign product which leads to a consequent propensity to purchase domestic product rather than foreign ones. From ethnocentric people's point of view, the act of buying a product manufactured in a different country is considered as negative, because it means hurts and go against the nation's economic interest, causing for example unemployment. On the contrary, the purchase

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<sup>74</sup> Roth, M. S., & Romeo, J. B. (1992). Matching product catgeory and country image perceptions: A framework for managing country-of-origin effects. *Journal of international business studies*, 23(3), 477-497

<sup>75</sup> The CETSCALE model is the acronym of "Consumers' Ethnocentric Tendencies Scale", a unique scale for measure consumers' ethnocentric tendencies related to purchase foreign or national products. The model is composed of 17 items that filter American consumers' ethnocentric inclinations and authors take USA as the national country. (Shimp and Sharma, 1987)

of a national product or a product made in a country which is culturally similar, is seen undoubtedly as favorable. This type of consumer will purchase national products, regardless of its characteristics, features, reliability and so on, while nonethnocentric individuals will base their products' evaluation regarding at its intrinsic values, without any prejudice.

Analyzing the scale of the items (Figure 2.1) is noticeable that attitudes to purchase foreign-made products are negatively linked to ethnocentric tendencies. The more the consumer is considered to be ethnocentric the higher the percentage that he will buy, or he already possess, a made in USA product.

<i>Item</i>
1. American people should always buy American-made products instead of imports.
2. Only those products that are unavailable in the U.S. should be imported.
3. Buy American-made products. Keep America working.
4. American products, first, last, and foremost.
5. Purchasing foreign-made products is un-American.
6. It is not right to purchase foreign products, because it puts Americans out of jobs.
7. A real American should always buy American-made products.
8. We should purchase products manufactured in America instead of letting other countries get rich off us.
9. It is always best to purchase American products.
10. There should be very little trading or purchasing of goods from other countries unless out of necessity.
11. Americans should not buy foreign products, because this hurts American business and causes unemployment.
12. Curbs should be put on all imports.
13. It may cost me in the long-run but I prefer to support American products.
14. Foreigners should not be allowed to put their products on our markets.

15. Foreign products should be taxed heavily to reduce their entry into the U.S.
  16. We should buy from foreign countries only those products that we cannot obtain within our own country.
  17. American consumers who purchase products made in other countries are responsible for putting their fellow Americans out of work.
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FIGURE 2.1. 17 Item CETSCALE.

Source: Shimp, T. A., & Sharma, S. (1987). Consumer ethnocentrism: Construction and validation of the CETSCALE. *Journal of marketing research*, 280-289.

### 1.3. Third phase: a reconceptualization of COO.

From 2003, researches have increasingly focused on a reconceptualization of Country of Origin effect, due to the worldwide economy changes and, in the specific, the rise of the globalization phenomenon. The major contribution to research is conferred to Papadopoulos (1993) who stressed in his work the necessity to better conceptualize and readapt COO to the more and more globalized economic scenario.<sup>76</sup> The previous part of COO literature so far analyzed were considered by Papadopolus as unsuitable and misleading to explain economic reality, which is now characterized by markets international openings. Meanwhile, according to the author, the country-of-origin term itself implies a product' single place of origin, while now, due to the spread of the delocalization processes, products are manufactured and assembled in many different countries. For this reason, Papadopolus suggested the use of a new term, the Product Country Image (PCI), in substitution to the COO. In particular, PCI refers not only to the multidimensional character of the images of products but also to all the multiple locations involved in the production system.<sup>77</sup>

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<sup>76</sup> Papadopoulos, N. (1993). What product and country images are and are not. *Product-country images: Impact and role in international marketing*, 12(1), 3-38.

<sup>77</sup> Ibidem

Continuing the analysis on the relation between product and country image, an inherent and at the same time interesting theory was the one proposed by Niss (1996), based on the role of country of origin marketing over the product life cycle.<sup>78</sup> Through a deep review on existing academic literature the author explains the above-mentioned relation between country images and product images, finding out that country of origin label varied over the product life cycle, and adding to the COO literature the marketing concept. His article asserts that all those features connected to national images and brands can generate a criterion by which one attribute confirm another, thus when the product is launched on the market there are higher possibilities of diffusing internationally a positive national image that will correspond to what is locally valued in the category of products concerned.<sup>79</sup> For the aim of research, Niss elaborates a questionnaire completed by 58 Danish exporting companies and personal interviews for 20 respondents to understand if the “made in” affect positively or negatively the overseas promotion of Danish products. Findings shows that the COO effect depends on the selected product categories as well as on the product life cycle.<sup>80</sup> It is during the first phase of product life cycle, when it has to enter the new market, that marketing campaigns stress the origin of products and other information regarding where the product has been manufactured. Conclusions indeed show that firms during the introduction period of the product life cycle, all the information about country of origin can first serve as a quicker means to enter the market and secondly can increases demand and sale; in fact with a great positioning strategy it is possible to stimulate consumers interests toward the selected and promoted item; instead in the maturity phase of the product life cycle COO has no more value, substituted by those products attributes that can more easily attract consumers.<sup>81</sup> During the product life

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<sup>78</sup> Niss, H. (1996). Country of origin marketing over the product life cycle: A Danish case study. *European Journal of Marketing*, 30(3), 6-22.

<sup>79</sup> Ibidem.

<sup>80</sup> Ibidem.

<sup>81</sup> Ibidem.

cycle, first of all are also involved marketing strategies and second the establishment of a strong brand and product images is important. Following this life cycle point of view and looking back at the previous explained Nagashima's work (1977), Lampert and Jaffe (1998) provided a dynamic model of COO effect, which dynamic component is represented by a constant changing country image.<sup>82</sup> Hence, the example of "Made in Japan" is central for the explanation: its country image changed over years, in fact if in 1950 it was mainly considered as a cheap imitation of the products produced in more industrialized countries, now the label has gain more value and stands for high quality and innovation. In their findings, they show how products follow four stages: pre-introduction, introduction, growth and maturity. During the pre-introduction stage the product image correspond to the halo effect, thus in the introduction stage if sales volume is still lower, the products awareness and the brand image increase. In the growth phase the brand has been established in the market, the brand image dominates over the previous halo effect, but as long as the competition increase, rise the maturity stage, during which sales slowly grow and brand image increase in familiarity with consumers. The main suggestion that authors address to marketers is that the COO cue is more valuable in the first stages of market entry.

However, researches of this third phase that has been taken into exam focused in one hand on market factors such as products types and attributes (Nagashima, 1970); Roth and Romeo, 1992) and product image and country image, in the other hand on consumers' psychological factors, as the famous need for cognition (NFC)<sup>83</sup> introduced in the international business studies by Zhang (1997). It is argued that consumers' psychological factors can influence the way by which products are evaluated and then purchased, providing supplementary

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<sup>82</sup> Lampert, S. I., & Jaffe, E. D. (1998). A dynamic approach to country-of-origin effect. *European Journal of Marketing*, 32(1/2), 61-78.

<sup>83</sup> The need for cognition represents a person inclination towards effortful cognitive activities and has its origin in psychology (Cacioppo and Petty ,1982).

insight into how customers elaborate the country of origin information.<sup>84</sup> This information depends on the personal need for cognition, the personal need to search further details which permit to make an evaluation. According to Zhang, if the NFC is low, which means that there is no consumer necessity to search information about the product, the country of origin has more influence in the product evaluation; while on the contrary if the NFC is high, the knowledge about the product has been already consolidated and so the country of origin cue has no more importance. Results of research furthermore show that the country of origin effects are not the same across people characterized by different predisposition to the NFC, and that for people not interested in process process information the COO is a surrogate cue. This kind of people tend to pay little attention to products' feature and information, and their product evaluation process mainly depends on stereotypes. As a matter of fact, if people know that a product has its origin in a country which is famous worldwide for its low-quality products, they obviously will not purchase them, without engaging in the evaluation of specific attributes information.<sup>85</sup>

However, firms with an inclination for going abroad and establish its own brand in a foreign country, need to understand how different markets perceive the country of origin effect. But due to the extended body of research on COO concept and its effect, it is still difficult to exactly define the concept. In the first researches the origin indicated the unique location where the product has been produced, while in the latest, as the level of markets' globalization increases, also COO experienced a remarkable transformation, which thus, leads studies to an innovative approach. The increasing trend of firms whose main purpose is to expand abroad in the international market determines the rise of hybrid products. Hybrid products are goods whose components are assembled in

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<sup>84</sup> Zhang, Y. (1997). Country-of-origin effect: the moderating function of individual difference in information processing. *International Marketing Review*, 14(4), 266-287.

<sup>85</sup> Ibidem.

different places. In general, there is the trend of positively perceive higher industrialized countries for their products' quality, prestige and innovative technics as well as exists the common trend of considering negatively products whose origin is located in developing countries and in such circumstances, hybrid products gain more importance. Delocalization can provide many advantages to firms, as seen in the previous chapter (gain competitive advantages, economic growth, innovation etc.) but it can often be seen as negative because it has been produced in developing countries characterized by low labor costs. This is confirmed also in many marketing advertisements, which usually promote the country of the brand instead of the countries where the brand has been produced. An example is the Natuzzi group, an Italian furniture company, whose sofa are worldwide known as a symbol of the Italian design and thus the brand image is strictly correlated to the country of origin's image, but production takes place in many different countries' facilities.

The great diversity of analyzed researches show how complex is the COO issue, but what they have in common is the awareness of the COO relevance because if well implemented and managed in firms' strategies, it can lead to a consistent competitive advantage.

## **2. The evolution of the COO concept.**

Nowadays, in an increasing globalized context, characterized on one hand by the fast-growing emerging economies and in the other hand by the firms' general aim to search for costs advantages through the standardization of production processes, also the COO is subject to a change in its concept. A change that leads to make considerations related to the evolution of the COO concept. The theme of COO, although seems to be a very current issue, instead has now reduce its effectiveness in influencing consumers' perceptions, because of some bigger phenomenons that characterize the modern economic scenario, such as

multinational enterprises, global branding strategies and the increasing consumers' tendency of getting more informed in order to feel free from prejudices and stereotypes. As the international trade exchange evolves, also the consumers' perceptions toward the origin of a product became more complex, thus, consumers rely more on the brand image and the brand origin to make their evaluations. According to what has been defined as "*deconstruction-strategy*", the country of origin effect has been divided into different dimensions, which all contribute to indicate the origin of the product. In this sense, Vianelli and Marzano (2012) examine five dimensions and the single effects over individual's perception of quality.<sup>86</sup>

The country of design (COD) means that the place where the product or the service has been projected is different from the place where the product has been produced. Hence, many international firms take advantage on the country where the product has been engineered, such as the Chinese giant Haier, whose COD has been moved to Italy to exploit the Italy's country image, famous for its design excellence. The country of assembly (COA) is the place where the multiple parts of the final product have been assembled, and there is a common technique used by firms, which consists in moving the assembly activity to a place characterized by a positive country image, while hiding the exact origin of products. The country of parts (COP) is the location from which derivate many components of a product, while the country of manufacture (COM) stays for the country where manufacture activity is based and is now reevaluated since more consumers because of the economic crises, tend to buy domestic products in order to support the national economy. Finally, the country of brand (COB) explicitly represents the brand's origin. However, authors argued that due to the increasing presence of hybrid products some consumers attribute greater importance to the country of design, other to the country of parts, whereas other highlight the negative image of the country of manufacture. In conclusion, in a

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<sup>86</sup> Vianelli, D., & Marzano, F. C. (2012). L'effetto country of origin sull'intenzione d'acquisto del consumatore: una literature review.

marketplace where often products' derivation is complex, customers prefer to trust in the brand image.

### **3. The Brand Image and the country sound branding.**

Studies are therefore focusing more on the experience consumers have with products, rather than on production location, because the less the importance conferred to the exact origin of a good, the higher the relevance of direct experiences accumulated with a certain product of a certain brand. In this view, regarding at the "*association-strategy*"<sup>87</sup>, the brand is considered as the dominant cue used by consumers to evaluate services and goods offered by companies, and it appears in consumers' minds in the form of specific details associated with the origin of the brand. For this reason, attention shift from country of origin to brand of origin effects. In fact, brand names are always integral part of products because can faster activate origin recognition and is also easier for consumer to recognize the brand rather than understand the made in label. Associations in consumers' mind can be enhanced by firms through the "Made in"-label, symbols, colors and words, which all are capable of call to mind the place of origin. Concerning this, a noteworthy introduction in this field of study is the brand origin recognition accuracy (BORA).<sup>88</sup> The authors started their dissertation revealing how consumers have little knowledge about the origin of brands. In fact, during their research, they tried to measure how well consumers can recall to the actual origin of brands. Brand knowledge is seen as a strictly personal meaning about a brand which is incorporated in consumers' minds

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<sup>87</sup> Vianelli, D., & Marzano, F. C. (2012). L'effetto country of origin sull'intenzione d'acquisto del consumatore: una literature review.

<sup>88</sup> Samiee, S., Shimp, T. A., & Sharma, S. (2005). Brand origin recognition accuracy: its antecedents and consumers' cognitive limitations. *Journal of international Business studies*, 36(4), 379-397.

along with all the brand-related information. This knowledge can be assimilated directly, from firms' marketing campaigns, or indirectly through word-of-mouth flows or experiences with the products. Authors major findings was that BORA relies largely on association of brand names with languages representing the countries of origin for those brands. Language in a sense recall to consumer memory the associated brand, playing a central role in the BORA scale, because if a brand name seems to be dissonant with its origin, the BORA score is lower.<sup>89</sup> This can be in some cases turned into an advantage for companies whose strategy is to adopt sounding names to hide true origins. Specifically speaking, a firm characterized by an unfavorable classification can adopt a favorable Italian sound branding just to give consumers the perception of a well-manufactured product. This correspond to **country sound branding** phenomenon(CSB) and characterize those brands whose name pronunciations sounds like belonging to a specific country with a high reputation image, but in reality, are totally different. This phenomenon is not so recent, since it has been used as brand strategies by many companies, but it is now becoming an interesting issue to further investigate. Two basic conditions are necessary for CSB to be effective: final customers' ability in recognizing the CSB, and a positive image of the product category intended to be offered through the CSB strategy<sup>90</sup>. However, as already said in the previous section, in the actual globalized marketplaces is difficult to find information about brands' effective origins, because in one hand firms tend to hide origins in order to exploit better country images, while in the other hand the international acquisition of brands make it complicate to identify the exact information about origin. Marketing studies have focused particularly on country image's negative perception, referring to the two concepts of misclassification and misinterpretation: CSB is collocated under a favorable misclassification's perspective, which can be a great advantage for less famous and smaller brands,

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<sup>89</sup> Samiee, S., Shimp, T. A., & Sharma, S. (2005). Brand origin recognition accuracy: its antecedents and consumers' cognitive limitations. *Journal of international Business studies*, 36(4), 379-397.

<sup>90</sup> Vescovi, T. (2013). L'Italian Sound Branding e gli effetti sull'immagine del Made in Italy. *Davanti agli occhi del cliente. Branding e retailing del made in Italy nel mondo*, 97-110.

whose image can be easier be associated to quality and expertise of a selected country; whereas already established brand can suffer from this. In general, CSB provide uncertainty and confusion in consumers' mind, since it is immediately recognized and associated to a country, without any consumers' efforts into a more detailed analysis about origin.

In this scenario, speaking about COO is a paradox because country of origin still has importance in minds of those consumers whose learning efforts are minimum. Only brands can attribute the right value of Made-in, which is now developed in a Brand-in, giving to CSB a global dimension.<sup>91</sup> As a matter of fact, brand's image is shaped by the country image, whose relevance results in the influence it has over brand perception. Brand names are used more than country of origin, because can be view as a quicker and more effective stimulus to recognize the origin of a specific brand; thus, marketing managers usually use this strategy to accelerate consumers' perceptions about the brand origin. These stimuli are mainly created through the products' packaging, supported by the use of national colors, symbols, specific characters, images about typical food, countries' icons; while the use of words can be misleading due to CSB techniques. In order to promote the origin of a brand communication tools are very important and stores are one of the most useful ones in order to create and later consolidate consumers' brand awareness. Brand stores play a very crucial role in the identification of a brand, since are meant to be a perfect mirror of the brand in every detail showed to consumers.

Meanwhile, the progressive replacement of COO and COM by COB is deeply analyzed by the researcher Usunier. In his article, the author focused on brand origin strategies from a managerial perspective, from which four scenarios are presented.<sup>92</sup> Brand origin (BO) strategies can be characterized by a favorable/unfavorable association and correct/incorrect classification. In fact, (BO) is said

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<sup>91</sup> Vescovi, T. (2013). L'Italian Sound Branding e gli effetti sull'immagine del Made in Italy. *Davanti agli occhi del cliente. Branding e retailing del made in Italy nel mondo*, 97-110.

<sup>92</sup> Usunier, J. C. (2011). The shift from manufacturing to brand origin: suggestions for improving COO relevance. *International Marketing Review*, 28(5), 486-496.

to have a favorable association if it is positively related to the country to which belongs. This can depend on the country image and products' intrinsic characteristics (design, quality, features); vice versa BO will result in unfavorable association. In the meanwhile, correct or incorrect classification of BO is mainly caused by linguistic cues. In the following table, the four possible scenarios are revealed.

Classification ⇒ Favorability ↓	Correctly classified	Non-classified or incorrectly classified
Favorable association	1	2
Unfavorable association	3	4

**FIGURE 2.2** Brand origin classification and association favorability.

**Source:** Usunier, J. C. (2011). The shift from manufacturing to brand origin: suggestions for improving COO relevance. *International Marketing Review*, 28(5), p.491.

Looking at the table is possible to immediately notice the ideal match (cell 1), where correct classification meets favorable association of BO, and for this reason the only suggestion given by the author is to keep on pursuing the same objectives in the same and successful way. On the contrary, the worst situation is represented in cell 4, where neither classification nor association is positive. This is traduced in bad results companies have to face with and to solve as quickly as possible in order to reach the right classification and association. In order to obtain a favorable association, the visual part puts on products' packaging for example can plays a central role, due to country's specific scenes and attractions, local food, flags, colors and all those things that can remind to the national origin. While, in order to receive the right classification, companies should not adopt misperceived brand name or marketing actions that can confuse brand origin positioning in consumers' mind.

Cell 2 can be considered as a positive condition as well, even if some more efforts are recommended in order to not give rise to a situation like cell 3, which is very frequent and difficult to manage, since the brand is well established in consumers' mind, but the associated country image has bad influence over the

overall brand image. This is a very common situation that managers have to accurately manage, trying to restructure the brand, by perhaps hide true origins. In this view, much efforts in terms of marketing communication have to be made (as advertising, packaging, symbols) to move from the cell 4 situation to the cell 1 or cell 2, taking into account that risks are higher as are higher also probabilities to fall into cell 3.

Finally, it is possible to argue that if on one hand brand origin is still difficult to manage, on the other hand its intrinsic value can be of a great dimension, especially for those firms that are increasingly expanding abroad. The brand origin, as a competitive advantage, can be the added value that leads to success but there must be the right balance between brand image and country image, otherwise the wrong association can result in big losses for companies. Greater efforts must be made in marketing activities, in order to enhance the Made in perception.

### **Chapter conclusion**

Starting from the earlier origins of COO, in this chapter the existing literature on COO has been analyzed, focusing on researches which prove the existence and the relevance of COO, while taking into account through empirical findings also all the effects of this product intrinsic information. Therefore, all the developments in which COO has been involved in the last few years have been analyzed in order to demonstrate how COO still matters in the modern globalized economy, showing: how it has evolved and how it can be an incredible advantage for those firms capable of export the intrinsic value linked to the origin. In the next chapter, the focus shifts to the made in Italy perceptions among Chinese consumers, whose consumption attitudes have completely changed.

## Chapter 3: The Made in Italy

### 1. The value of Made in Italy.

*“Many people want to live like us, they want to be us, they want to dress like us,  
and they are willing to spend money to do it”*

*-Della Valle, D.<sup>93</sup>*

The Made in Italy represents nowadays a premium brand, being recognized worldwide as a symbol of quality. The Made in Italy has been coined in the 1980s to express the excellence of products manufactured in Italy, along with creativity, exclusivity, elegance, high specialization and innovation, which are positive elements that characterize Italian goods. In the international scene, the Italian know-how is of great value and competitiveness and for this reason, made in Italy is a strength that must be exploit, enhance and protect by Italian companies. The main associations to a Made in Italy brand can be of sensorial nature (referring to culture, art, food, fashion, automobile), emotive nature (beauty, entertainment, holidays, weather conditions) or rational nature (looking at national language and history). These associations are crucial when comparing Italy to other countries, because Italian items are the results of a mix of history, art and culture, whose value can be shared and directly experienced by consumers. To buy an Italian homemade product is to invest in high quality timeless pieces, which cannot be compared to the other offerings in the markets. In fact, the Made in Italy intrinsic value obviously contributes and leads to the Italian competitiveness among countries all over the world. However, along with the world-wide globalization process and with an increasing presence in the market place of products that are over 80% made in countries as China and India, Italian firms' "Made in Italy" merchandise mark has become of primary necessity

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<sup>93</sup> Sanderson, R. (2011). *“The real value of being Made in Italy”*, Financial Times.

for Italian exports in order to protect national know-how and expertise. Very often Italian luxury brands are emulated and replicated in current markets in to supply the increasing demand of uneducated costumers for cheap fast products. Consequently, the made in Italy mark has been legally protected since nineties, and more recently in 2009 a law that recognize the made in Italy brand only to products entirely produced and manufactured in Italy was issued.<sup>94</sup>

Historically, the Italian production system has been oriented toward manufacturing activities resulting in excellent products in terms of design and materials, but with a low level of technological contents. Therefore, Italy is now more exposed to competition due to the frequent replication of products characterized by a higher level of innovation. A decade ago, economists were convinced that large number of small and medium firms were meant to decline. Since Italy's industrial texture is composed of many small and medium firms, usually family owned business, analysts were not so optimist about these firms' future and predict a progressively decline because firms were considered not able to sustain the globalization's consequent competitiveness. Nevertheless, during the last few years those firms (so-called SMEs) have evolved and adapted to the modern economy making country of origin as main support to rely on. In fact, the Italy superiority in goods manufactured by the finest artisans in the world using the highest quality materials still a key point on which companies focus strategies on. Throughout the crises, Italy is still the Europe's second largest export economy, after Germany; while it is still holding the seventh position in the leading countries' top ten list, as showed in the Nation Brands Index (2017).<sup>95</sup> The investigation is based on 50 countries from all around the world made by the American researcher Simon Anholt with GfK Eurisko Institute, the one who introduce the concept of *nation branding*, interpreted as the image of a nation intended as a brand. This explains how a strong national identity

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<sup>94</sup> Decreto-legge, n. 135, art. 16, 25 settembre 2009. [www.parlamento.it](http://www.parlamento.it) (14/02/2018)

<sup>95</sup> Anholt- GfK Nation Brands Index (2017) <http://nation-brands.gfk.com> (14/02/2018)

mixed with a positive country image can create a competitive advantage over global competition.

Nation	2017 rank	2016 rank	Score change 2017 vs. 2016
Germany	1	2	+0.99
France	2	5	+1.56
United Kingdom	3	3	+1.27
Canada	4	4	+0.96
Japan	4	7	+2.12
United States	6	1	-0.63
Italy	7	6	+0.74
Switzerland	8	8	+1.34
Australia	9	9	+0.76
Sweden	10	10	+1.30

**FIGURE 3.1.** The Leading countries, top 10 Nations.

**Source:** Anholt- GfK Nation Brands Index (2017) [http://nation-brands.gfk.com/\(14/02/2018\)](http://nation-brands.gfk.com/(14/02/2018))

A national research conducted by ICE in collaboration with Prometeia on behalf of Comitato Leonardo was made in order to delineate a general perception of foreign consumers about made in Italy products, since no international studies have already attempted this study.<sup>96</sup> The study takes in examination the 12 major countries to which Italian export is directed: France, Germany, Great Britain, Spain, Russia, Switzerland, China, Japan, United States, Brazil, Turkey and the United Arab Emirates. The aim of the research is to highlight weaknesses and strengths of Italian firms in the markets presented so far.

All products labelled made in Italy can benefit from the strong country image that Italy possesses, as it consists of an incredible advantage if compared to other competitors. This is the case of the following Italian brand that are famous

<sup>96</sup> ICE, Prometeia, Comitato Leonardo, (2014). "Made in Italy e grandi mercati: ritorno al futuro?" <http://www.comitatoleonardo.it/it/ricerche/597-made-in-italy-e-grandi-mercati-ritorno-al-futuro> (14/02/2018)

worldwide for being associated to Italy and that are promoter of a country identity shared among the entire globe.



**FIGURE 3.2.** Main brands associated to Italy.

**Source:** empirical findings of ICE, Prometeia, Comitato Leonardo, (2014). “Made in Italy e grandi mercati: ritorno al futuro?” <http://www.comitatoleonardo.it/it/ricerche/597-made-in-italy-e-grandi-mercati-ritorno-al-futuro> (14/02/2018)

These Italian brands have in common all those intrinsic characteristics that distinguish the made in Italy from many other brands. These particular attributes (Figure 3.2) are the same that are at the basis of the Italian country image. From another point of view, the made in Italy can be considered as a self-standing brand.

Made in Italy does not only refer to a specific geographic nation, but to all the traditions, know-how, history and culture that make of a generic product a symbol of excellence, that can be shared worldwide and that are translated in only these three words. “What if the Made in Italy were a brand?”, this the question raised from Giuliano Noci to stress the relevance of the made in Italy as a brand, whose strong image can be more protected and emphasized in order to

gain more success.<sup>97</sup> Indeed, a confirmation to this thesis comes from KPMG survey that demonstrate that if Italy were a brand it will be immediately behind Coca cola and Visa famous brands.<sup>98</sup> This recognize the great reputation from which Italy benefits, but also highlight that it can be enhanced in other many possible ways, as for instance fighting against counterfeiting.



**Figure 3.3** Values associated to the Made in Italy.

**Source:** empirical findings of ICE, Prometeia, Comitato Leonardo, (2014). “Made in Italy e grandi mercati: ritorno al futuro?” <http://www.comitatoleonardo.it/it/ricerche/597-made-in-italy-e-grandi-mercati-ritorno-al-futuro> (14/02/2018)

All of these attributes positively refer to the Italian country image and in general are the characteristics attributed to the Italian output, which let the Made in Italy expand and succeed over competitors. Associating a certain product to a specific country is a sensitive marketing issue that can lead to favorable or unfavorable associations, as already said in the previous chapter. According to the examined research, these 12 countries represent the beneficiary of the more consistent amount of Italian exports (holding 59 % of Italian exports in 2013) for over 40

<sup>97</sup> NOCI, G. (2014). “Se il Made in Italy fosse un brand sarebbe il terzo al mondo”, Il Sole 24 ore, 27th August 2014. <http://www.ilsole24ore.com/art/commenti-e-idee/2014-08-27/se-made-italy-fosse-brand-sarebbe-terzo-mondo-063909.shtml?uud=ABdARknB> (14/02/2018)

<sup>98</sup> KPMG, (2011). “Going global: internazionalizzazione ed evoluzione dei modelli di business”, [www.kpmg.com/it](http://www.kpmg.com/it) (14/02/2018)

years and is in these countries that the Made in Italy has developed as a mega brand, with its distinctive characteristics.<sup>99</sup> This is a sign of a competitive advantage that has been protected and preserved during the years in order to make Italian companies more and more able to develop and innovate into the overseas marketplaces while maintaining a strong country image. In this context, Italy can develop better products, experience higher technologies and deal with more sophisticated and hard to please consumers.

But what are Italian products' specific characteristics recognized in these 12 countries?

The study provides both a general and a country-specific scheme of Italian strengths. From the more general perspective it is possible to say that the key points of made in Italy, capable of attracting a big size of consumers, are: design, quality and uniqueness (Figure 3.4).



**FIGURE 3.4.** Made in Italy strengths.

**Source:** Personal elaboration from empirical findings of ICE, Prometeia, Comitato Leonardo, (2014). "Made in Italy e grandi mercati: ritorno al futuro?"

<sup>99</sup> ICE, Prometeia, Comitato Leonardo, (2014). "Made in Italy e grandi mercati: ritorno al futuro?" <http://www.comitatoleonardo.it/it/ricerche/597-made-in-italy-e-grandi-mercati-ritorno-al-futuro> (14/02/2018)

Thanks to these intangible components, firms are able to achieve an extraordinary success in the international marketplaces. As showed in figure 3.4, the style and the design of the product along with quality are the main characteristics that are worldwide recognized and preferred ones during the evaluation process. In conclusion, the made in Italy products, capable of satisfying international costumers, are positively perceived for being the result of secular traditions and techniques.

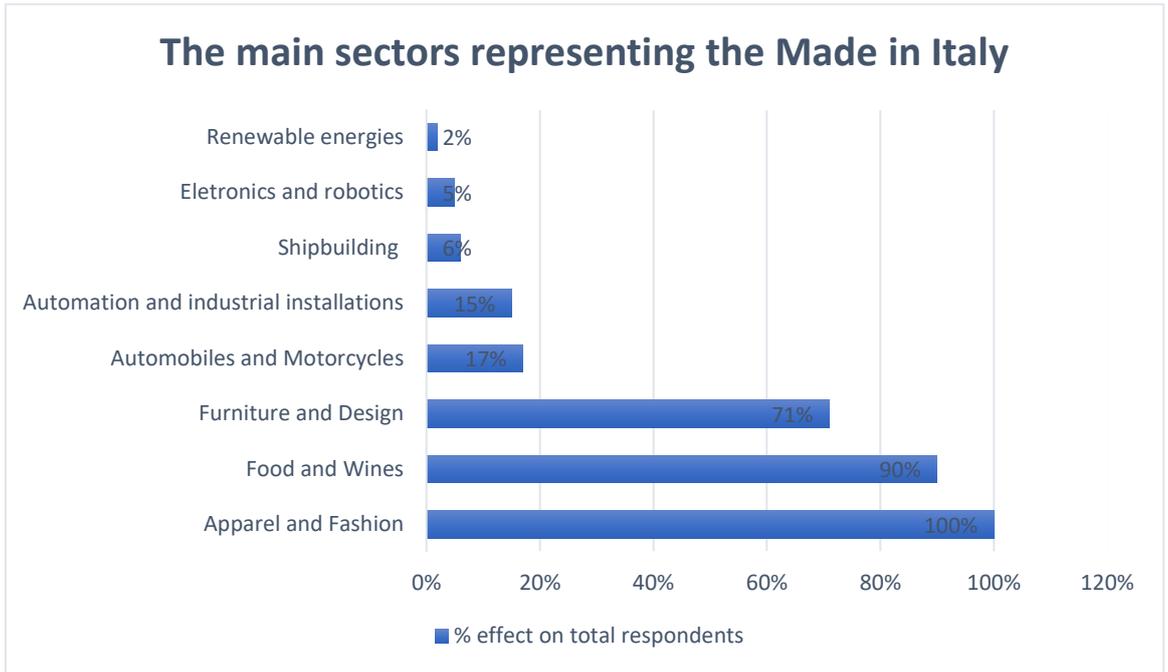
## **2. The made in Italy excellences: drivers of Italian reputation worldwide.**

The Italian way of life has progressively been synonym of good living, marked both by a glorious past and a regularly growing present.

In this view, the product that has been manufactured in Italy is a symbol of the Italian lifestyle in its overall essence, particularly emphasizing the quality of life, characterized by: tasty food, sophisticated and refined fashion tradition, variety and beauty of landscapes and the artistic heritage. Made in Italy main success is gained through the high diversification of its specializations. The products that are able to spread the Italian way of life around the world are became real Made in Italy excellences, which are represented by those sectors that the most benefit from country of origin effect. What are those sectors that the most enjoy a widespread appreciation? The answer of this question can be found in a study conducted by KPMG, which clearly highlight the main sectors that are expression of a complete made in Italy image.<sup>100</sup>

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<sup>100</sup> KPMG, (2011). "Going global: internazionalizzazione ed evoluzione dei modelli di business", [www.kpmg.com/.it](http://www.kpmg.com/.it) (14/02/2018)



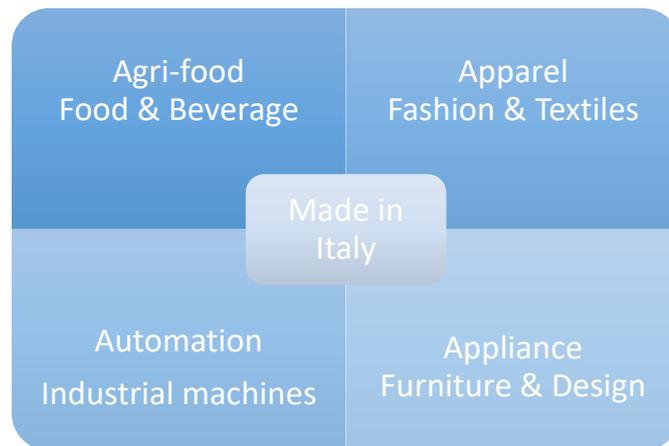
**FIGURE 3.5.** The main sectors representing the Made in Italy.

**Source:** personal elaboration from survey KPMG, (2011). “Going global: internazionalizzazione ed evoluzione dei modelli di business”, [www.kpmg.com/.it](http://www.kpmg.com/.it) (14/02/2018)

During the last few years, these industrial sectors have demonstrated a great potential in supporting the Italian system, while have imposed the Italian style and know-how abroad.

As confirmed also by Fortis, professor and vice-president of Edison Foundation, the made in Italy excellences are the so-called “4 As”<sup>101</sup>:

<sup>101</sup> Fortis, M. (2005). Le due sfide del made in Italy: globalizzazione e innovazione. *Il Mulino, Bologna*.



**FIGURE 3.6.** The made in Italy excellences.

**Source:** personal elaboration from Fortis, M. (2005). *Le due sfide del made in Italy: globalizzazione e innovazione. Il Mulino, Bologna.*

- *Agroalimentare* (Agri-food, food and beverage):  
Represents the sector has become synonym of quality and freshness, and involves many product categories all belonging to the Mediterranean diet as: wine, olive oil, fruit, tomatoes and all the dairy industry;
- *Abbigliamento* (Apparel and fashion):  
The sector embraces textile productions (cotton, silk and wool), leather goods, footwear, as well as sunglasses and jewelry, being along with the French one, a leading country for its high-end fashion brands.
- *Arredamento* (Furniture and design):  
A rapidly growing sector that comprises building materials, wood furniture, marble furniture, ornamental stones, ceramic tiles, lamps and lighting engineering;
- *Automazione* (Automation and industrial machines):  
A sector highly specialized on plastic and rubber products, mechanical machinery, non-electronic machinery, ceramic equipment industry and automobile industry.

These 4 main sectors can be considered as the enforcers of the country of origin effect in a definitely positive way, representing the Italian manufacturing industry worldwide and for which Italy is known to be specialized in. These Made in Italy enforcers indeed have increasingly recorded a considerable foreign trade surplus, contributing in the maintain of the country positive trade balance.

According to the index of competitive excellences of international trade<sup>102</sup>, during 2015, Italy was first for its foreign trade surplus based on 210 products. The total trade balance for these goods was 51 billion dollars: 25,5 billion dollars came from the automation sector; 14,8 billion dollars were generated by the fashion sector; 6,4 billion dollars came from the food sector; 0,1 billion dollars came from furniture sector; and the latest 4,1 billion dollars were produced by those sectors that are not considered as Italian excellences.<sup>103</sup>

A better situation occurs in 2016, with another positive trade balance that again sees the 4 As' contribution to the worldwide Italian leadership for its foreign trade surplus. These sectors' surplus was about 127 billion euros (more than 60%) and was generated firstly by the automation sector, while the apparel and fashion sector rank at second place with 26 billion euros, followed by the furniture sector with its 13 billion euros and last the food sector's surplus which is represented by 9 billion dollars.<sup>104</sup> This incredible numbers permit to balance Italian economy and to conclude the year with a global trade surplus of 51 billion euros. In these profits, a very crucial role is played by the automation and mechanical industry, a major sector that the mostly contribute to produce a favorable economic balance, with a foreign trade surplus of 59.5 billion dollars and whose main competitors are Germany (108 billion dollars), China (84.5 billion dollars) and Japan (69.4 billion dollars).<sup>105</sup> The most exported products

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<sup>102</sup> Fondazione Symbola, Unioncamere, Fondazione Edison (2017). *"I.T.A.L.I.A. - Geografie del nuovo made in Italy."*

<sup>103</sup> Ibidem.

<sup>104</sup> Ibidem.

<sup>105</sup> Ibidem.

include food processing and beverage machines, woodworking machinery, paper products machines and most of all ceramic machinery. Italy still a major leader, holding first place for its globe trade surplus, in terms of distinctive characteristics such as quality, design, innovation and attentive customer services that more in general represent the added value to a product. For these typical traits, Italy still a supreme leader in the production of leather goods, as shoes, despite of the Chinese competitors' increasing presence in the sector. In the leather industry indeed Chinese competitors lack of main techniques, such as in the leather sole manufacturing process, as well as for leather price, for which instead the Italian one is particularly famous since the ancient manufacture tradition ad style.

In 2017, the Trade Performance Index<sup>106</sup> show Italy ranking at second place for international trade competitiveness, after Germany. Italy held first place for two main industries: apparel industry and leather industry; held the second place for three main sectors: textile industry, non-electric mechanics, electric appliances manufacture, various manufacture (plastic, sunglasses and jewelry) and transports; held third place for basic manufacture (metallurgy and metal products).<sup>107</sup>

These data demonstrate a strong inclination in export activities since Italy is a country characterized by a dynamic reality with strong competitive advantages, even if some intern economy difficulties remain. In fact, although the country recession, many small and medium firms actively respond to economic changes, exploiting some Italian values and traits in order to positively take part to the international economy in a way that promote Italian way of life. In this way,

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<sup>106</sup> The Trade Performance Index have great value for research. It investigates around 180 countries and 14 different export sectors, calculating the level of competitiveness and diversification of a particular export sector by comparing other countries. Furthermore, it monitors the evolution of export diversification for products and markets and takes into consideration net exports, per capita exports, the world market share, the diversification of products, and the diversification of markets. (International trade center (ITC) Market analysis and research- TPI technical notes: [www.intracen.org](http://www.intracen.org)) (14/02/2018)

<sup>107</sup> Fortis, M., (2016). "L'Italia si conferma ai vertici per competitività", Fondazione Edison, Quaderno n. 222. <http://www.fondazioneedison.it/it/> (14/02/2018)

many Italian firms succeed in reaching overseas marketplaces, establishing their presence with the correct marketing mix and trying in particular to transmit also to the more distant countries the value and the quality of Italian tradition in manufacturing. This is a key point for Italian firms to start from when thinking of going international. Italy owns culinary tradition, design tradition, fashion tradition and automobile tradition.

The values of Italian culinary tradition were recently enforced and shared with the rest of the world by a concisely story telling of the international Expo, which took place in Milan in 2015, which aim was to spread worldwide the distinctive characteristics of Italian food tradition composed of fresh natural and non-processed ingredients. Although many obstacles due to some cultural barriers and higher trade barriers, the food and beverage sector express a customers' higher involvement in the final purchase also from those countries that are culturally distant from Italian food tradition. As shown by forecasts made by Coldiretti on Istat data, the Italian food and beverage industry recorded some impressive result, registering in 2017 an export share greater than 40 billion euros (+7%).<sup>108</sup> However, a deeper consumer education, in particular about some products as cheese, must be pursued in order to achieve greater results. Moreover, great efforts to contrast the problem of the *Italian Sounding* must be made in order to protect the value of the made in Italy, since in the overseas market almost two of three products are not truly original. Presently, Italian products' imitations create a revenue of 60 billion euros per year. The use of words as "traditional" and "original", images of famous Italian landscapes and the tricolor flags often create a confusion in foreign consumers, who are very often not able to distinguish a real Italian product from a fake one.

The other two pillars of the made in Italy, furniture and fashion industries, on the other side, must be careful to the increasing competition of emerging economies.

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<sup>108</sup> Data from Coldiretti statistics, November 2017.

<http://giovanimpresa.coldiretti.it/pubblicazioni/attualita/pub/italian-food-allestero-%C3%A8-record-storico-per-il-made-in-italy/> (14/02/2018)

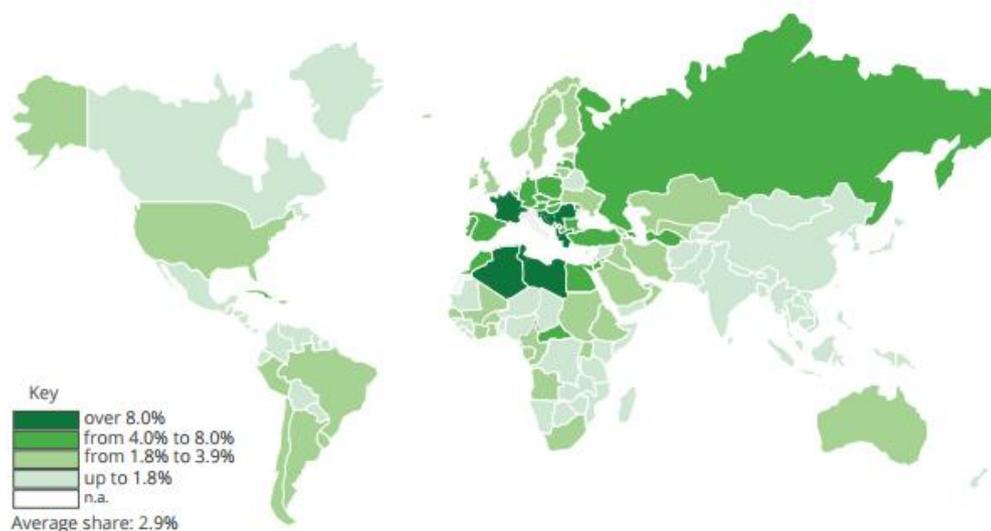
In 2017 both industries have benefit from a favorable scenario of positive numbers of demand, but the problem of counterfeiting from countries as China is now become bigger and bigger. As previously mentioned, according to the Trade Performance Index, China ranks the second place in the fashion sector in terms of sales confirming itself as a threat for Italy. In the international marketplace indeed, the threat of lower quality products marketed as Italian goods but at a lower price represent a mine for the country's export position and competitive advantage. Nevertheless, the "*Bel Paese*" has demonstrated during the years a great capability of adaptation to new economic scenario and continuous changes in the worldwide economy, rapidly readapting itself while preserving its originally values. "Competition" is a word that must not be interpreted as a way of lowering price but as a way of fighting to offer the better product, in terms of quality and sustainability. Italy can compete with China only by counting on its two main strengths: quality and innovation capability, while sustain the international trade by consolidating Made in Italy records.

### **3. Made in Italy across the world: export shares in the giant China.**

Nowadays, economic data often report an increasing reduction of the Italian export shares in many European countries as opposed to a continuous increase of export shares in emerging countries, such as China. As shown in the following figure, the Italian exports achieved considerable results in markets such as: Germany and Russia, if referring to the European countries, United States and China, Japan, Hong Kong and Vietnam, if referring to Asian countries.<sup>109</sup>

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<sup>109</sup> ICE (Italian Trade Promotion Agency), "*2016-2017 annual report- Italy in the world economy*".

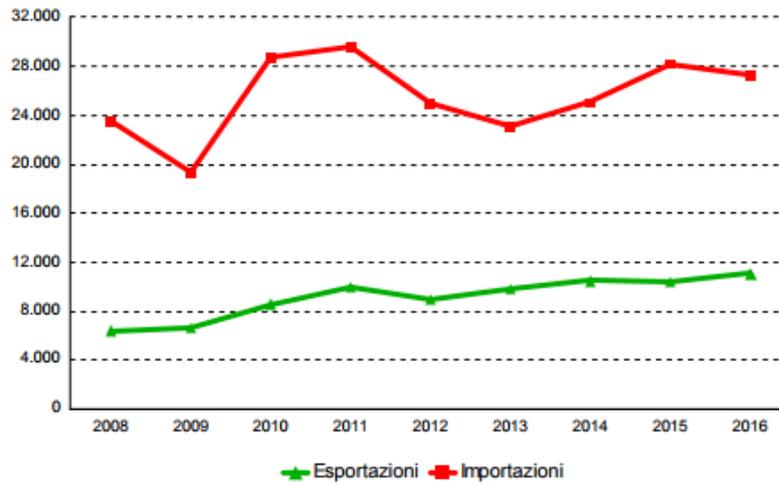


**FIGURE 3.7.** Italian exports' market shares in the main markets (2016), percentage shares.

**Source:** ICE (Italian Trade Promotion Agency), "2016-2017 annual report- Italy in the world economy", based on IMF-DOTS data and, for Taiwan, Taiwan Directorate General of Customs data.

In the last few years, China has represented for Italian firms a favorable occasion to expand and to have success overseas. According to the International Monetary Fund, China is the second world's second largest economy in terms of GDP. Even if the majority of Italian companies had a later approach with the Chinese market, as opposed to other European countries, export data seems to duplicate every year. Presently, the bilateral cooperation between China and Italy has been consolidated, becoming essential for both the economies.

**The trade exchange ITALY-CHINA**  
(values on billion Euros)



**FIGURE 3.8.** The trade exchange between Italy and China (2008-2016).

**Source:** Italian Trade Agency.

According to the ICE agency and the trade group SACE reports that are based on ISTAT data, the total amount of Italian goods exported to China steadily increase to reach in 2016 around 11 billion euros, while the imports from China reached 25 billion euros.<sup>110</sup> The key sectors that the most attract Chinese consumers are the ones connected to the private life: fashion, furniture, design and automobile, even if also the food & beverage and pharmaceutical sectors are increasing in demands. The Chinese market potential has to be catch in terms of a market that is bigger in terms of size and profitable in terms of numbers of possible customers. Despite of the great opportunities that a country as China can offer, accessibility to the market is still contested. Tax regulation, policy instability and access to financing still represent barriers to those Italian companies that try to penetrate the Chinese market. However, through a preliminary market analysis, is possible to have a deep overview on the vastness of the regions that are part

<sup>110</sup> SACE (2017). Rapporto estero 2017: Export Unchained, dove la crescita attende il Made in Italy. [https://www.sace.it/docs/default-source/ufficio-studi/sace\\_rapportoexport2017.pdf?sfvrsn=2](https://www.sace.it/docs/default-source/ufficio-studi/sace_rapportoexport2017.pdf?sfvrsn=2) (14/02/2018)

of China. Consumers market and incentives measure can differ over regions. China is characterized by a city tier system<sup>111</sup>, composed of: first-tier cities as Shanghai and Beijing, second-tier cities as Tianjin, Chengdu and Nanjing, and third-tier cities of medium size as Foshan and Guilin. The distinction is mainly based on population size, GDP and economic growth. Furthermore, the distribution system is not so modern, it is quite complex and often compared to a labyrinth, which local distributor take advantage of. Distribution system also differs from region to region, and thus it leads to a foreign presence not so homogeneous, even if the first-tier cities still the ideal place to develop businesses. As a consequence, the establishment of an office or subsidiary in the Chinese territory is an essential necessity, but the size of the market, its potential growth and competitors must be taken into account. At the present, the location of Italian firms in the Chinese country has almost reached 2.000 companies with a total turnover of 5 billion euros<sup>112</sup>. This data is of particular relevance since in a country as China the more firms open branches in first-tier or second-tier cities, the greater the opportunities to learn from such a heterogeneous market and to monitor the development of demand, making it possible to reduce the distance between customers and producers. However, it is generally assumed that first-tier cities can offer greater opportunities and faster visibility, but second-tier cities cannot be ignored at all. In second-tier cities indeed the cost of living is less expensive than first-tier's one, thus a preliminary penetration to the market through "smaller" cities should be considered.

#### **4. Tales of Chinese modern consumption**

The huge emerging Chinese market, as before analyzed, dominates the current economic scenario, with a constantly increasing economic growth rate. China is

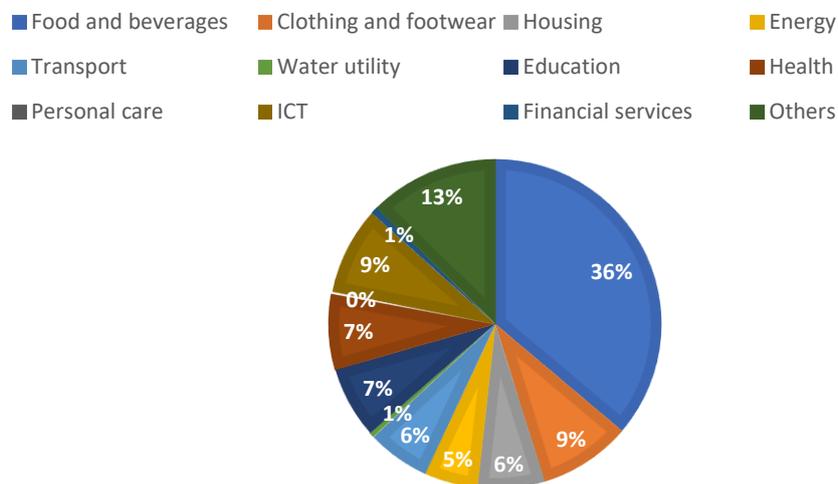
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<sup>111</sup> Chivakul, M., Lam, M. R. W., Liu, X., Maliszewski, W., & Schipke, M. A. (2015). *Understanding residential real estate in China* (No. 15-84). International Monetary Fund.

<sup>112</sup> Infomercatiesteri, [http://www.infomercatiesteri.it/scambi\\_commerciali.php?id\\_paesi=122](http://www.infomercatiesteri.it/scambi_commerciali.php?id_paesi=122) (14/02/2018)

in terms of imports the more dynamic country if compared to all the other states that have been analyzed in the above-mentioned research conducted by ICE in collaboration with Prometeia.<sup>113</sup> As long as mutability is the key factor that characterize China, from the economic aspect to the social and cultural aspect, consumption attitudes are transforming too. According to the World Bank data, the sectors in which the Chinese consumers invest the most are: food and beverage, clothing and footwear and information communication technologies, followed by housing and transports (Figure 3.9).

### CHINESE CONSUMPTION FOR EACH SECTOR



**FIGURE 3.9.** Share of each sector in Household Total Consumption.

**Source:** personal elaboration of The Bank World data, global consumption database.

[www.theworldbank.org](http://www.theworldbank.org) (14/02/2018)

The main drivers of consumption in China are: the increasing amount of disposable income, the growing urban development, the rise of new middle class and the rise of new trends in the Chinese culture always more influenced by the Western culture. This generates a significant change in the general consumption

<sup>113</sup> ICE, Prometeia, Comitato Leonardo, (2014). "Made in Italy e grandi mercati: ritorno al futuro?" <http://www.comitatoleonardo.it/it/ricerche/597-made-in-italy-e-grandi-mercati-ritorno-al-futuro> (14/02/2018)

model since, contrarily to the past, the drivers for consumption are presently based on new values that are imported from western society. When referring to the modern Chinese society, consumption cannot be intended as just the mere act of buying to satisfy basic needs but is now become a means to reach and experience the western quality of life. From this point originated the preference for foreign brands in general, then for foreign brands' store experiences and for high-end products. Along with the economic reform (1978), the consequent opening up of the Chinese economy with an open-door policy (the 门户开放政策 ménhù kāifàng zhèngcè) and its entry to WTO, the Chinese marketplace became to attire always greater numbers of foreign investments and the Chinese consumers shift from being a "saving army" to a "spending army", in terms of a real global economic force. What are the reasons that guide the Chinese customer to purchase foreign products? Concerning this question, the dissertation of Li Chen<sup>114</sup> proposed an interesting model to explain the Chinese customer inclination to buy foreign products, depending on two variables (socio-demographic variable and the categories of product).<sup>115</sup> According to the author, the first two factors that push to buy foreign products is the perceived quality gap and the perceived symbolic value between the domestic and the foreign product, since the latter is considered to have a higher symbolic value: prestige and status symbol can be expressed by purchasing a product whose origin is in a country famous for example for the higher quality of life or for its refined art of manufacture (Made in Italy). Confucian and modern values also play a key role in the consumption trends. In one hand Confucian values are closely linked to traditional culture and refers to:

- Collectivistic nature of Chinese culture, in terms that people are strongly influenced by group trends, group norms and values. But this Chinese

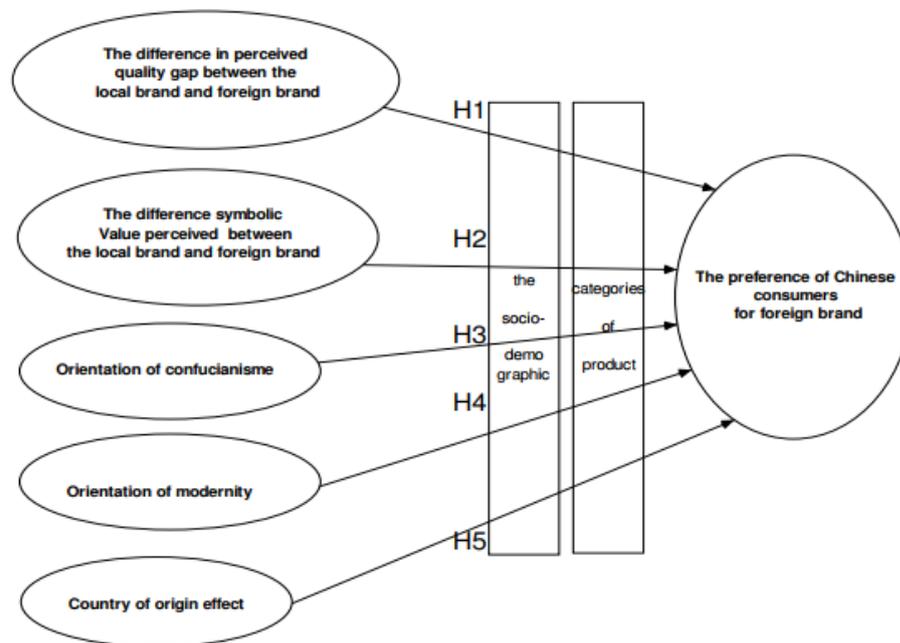
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<sup>114</sup>Chen, L. Brand culture and consumption: Chinese consumers and the foreign brands. *Unpublished PhD Dissertation, Universite d'Aix-Marseille III*, [http://www.cerdi.org/uploads/sfCmsContent/html/253/LI\\_Chen.Pdf](http://www.cerdi.org/uploads/sfCmsContent/html/253/LI_Chen.Pdf) (14/02/2018)

<sup>115</sup> Ibidem.

traditional nature has been shaped by a more individualistic perspective (typical of western society), since they try more and more to respond to the personal needs of distinguishing themselves from the other components of the social group, while choosing a certain brand to express a good social status.

- *Mianzi* 面子, a typical trait intrinsic in Chinese social relations, refers to the reputation of a person, which is very important for a Chinese person because it can be given (you give face to recognize a good reputation of another person), it can be lost (in a very negative sense you lose your reputation) and at least a person can be considered by the others to have face (seen in a very good way) or not have at all (do not deserve respect). As a matter of fact, “to appear” assumed a key role, and a prompt means to appear and show personal reputation is buying foreign products.
- *Guanxi* 关系, another important value at the basis of Chinese society that stands for social relations that must be based on reciprocal trust. Relations are at the basis of the business activities and trade exchanges as well as at the basis of ordinary life (to build a JV is to create a strong and reliable relation). The Chinese *guanxi* rely on reciprocal confidence, loyalty, stability, coherence and perseverance, but possess also a shade of opportunism. During a gift exchange, the gift (which is for Chinese people at the basis of relationships) can reveal the status symbol and is therefore important to make the good buying choice. In this view, the product acquires an emotional rather than functional role, determined by the consumption value it might have.
- In a Hierarchical society every person attempts to better show his own social status among people. In this perspective, products can be the perfect means for a positive visibility, and for this reason the choice between an anonymous product and a foreign high-quality product can determine the person you are.

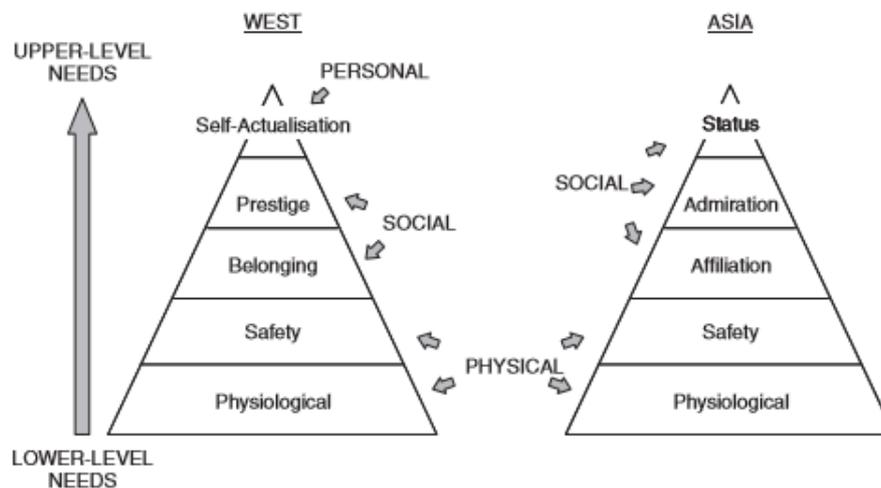


**FIGURE 3.10.** Factors that push for Chinese consumer preference for foreign brands.

**Source:** Chen, L. Brand culture and consumption: Chinese consumers and the foreign brands. *Unpublished PhD Dissertation, Universite d'Aix-Marseille III*, [http://www.cerdi.org/uploads/sfCmsContent/html/253/LI\\_Chen.Pdf](http://www.cerdi.org/uploads/sfCmsContent/html/253/LI_Chen.Pdf) (14/02/2018)

In opposition to these traditional values there are modern values, increasingly crucial in Chinese customers lives: success, wealth and youth. To these modern values better belongs foreign products, synonym of attractive appearance, higher quality, good reputation and sustainability. Concerning this, the author Shutte asserted that the Asian consumers have a different hierarchy of needs respect to the western one.<sup>116</sup> As demonstrated in this hierarchy, if western countries prefer to satisfy personal needs for self-actualization, Asian ones on the contrary are more inclined to satisfy the need of show off their position in the society; thus, for Chinese people social needs comes first than personal needs.

<sup>116</sup> Lasserre, P. (2012). *Global strategic management*. Palgrave Macmillan.



**FIGURE 3.11.** Western versus Asian hierarchy of needs.

**Source:** Schutte (1988) on Lasserre, P. (2012). *Global strategic management*. Palgrave Macmillan

## 5. The Chinese perception of Made in Italy

Of particular interest for the purpose of this research are the effects that Made in Italy has over countries as China in terms of sales and the perceptions that the label of origin of a certain product can stimulate in the Chinese consumer. Chinese industry has not a good reputation in its domestic country because of some lacks in terms of low security of production, low level of sustainability and in terms of technological components of the final product. In opposition to the Chinese products, Italian ones enjoy greater appreciation in terms of sales volume. Chinese appreciation towards Italian goods derives from the good reputation attributed to the “*Bel Paese*” overall country image, characterized by an appealing lifestyle more oriented toward the private life rather than the public one, with a propensity for example to take care of one’s own house and healthcare or to enjoy eating. Italy is known to be the cradle of noble arts and

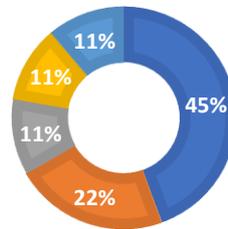
the made in Italy label that is generally put on the product is therefore a guarantee of a refined goods, capable at satisfying the search for beauty in every detail. Chinese consumers, during their shopping experience, recognize to Italian products a high added value, classifying them as top-quality products and for this reason they are willing to buy a premium price. Furthermore, they are experiencing a kind of buying process' evolution, since tastes are currently oriented not only towards bigger brands, but rather toward niche goods, because of precise and original craftsmanship. Symbolic value, sophisticated style and design, elegance are the main enforcers in the Chinese imagination that drive for the final purchase of Italian products. According to the research of the Italian trade commission in collaboration with Prometeia, on behalf of Comitato Leonardo<sup>117</sup>, Chinese consumers prefer Italian products for the higher design contents and for the product quality above all. Companies have just to find the right way to better enhance the made in Italy's strengths, in order to have major possibilities of succeeding even in a country that is, not only geographically but also culturally, distant.

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<sup>117</sup>ICE, Prometeia, Comitato Leonardo, (2014). "Made in Italy e grandi mercati: ritorno al futuro?" <http://www.comitatoleonardo.it/it/ricerche/597-made-in-italy-e-grandi-mercati-ritorno-al-futuro> (14/02/2018)

## MADE IN ITALY STRENGTHS (CHINA)

■ Design and Style ■ Quality ■ Specialization ■ Production flexibility ■ Brands awareness



**FIGURE 3.12.** Made in Italy strengths in China.

**Source:** Personal elaboration from empirical findings of ICE, Prometeia, Comitato Leonardo, (2014).

“Made in Italy e grandi mercati: ritorno al futuro?”

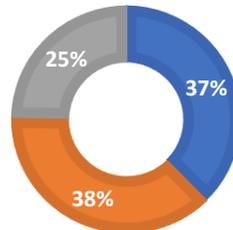
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(14/02/2018)

However, the general belief that Italian values are enough to succeed in a country as China is old-fashioned. In a country whose buying power is continuously influenced by the growing e-commerce, the increasingly importance of word-of-mouth, a tangible and more direct presence in the country with mono-brand stores to capture more rapidly the rapid changes in consumers’ tastes and a deeper communication with greater advertisements efforts must be put into effect.

## MADE IN ITALY WEAKNESSES (CHINA)

■ Uninsufficient knowledge of the market ■ Lack of direct distribution channels  
■ Lack of export infrastructures



**FIGURE 3.13.** Made in Italy weaknesses in China.

**Source:** Personal elaboration from empirical findings of ICE, Prometeia, Comitato Leonardo, (2014).

“Made in Italy e grandi mercati: ritorno al futuro?”

<http://www.comitatoleonardo.it/it/ricerche/597-made-in-italy-e-grandi-mercati-ritorno-al-futuro>

(14/02/2018)

Made in Italy weaknesses in China mainly rely on some drawbacks in the distribution system, whose improvement might lead to a better control over the product positioning, the product image, the pre- and after-sales services, and might permit companies to get in touch directly with the ultimate consumer. Another crucial weakness refers to Italian companies' lack of knowledge about Chinese culture and traditional values, because very often managers have a superficial approach to the market, impatient to reach big profits. But it must be taken into consideration that also Chinese customers do not know very much about what there is behind the Italian product. In fact, the cultural background is not so often shared with the consumer that, on the contrary, need to be educated to those products that do not exist at all in the domestic market. As Checchinato et al. (2013)<sup>118</sup> argued in their research the static and self-explanatory symbols put on the product with the made in Italy mark are not enough to express the Italian history and creative values that distinguish it from the other countries. If companies find it difficult to correctly enter is probably due to the given assumption that

<sup>118</sup> Checchinato, F., Hu, L., & Vescovi, T. (2013). The communication of foreign products in China through the store: an empirical analysis. *International Journal of Economic Behavior*.

Chinese customers already know about Italian culture. The authors of this research suggest to make greater efforts in the explanation of a product's features and values for example through storytelling activities referring to the connection between COO and the product of a brand, or with a higher staff's involvement during the buying experience in order to guarantee product quality with a detailed explanation.

### **Chapter conclusion**

During this chapter, many researches highlight the fact that the Made in Italy is worldwide recognized as a mega brand. Its main values have roots in the ancient expertise and traditions that characterize every industrial sector: from fashion to furniture, as from the automobile to the food and beverage industry, known everywhere to be the Italian economy's pillars. The Italian output has the higher quality, which derives from the attention to every detail, furthermore the high design and style. These values let the majority of Made in Italy brands succeed in the overseas marketplace, particularly in the Chinese one, where, thanks to the latest changes in consumption, Italian products enjoy particular appreciation. As will be demonstrated in the further two chapters, the Chinese market is of high potential, in the specific case, for ceramic tiles' export.

## Chapter 4: Chinese Ceramic Sector Overview

### 1. Ceramic tiles: a world tile overview.

Ceramic tiles are industrial products of considerable value that can possess both a functional use as floor tiles as well as a decorative function for private or public spaces. The development of the ceramic industry is strictly linked to the building and furniture industries, since most common trends also affect the process of choosing a ceramic flooring. Italy and China still hold a dominant position in the ceramic tiles sector for many reasons. In one hand, Italian global leadership in this sector is to be search in its high quality and well manufactured ceramic tiles, which are a perfect expression of the made in Italy and obviously the result of years of tradition in this field. As well as in the Italian high technological content machines for tile making, which, on the contrary, express the involving investments towards a more innovative product. In the other hand, although China have experienced a real industrialization process only in the last thirty years, is now become the world's largest producer of ceramic tiles.

The worldwide scenario of the ceramic tiles industry is dominated by many leader countries as for production, consumption, as well as for imports and exports shares. Examining the data published by Acimac, is possible to highlight the increasing amount of ceramic tiles production across the entire globe over a period of ten years. After having passed the stable phase of the period between 2007 and 2009, which sees a volume 8,500 million of sq. m. of ceramic tiles, the following seven years almost double the total amount. In fact, this exceptional growth in the production volume has led to the current 13,056 million of sq. m production, 5.7% up on 2015.<sup>119</sup>

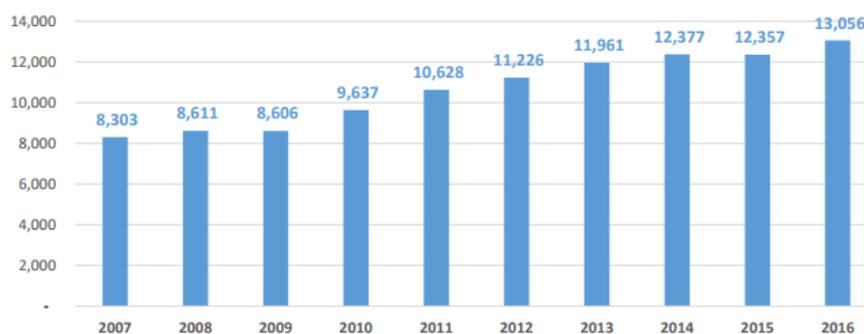


FIGURE 4.1. World tile production total data, values in millions of sq. m., 2017.

<sup>119</sup> ACIMAC Survey dept.; (2017). "World production and consumption of ceramic tiles", 5<sup>th</sup> edition.

Source: ACIMAC Survey dept.; (2017). "World production and consumption of ceramic tiles", 5<sup>th</sup> edition.

In specific, if 2015 was judged as a stationary phase in the production of ceramic tiles, the 2016 instead saw a recovery both in global production and consumption, resulting in a growth of 5.7% and 5% respectively.<sup>120</sup> At the same time, import and export flows have now registered an upturn of 1.7% if compared to the 2015. These group of data can be further analyzed from a country-perspective, highlighting the great relevance of the Asian production with a growth from 8,631 to 9,331 million sq. m., in countries as China, Vietnam, India and Iran. Is here that takes now place almost the 71.5% of the global production of ceramic tiles (a consistent growth of 8.8% respect to the 2015 data). As concerned to European countries, during 2016 they have overall produced 1,877 million sq. m., the equivalent of 14.4% of world production. Despite of the total production's slight decrease from 1,523 to 1,444 million sq. m., the American continent still maintain the 11% of the global production; while Africa continent's volume of production decline to 399 million sq. m. (-3.4%). However, the top manufacturing countries are clearly represented by the Acimac research<sup>121</sup> in the following table, whose collected data permit to create an idea of the main countries that in the last few years have contributed to the production of ceramic tiles.

TOP MANUFACTURING COUNTRIES							
COUNTRY	2012 (Sq.m Mill.)	2013 (Sq.m Mill.)	2014 (Sq.m Mill.)	2015 (Sq.m Mill.)	2016 (Sq.m Mill.)	% on 2016 world production	% var. 16/15
1. CHINA	5,200	5,700	6,000	5,970	6,495	49.7%	8.8%
2. INDIA	691	750	825	850	955	7.3%	12.4%
3. BRAZIL	866	871	903	899	792	6.1%	-11.9%
4. SPAIN	404	420	425	440	492	3.8%	11.8%
5. VIETNAM	290	300	360	440	485	3.7%	10.2%
6. ITALY	367	363	382	395	416	3.2%	5.3%
7. INDONESIA	360	390	420	370	360	2.8%	-2.7%
8. IRAN	500	500	410	300	340	2.6%	13.3%
9. TURKEY	280	340	315	320	330	2.5%	3.1%
10. MEXICO	231	230	230	245	267	2.0%	9.0%
TOTAL	9,189	9,864	10,270	10,229	10,932	83.7%	6.9%
TOTAL WORLD	11,226	11,961	12,377	12,357	13,056	100.0%	5.7%

FIGURE 4.2. Top manufacturing countries, 2017.

Source: ACIMAC Survey dept., (2017). "World production and consumption of ceramic tiles", 5<sup>th</sup> edition.

What capture the attention are the Chinese producers that largely sustain half of the global production with their 6,495 million sq. m., immediately followed by India and Brazil, two countries that during the last twenty years constantly grow

<sup>120</sup> BARALDI, L.; (2017). "Ceramic World Review", bimonthly review, August- October, n.123.

<sup>121</sup> ACIMAC Survey dept.; (2017). "World production and consumption of ceramic tiles", 5<sup>th</sup> edition.

in terms of production.<sup>122</sup> As regard to Europe, the two countries that have always compete for the continental leadership in the sector, showing the best results, are Spain and Italy. Both have gained respectively the fourth and the sixth position in the top ten of the global top manufacturing countries with a production of 492 and 416 million sq. m.<sup>123</sup>

As concerned tile consumption, the worldwide scenario shows in 2016 a general increase in demand from 12,177 to 12,783 million sq. m. (+5%).<sup>124</sup> In the specific, along with the real estate boom, the Asian demand for ceramic tiles reach great records with 8,818 million sq. m. (+8%) which is the equivalent of more than the half of global consumption.<sup>125</sup> The European Union countries compared to the last year also registered a positive consumption value with an increase from 910 to 964 million sq. m. (+5,9%). On the contrary are noticeable some downturns in Central and South America countries as Brazil (-7.7%) and in African countries as Nigeria and Libya (-5.5%).<sup>126</sup>

TOP CONSUMPTION COUNTRIES							
COUNTRY	2012 (Sq.m Mill.)	2013 (Sq.m Mill.)	2014 (Sq.m Mill.)	2015 (Sq.m Mill.)	2016 (Sq.m Mill.)	% on 2016 world consumption	% var. 16/15
1. CHINA	4,250	4,556	4,894	4,885	5,475	42.8%	12.1%
2. INDIA	681	718	756	763	785	6.1%	2.9%
3. BRAZIL	803	837	853	816	706	5.5%	-13.5%
4. VIETNAM	254	251	310	400	412	3.2%	3.0%
5. INDONESIA	340	360	407	357	369	2.9%	3.4%
6. USA	204	230	231	254	274	2.1%	7.9%
7. SAUDI ARABIA	230	235	244	263	248	1.9%	-5.7%
8. TURKEY	184	226	215	234	241	1.9%	3.0%
9. MEXICO	187	187	197	218	235	1.8%	7.8%
10. THAILAND	160	180	175	192	189	1.5%	-1.6%
TOTAL	7,293	7,780	8,282	8,382	8,934	69.9%	6.6%
TOTAL WORLD	10,964	11,582	12,081	12,177	12,783	100.0%	5.0%

FIGURE 4.3. Top consumption countries, 2017.

Source: ACIMAC Survey dept. (2017), "World production and consumption of ceramic tiles", 5<sup>th</sup> edition.

Completely different is the world tile export scenario, characterized by a major involvement of European countries, such as Spain and Italy, and Asian ones, as China, in export activities. Spain and Italy rank 4<sup>th</sup> and 6<sup>th</sup> place respectively in the rankings of world manufacturing countries (Figure 4.2) while confirming themselves as worlds' second and third largest exporter, immediately after China. The main reason of this phenomenon is to be found in the slow domestic

<sup>122</sup> ACIMAC Survey dept.; (2017). "World production and consumption of ceramic tiles", 5<sup>th</sup> edition.

<sup>123</sup> Ibidem.

<sup>124</sup> Ibidem.

<sup>125</sup> BARALDI, L.; (2017). "Ceramic World Review", bimonthly review, August- October, n.123.

<sup>126</sup> ACIMAC Survey dept.; (2017). "World production and consumption of ceramic tiles", 5<sup>th</sup> edition.

demand that have recently affected these two countries, because of the economic crises that have negatively influenced the construction industry, pushing for exports. Consequently, these two European countries that are famous worldwide for the ceramic tradition, are recovering their production through export activities (exporting almost 80% of their outputs). Although the economic crises still conditioning national demand, domestic sales value seems to slightly improve every year, indeed Spain recorded in 2016 more than 746 million euros; while Italy registered 829 million euros after 8-year decrease.<sup>127</sup> The role of Italian and Spanish firms' export activities plays a crucial role in their businesses development and the worldwide success gained by those firms is rooted in the general awareness of Italian and Spanish supremacy in an offering characterized by unique products, marked by the higher level of quality. In fact, if 1 sq. m. of Chinese ceramic tile amount to 5 euros, while a Spanish ceramic tile medium price is more or less 6.5 euros and more expensive an Italian one, whose medium price is about 13.8 euros.<sup>128</sup>

TOP EXPORTING COUNTRIES									
COUNTRY	2013 (Sq.m Mill.)	2014 (Sq.m Mill.)	2015 (Sq.m Mill.)	2016 (Sq.m Mill.)	% on 2016 national production	% on 2016 world exports	% var 16/15	value 2016 (million €)	average export price (€/sq.m)
1. CHINA	1,148	1,110	1,089	1,025	15.8%	36.7%	-5.9%	4,979	4.9
2. SPAIN	318	339	378	395	80.3%	14.1%	4.5%	2,570	6.5
3. ITALY	303	314	316	332	79.8%	11.9%	4.8%	4,588	13.8
4. INDIA	55	102	134	186	19.5%	6.7%	38.8%	598	3.2
5. IRAN	114	109	112	126	37.1%	4.5%	12.5%	328	2.6
6. BRAZIL	63	69	77	94	11.9%	3.4%	22.1%	293	3.1
7. TURKEY	88	85	77	81	24.5%	2.9%	4.8%	463	5.7
8. MEXICO	64	62	61	56	21.0%	2.0%	-8.2%	289	5.2
9. UAE	58	55	54	48	66.7%	1.7%	-11.1%	278	5.8
10. POLAND	48	42	42	46	32.4%	1.6%	9.5%	246	5.3
TOTAL	2,259	2,287	2,340	2,389	23.2%	85.5%	2.1%		
TOTAL WORLD	2,670	2,705	2,746	2,794	21.4%	100.0%	1.7%		

FIGURE 4.4. Top exporting countries, 2017.

Source: ACIMAC Survey dept.; (2017). "World production and consumption of ceramic tiles", 5<sup>th</sup> edition.

## 2. The Italian tile: a tradition of quality mixed with constant innovation.

The ceramic tile industry represents a sector of crucial importance and of high potential, since it has been for decades one of the Italian leaderships recognized almost worldwide for well-made and innovative products. The ceramic itself is not only a material of Italian craftsmanship and tradition but represents nowadays a

<sup>127</sup> ACIMAC Survey dept.; (2017). "World production and consumption of ceramic tiles", 5<sup>th</sup> edition.

<sup>128</sup> Ibidem.

product of high potential for future businesses because of its significant margin for improvements, thanks to innovation in research and production. Italian excellence in the ceramic tile industry has a qualitative rather than quantitative value. As previously explained data have demonstrated, ceramic tiles' consumers tend to pay even a premium price to get an Italian output of greater refinement and value. Italian excellence in tile making is indeed the result of constant investments in technologies and innovation that have led, during the years, to the strengthening of the industrial districts around Sassuolo, where is located the 80% of Italian ceramic tiles firms. Actually, Confindustria Ceramica states that 147 Italian ceramic companies are now active in Italy, with 18,956 workers that during 2016 have produced 416 million sq. m (+ 5.4%) with a total sales volume of 414.5 million sq. m. (+ 4.5%). Domestic sales slightly grow with a volume of 82.8 million sq. m. (+ 3.2%) that still represent the half of the pre-crisis national demand.<sup>129</sup>

However, as every year the export rate increases up to 331.7 million sq. m. (+ 4.8%) in order to bridge the gap between national production and domestic sales volumes. The total turnover of ceramic firms with all the production activities based in Italy, has reached this year 5.4 billion euros (+ 5.9%), whose 85% derive from exports activities (4.6 billion euros) while the remaining 15% derives from domestic sales (829 million euros)<sup>130</sup>. In terms of ceramic tiles' exports, as previously confirmed by the Acimac research, Italy still the third world's bigger exporter with a medium price of 13.8 euros for 1 sq. m. Export flows are mainly directed to the Eurozone, which is the first export destination for ceramic tiles, representing the 65% of the total export flows with its 215 million sq. m.<sup>131</sup> In the meanwhile, China seems to offer to Italy good opportunities in terms of demand as will be deeper analyzed in the following paragraph.

Italian ceramic scenario recently saw a recovery in terms of competitiveness through more and more investments in the most advanced technologies for tile making machines and in the modernization of plants, as well as in design studios that are playing a more significant role in the ceramic industry. The higher specialization in design is a single trait that is gaining more relevance, since last trends suggests a closer collaboration between designer and ceramic tiles producers, in order to create unique pieces of art.

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<sup>129</sup> Confindustria Ceramica, 2016. ( <http://www.confindustriaceramica.it/site/home/i-settori/piastrelle-di-ceramica.html> (13/01/2018)

<sup>130</sup> BARALDI, L.; (2016). "Ceramic World Review", bimonthly review, August- September, n.118

<sup>131</sup> Ibidem.

## 2.1. The Italian tile district of Sassuolo and the Chinese challenge.

The origin of the Italian tradition in ceramic tile making has its roots in the area around Sassuolo. The 80% of Italian ceramic tiles are produced, indeed, in the industrial district around Sassuolo, between the ten municipalities in the provinces of Modena and Reggio-Emilia, in the north of Italy. Here are located the most important Italian ceramic firms, as Sacmi and Coop. Ceramica d'Imola, both located in Imola. It is a district with Ecolabel certification since it has always focused on environmental control and management through the implementation of green policies, which are became one of the distinct and competitive factor of Italian ceramic tiles, which completely sustain the environment.<sup>132</sup> In this area are also located two main Italian organizations, such as Assopiastrelle and Acimac that support firms' activities both in national and international trade, as well as in the attempt to resolve the domestic problems linked to logistic difficulties, environment pollution and the higher charges on electricity used during production processes.

However, this industrial district is not only famous for its ceramic tiles' production but is also a world leader in the production of tiles making machineries. Supported by many years of experiences in tiles manufacturing and machineries, during the '80s ceramic tiles industry began to develop its business beyond European borders to reach emerging markets as China and Brazil. China, in particular, did not have the expertise and the experience that Italy instead possesses since ancient times, and for this reason, it completely relies on Italian machineries' suppliers, acquiring great amounts of machineries at premium prices. When in the '90s the giant Chinese industry began its rapid modernization, the worldwide ceramic tiles production tripled its volumes. Nevertheless, in recent times, Chinese ceramic tiles producers have already fill the gap by learning very fast from importers' expertise and skills. In the last few years, Chinese producers purchase always less amount of Italian machineries, since they have been started to duplicate and emulate them precisely. A phenomenon that must do not be underestimate but that must be taking into account when referring to international trade, in order to protect made in Italy ceramic tiles. More policies of patent protection and more rigid trade barriers might be considered as a direct means to contrast counterfeiting but at the same time more time to implement them is needed, thus Italian companies have to continuing in investments toward technologies development, stressing on innovation, regarded as a more efficient key to succeed in their businesses.

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<sup>132</sup> Albino, V., Kühtz, S., Zhou, C., & Peng, G. (2005). Energy and materials use in Italian and Chinese tile manufacturers: a comparison using an Enterprise Input-Output model. In *15th international conference on input-output techniques, Renmin University of China, Beijing*.

### 3. Chinese ceramic tradition and tile industry overview.

The English term of “*China*” refers both to China, intended as the whole country, and to porcelain. This is not a coincidence since China is famous to be the homeland of ceramics *táocí* 陶瓷 and in the specific case of porcelain, one of the most excellent expression of the Chinese art, which is significant for the global ceramics tradition. Chinese ceramics are worldwide considered as fine pieces of arts, characterized by elegant forms and delicate colors. Ceramics’ origins are rooted in the earlier Chinese history, about eleven thousand years ago, when they were just used as utilitarian goods. During the Han dynasty (206 B.C- 220 A.D.) began a sort of mass production of pottery wares: functional vessels providing government offices and indicating location of production. This mass production seems to remind to the origins of a nationwide industry, capable of producing fine wares with a specific identity. During those years was introduced a low-fired glazed technical innovation, whose results were glazed colored with copper (green-glazed pottery) or iron (yellow/brown pottery)<sup>133</sup>. Since this technique was quite toxic, this type of glazed wares was used as mortuary pottery. It is during the Song dynasty (960-1279) that Chinese ceramics increase in quality and aesthetic characteristics with outstanding results in: wares’ shape, decorations, techniques, and glaze. After the 14<sup>th</sup> century, in Jingdezhen (southeast province of Jiangxi), the so-called “porcelain city”<sup>134</sup> was created some porcelain wares famous in the world ceramic history, which plays a dominant role in the Chinese ceramic industry: the blue-and-white porcelain *qinghua* 青花 colored with an underglaze painted in cobalt<sup>135</sup>. These pieces of art were at that time the most technically advanced and for this reason many countries start becoming interested in transoceanic trade exchange with Chinese elegant porcelain. Indeed, this fine porcelain is still produced in China and currently exported all over the world. A kind of Chinese symbol of this type of porcelain can be found in Tianjin’s “China house” *cí wū* 瓷屋, an old French villa entirely covered by original pieces of white-and-blue porcelain, which has become a tourist attraction in order to promote the antiques origins of this art.<sup>136</sup>

However, is with Ming dynasty that occurs the shift from the primary utilitarianism role of ceramic wares to a form of pure art, owned by the imperial family, the upper classes and collectors from all around the world. From this moment on, ceramic and

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<sup>133</sup> The Minneapolis Institute of Arts, “Guide to Chinese ceramics”, [www.artsmia.org](http://www.artsmia.org) (14/02/2018)

<sup>134</sup> The MET museum, (2012). “*Evolution of Chinese Ceramics and Their Global Influence are Theme of Entirely New Installation on Metropolitan Museum’s Great Hall Balcony* “. [www.metmuseum.org](http://www.metmuseum.org) (14/02/2018)

<sup>135</sup> China online museum <http://www.comuseum.com/ceramics/> (14/02/2018)

<sup>136</sup> CHINA DAILY (2016). “China house records traditional Chinese ceramic culture”.

[http://www.chinadaily.com.cn/m/tianjin2012/2016-11/22/content\\_27456991.htm](http://www.chinadaily.com.cn/m/tianjin2012/2016-11/22/content_27456991.htm) (14/02/2018)

porcelain goods were subjected to the foreign influence in terms of decorations, shapes and design. The intensification of international trade occurs during the early 20<sup>th</sup> century, when Chinese and Western ceramics start to learn from each other through trade exchanges and with the rapid progress in urbanization and industrialization fields. This unprecedented growth of Chinese industry reflects also in many positive improvements in the ceramic sector. As regards ceramic tiles tradition, even if ceramic manufactures have ancient origins they were not produced from the modern industries specialized in ceramic tiles as nowadays' ones, previously there was a small-scale production. The origin of a ceramic tiles industry is indeed more recent than it seems. As long as Deng Xiaoping political reforms open new ways for Chinese economies, the privatization processes of industries led to many changes that directly affected the ceramic tiles sector.<sup>137</sup> Industries of ceramic tiles became bigger and bigger, affected by modernization policies and mass production for a frenetic local demand. When in 1998, the state-owned companies located in Foshan (the Guangdong province) were sold to private investors, with a revenue of more than 1 billion yuan, making the Foshan district the world's biggest ceramic district. The Foshan district plays a very important role in the ceramic tiles industry tradition, since in 2007 it was the cradle of 30.000 corporations belonging to different industrial district, and almost 600 of them were engaged in ceramic tiles production. In the meanwhile, this enormous number of firms established in this area permit serious air pollution problems arose and thus strict measures were put into effect. Nevertheless, solution was not the limitation of polluting activities, but consists in the spread of the same factories in different regions. For instance, a new production area of ceramic tiles was created in less developed provinces, as in Jiangxi in Jingdezhen city (in the origin the porcelain city), which now became one of the most productive place of the entire Chinese country. Chinese production of ceramic tiles is currently takes place in five main areas: in Guangdong (Foshan held 60% of total production), in Sichuan (Chengdu), in Shandong, in Chongqing and in Shanghai areas.<sup>138</sup>

Nowadays, China is not only the biggest world producer but also the largest consumer of huge volumes of ceramic tiles. According to Acimac research's evaluations, Chinese ceramic tile production volume amount to 6.495 million sq. m., which is the equivalent of the half of the entire world tiles production (49.7% more precisely)<sup>139</sup>, even if the official Chinese sources CBCSA<sup>140</sup> and CLII<sup>141</sup> provides a

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<sup>137</sup> Camera di commercio italiana in Cina (2006). "Overview sul settore ceramico in Cina". [www.cameraitacina.com](http://www.cameraitacina.com) (14/02/2018)

<sup>138</sup> Ibidem.

<sup>139</sup> BARALDI, L.; (2017). "Ceramic World Review", bimonthly review, August- October, n.123

<sup>140</sup> Chinese Building Ceramics & Sanitaryware Association. (2016 report)

[http://www.chinaexhibition.com/Official\\_Site/21-296-China\\_Building\\_Ceramics\\_and\\_Sanitaryware\\_Association\\_\(CBCSA\).html](http://www.chinaexhibition.com/Official_Site/21-296-China_Building_Ceramics_and_Sanitaryware_Association_(CBCSA).html) (14/02/2018)

<sup>141</sup> China Light Industry Internet. (2016)

[http://www.clii.com.cn/zhhyIm/zhhyImZuiXinFaBu/201703/t20170314\\_3905264.html](http://www.clii.com.cn/zhhyIm/zhhyImZuiXinFaBu/201703/t20170314_3905264.html) (14/02/2018)

greater number of output consisting of 11.056 million sq. m. and 11.076 respectively, that might indicate instead the productive capacity of the 1.400 companies, and their 3.500 production lines, operating in the nation. On the other hand, the domestic consumption also shows great results with its 5.475 million sq. m., almost the 42.8% of the world consumption of ceramic tiles.<sup>142</sup>

Despite the great amount of both production and consumption, in 2016 Chinese ceramic tiles, on the contrary, have not experienced such a positive trend in export flows with a decrease of 5.9% (the higher in the last three years) from the last year's 1.089 to the current 1.025 million sq. m. A strict reduction due to the sales' slowdown particularly in European countries (-20%), in Africa (-14%), in North America (-11,7%) and in South America (-11%); while in Asian countries, that have always represented a big share of Chinese total export flows have decreased to 583 million sq. m. (-1.3%).<sup>143</sup> According to CTW, in the first three months of the 2017 the export value experienced a further decline, higher than the last one, as showed in figure 4.5.<sup>144</sup>



FIGURE 4.5 Comparison of the monthly export value, 2017.

Source: Guifang, L. (2017). "Situation of Chinese tiles in the first half of 2017", Ceramics Town Weekly, 339<sup>th</sup> issue.

The Chinese exports' value is 4.979 million euros with a medium price of 4.9 4,9 €/sq. m.<sup>145</sup> If the Chinese ceramic tiles' total export value is divided into continents' different export shares, it is possible to notice that the majority of exports are directed towards Asian countries, immediately followed by Africa and North America. Saudi Arabia is currently the largest market for Chinese tiles (64 million sq. m.), as

<sup>142</sup> BARALDI, L.; (2017). "Ceramic World Review", bimonthly review, August- October, n.123.

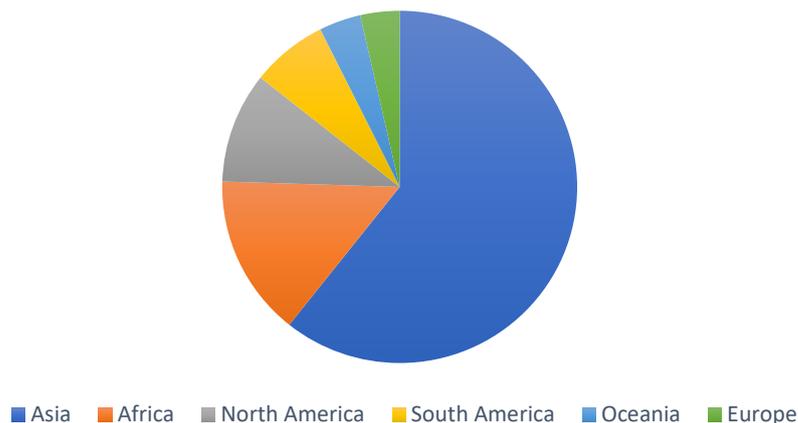
<sup>143</sup> Ibidem.

<sup>144</sup> Guifang, L. (2017). "Situation of Chinese tiles in the first half of 2017", Ceramics Town Weekly, 339<sup>th</sup> issue. <http://www.ceramicstownweekly.com/posts/515> (14/02/2018)

<sup>145</sup> BARALDI, L.; (2017). "Ceramic World Review", bimonthly review, August- October, n.123.

well as South Korea (54 million sq. m.), Philippines (53 million sq. m.), Nigeria and Thailand.<sup>146</sup> These are the main partners to which China address its medium-low quality ceramics, meeting a lot of consumers' tastes; while South America, Oceania and European countries are playing a marginal role in the Chinese exports' flow.

**Export values (%)**



**FIGURE 4.6** Percentages of the export values in the continents, 2017.

**Source:** Personal elaboration from Guifang, L. (2017). "Situation of Chinese tiles in the first half of 2017", *Ceramics Tow Weekly*, 339<sup>th</sup> issue.

A better situation marked by positive results is the one referring to imports flows, always become greater and greater. The origins of imported ceramic tiles in China can be traced back to the 1999, with first foreign ceramic tiles arrived in Beijing, Shanghai, Guangzhou and Shenzhen, cities famous for being the top destination of imported ceramic tiles as long as here consumers possess higher degree of purchasing power and consumption.<sup>147</sup> Nevertheless, consumption and purchasing power were not the only two reasons to let these four cities attract great number of foreign ceramic tiles; another motive has to be search in consumers' mentality, since in the coastal area, where these cities are located, people are more open-minded and more inclined to buy foreign products instead of preferring the local ones. In 1999 the first arrival of imported tiles, one belonging to the Rongwei Company (Hong Kong) and one belonging to Coop. Ceramica d'Imola (Italy) were introduced in Guangzhou and Beijing respectively.<sup>148</sup> From 1999 to 2004, the earliest models of Guangzhou and Shenzhen, of one agent owning multiple foreign brands mixed with

<sup>146</sup> BARALDI, L.; (2017). "Ceramic World Review China 2017", special issue for Chinese market.

<sup>147</sup> Ceramic Town Weekly, (2016). "The Past & Present of imported ceramic tiles".

<http://www.ceramictownweekly.com/posts/395> (14/02/2018)

<sup>148</sup> Ibidem.

some European characteristics started influencing the overall Chinese ceramic market. In a following phase, from 2005 to nowadays, began the incremental flow of Chinese agents directed to Italy for visiting CERSAIE, an international exhibition of ceramic tiles and bathroom furnishings, therefore bilateral trade become more intense.

According to official Chinese sources the import value of foreign ceramic tiles in the first half of 2017 amount to 51.8724,41 million dollars<sup>149</sup>, with an increase of 26.61%; while the volume of imported ceramic tiles is about 2.8266 million sq. m., with a growth of 24.27%.<sup>150</sup> A very positive trend since the import value of this first six months are definitely higher of those of the last two years, as can be seen in figure 4.7.



**FIGURE 4.7** Comparison of the Monthly Value of Imported Tiles in China, 2017.

**Source:** Guifang, L. (2017). “Foreign brands of tiles in China tiles in the first half of 2017”, *Ceramics Town Weekly*, 340<sup>th</sup> issue.

As highlighted by the following figure 4.7, the two countries that are the most involved in export activities of ceramics tiles in the Chinese marketplace are Italy and Spain. On one hand, Italy import value is 34.2958 million dollars, increased by 35.58%, while on the other hand, Spain 13.6826 million dollars with an increase of 8.14%; occupying the 66.12% and the 26.38% respectively.<sup>151</sup>

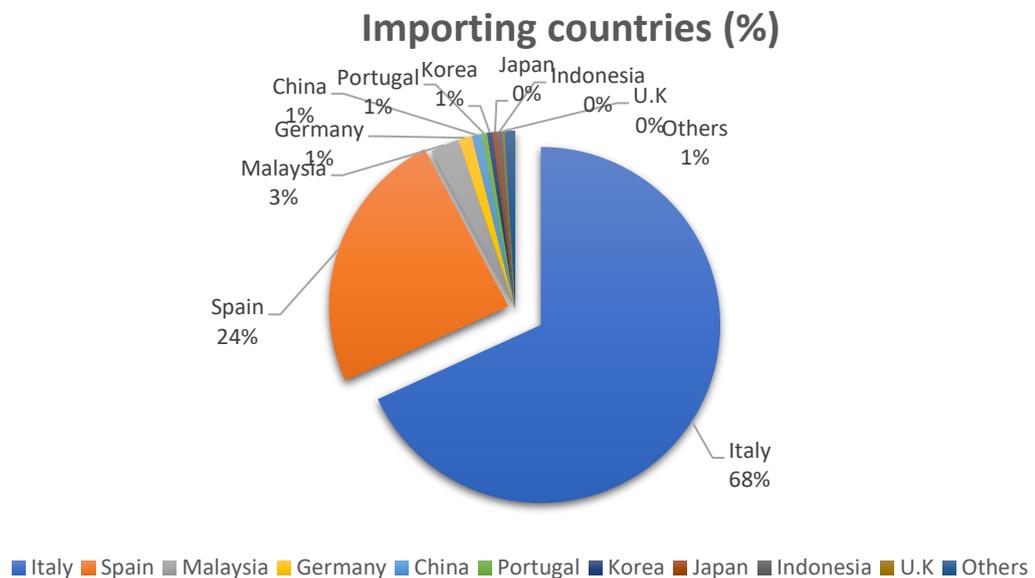
As concerning growth rate of imports value, countries as South Korea (1240.82%) Germany (126.92%) and Malaysia (75.53%) must be cited because of their consistent

<sup>149</sup> China Light Industry Internet, (2017). “2017 年上半年我国陶瓷砖进口贸易国分布情况” – “Ceramic tiles import flows in the Chinese market in the first half of 2017.” [http://www.clii.com.cn/zhhyIm/201708/t20170828\\_3911311.html](http://www.clii.com.cn/zhhyIm/201708/t20170828_3911311.html) (14/02/2018)

<sup>150</sup> Guifang, L. (2017). “Foreign brands of tiles in China tiles in the first half of 2017”, *Ceramics Town Weekly*, 340<sup>th</sup> issue. <http://www.ceramicstownweekly.com/posts/517> (14/02/2018).

<sup>151</sup> *Ibidem*.

improvements in import rates; on the contrary, United Kingdom and Japan saw their export value fell by 15.99% and 5.74% respectively.<sup>152</sup>



**FIGURE 4.8** Ceramic tiles Importing countries in the Chinese market, first half of 2017.

**Source:** Personal elaboration from China Light Industry Internet, “2017 年上半年我国陶瓷砖进口贸易国分布情况”- “Ceramic tiles import flows in the Chinese market in the first half of 2017” and Ceramic Town Weekly, “Foreign brands of tiles in China tiles in the first half of 2017”, 340<sup>th</sup> issue.

#### 4. Considerations on Chinese ceramic tiles market.

Characterized by a high-speed development in the last few years, the Chinese ceramic tile industry can offer great scenarios for Italian companies. Since national demand for ceramic tiles is limited, or at least does not offer the same revenues deriving from other marketplaces, it is common for many Italian firms to look for better opportunities in other countries. From this point of view, in the last twenty years China has been the ideal marketplace to permit business activities continuing existing and in some cases to success. Reasons are: the enormous size of the country itself, since China is a very big country composed in the meanwhile by as many people too, so both production and private consumption values are consistently growing. The great amount of production can be scaring, since competition is undoubtedly strong and represents a big challenge for small-medium Italian firms,

<sup>152</sup> Guifang, L. (2017). “Foreign brands of tiles in China tiles in the first half of 2017”, Ceramics Town Weekly, 340<sup>th</sup> issue. <http://www.ceramicstownweekly.com/posts/517> (14/02/2018).

but it must be noticed that competition is mainly based on low-medium quality products, that represents the 60% of the Chinese ceramic tiles marketplace. In this perspective, the lack of many high-end products can be a situation for Italian companies to take advantage from, since they, as suppliers of excellent and high-quality tiles, have many chances to prevail on common offerings already existing nationally. Furthermore, the constant innovation of Italian ceramic tiles is a specific feature to be not underestimate, because it gives to the high-quality product something extra. Despite the first difficulties that the majority of foreign firms meet when attempting to enter the uncertain Chinese market, it still offers important returns that come in the long-term view and, for this reason, through perseverance. The complex distribution system still represents a problem for Italian companies, since trade activities are influenced by differences in language and culture, but also in the distribution sector itself<sup>153</sup>. Even the price for being a foreign firm operating in the Chinese country still a barrier to firms' overall activities because of expensive fees and taxes as well as strict trade regulations. In the meanwhile, the last few years have seen China making some efforts in helping foreign investments arise and increase, through some positive incentives for trade exchange. In conclusion, for Italian companies that want to succeed in the Chinese market place the right way to pursue is to rely on all the qualitative factors that identify the Italian product itself (quality, culture, manufacture, innovation, style, design, creativity) instead of preferring quantitative results in the short-term.

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<sup>153</sup> Camera di commercio italiana in Cina (2006). "Overview sul settore ceramico in Cina". [www.cameraitacina.com](http://www.cameraitacina.com) (14/02/2018)

## Chapter 5: Cooperativa Ceramica d'Imola S.C.

"A bee that draws Made in Italy tactile trajectories to create the ultimate archetype of beauty and quality."

-Cooperativa Ceramica d'Imola<sup>154</sup>



### 1. The history of the brand: Today, just like yesterday.

"Today, just like yesterday" is the perfect match of words to describe one of the oldest Italian ceramic cooperatives: The Italian Company Cooperativa Ceramica d'Imola S.C, in which tradition and innovation are equally balanced and spread worldwide through their ceramics, famous for being an authentic piece of art. From one simple cooperative ...to a luxury brand.

#### ***Yesterday... Values***

The origins of Cooperativa Ceramica d'Imola date back to the 1874, when the founder of the original cooperative, Giuseppe Bucci, decided to give to his workers the entire factory of majolica and ceramic tiles, whose real origin goes back to the 1700s. The aim was to let the firm continuing existing in a way that might have contributed to the industrial progress and in the specific to the ceramic sector's improvements, while guaranteeing a better economic situation to employees. In Italy it is the long-standing Italian Production and Work Cooperative and also the unique case of industrial history that succeed over time in preserving the original values and traditions.

The founder's system of beliefs became the main values at the basis of the company, which act in a way that help promoting and safeguarding the labor activity, considered as both individual and society's fundamental asset and as a primary necessity capable of transforming reality. Two dimensions, one ethic and one economic, that are also at the basis of the cooperative concept itself, and for which the members of an organization are called to act in the name of the common good. For this reason, the 144 years of company's history are the perfect expression of the passion that is behind every tile. A passion that is mixed with the idea of economic and social progress, and that is imparted through the manufacturing of products that are the result of a combination of culture and

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<sup>154</sup> Cooperativa Ceramica d'Imola official website. [www.imolaceramica.com/en/](http://www.imolaceramica.com/en/) (14/02/2018)

history. At the end of the nineteenth century, the same passion pushes for firm's internationalization and permit the realization of an artistic division, the so-called "*Sezione Artistica*", or also Artistic section, a real craft workshop devoted to the artistic research and to the production of majolica wares. Here, today still take place ceramic's main phases of handmade production, such as the shaping process of clay, the decoration with creative colors, brushes and all the necessary procedures to transform raw materials in a unique artifact.

From the beginning on the 1990s, precisely in 1913, Cooperativa ceramica d'Imola started its specialization in floor and wall ceramic tiles, that just few years later became the main activity. The beginning of the internationalization process, instead, can be traced in the participation to the Turin Universal Fair in 1991, which clearly symbolize the cooperative's will to take part in international exhibitions that today are still important in the company's strategies. The search for unique decorations and colors, the quality of materials integrated with the increasing technological advancements led firstly to an expansion of the production area, and secondly to a growing notoriety, demonstrated by the visit in 1928 of King Victor Emmanuelle III to the company as well as other institutional figures and important artists. From the earlier decades of the 20<sup>th</sup> century the firm began to report challenging achievements that conduct to the acquisition of two other companies: the "I.C.F" in 1991, the "Leonardo 1502" in the 1993; while reaching great production goals in the ceramic sector and satisfying foreign markets' demand. In this way, Cooperativa Ceramica d'Imola gained international popularity establishing its leader position in the manufacture of high end ceramic tiles. The company started from the original double-firing process to further extend product categories, which range from glazed porcelain to the modern full-body porcelains, characterized by low porosity, and from the simplest tile to the most decorate and special ones. The company's trend of anticipate innovative traits contaminated by a relevant traditional background have always been the essence of this company global success.<sup>155</sup> In 1999, Cooperativa Ceramica d'Imola was awarded as the "Spirit of the new century" by the U.S president Clinton during a ceremony in Washington, precisely defined as the company that the most represent "the soul of the millennium art in Italy".<sup>156</sup>

Furthermore, as reminded by the numerous brand logos of bees (figure 5.1), another corporate value is the human element that, combined with technology and capital, represent a unique asset of the firm. The firm's set-up can be compared to a big beehive where the workers, or better the bees, cooperate with passion and skills in order to succeed in the same mission.

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<sup>155</sup> Cooperativa Ceramica d'Imola official website. [www.imolaceramica.com/en/](http://www.imolaceramica.com/en/) (14/02/2018)

<sup>156</sup> Cooperativa Ceramica d'Imola official chinese website <http://www.imolacn.com/> (14/02/2018)



**FIGURE 5.1** Cooperativa Ceramica d’Imola brand logos’ changes during the years.  
**Source:** Cooperativa Ceramica d’Imola official website. [www.imolaceramica.com/en/](http://www.imolaceramica.com/en/)  
 (14/02/2018)

### ***Today... Mission***

Nowadays, in the timeless factories of Cooperativa Ceramica d’Imola, based in Imola, near Bologna, are manufactured new items and developed original ideas of great importance for the world furniture and design industry: from the larger formats trend to most innovative solutions for domestic, urban or industrial sector. Currently the company still one of the international leader in the ceramic tile sector, being recognized worldwide as the signature of the most sophisticated made in Italy, and whose items clearly express the same passion with which the cooperative was originally founded. Since the company is characterized by an international and diversified structure, today it is become a kind of benchmark for innovative and refined ceramic, but also the owner of three different brands:

- **IMOLA CERAMICA** 

The brand that the most recall to mind the original items of Cooperativa Ceramica d’Imola with a touch of creativity. The brand has absorbed the traditional ceramic characteristics and it proposes a diverse selection of wall and floor tiles suitable for every type of necessity: for both public and private spaces.



- **LAF AENZA**

The feminine brand of Cooperativa Ceramica d’Imola, acquired by the company in 1993, is now recognized in consumers’ minds as a luxury brand. In the ancient name of the brand already exists a connection between the historical art of manufacturing and modern techniques. Therefore, it offers classical models contaminated by contemporary influences, which generates refined pieces of authentic elegance that can satisfy both public and residential spaces.



- **LEONARDO**

Of the three brands this is the most “future-oriented” kind of brand, acquired by the company also in the 1993, and whose name is a direct reference to the artist Leonardo da Vinci, the forerunner of the perfect equilibrium between art and science. It is future-oriented in a sense that it satisfies those consumers searching for cutting-edge items, by looking at modern style and hi-tech components. This masculine brand generally represents the industrial heritage but transformed in an eclectic way, providing minimalistic, design-oriented and grown braking products.

In addition to these three brands, from 1979 the company boasts a museum that collects centuries of firms’ history and ceramic art precious memories. Along the exhibition itinerary, it is possible to have a look on hand-made pieces, old photos, certificates of participation to both national and international important exhibitions and the main collaborations of the company with prestigious artists, such as Gio Ponti, Enrico Bay, Arnaldo Pomodoro, Ugo La Pietra, Joe Tilson, Hsiao Cin and many others. the choice of the place where the museum is located is a clear emphasis on the strict relationship between art and science: it is an old glassmaker industry, where the synergy of these two elements clearly constitutes the rich heritage of the ceramic art.

This dualism is indeed at the basis of the international success of Cooperativa Ceramica d’Imola, a firm became symbol of the Made in Italy in the foreign markets since 1991. The company is famous worldwide for the great capabilities in satisfying every type of needs, from the experts’ ones to distributors and final consumers’ ones, by providing tailor-made

solutions and services, while anticipating future trends in design as well as technological fields. From this success derived the great numbers that characterize the company business: it is owner of three brands well-established in the marketplace and seven factories, where more than 1.312 employees work every day<sup>157</sup>. With a total turnover of 248.224.000 million euros<sup>158</sup> (more than the turnover of 2015, about 241 million euros<sup>159</sup>) and a production capacity that, both for residential and public uses, exceeds the 25.000.000 million sq. m<sup>160</sup> Cooperativa Ceramica d'Imola confirmed its leading position in the ceramic sector competing at high level in the international scenario, making of the export value its strongest point (74% on the total production<sup>161</sup>).

Those numbers highlight a constant dedication to higher qualitative standards' achievements: in terms of both technological innovation and deep researches in the fields of interior design, which together represent the primary mission of the company. In fact, only between 2008 and 2010 more than 55 million euros were invested in research and development. But, behind these numbers there is the collaboration of workers that have for many years shared together experiences, know-how; while have continued believing in the same oldest values that today still at the company's foundation.

Another important mission pursued by the company is the respect for the environment, in which the relation between men and nature is fundamental. Hence, nature and technology combine themselves to the realization of a final product that results innovative and eco-friendly at the same time, encouraging principles as firms' eco-efficiency and eco-compatibility with the surrounding environment. This is a firm behavior that shows its evidence in the achievement of multiple certifications as EMAS, L.E.E.D, ECOLABEL, and BIOGRES.

In 2013, the company started implementing an industrial plan focused on many improvements as regard the organizational structure and the production efficiency of the three distinct, but with the same values and mission, production brands. A restyling and development of the brand is proposed in 2015 giving greater relevance to the three brands, completely repositioned in the group's identity.

In conclusion, as data shows up in the following figure (Figure 5.2), Cooperativa Ceramica d'Imola has obtain a global success and is presently

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<sup>157</sup> AIDA data (2016).

<sup>158</sup> TILE ITALIA, (2017). "Fatturati Italiani 2016", no.3, p.38.

<sup>159</sup> ORBIS data (2016).

<sup>160</sup> AIDA data (2016).

<sup>161</sup> Financial Statement of Cooperativa Ceramica d'Imola S.C. (2016).

recognized worldwide for being one of the most excellent producer of refined Italian ceramic tiles.



**FIGURE 5.2** Made in Imola across the world.  
**Source:** Cooperativa Ceramica d’Imola official website.  
[www.imolaceramica.com/en/](http://www.imolaceramica.com/en/) (14/02/2018)

## 2. The Chinese Experience: from a Cooperative to a luxury brand.

Since Cooperativa Ceramica d’Imola gained, during the years, the reputation of well-representing the Made in Italy style, it became a real global sector player, and in the 20<sup>th</sup> century the level of exports reached over 70% of the overall turnover<sup>162</sup> (which is 248.224.000 million euros<sup>163</sup>). Therefore, Cooperativa Ceramica d’Imola started intensifying its presence abroad with numerous sales agreements, opening representative offices in America and Asia for first and expanding in many overseas marketplaces as Canada, South Africa and Brazil. Currently, the group is presented in 142 countries, with 12.574 sales points and 3 main representative offices: one in Moscow, one in Chicago and another one in Hong Kong.<sup>164</sup>(Fig.2)

The company accurately attempt to establish its presence in emerging markets with particular interest towards Asian countries, focusing on Chinese market before any of its competitors. In fact, from 2013, the 78% of turnover of

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<sup>162</sup> MORAGLIO, A. (2013). “Cersaie, la Cina è vicina con la Cooperativa ceramica d’Imola”, Il Sole 24ore, 27th September 2013. <http://adrianomoraglio.blog.ilsole24ore.com/2013/09/27/cersaie-la-cina-e-vicina-con-la-cooperativa-ceramica-dimola/> (14/02/2018)

<sup>163</sup> Financial Statement of Cooperativa Ceramica d’Imola S.C. (2016).

<sup>164</sup> Cooperativa Ceramica d’Imola official website. [www.imolaceramica.com/en/](http://www.imolaceramica.com/en/) (14/02/2018)

Cooperativa Ceramica d'Imola already consisted in foreign sales, whose 35% includes the Chinese sales volume.<sup>165</sup>

The industrial giant China constitutes, indeed, a big share of the company's foreign sales volume almost since 1999 with a year over year increasing turnover. Cooperativa Ceramica d'Imola was one of the first Italian ceramic tile companies that begin to sell products in China.<sup>166</sup>

The group penetrated the Chinese market starting from first-tier cities as a first mover choosing the joint-venture as entry mode due to market instability and high level of uncertainties. Market instability derives from the heterogeneous and not uniform nature of the market, whose economy differs over different regions. Specially in the Chinese ceramic sector, for foreign companies, uncertainties are mainly represented by the complex distribution system, which is completely dominated by the local agents. Secondary barriers to entry were the cultural distance, the language barriers and high customs duties. The entering in the market was slow and occurs through the company's participation in international fairs both in Italy (Cersaie) and in China (Ceramics China in Guangzhou), that still play an important role in the company's competitive strategies.

However, like for every joint-venture, the negotiation proceeds at slow rate but this is a necessary stage when constructing a solid base to start work from. Fortunately, its Chinese partner distributor is a company (Beijing Zhongxin Lihua Ltd.), guided by Mr. Zhang Youli, whose intentions at that time were also to find an Italian company having long-term objectives in the Chinese market to cooperate with.

In 1999, when the company entered the Chinese market, in order to attract more Chinese consumers but also to let the association with the brand easier, it choose to adapt the name to the Chinese target market, by creating a Chinese brand name “蜜蜂” *mi feng*, which means “bee's tiles”, always reminding to the “IMOLA CERAMICA” brand logo representing the little yellow bee (Figure 5.1).

During these seventeen years of collaboration, the joint-venture have been characterized by a long-term vision, which includes missions that have always focused on a sustainable development's perspective, while maintaining every year a 20% growth rate.<sup>167</sup> Especially in the Chinese market, the company highly gives value to its ancient history, stressing on it as a great advantage over competitors. This is because of the lack in the Chinese ceramic tiles' market of

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<sup>165</sup> MORAGLIO, A. (2013). “Cersaie, la Cina è vicina con la Cooperativa ceramica d'Imola”, Il Sole 24ore, 27th September 2013. <http://adrianomoraglio.blog.ilsole24ore.com/2013/09/27/cersaie-la-cina-e-vicina-con-la-cooperativa-ceramica-dimola/> (14/02/2018)

<sup>166</sup> GIACOMINI, P. (2017). “Ceramic World Review”, bimonthly review, November-December, n. 124.

<sup>167</sup> AXD Magazine, (2017). “这一年 | 张有利：一切努力·都为实现我们对美好生活的梦想”, (Interview with Zahng Youli: The efforts to realize the life of our dreams”). <https://mp.weixin.qq.com/s/qjtuKamoegLA64hxsc9i9Q> (14/02/2018)

companies with such a long tradition and know-how deriving directly from the past. On the contrary, Cooperativa Ceramica d'Imola can rely on its 144 years to demonstrate the experience and the highly expertise in this field of production.<sup>168</sup> The joint-venture have been through an over-ten-years process that involved high expenditures on company's culture communication and promotion in the Chinese market in order to reach final consumers, emphasizing the products' hidden value, which consists in the long company's history.

After having strengthened the partnership relation, the joint-venture focused on product specialization to reach the high-end consumers, by including in the products' offering some tailor-made items, specific for the Chinese consumers (tiles with red and white details that particularly match the good association with the idea of good fortune and joy). In this way the company not only succeed in the Chinese market but also reached high-end consumers, by firstly educating them through appropriate communication activities, and secondly by introducing new marketing actions, as the luxury-oriented shopping experience, which can be the appropriate way to transmit the real value of the product and thus building customer loyalty. The higher prices in one hand express the tangible costs deriving from custom duties and in the other hand some intangible costs that can be translated in all the efforts in terms of human resources and learning processes that the company had to face with, as well as the quality that is behind every tile. However, Cooperativa Ceramica d'Imola offers not only well-made and refined ceramic tiles, but also customers' services that are defined in every detail. The services provided to high-end consumers guarantee a great return in terms of high quality as regarding both products, as well as people's life. In fact, to provide a long-lasting and qualitative living space is a company's prerogative.

While examining in depth the Chinese ceramic industry situation, the Italian company found out that also the ceramic tile utilization itself was totally different from the Italian one. The main nature was limited to a functional and unaesthetic usage, since consumers were almost uneducated about ceramic tiles consumption, as intended in this case by the Italian companies. For this reason, if Italian companies looks at ceramic tiles as interior design's integral element focusing on quality and innovation, Chinese producers used to invest in low quality ceramic tiles offered at cheaper prices in order to satisfy the mass market. Along with the globalization process, the Chinese economy's openness to foreign investments and the increasing establishment's rate of foreign companies in the mainland, the Chinese consumers started to look at the foreign output as an item of an added value. In addition, the mainland's ceramic producers presently start

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<sup>168</sup> AXD Magazine, (2017). “这一年 | 张有利：一切努力·都为实现我们对美好生活的梦想”, (Interview with Zahng Youli: The efforts to realize the life of our dreams”). <https://mp.weixin.qq.com/s/qjtuKamoegLA64hxsc9i9Q> (14/02/2018)

to project technologically advanced machineries that are able to manufacture innovative and fashionable tiles, trying very often to emulate the Italian style. This is happening thanks to the latest changes that are quickly replacing traditional habits: there is a great target of Chinese people that usually tends to imitate Western people's lifestyle, for this reason they are more likely to show their status by investing money in material goods.

However, in the Chinese assumption, the home has been classified for many years just as an element of a functional use, which does not require great attentions. In addition, in the Chinese culture the habit to invite friends in the own home is not so common as in the western culture. Because of this growing awareness of Western habits and culture, the Chinese idea of home has been subjected to a progressive revision of the concept itself: the concept of house, known as 家 *jiā*, is strictly linked to the patriarchal society of the ancient China and it was assumed to be a traditional element in the Chinese lives. Presently, instead, the "home" concept is intended in a different way that try to emphasize the living concept by looking also at its style and sustainability.<sup>169</sup> In this process of creating a kind of western-looking houses, the role of the living room has completely changed, and even if the principles of feng shui are preserved, particularly importance is attached to the design component. The living room is turning into the house's core where to invite friends, where to have relations with people and, for this reason, the place where to show the own status symbol. After having examined some changes in Chinese consumptions and assumptions, the years that go from 2005 to 2012 were crucial for the company to understand if all the efforts were well invested, and contrary to the expectations the results were successfully: the presence was already established in almost 100 cities and the company had its own Chinese website.<sup>170</sup>

In 2014 a crucial change occurred: the company decided to invest in country of origin effects for two main reasons: first in order to connect positively the brand with the made in Italy; while second, to contrast the increasing diffusion of Chinese brands using Italian name (the previously discussed Italian Sounding) or offering always more similar products. This investment consists in naming the Chinese joint-venture "意大利 IMOLA 陶瓷" *Yidali Imola tao ci*, which properly stays for "Italian tiles of Imola". Thanks to this change, the brand became to be positively associated to the Italian lifestyle and design, and the number of sales increased vertiginously.

During these years the joint-venture focused also on international fairs' participation, promoting these kinds of activities to increase reputation and to

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<sup>169</sup> AXD Magazine, (2017). "这一年 | 张有利：一切努力·都为实现我们对美好生活的梦想", (Interview with Zahng Youli: The efforts to realize the life of our dreams").

<https://mp.weixin.qq.com/s/qjtuKamoegLA64hxsc9i9Q> (14/02/2018)

<sup>170</sup> Cooperativa Ceramica d'Imola official chinese website <http://www.imolacn.com/> (14/02/2018)

successfully display the greatest works coming from the cooperation between Italy and China. The Universal Exposition, known as Expo, the annual CERSAIE event in Bologna, the Ceramics China Guangzhou, the Milan Furniture Fair, the Shanghai Furniture Fair represents together all the main fair to which Cooperativa Ceramica d'Imola and its Chinese partner participate with devotion and surprising innovation almost every year. The participation to international fairs, both in Italy and in Japan, represented also an opportunity for Chinese designers to accurately study, learn from important designers while improving their own artistic styles. These are activities completely organized and promoted by the joint-venture to stimulate in this case the collaboration between Italy and China, as well as for initiatives like "Nest Award", "Interior Design Professional International Study Tours" and "Huiyibei: the children drawing competition". From this moment on, the company started to gain more and more success. In 2015, the company inaugurated the new corporate office in Hong Kong<sup>171</sup> in order to reach more exigent consumers and to follow contemporary trends in a continuously expanding city, which is seen as a crossroads of different ideas, cultures and design.

Instead, is of the 2017 the interesting introduction in the company's marketing policies of the first flagship store, located in Beijing, that represents a kind of real shop window oriented to an exclusive shopping experiences. The choice of positioning the first Cooperativa Ceramica d'Imola flagship store in Beijing clearly express the incredible faith towards the high-potential of the Chinese market's growth, which is intended to last in the long-term and consolidate much more. Nowadays, the great results achieved by Cooperativa Ceramica d'Imola in the Chinese market can be noticed in the following numbers:

- The annual sales volume amount to 17.975 million euros (7.4% of the Company turnover)<sup>172</sup>;
- The year over year growth (2016 over 2015) registered an increase of 1%.
- The number of stores in China are more than 150, in almost 100 cities. The distribution system can include high-end malls (as EasyHome, Red Star Macalline) or cities' high-end districts. (figure 5.3)
- The company detains the 65% of the imported ceramic tiles' market in China<sup>173</sup>, becoming the most famous Italian company as regarding the ceramic sector.

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<sup>171</sup> Cooperativa Ceramica d'Imola official website. [www.imolaceramica.com/en/](http://www.imolaceramica.com/en/) (14/02/2018)

<sup>172</sup> Financial Statement of Cooperativa Ceramica d'Imola S.C. (2016).

<sup>173</sup> AXD Magazine, (2017). "这一年 | 张有利：一切努力·都为实现我们对美好生活的梦想", (Interview with Zahng Youli: The efforts to realize the life of our dreams"). <https://mp.weixin.qq.com/s/qjtuKamoegLA64hxsc9i9Q> (14/02/2018)



**FIGURE 5.3** Cooperativa Ceramica d'Imola showroom in China.  
 Source: Cooperativa Ceramica d'Imola official chinese website  
<http://www.imolacn.com/> (14/02/2018)

### 3. Competitors' analysis.

The company's competitors in the Chinese ceramic sector are mainly Italian, Spanish and Chinese firms. In fact, the leading firms in the world ceramic sector, as showed in Chapter 4, have its origins in these three countries.

Italian competitors are the ones to be more feared about due to the same long ceramic tradition that is at the basis of Cooperativa Ceramica d'Imola. However, Cooperativa Ceramica d'imola in the ranking of the bigger Italian players in the ceramic sector is in the top segment, at the 6<sup>th</sup> position, after Concorde Group, Panariagroup, Casalgrande Padana.<sup>174</sup> In the Chinese market the main Italian competitor is Marazzi Group, which from 2013 became part of the Mohawk Industries, the American giant multinational, which has the global leadership in terms of production and revenues (8,959 million dollars)<sup>175</sup>. Marazzi group is

<sup>174</sup> BARALDI, L.; (2017). "Ceramic World Review", bimonthly review, August- October, n.123.

<sup>175</sup> Ibidem.

characterized by a ceramic tiles' long tradition and almost 80 years of history. Its origins are in the Italian district of Sassuolo, the same of Cooperativa Ceramica d'Imola, but it operates worldwide in almost 140 countries. As the examined cooperative, also Marazzi group has penetrated the Chinese marketplace during the second stage of imported ceramic tiles' flow which China go through (1999-2014), starting from first-tier cities. The offering is targeted to high-end consumers, offering precious and also eco-friendly ceramic tiles. Marazzi group is also directly involved in the reduction of environmental impacts and, since 2003, it obtains many certifications for its social commitment (as LEED, EU Ecolabel certifications).<sup>176</sup>

Even if there are some similarities between the two Italian companies' strategies, there are some singular traits that distinguish Cooperativa Ceramica d'Imola from its competitor, as for instance: the localization of production. In fact, all company's manufacturing operations are entirely based in Italy, unlike Marazzi Group.

As regard European players, the company affirmed that the Spanish Porcelanosa Group is a noteworthy competitor in the Chinese ceramic sector. Even if it has penetrated the Chinese market lately (in 2012), the Porcelanosa Group is strengthening very fast its position. The company is marked by a 40 years' experience, since was established in 1973, but soon has been subjected to the internationalization process, in order to expand its market horizon, operating presently in more than 143 countries, with a sales volume that amount to 845 million euros <sup>177</sup>. Moreover, the company was born as a ceramic tile manufacturer, but then decided to diversification of production, offering to consumers various types of product ranging from sanitary ware to kitchen and of course tiles. The diversification of production was at the basis of the group business development, and play a crucial role in the internationalization process, that have led now the company to gain a reputation recognized worldwide. As regard China, the group opened its first project office in 2012 in Shanghai<sup>178</sup> to start expanding more and more. Since that moment, demand start increasing vertiginously and in 2015 a second project office, were to concentrate on quality and innovation, was inaugurated in the cosmopolitan Shanghai. The Chinese consumers particularly appreciate the innovative as well as ecological tiles, since also this group has as a priority the environment sustainability. Porcelanosa group have created both environmental friendly infrastructures and production processes in order to provide a sustainable piece of art. Green labels included: Eu Ecolabel certification, LEED, BREEAM.

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<sup>176</sup> Marazzi Group official website. <https://www.marazzi.it/> (14/02/2018)

<sup>177</sup> Porcelanosa Group official website. <http://www.porcelanosa.com/> (14/02/2018)

<sup>178</sup> Ibidem.

Among the Chinese ceramic tile market, the Chinese competition is very fierce: L&D, MONALISA, MARCOPOLO and NABEL are the main firms that contrast Cooperativa Ceramica d'Imola's sales. It must be taken into consideration that for a Chinese consumer the fact that Chinese ceramic tiles companies export to foreign countries, as Europe, is an extra point capable of encouraging sale. The following companies, indeed, aim to reach exports' advantages.

### 唯美L&D陶瓷

L&D is a firm established in 2003, when was the major firm of Jiamei Company of Wonderful Brand. With a solid presence in the mainland as well as in the international scenario (export flows in Europe, America and Southern Asia), in 2016 the L&D company reached RMB 9,875 million, being awarded as one of top 500 Chinese brands, for the sixth consecutive year, and has been included in the top ten brands of ceramic Chinese industry.<sup>179</sup> These incredible results are to be rooted in an important change in the firm's strategy: in 2003 the firm decided to distinguish its own brand from the Jiamei Company by oriented its target to high-end consumers, providing fashionable and international oriented ceramic tiles. Another transformation occurs in the product itself, since the company began to invest in green policies in order to offer to the more demanding and attentive Chinese consumer tiles capable of lasting during generations. The company is indeed really keen on green issues: in fact, it won "Green Building Materials Product" award, which was issued by China Building Materials Industry Association in 2003.<sup>180</sup>



Located in Foshan, the Ceramic city of China, in Guangdong province the Monalisa Group Co. Ltd was founded in 1992 with a capital of 18 million dollars. Presently the group is constantly achieving noteworthy results, with a clear evidence in the RMB 2.2 billion (318 million dollars) of sales volume.<sup>181</sup> Nowadays, the company is characterized by seven subsidiaries, nineteen construction tile processing line and two light new material construction lines, with an annual production of almost 30 million sq. m.<sup>182</sup>

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<sup>179</sup> L&D Company official website. <http://www.lndtc.cn/> (14/02/2018)

<sup>180</sup> Ibidem.

<sup>181</sup> China Daily (2017). "With Italy joint-venture, Monalisa smiles with innovative tile products". [http://www.chinadaily.com.cn/business/2017-05/05/content\\_29212519.htm](http://www.chinadaily.com.cn/business/2017-05/05/content_29212519.htm) (14/02/2018)

<sup>182</sup> Ibidem.

Competitiveness is represented by tiles quality, Italian design and export rates. The group propose to consumers premium quality ceramic tiles, characterized by the Italian design, since it has established in 2016 a joint-venture in Italy with the ceramic producer Gruppo Romini SpA. Industrie Ceramiche.<sup>183</sup> The singularity that distinguish this Chinese companies from Chinese competitors, but also from Cooperativa Ceramica d'Imola, is represented by the fact that the ceramic tiles are produced and designed in Italy to be therefore imported in the Chinese market. The company adopt this strategy in order to improve its competitiveness while look also at the brand strengthening, providing better quality and style. Exports flows go across more than 100 countries: from Europe, to America, to Asia, which still remain the main market to invest in with more flagship stores' openings.<sup>184</sup>



**馬可波羅磁磚**  
陶 瓷 中 的 世 界 名 作

Marco Polo Group is a ceramic tile famous Chinese brand, established in 1988. Located in Dongguan city, it is one of the Chinese largest producer of ceramic tiles and one that the most represent the Chinese pottery and porcelain of a thousand years tradition. in 1996 the company began the internationalization process, to currently sold its high-tech products in Southern Asia, Europe and America. Only in the mainland China, the group has 1000 stores and almost 20 flagship stores, but annually keeps on cooperate with many internationally famous companies.

The Group is generally recognized for the great R&D capability, an investment that company makes every year, as the numerous patent rights obtained nationally prove. The ceramic tiles are produced focusing on values as "artistic aesthetics, multifunctional, high grade". Presently ranks among China's "Top 500 national industrial enterprises" and "Top 100 enterprises in the Chinese building material industry".

Marco Polo brand is, as Monalisa Group, an example of Italian Sound Branding (analyzed in Chapter 2) because of the famous names widely recognized to belong to the Italian culture. This association is misleading since the companies are both Chinese, but this brand names recalling to minds Italian leading figures give a positive perception in the Chinese consumers' minds; and it is becoming a marketing strategy very common in the mainland. For this reason, pure Italian brand have to implement more contrasting actions or protecting laws in order to defend the real Made in Italy.

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<sup>183</sup> Ibidem.

<sup>184</sup> Monalisa Group official website: <http://fsmonalisa.gmc.globalmarket.com/> (14/02/2018)



## 諾貝爾磁磚

Hangzhou Nabel Group Co. Ltd, is one of the most important tile manufacturer in China with an annual sales amount of 250 million dollars. It was founded in 1992 on values as: technology innovation, quality, excellent service. Its main competitive advantages are: high-quality products, experienced R&D department and production capacity. “Deep study, focus on competition, emphasize achievements and make progress all together” is the company motto.<sup>185</sup> With a mission oriented towards the creation of a healthy quality living space, the company is involved in many research and development activities, with investments of 425 million dollars, and in adopting sustainable policies. It has been awarded as “China Environmental Symbol Product Certificate”, “National supported high-tech and innovative enterprise” and, most of all, has been ranked at 3<sup>rd</sup> place in the “China’s 500 most valuable brands of 2015”, after Marco Polo group.<sup>186</sup> Currently, the company has been defined as the first choice for Chinese high-end consumers, with an offering that ranges from glazed porcelain tiles to advanced crystal polished porcelain tile, characterized by completely new decorative elements reminding to the European rustic tiles. The group has a production capacity of 78 million sq.m. generated from the five production bases in Hangzhou, Jiujiang and Deqing. Insisting on quality and innovation, the company Nabel produces its ceramic tiles using Italian machineries, pursuing the quality management system (ISO9001): the pressing machine is imported from SITI-Italy, the Kiln from SACMI and LB as well as the fully automatic hydraulic pressing machine by SACMI. Presently the company have more than 53 branch companies in the domestic market with almost 1100 exclusive stores, but its sales are principally concentrated in the mainland, therefore now the company is making more efforts in order to be spread in the international scenario, where already exports, even if with little shares, in Southern Asia, Europe, Australia and America.

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<sup>185</sup> Hangzhou Nabel Group official website. <http://en.nabel.cc/> (14/02/2018)

<sup>186</sup> Deng, S. (2015). “24 brands selected China’s Top 500”, Ceramic Town Weekly, 7<sup>th</sup> issue. <http://www.ceramictownweekly.com/posts/38> (14/02/2018)

#### 4. Factors of company's success in China: analysis of competitive advantages.

From 1999 to the current 2018, the main elements that have contributed to the success and goals achieved by Cooperativa Ceramica d'Imola in the Chinese marketplace are: the strong partnership with the domestic distributor, the country of origin (The Made in Italy), the products' components of quality, design and style, the over 140 years of brand history, the green policies, the product adaptation to the Chinese market and last, but not least, the opening of a flagship store. These are all the company's main activities pursued during these years that permit to gain favorable competitive advantages.

##### ➤ **Joint-venture**

The joint-venture of Cooperativa Ceramica d' Imola and the Chinese local agent, Mr. Zhang Youli, was established in 1999 and it is one of the few examples of joint-venture' success between Italian and Chinese companies. The joint-venture is characterized by a solid relation, based on principles as reciprocal trustworthiness, loyalty and reliability. Since the earlier beginning, the two companies shared the same long-term vision and long-term objectives: the Italian company was looking for a local agent to penetrate the Chinese market with a set of long-term objectives; while the Chinese company was searching for a loyal Italian partner capable of offering the real Made in Italy tiles' quality. Moreover, the Chinese distributor choose to collaborate with Cooperativa Ceramica d'Imola for many reasons: the company's history, since ceramic needs traditional techniques and great experience in manufacturing; the high level of innovation and quality, two constant goal to reach when manufacturing every single tile; the design, which is always the result of intense research activities; the stability and the long-term vision of the company, which served as guarantee for the Chinese company.<sup>187</sup>

The selection of the joint-venture as entry mode was mainly due to the high market instability and the greater dominance of the market by domestic distributors. The ceramic tradition is a value that the two companies have in common, indeed both the Italian company and the Chinese distributor strongly believe in the cultural component that characterize every single tile.

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<sup>187</sup> AXD Magazine, (2017). “这一年 | 张有利：一切努力·都为实现我们对美好生活的梦想”, (Interview with Zahng Youli: The efforts to realize the life of our dreams”). <https://mp.weixin.qq.com/s/qjtuKamoegLA64hxsc9i9Q> (14/02/2018)

Nowadays, the companies cooperate not only to sell ceramic tiles, but also to provide high-quality services to consumers, while assisting them in every buying process' steps: from acquiring the necessary information of the pre-buying stage to the post-purchase services. The final objective is to offer personalized spaces that can permit a higher quality of life. The great value of the partnership derived from the intense exchange of different culture, knowledge and skills between China and Italy, which is at the basis of their trade. On 22<sup>nd</sup> March 2017 at the Italian Embassy in China, the President of the Italian Republic, Mr. Mattarella, awarded Mr. Zhang Youli for the big contribution he gives to the promotion of cultural and artistic exchange between the two countries, by consigning to him a medal and a certificate attesting this honor.<sup>188</sup>

➤ **The value of the Made in Italy**

Cooperativa Ceramica d'Imola is attested to be a Made in Italy ambassador all over the world, particularly in the Chinese marketplace. The made in Italy component occupy a great share of the company's sales volume in China, since it serves for Chinese consumers as a fundamental element that guarantee the quality of the product. In fact, the company detains the 65% of the Chinese imported ceramic tiles' market.<sup>189</sup>

Cooperativa Ceramica d'Imola guarantees the authenticity of its Italian origin through the institutional trademark "Ceramics of Italy"<sup>190</sup>, consisting of an association of many Italian ceramic companies that fit together in order to promote and protect the real Made in Italy ceramic products.

Across the 19 years of expansion in the Chinese market, the group have gone through an incremental process of valorization and communication of the Made in Italy. At the very beginning, the made in Italy was for the company just an intrinsic element of the product, not so well communicated since also the brand name was translated into a Chinese version to attract more consumers and to be more familiar to the market. But after many researches, the company found out how important was communicating the country of origin of its product to gain a competitive advantage. The Italian output, indeed, was preferred by the Chinese consumer thanks to the higher values it have in terms of quality, beauty, elegance and tradition. Compared to the

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<sup>188</sup> WeChat, posted by IMOLAStyle on 23<sup>rd</sup> March 2017.

<https://mp.weixin.qq.com/s/J6VmJ0wFF3PV1oY4BLiW8Q> (14/02/2018)

<sup>189</sup> AXD Magazine, (2017). "这一年 | 张有利：一切努力·都为实现我们对美好生活的梦想", (Interview with Zahng Youli: The efforts to realize the life of our dreams").

<https://mp.weixin.qq.com/s/qjtuKamoegLA64hxsc9i9Q> (14/02/2018)

<sup>190</sup> Serri, A. "Solo la Ceramica fatta in Italia si chiama Ceramics of Italy", Ceramica info, il portale ufficiale della Ceramica Italiana, <https://www.ceramica.info/articoli/ceramics-of-italy/> (14/02/2018)

Chinese competitors, whose offerings were based on low quality products and low technology components, Cooperativa Ceramica d'Imola boasts a great Italian artistic heritage as well as Italian style and design. Therefore, the company in 2014 started investing in actions that could bring the correct association of the brand to the value of Made in Italy. From the change in the brand name, which became “意大利 IMOLA 陶瓷” *Yidali Imola tao ci* (“Italian tiles of Imola”), to the increasing usage in the showroom of little flags positioned at the stores’ entrance as well as at the inside.<sup>191</sup>

The shopping experience offered to consumers is closer to the Italian one and it is plenty of clear references to the made in Italy, as for instance is very common when entering a company’s showroom to have coffee (made using original Italian coffee machines). Furthermore, is interesting the introduction in every showroom of expert designers that very often invite some Chinese consumers, interested in buying unique ceramic tiles, to guide them in the company’s shopping experience: they first introduce the ancient history of the company while explaining the detailed processes behind every tile, then induce them to buy the items guaranteeing the real origin of the product. The higher prices, due to custom duties, and the longer delivery time, due to the fact that production takes place only in Italy, serve also as a guarantor of the fact that items are completely manufactured in Italy. This is highlighted also by some installations in the flagship store, opened in Beijing in 2017, of containers that reproduce the space of a room entirely realized with company’s ceramic tiles. The usage of containers refers to the trip that ceramic tiles go through to reach the Chinese consumers’ houses.<sup>192</sup> In addition to the brand name, also in company’s advertising activities (on Wechat for example) always make some references about Italian lifestyle and tradition, giving some insights about Italian trends.

Thanks to these changes in communication and distribution, the brand has been positively associated to the Italian lifestyle and design, manifesting in a vertiginous growth in terms of sales volume.

➤ **Quality, design and style**

Being a synonym of fine Made in Italy craftsmanship the ceramic tile produced by Cooperativa Ceramica d’ Imola are characterized by a high quality, design and style typical of the Made in Italy. Both wall and floor tiles represent the perfect combination of traditional and modern style, with a unique artistic sense and a variety of colors and design that can fulfill diverse consumers’ necessities. Tiles’ textures are often characterized by

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<sup>191</sup> Cooperativa Ceramica d’Imola official chinese website <http://www.imolacn.com/> (14/02/2018)

<sup>192</sup> Sina Weibo, posted by Wen, Y. on 22<sup>nd</sup> April 2017

<http://jjaju.sina.cn/news/20170422/6261518581687976167.shtml?from=singlemessage&isappinstalled=0> (14/02/2018)

some imperfect traits (lines, colors) that are intentionally left in order to give a natural effect. This is explained during the shopping experience, by every stores' shop assistant, who invite customer to directly touch the tiles' texture, to be aware of the fact that every tile is unique and natural. Furthermore, the quality of the ceramic tiles is demonstrated by the Quality system certification (UNI EN ISO 9001)<sup>193</sup>.

➤ **Brand history**

The company's history of over 140 years is a key factor and represent a value to be shared. The ancient history is usually communicated through company's logos, websites, interviews and customers' shopping experience (i.e.: in every showroom there is a wall explaining the history; shop assistants' introduction to the company). The brand logo for instance have integrated for many years the cooperative's years of foundation (1874). The history of the group permit to distinguish it from the multitude of competitors because of the lack in the Chinese market of an old company as Cooperativa Ceramica d'Imola. For this reason, it is a distinctive trait to be taken advantage from and that must be well-communicated.

➤ **Green policies**

Cooperativa Ceramica d' Imola produces high-tech as well as sustainable ceramic tiles, since it has always been aware of green issues and involved in environmental friendly activities. Furthermore, the company seek also many ways and participates many initiatives in order to respect and protect the surrounding environment (Figure 5.4 shows some examples).



**FIGURE 5.4** Social Sustainability of Cooperativa Ceramica d'Imola

**Source:** Cooperativa Ceramica d'Imola official website. [www.imolaceramica.com/en/](http://www.imolaceramica.com/en/) (14/02/2018)

<sup>193</sup> Cooperativa Ceramica d'Imola official website. [www.imolaceramica.com/en/](http://www.imolaceramica.com/en/) (14/02/2018)

Since the group strongly believed in environmental sustainability, it aims to realize all the production processes by using machineries in an efficient way minimizing environmental impacts, while giving also attention to the ecological normative requirements. After having awarded its first quality certification in 1998, the company begin to obtain a series of green labels, as the following principal ones:

- Emas Certification;
- Leed Certification;
- EU Ecolabel Certification;
- Life Project (P.S.V. Life05 ENV/IT/00875).



**FIGURE 5.5** Summary of the “green” certifications awarded by Cooperativa Ceramica d’Imola.

**Source:** Cooperativa Ceramica d’Imola official website. [www.imolaceramica.com/en/](http://www.imolaceramica.com/en/) (14/02/2018)

These environmental friendly actions pursued by the company can be seen as a great advantage over many competitors in the Chinese market, since a lot of both domestic and imported ceramic tiles do not have the same green plan of operations, and this is reflected also in the quality component. The company’s Chinese president, Mr. Zhang Youli, explains during an interview that in China, in particular among the middle class, is growing the awareness of environmental issues in order to create more sustainable, qualitative and eco-friendly standards of life. In the specific case of building materials, it must be said that the ones used to construct the own home are to be considered in the long-lasting view, and if the consumer takes care of the

home and environment sustainability, he can guarantee to the future generation a certain quality of life.<sup>194</sup>

➤ **Flagship store**

The distribution strategy of opening a first flagship store and to place it in a first-tier city as Beijing is not a coincidence. Firstly, a flagship store is intended to be placed in the company's primary location, but in this case, it is located in Beijing. This highlights the great optimism towards the Chinese marketplaces, as affirmed by the Chairman of Cooperativa Ceramica d'Imola, Mr. Bolognesi. Secondly, the flagship store is an excellent marketing media to display the variety of products offered in a unique way that distinguishes it from the other common stores. It is a mix of design, visual merchandising and particular atmosphere that adds a physical dimension to the brand.

The flagship store was opened in Beijing on 22<sup>nd</sup> April 2017 and during the inauguration the sales volume reached 10,000,000 RMB in almost six hours.<sup>195</sup>

This store of 500 sq. m. is not only the result of the mix of design, history and culture, but also the outcome of the cooperation between two cultures: Italy and China, as symbolized also by the two flags, the Italian and Chinese ones, positioned in the entrance. There is a conflict between western and eastern aesthetics. The typology of shopping experience is a luxury one: the consumer is guided by a shop assistant since the first step made into the store. In addition, also a kind of VIP room has been created to provide a more exclusive service to certain types of consumers. They are invited to listen to the history and have a look at the perfectly exposed precious tiles, while sipping a true Italian coffee. The message that the company wants to communicate through this distribution strategy expresses the constant improvements made not only in the items production, but also in services, communication and marketing, which are all tailor-made to the Chinese consumer.

➤ **Product adaptation**

Cooperativa Ceramica d'Imola in order to penetrate the Chinese market and satisfy Chinese consumers' tastes in some cases create and, in some cases, adapt product lines specific for the target market. The group has adapted existing products by adding some Chinese particulars: as red lines, or oriental decors, but always maintaining the Italian style. Some ceramic tiles, as the "Caracalla" collection, where red and yellow lines are entailed in the line for

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<sup>194</sup> AXD Magazine, (2017). "这一年 | 张有利：一切努力·都为实现我们对美好生活的梦想", (Interview with Zhang Youli: The efforts to realize the life of our dreams").

<https://mp.weixin.qq.com/s/qjtuKamoegLA64hxsc9i9Q> (14/02/2018)

<sup>195</sup> Sina Weibo, posted by Wen, Y. on 22<sup>nd</sup> April 2017

<http://jjaju.sina.cn/news/20170422/6261518581687976167.shtml?from=singlemessage&isappinstalled=0> (14/02/2018)

their precious meaning of good fortune in the Chinese tradition. The insertion of gold lines on a black background, as happens in the “Chinè” collection add a luxury detail to the tile, showing great appreciation among Chinese customers. In addition, it was recently presented at Cersaie 2017 the introduction in the company products’ categories of a larger-size tile format (120x260 cm), particularly produced to adapt collections to the new Chinese ceramic tiles industry’s trend.<sup>196197</sup>

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<sup>196</sup> Ceramic Town Weekly (2017). “Trend of Large-Format Ceramic Tiles in China”.  
<http://www.ceramictownweekly.com/posts/485> (14/02/2018)

<sup>197</sup> GIACOMINI, P.; (2017). “Ceramic World Review”, bimonthly review, November-December, n. 124.

## 1. SWOT Analysis: Cooperativa Ceramica d'Imola in the Chinese market.

### Strengths

- History of the brand
- Solid joint-venture
- Green policies
- Distribution system
- Country of origin
- High quality products
- Traditional but innovative aspects of the product
- Product adaptation
- International and diversified structure
- R&D investments
- Solid structure and capital
- Punctual and efficient service
- Localization of production only in Italy.

### Weaknesses

- Import taxes and custom duties
- High delivery time due to localization of production only in Italy
- Market for imported ceramic tiles still niche market due to high costs.
- E-commerce channel not yet developed

- Chinese habits western-oriented
- High growth rate for luxury housing
- Rising disposable income of the growing middle class
- Increasing investments in the construction industry
- Fast development of Chinese economy
- Increasing awareness of Made in Italy value
- Growing trade policies between Italy and China
- Conspicuous consumption

### Opportunities

- Fierce Chinese, Italian and Spanish competition
- China is the largest producer of ceramic tiles
- Increase awareness towards green policies
- Presence of a strong and difficult distribution system
- Fake emulation of both products and machineries
- Italian sound branding

### Threats

It is possible to analyze strengths and weaknesses that company possess in the Chinese market, which is plenty of opportunities to take advantage from as well as threats to be contrasted.

Despite of the various competitive advantages that Cooperativa Ceramica d'Imola still have over competitors, already explained in the previous paragraph, there are some weaknesses that still affect the overall operations in the Chinese market. First of all, import taxes and custom duties are very high. The Chinese government promulgate strict regulations for importing companies as regarding the value-added tax, the consumption tax and custom duties. Among duty rates there is the Most-Favored-Nation duty (MFN)<sup>198</sup> that also expect a percentage applied on imported duty. Higher taxes and strict regulations obviously caused an increase in terms of prices. Imported ceramic tiles have, higher costs compared to those of domestic ones, and for these reasons the target market is still a niche market.

The fact that the company main strategy relies on the localization of production only in Italy play a crucial role. All the manufacturing activities, from the initial project or idea to the production processes and from the initial creation of the tile to the ultimate hand-made decoration, are processes that are completely made in Italy, more precisely, in the plants around Imola, near Bologna. This can be considered as a company strength because other competitors better prefer to delocalize production in China, due to the closeness to the Chinese market and the final purchaser. This choice made by the group was initially quite risky, but then became one of the distinctive characteristic that differentiate the company from the other competitors. Nevertheless, delivery time are inevitably longer respect to the one of firm producing in the domestic country, and the growing middle class is more and more demanding and hard to please. Often customers prefer to buy from other brands instead of waiting for the 30 days delivery. Another company strategy refers to the selling option. Even though the Chinese market is the more advanced in e-commerce, with ample series of e-channels and e-platforms, the company still prefer the direct shopping experience because of the importance attached to the learning process in which consumers are involved during the visit of the store. Customer in fact, when entering showrooms, can use the five senses to appreciate the brand experience: he can listen about the company and products' information, he can touch the ceramic tiles' textures and can smell and taste typical Italian coffee or food stuff. Otherwise, in the online platforms (as WeChat), consumers can acquire information about products categories and series, with every detailed characteristic, about services as well as companies' activities, history and

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<sup>198</sup> Dezen Shira & Associate. (2016). "Import-Export taxes and duties in China", China Briefing. <http://www.china-briefing.com/news/2016/12/06/import-export-taxes-and-duties-in-china.html> (14/02/2018)

initiatives, but cannot purchase online. This can absolutely be a way to follow in order to minimize purchasing time and increase sales as well as brand awareness, but of course with all the relative protective measures. Creating an official company's platform where it is possible to order ceramic tiles, also after the showroom visiting experience, can be a means to gain further success in the Chinese market.

The Chinese market, in the specific the ceramic tile industry, offers a variety of opportunities: first of all, for its high speed growing economy, but in particular, for its real estate booming and the increasing luxury housing constructions, representing a scenario characterized by year over year unprecedented improvements. China is not only the largest producer but also the biggest consumer of ceramic tiles. The first data might clearly seem as a threat, due to the higher domestic presence in the market but also because of the introduction of new cutting-edge machineries, which are often an emulation of Italian ones. The second data, instead, is a positive opportunity to take advantage from: demand rate is almost the half of the world consumption of ceramic tiles (5.475 million sq. m., the equivalent of the 42.8% of the world consumption)<sup>199</sup>. Furthermore, Chinese consumption is evolving especially in qualitative terms, and even if prices of imported ceramic tiles are high, customers are inclined to spend a little bit more to gain a product of real quality, that can also be handed down to the next generation. These consumers are represented by the growing middle class, in particular the one-child policy's generation that constitutes also Cooperativa Ceramica d'Imola main clients in China, very attentive to sustainability and quality of the product. The same customers are also more and more western-oriented in the sense that strive for a western way of life, also if this means change original habits. Another characteristic of the actual Chinese consumer is the importance attached to the grade of visibility that a product might have. There are some "Made in" or famous branded items capable of satisfying the conspicuous consumption at the basis of the modern consumer. The idea of possessing a luxury product that can be showed off to other people as a status symbol indicator, dominates the consumers at the point that he must purchase it. Made in Italy products well express and satisfy these two consumers' needs, because in one hand are associated to the higher quality and higher design components goods, while in the other hand permit to appreciate and live the Italian way of life. Particularly positive for the firm are the evolving relations between Italy and China, a collaboration that is little by little strengthening during these years and which have common and long-term oriented objectives. Nowadays Italy is China's fifth trading partner, after almost 50 years of

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<sup>199</sup> BARALDI, L.; (2017). "Ceramic World Review", bimonthly review, August- October, n.123.

collaboration<sup>200</sup>. As previously already explained, the group compete in a market dominated by a difficult distribution system, typical of Chinese industries, since only after 1978, the year of actualization of the Chinese economic reforms, distribution channels begin to be private. However, privatization of distribution channels, composed of a multitude of smaller distribution networks, is still work in progress, and relations (关系 *guanxi*) with local agents make the difference. Other relevant threats however are represented by the fierce competition: the majority of Chinese companies very often take advantage of Italian sound names to attract more consumers, trying to mislead them, but not only. In fact, also products categories or names categories are emulated by Chinese domestic firms, in the attempt of intercept those customers that are interested in a certain kind of western product categories. Of course, the Chinese imitations present lower prices and this can be an advantage for those consumers not yet educated or simply not attentive. Chinese ceramic firms that attempt to increase exports and strongly compete over foreign firms, are adhering to many green policies and legislations. Despite Chinese firms are now more sensible and attentive to environmental commitment and aware of sustainability importance, they still violate many environmental standards. Even if it has faced incredible challenges when choosing to enter the Chinese market and even if it still facing a fierce competition, mixed with all the implications that a difficult and completely different country like China involves, Cooperativa Ceramica d'Imola possesses successful factors that will permit to better consolidate and expand business in the future. Its solid capital and strategic decisions have it well positioned in the Chinese market, becoming a top-tier ceramic provider going forward.

**A success to be continued...**

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<sup>200</sup> Hu, Y. (2017). "China, Italy to boost balanced trade growth", China Daily. [http://www.chinadaily.com.cn/china/2017-02/23/content\\_28326911.htm](http://www.chinadaily.com.cn/china/2017-02/23/content_28326911.htm) (14/02/2018)

## Conclusion

During this research the aim was to demonstrate how an Italian company can succeed in a geographically and culturally distant country, as China, facing both challenges and opportunities. The Internationalization process involves always more and more firms that want to operate overseas to gain further advantages and success. The act of going global is a challenge to face with all the right preventative measures and carefulness in order to reach unprecedented goals. The process of internationalization is the result of a mix of choices and actions that led companies to compete in the global marketplace. In more detail, reasons, entry modes, advantages and risks of companies that undertake internationalization process have been deeply analyzed to show how this series of micro-processes that characterize internationalization, if well implemented, can lead to the obtainment of great competitive advantages. Through the exchange of know-how, skills, expertise, companies can experience foreign markets' opportunities to grow and to expand, while learning and testing new strategies. In the globalized scenario, factors as Country of origin create particular perceptions in the consumers' minds, when choosing to invest in a given product. These perceptions are influenced by deeper evaluations and comparisons about products of different countries made through both external and internal components, as for instance the packaging information or the brand name. Consequently, these perceptions guide preferences over a product rather than another one made in a different country. Country of origin plays a crucial role since a positive or negative association of the product to the country where it has been manufactured is decisive in the consumers' evaluation process. Because of the increasingly globalized reality, in the marketplace is rare to find products that have been projected, assembled and manufactured in the same country, but some exceptions still exist, as in the case of Cooperativa Ceramica d'Imola. For this reason, the focus is on the brand image, an integral part of the product that can faster activate origin recognition directly associated to the brand. In this way, for a firm capable of export the value linked to the national origin the "Made in" or "Brand in" label combined with the country image can represent a firm competitive advantage. In the specific, the made in Italy label is become a premium brand, as a global synonym of quality. In fact, products that have been manufactured in Italy and brands that belongs to Italian manufacture have positive associations that push for the consumer's buying process. Colors, symbols, images about Italian famous places, particular design belonging to the Italian tradition are a set of stimuli created in customers' minds, associated to the idea of high quality, creative elegance, exclusivity and innovation and all the other distinct traits that express the value of Made in Italy. All these intrinsic values contribute to Italian firm's competitiveness among both closer and more different countries. Very often Italian luxury brands' products are emulated in current markets to supply the increasing demand of uneducated customers for cheap faster products. In addition, the Country Sound Branding phenomenon has been presented as a major threat for Italian firms

operating in the Chinese country, since it is a very common situation that must be avoided. Very often, foreign brands use without reasons or any permissions Italian references, symbols, flags just to attract buyers and misleading them by offering products that have nothing to do with the real Made in Italy. The drivers of Italian reputation's spread worldwide are the made in Italy excellences, which can be translated into the main sectors that the most represent the uniqueness and the value of the made in Italy: food and beverage, apparel, automation and furniture. These Made in Italy enforcers have increasingly recorded a considerable foreign trade surplus, contributing in the maintain of the country positive trade balance. Therefore, all the products labelled Made in Italy can benefit from the strong country image that Italy possesses and are promoter of a country identity, which is shared among the entire globe. In the specific, in the Chinese market, which still represents a favorable marketplace where to expand and catch all the potential opportunities, the Made in Italy enjoyed of a general positive perception. Chinese general appreciation towards Italian products, indeed, derives from the good reputation of the "Bel Paese" country image, due to the appealing lifestyle more oriented toward the private life rather than the public one. The highlight was on how Chinese people classified in their minds Italian outputs as top-quality products with a high added value, motivated in the buying process by some critical factors: design, style, quality, high level of specialization, products flexibility and brands awareness. Italian companies that want to succeed in the Chinese market place have to rely on all qualitative factors that identify the Italian product itself (quality, culture, manufacture, innovation, style, design, creativity) instead of preferring quantitative results in the short-term.

The stage experience in Cooperativa Ceramica d'Imola in China, in its Beijing flagship store, has been of crucial importance for the development of this thesis and for the comprehension of many dynamics, which are characteristic of such a big country. A country where traditional values have day-by-day been replaced by imported ones, where original pillars are falling to let modern ones arise, where beautiful and natural places have been destroyed to left space for impressive skyscrapers and shopping districts, sons of one of the faster industrialization process. This is not the image of the ancient China studied during these years of study, but it is the world's largest society that is suffering for the world's faster development, resulting in evident cultural shifts and changes in values. Changes that from the economic point of view, showed great results: according to the International Monetary Fund, China is the second world's largest economy in terms of GDP. In the specific sector of ceramic tiles analyzed so far, China has been identified as the world's largest producer and consumer of ceramic tiles, and for this reason it represents a golden opportunity for an Italian company as Cooperativa Ceramica d'Imola, which have suffered instead for domestic economic crises. The SWOT analysis and competitor analysis were fundamental for this research in order to assess company's weaknesses, strengths, opportunities and threats in the Chinese market and to understand the competitive advantages that make company

prevail over the fierce competition. The strong partnership with the Chinese distributor, the country of origin (The Made in Italy), the products' components of quality, design and style, the over 140 years of brand history, the green policies, the product adaptation to the Chinese market and last, but not least, the opening of a flagship store are the competitive advantages and strategies that contribute to the firm's success in the Chinese market. Cooperativa Ceramica d'Imola has obtain a global success and is presently recognized worldwide for being one of the most excellent producer of refined Italian ceramic tiles, particularly thanks to the great capability of equally balancing tradition and innovation.

From a cooperative to a luxury brand, this was the history of a company became the Made in Italy ambassador in the most challenging country: China.

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