



Ca' Foscari
University
of Venice

Master's Degree programme

in Languages, Economics and Institutions Of Asia and North Africa

Second Cycle (D.M. 270/2004)

Final Thesis

Localization and adaptation strategies in
furnishing industries: evidences from the Chinese
market

Supervisor

Ch. Prof. Andrea Pontiggia

Assistant supervisor

Ch. Prof. Franco Gatti

Graduand

Olga Loredana Caccamo

Matriculation Number 988811

Academic Year

2016 / 2017

前言

该论文的目的在于研究意大利中小企业在中国市场上所采用的方法/态度。我所做的研究，部分是通过实地研究，部分来自一些专门从事家具工业领域的意大利公司为我提供的合作，以及从去年我所参加的一个学术项目中获得灵感。该项目旨在揭露意大利中小企业 Foscarini 为成功在中国市场定位而实施的市场战略中所缺失的“因素”为目的，与一组同事一起进行的调查研究证明，该公司确实没有考虑到组织商业计划的某些重要方面。正如我所说的那样在我的工作中，“两难”Foscarini 是其他许多意大利和欧洲企业在中国面临的共同问题。中国市场是一个大而遥远的市场，在文化和地理上均与欧洲有所不同，中国顾客有着不同的文化背景、价值观念和品味，因此想进入这样一个市场并取得成功并非易事。如果你不能通过解释来展示你们产品的价值，生产过程以及公司背后的故事，他们永远不会选择你的品牌。“告诉我知识，我会忘记。教导我知识，我只会记得。让我深入其中，我才真正的学到知识且能够运用”（孔子）每一家公司都应该有一种使命感，即把自己“竞争优势”和它的能力像中国公司一样，与接触中国消费者结合起来。这一战略似乎能够符合中国最重要的价值观之一：和谐。拥有一个不被认为太“古怪”的产品意味着它有助于房子里家具的整体和谐。如果公司想避免被视为另一个只想抢夺他们的资源的外国品牌，那么尊重他们的文化和他们所感知的现实是定位在中国的关键。这是非常重要的。关于这一点我从两方面进行了调查，一方面是在中国采用意大利企业的“行为”，另一方面，通过从客户收集反馈其经营成果。在我看来，这两个方面必须由公司准确地分析，这是完成任务的关键因素。基于这些假设，我在三节中组织了这项工作。在第一部分中，我将从引领家具市场发展的驱动力入手，对中国家具业进行详细的概述。在过去的几年中国出人意料的成长和发展，这一现象出现在包括家具行业的每一个工业部门，吸引了学者和期待拓展海外业务的企业家们的关注。事实上，中国是世界上家庭消费年增长最快的国家，这是源自于一系列的国家不得不面对的变化；例如，在城市化进程的加快和新政府开放的上升和中产阶级的建立。我将先谈一谈在家具生产中使用的不同种类的材料，以及它们的就业部门，以及在市场上出现的新趋势，值得特别关注“四川绿地”。稍后，在分析在中国的大多

数企业选择特殊目标用户-“中高端”的消费者之前，通过识别其情感态度与价值观、生活方式、期望等等，我将简述地从地理方面来介绍中国市场经济分类。鉴于中国的地理位置，事实上，它不能被视为一个整体单位，因此不能成为一个统一的市场，而是一个庞大而支离破碎的市场。这就是为什么许多学者试图将多年来不同中国的经济区组合在一起。然而，如果依赖于这个城市层次系统，有助于界定不同的市场环节，另一方面，因为中国城市的快速增长这个系统不能被视为完全可靠的。最后，我将简要介绍一下意大利家具业及其在世界上的卓越成就：“意大利制造”现象有助于意大利公司，在中国这样的竞争环境中顺利运作。第二章为我研究的目标提供了一个理论架构。我将开始探索推动企业“国际化”以及影响企业经营活动的内部和外部的力量。有些公司可以表示愿意拓展至海外市场是对环境变化的反应，而另一些公司则是因为希望在国内市场之外寻找更好的机会。（庄士敦&题名其余，1982；Piercy，1981）。

为了更好地解释中小企业在大而遥远市场中经常遇到的困难，例如中国市场，我提到了一些关于跨国公司国际化的重要理论及其在中小企业的适用。正如我在本节中广泛提到的，并非所有公司都可以采用任何一种方法。他们的选择受多方面的影响，如它们的大小、范围、可用资源的存量等等。

据郝林森（2004），公司的规模是其资源的可用性的一个指标。它对市场的参与直接关系到可用资源的数量。因此，国际贸易长期以来一直被视为大型跨国公司的一个领域，而对中小企业来说，这只是一种威胁，而不是一种“机会”。（赵，2005）

然而，在过去的二十年中，在政治和国际关系的性质与一系列变化性的发生，关注向中小企业越来越多。经济合作与发展组织（OECD）指出，二十一世纪初的中小企业在许多工业化国家已经占出口的很大比例。甚至欧洲联盟也强调它们在全球范围内的重要性，将它们定义为欧盟经济的支柱（欧盟委员会，2014）。

因此，必须对中小企业走向全球市场的新概念进行概念化，并考虑到后者的结构和竞争优势，必须制定新的准则。虽然中小企业对贸易壁垒比较敏感，因为它们通常拥有较少的资源，而且不像大公司那样需要面对更高的借贷成本；由于其灵活和动态的性质，他们更倾向于“创新”，并迅速响应市场需求。（奥维亚特和McDougall，1995）

基于这些假设，我将给出一些关于公司进入国外市场的最常用的方法和策略的一些概念。将特别注意新的组织形式，特别是为中小企业概念化，以适应大多数意大利公司的最佳结构。最后，我将分析意大利中小型企业的长处，弱点和竞争优势以及他们国际行为中典型的缺点，我将以 Foscarini 案为例。第三部分和最后一部分是从我的研究中收集到的数据，其中一份是意大利公司的样本，另一份是给一组中国客户的数据。我在中国度过了一段时间，在这期间我曾参加不同的国际家具展览会，我知道很多意大利公司在中国市场的经营，宁愿依靠代理商或经销商来销售自己的产品，而不是直接的个人业务。在我看来，采用这种慎重的进入方式，只有在接近国外市场的初期才是“适当的”。只要公司对它有一定的了解，并期望利用它的目标，就建议改用“手法”，提高品牌知名度和销售量。为此，我起草了一份调查问卷，针对意大利企业战略向亚洲市场，我再分发给三个意大利公司致力于中国，分别为样本：Cattelan Italia, Poltrona Frau 和 Natuzzi。所得结果将在本章中列出，并分析每一家公司的优势、劣势、机会和威胁。此外，我还向当地客户分发了一份调查问卷，通过这些调查，我得到了一个反馈，帮助我揭示了意大利运营模式的成功和失败之处

INDEX

INTRODUCTION	4
CHAPTER ONE – OVERVIEW OF THE CHINESE FURNITURE MARKET	8
1.1 Drivers of China’s furnishing market development.....	8
1.2 Analysis of the raw materials used in the Chinese furnishing market, their industry sectors’ employment and new trends.....	14
1.3 Focus on Sichuan Greenland mid to high-end office furniture manufacturing..	17
1.4 Segmentation of the market: geographic- economic classifications.....	20
1.5 Profile Target.....	25
1.5.1 Attitude and values of Chinese consumers’	25
1.5.2 Trend, lifestyle and future perspectives of the 2020 Chinese consumer....	28
1.5.3 Focus on <i>mainstream</i> consumers and their spending habits.....	31
1.6 Overview of the Italian Furniture industry.....	35
1.6.1 Import, Export and International competitors.....	35
1.6.2 4 “As”, Made in Italy, COO.....	37
CHAPTER TWO – LITERATURE REVIEW	41
2.1 Drivers of Internationalization and analysis of <i>key factors</i> to take into consideration before entering a foreign market.....	41
2.2 A brief outlook on firms’ internationalization process theories.....	42
2.3 Traditional foreign market modes of entry.....	46
2.3.1 Export.....	47
2.3.2 Contracts.....	49

2.3.3 Foreign direct investments.....	50
2.4 Analysis of SMES modes of entry to global markets.....	54
2.4.1 Drivers pushing SMEs to internationalize: advantages and disadvantages of the “third mover”.....	59
2.5 An introspection of Italian SMEs approach to international markets: standardization, adaptation, replication, mirroring back and new organizational forms.....	63
2.6 Italian SMEs’ Internationalization pathway.....	68
2.6.1 Analysis of Italian SMES points of strength, weakness and competitive advantages.....	69
2.6.2 Examples of Italian common shortages in approaching the Chinese market - The case of <i>Foscarini</i>	72
CHAPTER THREE - LOCALIZATION AND ADAPTATION STRATEGIES IN FURNISHING INDUSTRIES: EVIDENCES FROM THE CHINESE MARKET.....	77
3.1 Review of the last Italian furniture exhibition in Shanghai (23- 24- 25 November 2017).....	77
3.2 Evidences from the Chinese market.....	78
3.2.1 Cattelan Italia.....	79
3.2.2 Poltrona Frau.....	83
3.2.3 Natuzzi.....	88
3.3 Chinese Customers Survey.....	93
3.3.1 Analysis of data collected.....	97
CONCLUSIONS.....	102

APPENDIX I	109
APPENDIX II	112
REFERENCES	115

INTRODUCTION

The present focus on the approach adopted by Italian medium and small medium sized enterprises engaged in the furnishing industry in the Chinese market. The study that I have conducted, partly through researches on field, and in part with the collaboration offered to me by some Italian firms specialized in the industry sector in “question”, draws inspiration from an academic project that I have joined last year. The project had the aim of disclosing the “factors” that are missing in the strategy implemented by an Italian small medium enterprise *Foscarini*, in order to successfully positioning in the Chinese market. Evidences from the research study, conducted together with a group of colleagues, proved that the company, indeed, had not taken into consideration some crucial aspects in organizing their business plan. As I have stated throughout my work, the “dilemma” of *Foscarini* is a common dilemma of many other Italian and European firms operating in China. Chinese market is a big and distant market, culturally and geographically and, Chinese customers, unlike to European ones, have a different cultural background, values as well as different tastes; therefore entering in such a market and succeed is not an easy task. If you are not able to involve them by explaining and showing them the value of your product, how it is produced, the story that lies behind your company, they will never choose your brand over another. *“Tell me and I will forget. Show me and I may remember. Involve me and I will understand”* (Confucius).

Each company’s mission should point at combining together the “advantage” to be a Western brand with the capability to reach the Chinese consumers as a Chinese firm would usually do. This strategy, seem to perfectly fits with one of the most important Chinese values: *harmony*. Having a product that is not perceived as too “odd” means that it can contribute to the overall harmony of the furniture in the house. Pay respect to their culture and their way of perceiving the reality is the key to positioning in China. This is also utterly important if the firm wants to avoid to be perceived as another foreign brand which is only interested in trying to plunder their resources. This is what brought me to investigate on one side the “behaviour” of the Italian firms adopted in China and, on the other side, the outcomes of their operations through collecting feedback from customers’. These two aspects have to be both accurately analysed by firms as representing in my opinion, the key elements to accomplish their task.

Based on these assumptions I have organized the present in three sections. In the first section, I will provide a detailed overview of the Chinese furniture industry starting from the drivers leading the country's furniture market development. China's unexpected growth and development in the last years, in every industrial sector included the furnishings one, has become a phenomenon towards which scholars and entrepreneurs aiming at expand their business overseas, have devoted large attention. As a matter of fact, China is worldwide the country with the fastest annual growth in household consumption and this is due to a series of changes that the country had to face; as for instance, the rising and the establishment of the *middle-class* following an accelerated process of urbanization and the introduction of new governmental opening policies. I will then address my attention first, on the different kind of materials likely to be used in the furnishings production as well as on their sectors' of employment and on the new trends emerging in that market, with a specific focus on the "Sichuan Greenland". Later, before analyse the peculiarities of the target mostly chosen by the firms operating in China, the "*mid to high end*" consumers, by identifying its attitudes and values, lifestyles, expectations and so on, I will briefly introduce a geographic economic classification of the Chinese market. Given its geographical dimensions, in fact, China cannot be considered as a whole unit and consequently as a "unified" market, but as a huge and fragmented market. This is the reason why many scholars have been trying to classify over the years, the different economic zones of China into clusters. Nevertheless, if relying on this city *tiers* system should help to define the different market segments, on the other hand, this system cannot be considered fully reliable as seen the fast growth with which Chinese cities are developing.

Lastly, I will give a brief outline about the Italian furniture industry and its excellence worldwide: the "Made in Italy" phenomenon that could benefit the latter, in operating in such a competitive environment as the Chinese one is.

The second chapter instead, provides a theoretical framework that supports the objectives of my research. I will start to explore the *drivers* pushing firms to "internationalize" as well as the internal and external *forces* influencing firms' management activities. Some firms can express the willing to go abroad as a reaction to the environment changing conditions while others because pushed by the desire to find better opportunities outside their domestic market. (Johnston & Czinkota, 1982; Piercy, 1981).

In order to better explain then, the difficulties that medium and small sized firms usually run into, in venturing big and distant markets as the Chinese one, I have illustrated some of the most significant theories concerning MNCs “internationalization” and their implications when adopted by SMEs. As I have widely mentioned in this section, not all firms can adopt any kind of approach. Their choice is influenced by a set of aspects, such as their size, its scope, the stock of resources available and so on.

According to Hollensen (2004), company’s size is an indicator of its resources availability. Its involvement in a market is directly related to the amount of resources available. As a consequence, international trade has been viewed as a field for big global companies for ages, and only a threat rather than an “opportunity” for small medium companies. (Zhao, 2005) However, in the last two decades, in compliance with a series of changes occurred in the nature of political and international relations, a growing interest towards MMNEs and SMEs aroused. The Organization for Economic Cooperation and Development (OECD) state that SMEs at the beginning of the 21st century represented already a significant percentage of exports in many industrialized countries. Even the European Union underlines their importance on a global scale defining them as the backbone of the economy of the EU (European Commission, 2014).

It follows that, a new literature on SMEs approach to global market had to be conceptualized and new guidelines taking into account the structure and the competitive advantages of the latter, had to be defined. Although SMEs are more sensitive to trade barriers since they usually have less amount of resources and, unlike larger firms, have to face higher borrowing costs; thanks to their *flexible* and *dynamic* nature, they are more inclined to “innovation” and quickly respond to market demands’. (Oviatt and McDougall, 1995)

Based on these assumptions I will give some notions about the most common approaches and strategies adopted by firms’ in entering foreign markets. A particular attention will be devoted to *new organizational forms* particularly conceptualized for SMEs, as fitting best the structure of the majority of Italian firms.

Finally, I will analyse points of strength, weakness and competitive advantages of Italian SMEs and typical shortages emerged from their behaviour internationally that, I have disclosure by taking the case of *Foscarini* as example.

The third and last section is the result of data collected from both my researches, addressed one to a sample of Italian firms, and the other one to a group of Chinese customers. After had spent some time in China, during which I have taken part to different International Furniture Exhibitions, I realized that many Italian firms operating in the Chinese market, prefer to rely on agents or distributors to sell their products, rather than direct personally their operations.

The adoption of this cautious mode of entry is in my opinion “appropriate” only at the initial stage of approaching a foreign market. As long as the firm acquires a certain degree of knowledge about it and the target it expects to take advantage of, it is more recommended to switch “modus operandi” so that increase its brand awareness and its volume of sales as well.

For this reason, I have drafted a questionnaire aiming at identifying Italian firms’ strategy to the Asian market, that I have then distributed to a sample of three Italian firms committed to China and whose results will be showed in the chapter, together with an analysis of the points of strength, weakness, opportunities and threats related to each firm. Furthermore, I have distributed a survey to a sample of local customers through which I have gained a feedback that helped me to bring to light successes and failures of the Italians’ operations mode.

CHAPTER 1 - OVERVIEW OF THE CHINESE FURNITURE INDUSTRY

1.1 Drivers of China's furnishing market development

The reasons behind the unexpected growth and development of the Chinese furnishing market, especially in the last years, seem to be linked to four major drivers. The increase of wealth of a wide segment of the Chinese population along with the stabilization of the “middle class” consumers; the introduction of a new Chinese leading policy aiming at stimulating the domestic demand in the years to come; the increasing urbanisation rate and the enhancement of manufacturing and innovation capability. Concerning the first issue, in other words: the newly increase of consumers ‘purchasing power, thus enabled a great number of consumers to pay higher prices for better quality products and higher performances, supported by the establishment of a better regulatory environment which contributes to the development of the tertiary industry¹. According to data provided by *China National Furniture Association*, in 2011, the production value in furnishing in China amounted to \$ 83.16 billion with an increase of 25.28 % compared to the previous year, the total export value \$ 59.37 billion and the total import value declined by 10.71%. From 2010 to 2013 China’ total sales value grew at an average annual rate of 41% until reach in 2013 RMB 195.75 billion. This rapid growth is the result of the expansion of the real estate market, which in the last decade kept registering relatively high growth rates in the export as well as in the internal market². In 2016, as reported, instead, on *HKTDC Research*, the total sales of furniture manufacturing enterprises grew 8.6% year on year to RMB 855.95 billion; while total profits grew 7.9% year on year to RMB 53.75 billion.

This is justified on the one hand, by the increase of CPP and on the other hand by the urbanisation process, which is expected to continue to grow, specifically in the West China, and to support the growth of the office furniture market. Data collected from the *National Bureau of Statistics* showed as the urbanisation rate in China, in 2016, reached

¹ Frost & Sullivan, “*Industry overview: China’s Furniture Market Study*”, HK EX NEWS 披露易, 2016, <http://search.hkexnews.hk/eng/SiteSearchResults.aspx>

² Daxue Consulting, “*Furniture Market in China*”, Daxue Consulting blog, 2015, <http://daxueconsulting.com/furniture-market-china-2/>

57.4% rising by about 1% every year and involves not only salaried employees but also peasants who have moved to cities and became today one of the major furniture consumer groups³.

At present, China is worldwide, the country with the fastest annual growth in household consumption even if the household savings rates are growing faster than consumption rates. Concerning instead, the “manufacturing” and “innovation” aspects, more and more office furniture manufacturers in China are switching their “modus operandi”, from imitating pre-established models and product designs to exploring innovative solutions based on the amount of resources, know-how and experience acquired from the developed economies. As highlighted from both *HKTDC* and *China Statistical Yearbook 2016*, China has a huge population size and a multi-layer furniture market and is common knowledge that Chinese people tend to replace home furniture from five to ten years approximatively. If we assume that, there are about 63 million households in all provinces, regions and municipalities in China, every year RMB 63 billion will be spent in replacing home furnishing. Besides, thanks to a new reconstruction project it was estimated that by 2020, 37.6 million houses would have been renovated⁴.

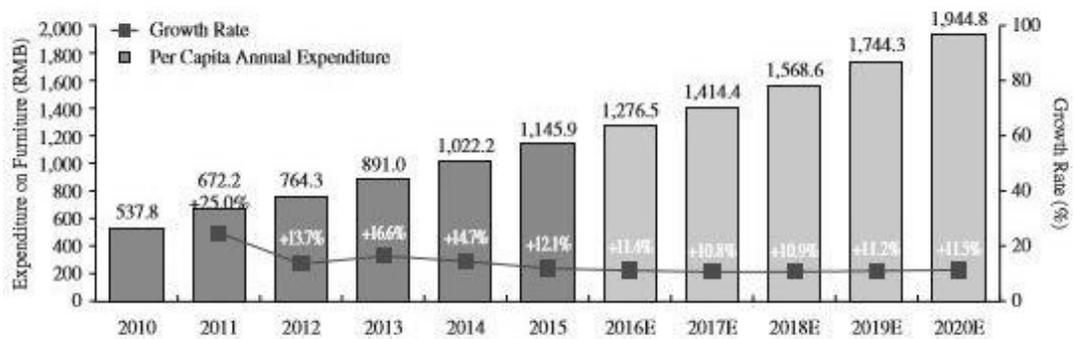
Evidences of this phenomenon are provided also by *China’s Furniture Market Study*, a market research conducted by Frost & Sullivan, an independent global consulting firm, which forecasted the rate of per capita annual expenditure on furniture in China during the last five years from 2015 to 2020. Collected data show that the per capita annual expenditure on furniture in China rose 16.3% over the last five years and this rate is expected to continue to grow at a Compound Annual Growth Rate (CAGR) of 11.2 % in the next five years until reach RMB 1,944.8 million in 2020⁵.

³ HKTDC Research 经贸研究, “China’s Furniture Market”, HKTDC Research Website, 2017 , <http://china-trade-research.hktdc.com/business-news/article/China-Consumer-Market/China-s-Furniture-Market/ccm/en/1/1X000000/1X002L63.htm>

⁴ *ibidem*

⁵ 1. Frost & Sullivan, “Industry overview...” *op.cit.*

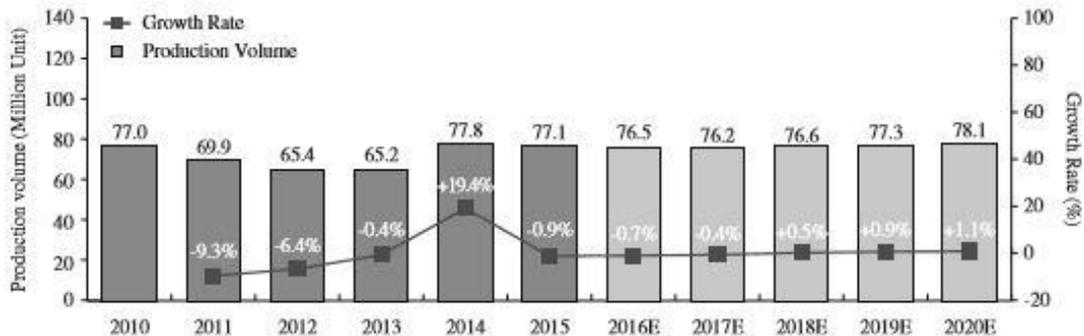
Per capita annual expenditure on furniture in China, 2010–2020E



Source: Frost & Sullivan analysis

Concerning instead the production volume of furniture in China, the latter has been quite stable recently. From 2010 to 2015, the production volume counted 77 million units annually and is expected to maintain a quite stable rate as well in the following years.

Production volume of furniture market (China), 2010–2020E



Source:

1. Historical Data: National Bureau of Statistics of China
2. Forecast Data: Frost & Sullivan Analysis

Ultimately, attention has to be addressed also to China’s office furniture market, which after decades of development seem had reached a maturity stage in the industry life cycle. Data collected in 2015 showed that although at the present, the office furniture market appear highly fragmented with a large number of local players offering a very low product differentiation, the situation is going to change sooner. In fact, the more and more customers are becoming more selective in the choice of their product, specifically in terms

of quality and design, the more the position held by those players who already own a competitive advantage will be strength and the one held by the weaker ones reduced. This phenomenon is the direct consequence as mentioned above, of the increased CPP as well as their living standards.

In the years to come, Chinese economy will keep growing at a CAGR of 7.8% and still is estimated to continue to grow at a fast pace until the total market revenue of China's office furniture industry will reach RMB 286.3 billion in 2020 ⁶.

Another research conducted by Mc Kinsey & Company, a worldwide management consulting firm, has also foreseen that by 2020, about 850 million people, representing 60 percent of the total population, will be living in urban areas, only 20 percent of these 850 million will be still considered as the first-generation of migrants from rural areas. This process of urbanization will steadily fuel the growth of the consumer market. In order to prevent the threat of a potential shortfall in consumption as occurred in the past attributed to the high rate of people saving money, low household incomes and the structural focus on investments, the government will take aggressive measures to support private consumption by rebalancing indirectly the economy and ensuring a sustainable growth.

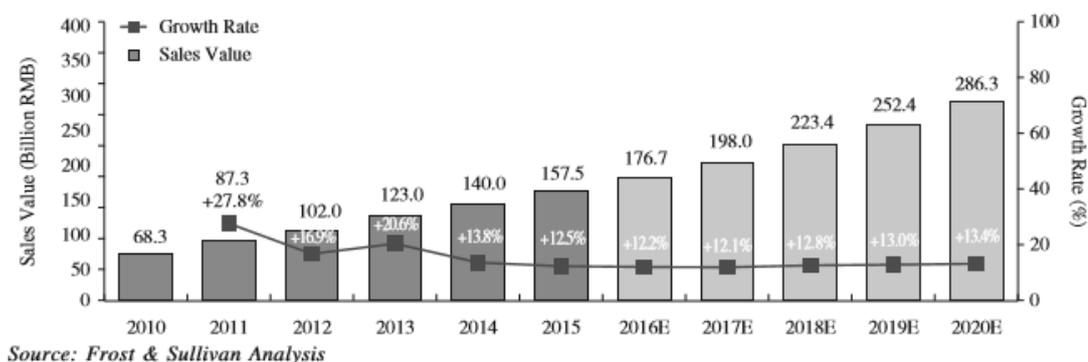
To the set of policies the government will implement belong: the extension of social security by increasing retirement pension coverage in urban areas by 40 percent; the boost of investment, including the expansion of the service sector, which will provide more jobs and consequently raise people's income.

That will lead China turn from an investment- driven economy into a consumption-driven economy. ⁷

⁶ *ibidem*

⁷ Mc Kinsey & Shopper Insights, "Meet the 2020 Chinese Consumer", Mc Kinsey Insights China, 2012, https://www.canback.com/files/2012_McKinseyInsightsChina%20MeetThe2020ChineseConsumer.pdf

Total revenue generated by office furniture manufacturers in China



According to data reported by CSIL the world furniture consumption today, amount to \$ 395 billion. The major furniture importers are United States, followed by Germany, United Kingdom and France, while China, after three decades of rapid economic growth has become the largest furniture production base and over the last six years the leading furniture exporter worldwide ⁸.

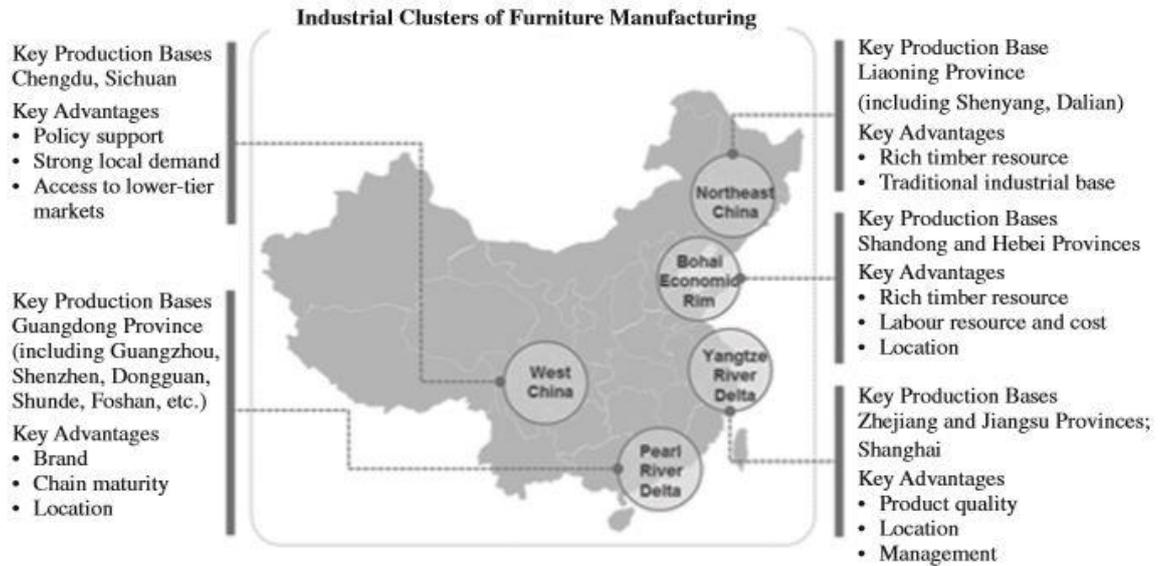
The 13th Five-Year Plan for the Development of China's Furniture Industry forecasted that the furniture exports are supposed to show an annual growth rate of 3%-5% during the period 2016- 2020. China National Furniture Association classified the production of office furniture in China into 45 furniture-manufacturing clusters covering five main geographical areas: the Yangtze River Delta, Northeast China, West China, Pearl River Delta and the Bohai Economic Rim.

⁸ Centre for Industrial studies, "Previsioni sul settore dell'arredamento in Italia e nel mondo nel 2017", 2016

<http://www.webandmagazine.media/wp-content/uploads/CSIL.pdf>

For more details visit the website: www.csilmilano.it or www.worldfurnitureonline.com

China's major office furniture production bases



Source: Frost & Sullivan Analysis

Particular attention must be devoted to both the Pearl River Delta and the West China production bases. The first one, the area of Guangdong province, together with its cities: Guangzhou, Shenzhen, Dongguan, Shunde and Foshan, is known to be the most recognized industry chain in China and to hold a geographical competitive advantage, which has been a source of attraction for many companies, particularly those located in Taiwan and Hong Kong. Information released by *China National Furniture Industry* report in fact that, the PRD has the highest concentration of the furniture industry, the highest production output and a strong support capability. Regarding instead the central and western regions, their importance is given by the strong economic development they are supported by thanks also to the opportunities offered by “One Belt One Road” initiative. Cities like Fujian, Zhejiang, Jiangsu, Shandong and Shanghai deserve to be mentioned for the product quality and operations management. Next, come the northeastern regions rich of wood resources and furniture industry bases and led by Beijing⁹.

⁹ Daxue Consulting, “Furniture Market...” *op.cit*

1.2 Analysis of the raw materials used in the Chinese furnishing market, their industry sectors' employment and new trends.

As reported by the *National Bureau of Statistics*, the furniture manufacturing industry in China embraces a wide range of product type made of different materials: wooden, wooden panel, metal, bamboo/rattan, plastic and other manufacturing. Wooden in particular represents 60% of the whole production, even if statistics foresee that metal furniture will play a leading role by replacing the wooden one thanks to the strong domestic and foreign demand.

Particularly the rosewood quality, a kind of refined hardwood whose use is increasing more and more almost everywhere in China. From the traditional craftsmanship schools of Beijing, Jiangsu and Guangdong, nowadays, new rosewood furniture industries are growing faster also in all the other Chinese provinces, such as in Pingxiang, Guanxi and Guangfeng¹⁰.

According, instead, a research conducted by Frost & Sullivan on the average price of raw materials for the production of office's furniture in China, *medium-density fibreboard* resulted to be the most common raw material used and its price differ from the thickness of the material.

For instance, in 2015, the average price of 5, 12, 15 and 18 mm of medium-density fibreboard per sheet were respectively RMB 30,5; 66,4; 74,0; 90,1. In 2016, the trend is supposed to continue and the prices to rebound¹¹.

A study conducted by the *Industrial Classification and Codes for National Economic Activities* report that these raw materials are employed to meet the demand of the current four main offerings of the furniture market: home furniture, hotels and guesthouses, office furniture and public institutions furniture. To those four offers, a fifth one should be added: the production of furniture for star-graded hotels, which are strongly claimed by the upmarket furniture.

A report issued by *China National Tourism Administration* shows that from 2010 to 2016, the number of five- star hotels redoubled with an average annual growth rate of 8.6%, the same occurred with the number of four-star hotels whose number increased from 1,817

¹⁰ HKTDC Research 经贸研究, "China's Furniture..." *op.cit.*

¹¹ Frost & Sullivan, "Industry overview..." *op.cit.*

in 2010 to 2,367 in 2016, with an average annual growth rate of 4.5%. Based on that, it is estimated that according to the frequency of replacing furniture in hotels, the average annual demand of furniture in 2017 will amount to RMB 13 billion. Along with the development of the Chinese cities indeed, the demand for the construction of large commercial business district is increasing as well. These districts aiming at recreating the same comfortable *ambiance*, typical of the American offices characterized of airy and open spaces, require a growing consumption of upgraded furnishing and refined decoration.

Another furnishing sector that benefit from a great popularity today, is the children furnishing one. Its fast-paced growth is the result of both the implementation of the one-child policy, entered into force in 1980 and the increasing of the living conditions of many families who have been devoting much more attention, time and money to their only child, starting from their own environment. According to their parents, comfortable and well-set furniture are beneficial to their development. The following trend allowed experts to look at the children's furniture target as a promising target market, especially after the issuing in 2016 of the 13th Five- Year Plan, that includes also the introduction of the two-child policy. Forecasts released by the *National Bureau of Statistics* state that, in 2016 the number of children below 15 years old would have reached 230 million, amount to which 17.86 million of new-born's have to be summed up.

Beds, desks and chairs seem to be the most widespread and demanded furniture components, supported by an increased number of other outdoor furniture items, especially rattan chairs, bamboo chairs and leisure ones, which at present, account for the biggest share in the market.

A growing demand was registered also in specific sectors, such as star-grade hotels, restaurants, exclusive clubs, leisure venues and residential communities, including external areas, with private gardens, rooftops and terraces. In line with the rising of the population living conditions' also the price of properties rose as well, by driving people, particularly youngsters, opting for small-sized flats with foldable and multi-function furniture, among which, sofa beds seem to be very popular because are space-saving and have a double function. A Euromonitor research reveal that retail sales of sofa beds in 2016 amounted to RMB 19billion, almost 30% of the total retail sales of seating furniture. These data are also the result of the increased CPP who allowed customers to personalize

their products by themselves. Today, the number of bespoke furniture manufacturers allowing customers to tailor-made their products according to their needs and taste, such as 尚品宅配 *Shangpin Home Collection*, 索菲亚家居股份有限公司 *Suofeiya Home Collection Co. Ltd, Oppein Home* etc. is in expansion.

As predicted, custom-made furniture will grow at a steady pace of over 18% per year on average and the market will be worth RMB160.6 billion by 2020.

Still regarding the *trend* topic, another “innovation” in the field, can be found in the choice of the materials employed in the furnishing production. The rising of the population living conditions made people become more concerned about their own health and the external environment. Consequently, the consumption of solid wood furniture instead of plywood has already increased of 7:3, and is expected to continue to rise especially in children’s furniture sector.

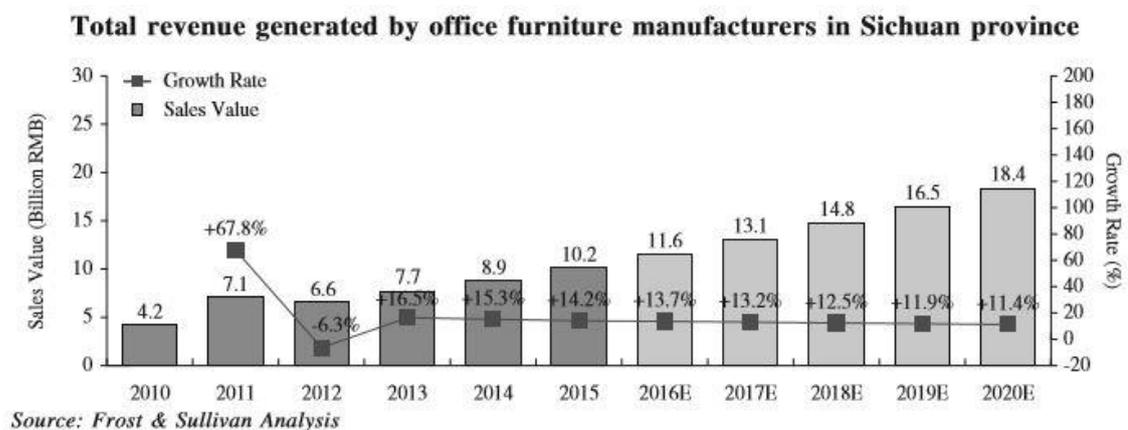
In this new era of non-stop growth and abundance, even the consumers’ lifestyles have been affected. People today are more “brand loyal” but also at more risk-takers in adopting new products, enjoying new services and preferring healthy and green products. A sizable number of consumers chose to embrace the new living concept “eco-home” by expressing their preference in adopting environment-friendly furniture despite of the price gap, which is obviously higher than other similar products.

As reported by HKDTC’s consumer survey over 90 % of participants are willing to use green, eco-friendly materials even paying a premium of about 14% in purchasing “green” products. Based on this assumption, many firms have embraced the concept of “eco-friendliness”, by promoting it as one of their brand values. Other examples of “smart” furniture are provided by the growing use of water-based paints instead of traditional solvent- based paints. These coatings are water soluble, dispersible with no addition of toxic substances, such as xylene, benzene and miscellaneous, so that they can easily fit the environmental standards. In addition, the introduction of indoor air purification function and lightweight honeycomb board furniture in the furniture market, can also be considered further examples of the growing interest that firms have towards the implementation of a new environmentally sustainable strategy¹².

¹² HKDTC Research 经贸研究, “China’s Furniture...” *op.cit*

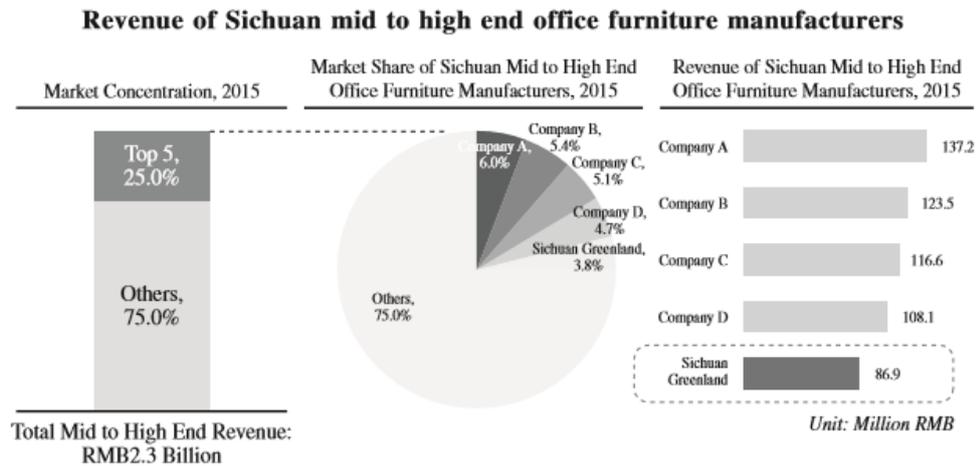
1.3 Focus on Sichuan Greenland mid to high-end office furniture manufacturing

Particular attention has to be addressed to the Sichuan province in China, which has always been a profitable furniture production base and which has been expected to continue to grow thanks particularly, to recent PRC Government’s initiatives taken in order to enhance the economies of western provinces. As showed in the chart below the office furniture market in Sichuan is expected to grow at a CAGR of 12, 5% in the next five years.



A detailed analysis demonstrate as Sichuan Greenland is one of the major manufacturer of mid to high end office furniture in China in terms of both, quality and price. Its products are considered of “better” quality referring to standards as durability, design styles and functional performances and this is the reason why consumers are willing to pay from five to 10% more than the mass-market products’ average price. Besides, in 2015, the revenue produced only by the mid to high-end furniture market amounted to 30% of the market share, 23 % of which came from Sichuan, for a total amount of approximately RMB 2.3 billion. It has been estimated that in Sichuan at present, there are 50 mid to high-end office furniture manufacturers, which operate at a gross profit margin of about 25 to 40%. Unlike to the mass- market manufacturers who focus mainly on retail sales, in the mid to high-end office furniture market, manufacturers who are usually large

enterprises or government institutions, prefer to establish long-term cooperation with their clients¹³.



Source: Frost & Sullivan Analysis

Experts have foreseen that from 2015 to 2020, the commodities price levels, the consumption of up-to-date furnishings for the office market and the rising attention towards the environment and the quality standards will lead to a progressive appreciation of the price of the mid to high-end production at a CAGR of 5 to 8%. As concerns the environmental issue, not only consumers are becoming more conscious stimulating an increasing demand for eco-friendly products, but also the government will start to support this trend through strict controls first, and by enhancing the PRC regulatory framework later. In this context, also the proliferation of Internet and digital technology plays an important role. The concept of “smart” office as well as the penetration of advanced digital technologies are considered “new” elements that will contribute to the development of the furniture market trend. The influence of the western economies then, will affect the PRC office furniture manufacturing industry, which will start to imitate products design and services of the latter ones, in order to realize their own designs and business models. Local manufacturers will be driven by the desire to conduct independent researches on their own, and thus will lead to an acceleration of the *innovation* process.

¹³ Frost & Sullivan, “Industry overview...” *op.cit*

However, if on the one hand the future perspectives of China's office furniture manufacturing industry appear as a profitable field in which invest, on the other hand, the analysis carried out by Frost & Sullivan highlighted some aspects that cannot be ignored. As emerged from their research paper the development process of the field in question will lead manufacturers to face some threats. The major one is represented by the set of regulations imposed by the government which, in order to reduce administrative costs for the government itself and public institutions as well, will ban government agencies from purchasing luxury goods or commodities. As a consequence, PRC state ministries and government offices will be obliged to limit their expenditure on office furniture and equipment, by favouring manufacturers of mass market goods and by jeopardizing at the same time, the position occupied by the mid to high-end furniture manufacturers. The implementation of these regulations will directly affect the operations carried out by foreign brands and will intensify the competition. *Expatriates* brands will not be allowed to easily penetrate the Chinese market, distribute or sell their own products, as seen as a threat from the local mid to high-end office furniture manufacturers with whom they will be in direct competition with. These regulations will also have an impact on local manufacturers whose scale of business is limited and the level of product's differentiation quite low, and who will be forced to face a fierce price competition among other local players.

The more the level of concentration will increase and the market mature, the more the competition will sharpen. Eventually, another effect of the fulfilment of the government's regulations will cause the substitution of some office furniture items with the household ones. This phenomenon will bring about a crisis of the office furniture manufacturing industry, which is constantly working on the innovation and development of a wide range of products and designs, addressed to that specific sector. Not less relevant seem to be the difficulties that the *new entrants* will face in the access to the office furniture market. Frost & Sullivan in their research paper have identified three major ones. Before decide to enter in the market in question, new entrants should carefully evaluate if they are able to face the circumstances demanded by the environment in which they want to operate. Given the growing attention to the Chinese consumers towards the environmental issues and the increasing consumption of eco-friendly products, new entrants must be sure to cope with such trend that will require the allocation of a

substantial amount of resources. Among these resources may be included also the location of reliable eco-friendly suppliers and the check-up of their claims, that if not available in the domestic market will make the costs of production increase. Besides, new entrants willing to enter the market should also focus on other aspects, such as whether they own or not a high level of initial and operating investment capital in order to be able to deliver goods that, meet the expectations of the specific market segment.

The initial capital investment they need, include also a certain amount of capital, which support land, equipment, staff hiring, quality and system control and other expenditure on raw materials. Lastly, another “entry barrier” lies in the fact that they not own yet a strong and reliable customer network or long-term relationships with locals, factors both that require years and years to be established. Just like in every industry sector in every country, “customer loyalty” is a process, which takes long time and careful attention to be build. As we will discuss later, *reputation* and the *story* of a company in fact, are two of the most important elements that affect the customer decision’s in choosing a specific manufacturer over another by reducing so their risk of exposure¹⁴.

1.4 Segmentation of the market: geographic- economic classifications.

Before focus the attention on the target of our research: the mid to high end consumer, we should briefly look at the Chinese market that, cannot be considered as a whole unit but as a huge and fragmented market. Official sources¹⁵ state that China has a surface of around 9.600.000 square metres and a fast-growing ageing population whose number in 2016 amounted to 1. 378.67 billion. Concerning its administrative division, the country is divided into 22 provinces, five autonomous regions (Guangxi, Inner Mongolia, Ningxia, Xinjiang, Tibet); four municipalities (Beijing, Shanghai, Tianjin, Chongqing) and two special administrative regions (Hong Kong and Macau). However, differences exist among all the provinces, not only from a geographical and political- administrative point of view, in other words, if they are located in urban or rural areas or according to the

¹⁴ /vj

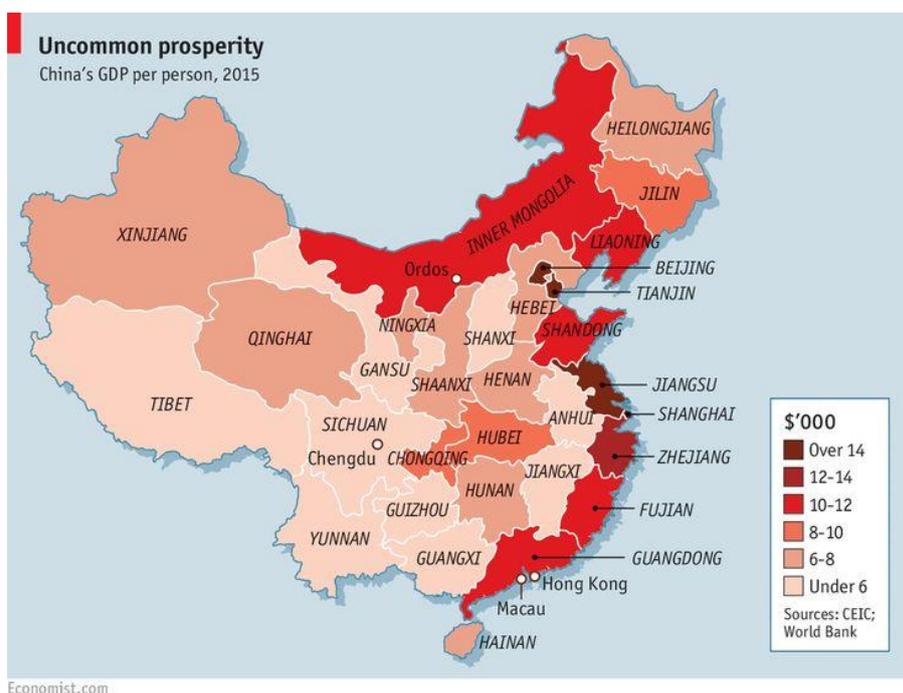
¹⁵ WORLD BANK, Data-China, 2016,

<https://data.worldbank.org/country/china>

The Statesman’s Yearbook , <http://www.statesmansyearbook.com/>

degree of autonomy they have from the central government and also within the provinces. Other significant differences can be seen in the cultural diversity that has always characterized the Chinese population. In China, coexist 56 ethnic groups, among which the most important and the only one that truly represent the Chinese identity is the 汉 *Han* ethnic group, accounting for 90% of the population. Follow then the Muslim Uighur, Tibetan and many other ones. From an economic point of view, there is also a huge gap between urban and rural areas.

On a top ranking list, generally speaking, coastal areas in which are located cities like Shanghai, Jiangsu, Zhejiang, Guangdong etc. are the most developed and prosperous ones, followed by the North- East and the Central and South-West areas. The North- West provinces occupy last position of the list, because are still under-developed and affected by social chaos, due to the presence of different ethnic minorities in the same territory. Obviously, firms that are willing to penetrate the Chinese market will choose first to start from the developed areas and then to expand to the rest of the country. By doing so, they would better be careful to the strategy implemented, sales marketing, distribution plans and many other aspects that are different from one area of the country to another one and that would be directly affect their successes or failures in that specific area. The image below shows China's GDP in 2015 and the areas highlighted in red are the most economically developed.



In order to easily segment the market, given the vast dimension of the country, the Chinese Government grouped all the 613 cities into four different clusters renamed *tiers*. The Tier classification system is not officially endorsed and there are still contrasting views about which cities fall into which tiers, also because of the fast Chinese growing development that make scholars move one city from a tier to another. Every tier has established according three main factors: GDP, politics and population. The South China Morning Post risked a rough classification, according to which belong to the first tier, cities whose GDP is over US \$ 300 billion, population counts more than 15 million people and that are directly controlled by the Government, such as Beijing, Tianjin, Shanghai, Chongqing and Guangzhou. Belong to the second tier, provinces capital cities or sub- provincial capital cities, with a GDP from US \$ 68 billion to US \$ 299, a population of three to 15 million people, such as Hangzhou, Nanjing, Chengdu etc. Cities belonging to the third tier must have a GDP between US \$ 18 billion and US \$ 67 billion and a population amounting from 150,000 to 3 million people. From a political perspective, these cities are usually prefecture capital cities.

The fourth and last tier is made up, instead of county level cities, whose mostly have a GDP below US \$ 17 billion and a small population size, even less than 150, 000 people¹⁶. Other classification methods prefer to split the third tier into three levels and to not include any fourth tier as Mc Kinsey highlighted in his model. Others instead, include a fifth tier or do not provide any numerical data given the fast changes that are difficult to control progressively.

¹⁶ NBA 2013 Statistical Yearbook, in *South China Morning Post*,
<http://multimedia.scmp.com/2016/cities/>
for major details about China's city tiers classification visit:
<http://fortune.com/2015/12/05/china-cities-tier-system-problem/>

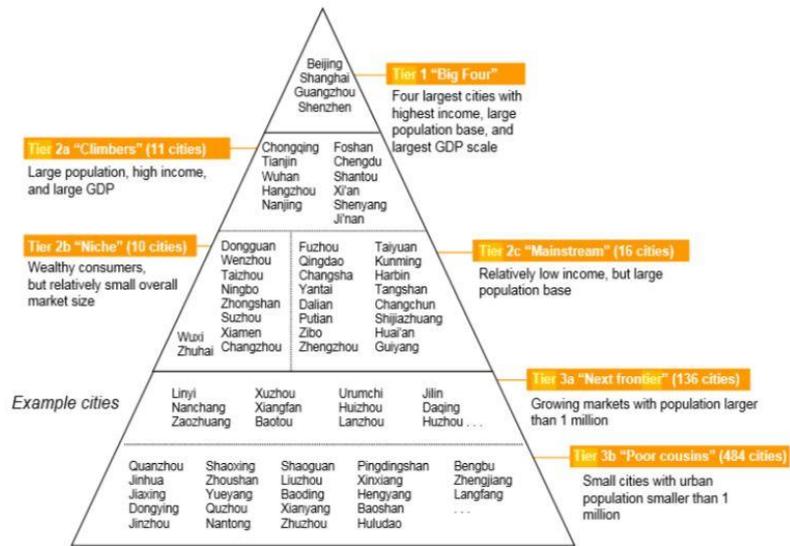
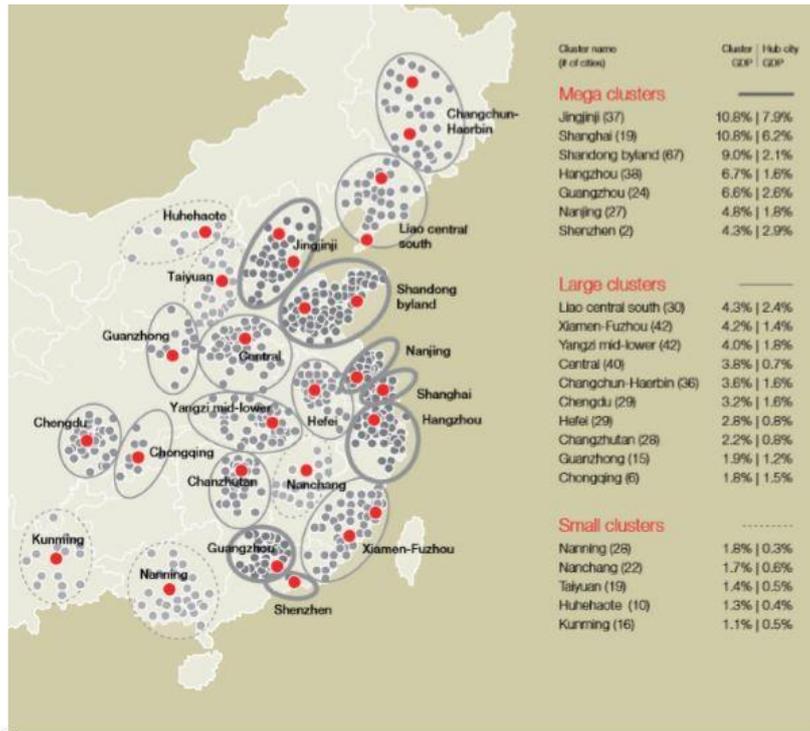


Figure 6: China- City Tier Classification
 Source: D. FARRELL et al., *From 'made in China' to 'sold in China': The rise of the Chinese urban consumer*, "McKinsey Global Institute", 2006, http://www.mckinsey.com/insights/urbanization/from_made_in_china_to_sold_in_china, 20-12-2014, p.54.

Eventually, another model conceptualized by Mc Kinsey and other scholars that is worth to be mentioned is the Cluster City Classification. This model divide Chinese territory in 800 cities and counts over 12 city clusters. It takes into consideration not only *income* and *geographic location* standards, but also *economic trade flows* of cities, *consumer traits* and *preferences*¹⁷. (See image below)

¹⁷ Y. Atsmon, J. Ding, V. Dixit, G. Leibowitz, M. Magni, D. Zipser, 2009, *Annual Chinese Consumer Study. Part II: One Country, Many Markets – Targeting the Chinese Consumer with the McKinsey ClusterMap*, "McKinsey Insights China", 2009, http://www.mckinsey.com/App_Media/Reports/Asia%20Consumers/Annual_chinese_customer_study_one_c_ountry_many_markets.pdf, 25-11-2014, p. 7



Source: Y. Atsmon et al., 2009 Annual Chinese Consumer Study...,op.cit., p. 9

There is no doubt that China's administrative *tiers* or city *clusters* help companies to understand the urbanization patterns, transportation links, distribution structures, flow of goods and so on, nevertheless, these classification systems cannot be used as a segmentation framework alone but only as a basis from which start off. All the cities taken into account in the different models showed above are far from homogeneous, especially along with the fast China's consumer boom. In order to fulfil this need, a new framework based only on cities 'economic attractiveness, was conceptualized: the "City Strata framework", which analyses approximately 200 variables in 286 prefecture- level cities. The variables taken into consideration show the urban economy's capacity to adapt to China's changing economic conditions and to understand better how to approach consumers. Scholars have identified 11 different *City Strata*, respectively renamed as follow: *Super Cities*, *Affluent Cities*, *Satellite Cities*, *Regional International Cities*, *Integrated Industrial Cities*, *Inland Core Cities*, *Resource- Exhausted Cities*, *Tourism Cities*, *Modern Agricultural Cities*, *Frontier Cities*, and *Traditional Agricultural Cities*. The segmentation in *Strata* shows as the best opportunity for the majority of MNCs and local brand,s should be provided by a number of prefecture- level cities included between 40 and 79, grouped within the first five clusters. The top three *strata* amounting to 40

cities in total, will represent the first chance for the most part of the companies willing to enter in the Chinese market and the fourth one, which include other nine cities, will represent the second chance. Beyond the fourth *strata*, only companies that have already acquired a certain degree of knowledge about the market can risk to venture to the thirty cities belonging to the fifth stratum. The remaining six *strata* seem to not have the economic strength, so they are not ready to be penetrated to neither domestic brands nor MNCs¹⁸.

If the cities are an important variable that must be considered in analysing the best approach to adopt, in order to penetrate the market, variations across cities in the different consumption patterns cannot be ignored too.

1.5 Profile Target

1.5.1 Attitude and values of Chinese consumers

Unlike Western consumers, Chinese ones present quite big differences. The system of values in China and their culture, have to be considered as a context in which all the social dynamics, business dynamics etc. take part. “Culture” should be the focus when thinking to plan a strategy or to arrange a business plan to enter to China, from the establishment of a relationship with customers to the management of human resources, the implementation of a marketing strategy and so on. Their purchasing behaviour is deeply affected by the Confucian ideology, the most influent Chinese school of thought that until today influences many aspects of the society as well as the mind-set of the population, mainly focused on values as “family” and “state”.

In the Chinese culture in fact, and in the East generally, family plays an important role in the decision-making process and has a powerful influence in the purchase phase. Chinese emphasize a lot “social harmony” and “smooth family relationship”, consequently, the *social* meaning of a product is important because it conveys feelings of status, gratitude, approval and disapproval. Although sometimes Chinese can appear individualistically oriented, their family ties are still strong. The reason behind lies first in the relationship

¹⁸ China Business Review, “No more Tiers”, 2016
<http://www.chinabusinessreview.com/no-more-tiers/>

of interdependence between family members and then in the poor economic conditions who have characterized the country in the past, particularly the rural areas, which had given to the elderly the opportunity to contribute in economic terms to the support of the family.

Another cultural aspect, important to be mentioned, is the *collectivist* nature of the Chinese society, which influences also people's behaviour¹⁹. Members of collectivist culture, like Chinese, are usually more integrated in groups than people in individualistic society are and will tend to form their judgements based on group norms. (Hofstede and Bond, 1988).

As Oyserman found out in his studies, people belonging to a collectivist culture have an interdependent self-construal, which let them think about their identity as being connected with others; therefore, they are used to attach greater importance to the group's needs and norms than individualism. (Triandis, 1990). Their "obligations" to fulfil in order to preserve the group harmony led them to learn how to repress personal attributes in certain settings (Kacen & Lee, 2002). The salience of an interdependent or independent self-construal is particular influent on many aspects of consumer behaviour: reasons for purchase; impulsive/rational buying behaviour; references for consumption etc. For instance, Eastern collectivist consumers seem to be engaged in less impulsive buying than Western individualist ones. The Confucian heritage taught them to persevere values as *thrift* and *frugality* so; they are able to suppress their impulsiveness trait in order to comply with the cultural norms²⁰. However, the *social* meaning we were discussing above, is a concept that penetrate also in the business field and can be expressed by one word, 面子 *mianzi*, literally translated into "face" but with the connotation of *reputation*. *Mianzi* is a concept deeply rooted in the Chinese culture that from a social-psychological point of view, refers to a person's prestige, respect etc. in the eyes of others and to those decorative behaviours, which are done on purpose to make impression on others. There are different expressions linked to this word, for example, 保全面子 *baoque mianzi* (save face), or 给面子 *gei mianzi* (give face), in other words make the others feel satisfied in recognition or reputation issues. Among all the idioms, the most important is 丢面子

¹⁹ Jean- Claude Usunier, Julie Anne Lee "Marketing Across Cultures", Sixth Edition, 2013, chap. 5, p. 106, 107, 108, 109.

²⁰ Ibidem

diu mianzi, literally “lose face”, be hurt or getting lower value from others, strictly related to the social risk that a consumer perceive when buying a product or a gift²¹. As concerning the concept of *perceived risk*, it plays an important role in the decision-making process, particularly at the alternative evaluation stage and especially in a high involvement purchase. There are different kind of perceived risks: psychological, financial, performance, physical, social etc. and every consumer, according to the culture in which belong to and its attitude, will attach more or less importance to one of those risks. For instance, Eastern consumers are more sensitive to “social” risks but at the same time, are more risk- seeking than people belonging to individualistic countries. This is explained by the “cushion theory”, which relate to the social network that is supposed to protect people if they take risks and fall²². The latter is a good point for “new entrants” or for those companies willing to launch a new product. However if, from a certain perspective Chinese consumers seem to be “risk- takers”, from another one, in order to gain their *loyalty*, companies should appear trustable. Among the “factors” that help Chinese customers trust foreign parts, there is the willing, from the latter, to establish for instance, long- term relationships.

Literally, “relationships” or 关系 *guanxi* in Chinese has always been one of the predominant concept in the Chinese society. It is acknowledged that the opportunity to enter into the Chinese market and build a strong brand identity is strictly related to the ability of establish a trustable and long- term oriented relationship with locals. Actually, the concept of *guanxi* permeate every kind of relationship, starting from the personal bonds (family, friends) to the business relationships (colleagues, chiefs). These bonds are not always supposed to be instrumental except for the business affairs world. Guanxi in fact, is a concept deeply rooted in the Chinese rural society, since people for generations, have used to know each other and looking after each. As Dr. Gao stated in his research, when a foreign company decide to get to the Chinese market the first thing to do is start to network, meet people and build good *guanxi*. After had established a strong relationship, you can trust the other party and sign a contract as a way to secure the

²¹ Daily Storm, 面子- “Faccia”: *la reputazione in Cina e il culto di Mao*, a cura di Emilia Maria Pezzini, 2013
<http://dailystorm.it/2013/05/31/%E9%9D%A2%E5%AD%90-faccia-la-reputazione-in-cina-e-il-culto-di-mao/>

²² Jean- Claude Usunier, Julie Anne Lee “*Marketing Across...*” *op.cit.*

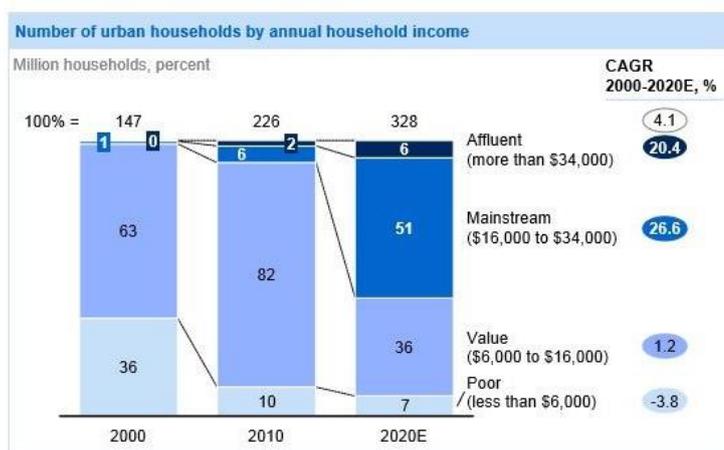
promise. The logic that lies behind this way of doing business is that you have to be sure about the party you are signing the contract with, you cannot trust a person you never had *guanxi* with, otherwise the contract power is limited. This principle seems to be linked to the Chinese legal system, which seem to not offer a safe legal protection for companies operating in China, since many contracts have not been well- enforced. Historically, China was a feudal society, so legal institutions in there were not well- developed as in Western countries This explains why relationships in China count more than rules. However, there are some differences between the north and the south of China, cities located in the south are more business oriented than the one located in the north²³.

1.5.2 Trend, lifestyle and future perspectives of the 2020 Chinese consumer

As we have already mentioned above, one of the reason that contribute to the rapid growth of the Chinese furnishing market, is the rising of the Chinese' middle class, which has brought radical economic changes and significant social transformation. After almost 30 years of protectionism, the implementation of an opening-up reform let China finally enter into a new "phase" of transition, into which the establishment of this new social class finds place. This emerging middle-class is the result obtained by merging the lower-upper class composed of people living in the most developed urban areas, such as Shanghai or Beijing and the upper-middle class, including managers, entrepreneurs, successful businessman etc. and the upper- upper class. (Lu, 2008). The introduction then, of the one-child policy has also contributed to improve the living conditions of the population. The establishment of this new élite paved the way for the development of a new consumption trend, a sort of "showing-off" consumption, aiming at showing off their wealth. Thanks, in fact to the increase of the average income, people can embrace higher life standards leading the society to adopt a consumerist trend. *HKTDC Research* classify Chinese consumers into three main categories, respectively: avid consumers, luxury/branded goods consumers and average-wage earning consumers. The first category consists of a rich group of customers with little concern for prices, and with a strong interest in expensive western style products, classical Chinese style or avant-

²³ Dr. Gao Hongzhi , Asia New Zealand Foundation 2017, in Asia Media Centre, "*Chinese Business Principles: guanxi, mianzi, renqing*" , 2017

garde furniture. To the second one belong a more sophisticated group of consumers, willing to purchase only goods that fit their personal taste and style. Usually people who adhere to this group have a strong inclination for aesthetics and cultural elements. Their purchases are always trend- driven. The third and last category embodies the majority of consumers concerned for both price and quality in the alternative evaluation phase before purchase a good²⁴. The classification drafted by Mc Kinsey in his report *Meet the 2020 Chinese Consumer* instead, range consumers according their annual income. As regards, it is important to highlight that although population average income will increase, great differences in income levels will persist. By doing so, he defines four group of consumers: *affluent*, *mainstream*, *value* and *poor*. The most part of the population belong to the *value* category, which groups consumers with an annual disposable income sufficient only to fulfil basic needs, a sum of between US \$ 6,000 and US \$ 16,000, respectively RMB 37,000 to RMB 106,000. *Mainstream* consumers have a wealthier life standard as a consequence of their annual disposable income of between US \$ 16,000 and US \$ 34,000 (RMB 106,000 to RMB 229,000) *Affluent* consumers represents a tiny group of households whose annual disposable income exceeds \$34,000 ²⁵.



Source: McKinsey Insights China – Macroeconomic model update (March 2011)

In line with the graph above, MNCs can choose to enter in the market by targeting only *mainstream* and *affluent* consumers or to stretch their brands and to serve *value*

²⁴ HKTDC Research 经贸研究, "China's Furniture..." op.cit

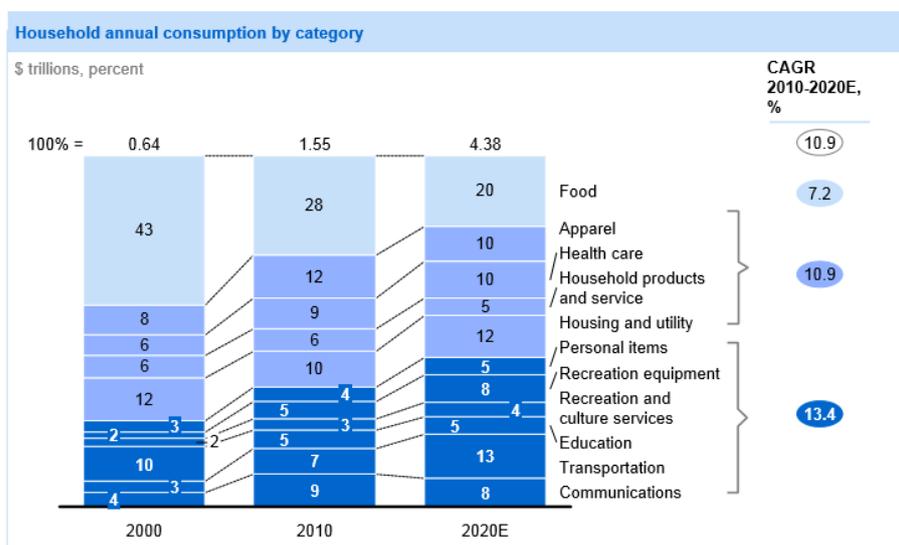
²⁵ Mc Kinsey & Shopper Insights, "Meet the 2020 Chinese.." op.cit.

consumers. It goes without saying that addressing their efforts just to the first two categories, *mainstream* and *affluent*, means maintain the same business model they applied worldwide in other markets without modify the structure. The only disadvantage in targeting these two categories is to have a restricted market of only 18 million households. Companies that decide to serve instead the *value* category have to meet the need of a bigger portion of the market, of about 184 million households. However to satisfy the needs of this second segment companies have to adapt their business models and their products consequently. Anyway, the classification arranged above is approximatively as the market circumstances are constantly changing, thanks to the fast-paced rhythm with which many consumers switch category and are expected to join the *mainstream* category by 2020. The number of *mainstream* consumers will rise as well until accounting for 51 percent of the total urban population. If we compare this data with those of consumers in developed countries we will see that the average level of wealth is still pretty low but is already enough to make people afford to buy a car or luxury items. The purpose of the companies will consist in introducing better quality products to a wide segment of consumers by distinguishing themselves from competitors and increasing their profits. *Value* consumers' size instead, will reduce of 36 percent but still representing a big portion of market amounting to about 116 million households or 307 million consumers, for those companies willing to invest in their segment. Concerning the *affluent* category, they will still represent a minority, about 60 percent of the total number of the population.

In his report, MC Kinsey forecasted also a number of demographic changes that are presumed to take place in China by 2020 and help companies to implement new strategies and to focus to those segments considered the most worthy. High incomes will generate high expectations of life in people's mind. Therefore, education level will increase since 40 percent of students will decide to enrol to the college in order to apply for a better job. If on the one hand China's one-child policy will still have a kind of impact on the society as many couples would rather have a son, emphasizing the gender gap, on the other hand women will be playing an important role in the economy. Women in fact, will enjoy a new freedom, about 76 percent of them will aspire to top jobs and succeed. The average age to marry and have a family will be postponed to 30. More than half of working women in 2020 will have its own office job. If these predictions will occur, indeed, women will

be increasingly independent and become so equal to their partners to be able to contribute to the family's purchases. There will be more time available also for recreation, entertainment and travel, people will have more spare time to spend with their family and friend, and thus will lead to the introduction of different lifestyles.

The graph below shows Mc Kinsey collected data, in other words, the changes that have and will occur in the Chinese market during ten years from 2010 to 2020, and the new industry sectors in which consumers are interested to invest²⁶.



Source: McKinsey Insights China – Macroeconomic model update (March 2011)

1.5.3 Focus on *mainstream* consumers and their spending habits

Once analysed the four Chinese consumer categories identified by Mc Kinsey and their new projected lifestyle in 2020, we will focus on only one category of Mc Kinsey's classification: the *mainstream* cluster. First, because all the firms willing to penetrate the Chinese market, especially the foreign ones, are more encouraged to start from that cluster consisting of wealthier people with a CPP high enough to purchase their goods, and subsequently because in 2020 they will represent 51 percent of urban households. We will track four main characteristics of the *mainstream* consumers, which sum up their

²⁶ *ibidem*

consumption behavioural pattern. This group of consumers is pragmatic, put an accent on the product's appeal to their sense of individuality, tend to be brand- loyal if trust a particular kind of brand, and its constitute of people keen on adopting new commercial channels especially digital ones. A peculiarity of the Chinese population is in fact, the broad use of digital devices that has affected also their buying behaviour and the dissemination of Internet, expected to increase by 2025, of 75 percent as we can read on *China Business Review*.

There is nothing new in the fact that Chinese are a *pragmatist* population and this specific aspect of their behaviour seem to not going to change despite the increase of wealth. Chinese consumers have always been defined as “rational”, “conservative spenders” and so on, because actually, they are careful to every detail before purchase a good. Usually they fix a budget and then evaluate all the potential offers that might fit their demand in terms of both quality and price. Usually tend to not belong to the impulse- driven consumers' category this is why evaluate the best strategy before entering in the Chinese market is fundamental.

These attitudes and behaviours are deeply rooted in the Chinese culture as influenced by the Confucian heritage and despite of the new phase of transition the country is going through, predictions do not take into account important shifts in the “spending” money pattern.

Considered the time spent in researching purchase, Chinese will remain “smart” shoppers²⁷. Data state that 48 percent of them favour the “value for money” criterion as one of the top five standards to consider when buying a product. The more the market mature the more incomes grow, the more consumers' expectations will rise and this is true for Chinese whose demands for goods will start to be more selective. *Durability*, *comfort* and *taste* are the three main sought qualities in the choice of a good or a service. However, as emerged from researches, *emotional appeal* will also play an important role, in the choice of a commodity. The product should reflect the user's sense of individuality, which can be defined an “*evolution in values toward a greater emphasis on self-expression and assertiveness*”²⁸. I might dare say that this is indirectly affected by past cultural- rooted attitudes. Actually, one of the main values on which the Chinese society

²⁷ *ibidem*

²⁸ *ibidem*

is based on, is the “personal identity”, in order to comply with these implicit rules lower and upper middle-class try to fulfil their “social obligation” in purchasing luxury goods. In the Chinese culture *success, fame* and *social status* are fundamental, purchase and use well-known branded goods is the best way to be well accepted by the society and obtain people’s respect. (Dubois e Duquesne, 1993). In this way, Chinese consumers, who are not supposed to be so “educated” yet about some products, will be attempted in the purchase phase, to rely on expensive well-known brands as considered more reliable, everlasting and with a long and renowned history and tradition. As a result, it would be strongly recommended for companies, start to establish its own presence in the niche market and expand to other market segments later on. As still reported from the research conducted by Mc Kinsey, with more experience and product knowledge, consumers will feel safer trying lesser-known brands and at the same time, they will look at the niche brands goods as a way of standing out. Concerning the brand- loyalty matter, unlikely the expectations, Chinese consumers will be far less loyal than western counterparts will. The number of customers who declared to be brand- loyal in fact amount to only 46 percent, compared for instance with 71 percent in the USA. Nevertheless, the situation is quite contradictory, if companies would do their best to meet consumers’ needs, promote the emotional benefits of their products, distinguish themselves from competitors etc. and consumers on their turn, will start to become more discerning in the purchase’s decision, brand- loyalty should increase.

At the same time, once established their importance, consumers will expect recognition from retailers and this will offer a big economic opportunity for retailer’s own brands. Lastly, since in the past decade Chinese have embraced modern retail formats, even shopping has become a form of entertainment for the whole family rather than only a need to be satisfied. Although the next decade will attract many consumers especially migrants and the ones coming from smaller cities, this sort of “retail- tainment” as labelled by Mc Kinsey, will decline too. People will lose interest soon and a range of new leisure activities will emerge. Changing lifestyles, in crowded cities as the Chinese are will enhance shoppers’ demands for convenience, and e-commerce will be able to meet their needs. By 2020, about 15 percent of retail sales will be based online, in some sectors, such as the electronics, the rate of online transactions will reach even 30 or 40 percent. In addition, the development of new online shopping applications, online payment systems

and logistics infrastructures will further enable the growth of e-commerce. The most sophisticated customers could easily have access to price comparisons, assortments of products, quality of service, social networking experience and miscellaneous. Consumers will have such a varied set of offers available that, the segmentation of channels for companies, compared to the online/ offline services will be harder to set. What we have discussed above is also a consequence of the rise of the middle class, who brought significant changes in the Chinese society and the economy as well, and seem to be the most attempting segment in which invest. However, if we assume that there are significant variations between different cities across China, so there are between consumers in every city. According to the World Bank definition²⁹, belong to the middle-class those people who can afford daily expenditure of \$ 10 to \$ 50; even if it might be a mistake define a segment only relying on its purchasing power. Not every consumer is willing to spend its money in purchasing goods.

Surveys show that in next decade, *Connected Spenders*³⁰ will account for 80 percent and their collective spending power will account for 60 percent of the total in 2025. Evidences show that mostly of them are educated, urban and young consumers with an average annual household income that in 2014 amounted to RMB 120, 600 (\$ 19,000). More than half are located in the first five cities listed in the City Strata framework, and are supposed to continue to live there in the next decade. About 43 percent of their spending will be dedicated to nonessential commodities. Generally, in both lower poor strata and higher ones, more advanced product categories will see a faster expansion. These are the main traits that group together this new category of consumers. Regardless of whether companies will choose to focus their investments in the top strata or not and regardless of which kind of strategy they will implement, understanding the different spending habits of this group could be helpful.

²⁹ China Business Review, "No more .." *op.cit.*

³⁰ a framework that classify consumers according to their purchasing habits

1.6 Overview of the Italian Furniture industry

1.6.1 Import, Export and International competitors

Today, the total world furniture consumption amount to US \$ 395 billion³¹. The major Import countries are United States, Germany, United Kingdom and France. During the last six years, China, which is currently the largest exporter worldwide, has redoubled its turnover from US \$ 25 billion in 2009 to US \$ 53 billion in 2015, even if in 2016 had a shortfall of around 49 billion. Italy, Poland and Germany keep maintaining a constant rate of growth. In 2017, the average growth rate will not raise over 3 percent except for the Asia- Pacific area.

Grafico 1. Il mercato mondiale del mobile nel 2017.

Variazioni % a prezzi costanti.

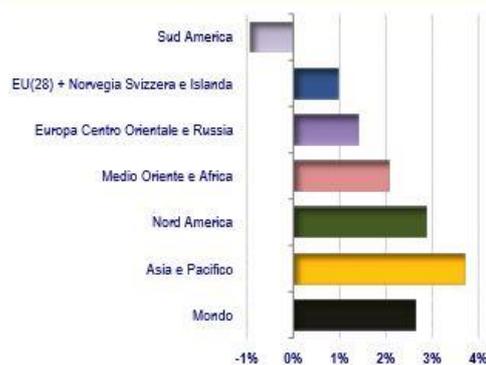


Grafico 2. Il mercato del mobile in Italia, 2007-2019.

milioni di euro correnti.

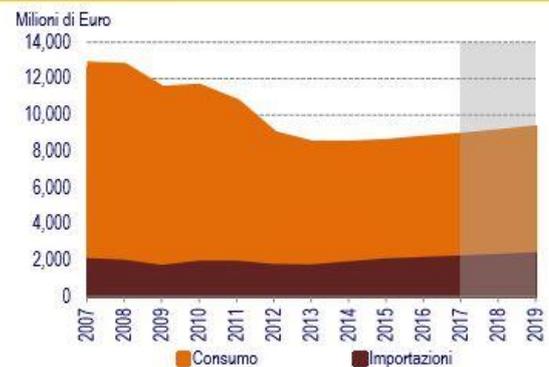


Grafico 3. La produzione del mobile in Italia, 2007-2019.

Milioni di euro correnti.

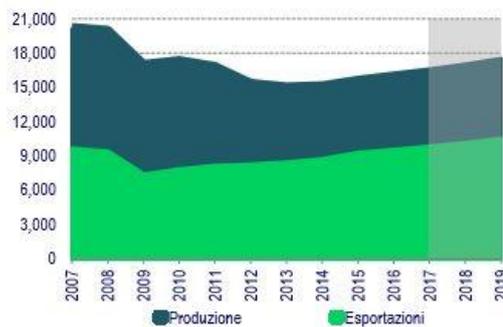
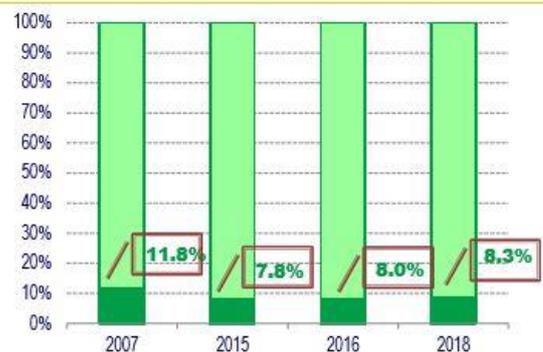


Grafico 4. Quote delle esportazioni italiane di mobili sul commercio mondiale di mobili, 2007-2018. %

commercio mondiale di mobili, 2007-2018. %



Source: CSIL

³¹ Centre for Industrial studies, "Previsioni sul settore dell'arredamento..." op.cit.

Data released from the International Fair SICAM 2017 ³² provide with good news those companies engaged in the furnishing industry. The furnishing market in fact, is supposed to continue to expand, with an increase rate from 2,4 % to 3% ³³ . Concerning the Italian players, data illustrated by Prometeia and the International Monetary Fund predict a further economic recovery especially in the furniture exports that is assumed to grow with an average rate of 2,5 % during the years 2017- 2019. *CSIL* data reports that Italy is today the leading furniture exporter and the second largest furniture manufacturer in the world. Although, in an international export scenario, Italy has dropped to the third place after China and Germany, and its presence on the market seem to be threaten by new entrants as Poland, it still represents the first exporting partner for China. It holds 15 percent of the Chinese market and its presence will increase of 40 percent by 2019, and by 2020 on Internet channels as well. Sofas, kitchens and bedrooms will be among the most demanded furnishings. Despite the privileged position it still holds, it has any way to deal with both local and foreign competitors operating in the same market. China first, which operates in the lower layers of the market and Germany that has already consolidated its position in the same market segment. Italy and Germany are now in Europe the only two countries leaders in the fair and production sector, the only companies that, in the most renowned world exhibitions always prevail, with their top accessories and components. Therefore, concerning top- level products, for instance the ones where the “design” is the prevailing component, Italian players are generally seen as more competitive. The “Made in Italy” design that has always had worldwide appeal will be stable at the third place, holding 8 % of the market, which in financial terms, is worth about 395 billion dollars. Consequently, the demand for Italian furniture will rise, particularly for furniture and lighting products. There will also be a constant market sale increase in order to supply the strong demand coming from the hotel chains, thanks to the implementation of a great number of high- end hotel, and the Chinese families’ desire too. Chinese consumers indeed, have always appreciated Made in Italy products for their quality, design, style, innovation and craftsmanship.

³² SICAM 2017: A strategic appointment for the International Furniture sector, *“Furniture professionals in Pordenone to consolidate business growth and initiate new international enterprises”*, 2017 <http://www.exposicam.it/en/p-702-13309-1214/sicam-press-releases/sicam-2017-a-strategic-appointment-for-the-international-furniture-sector/>

³³ WORLD FURNITURE OUTLOOK 2017 , CSIL

The competitive advantages that makes “Made in Italy” so famous, prestigious and reliable, a truly guarantee *icon* lies in the fact that Italian design is perceived as a global trendsetter and is at the frontline of quality planning and product aesthetics. The export, which, in the last twenty years has registered a constant increase, it is going to grow further. At present, the area that has the highest consumption of design products with US \$ 106 billion is the European market; which absorbs 50 percent of Italian Furniture export. According to *CSIL*, to take advantage of the present situation, Italian companies should invest more in marketing policies, in the pre- sales, and after- sales services assistance. Lastly, implement their strategy including a wider use of Internet³⁴.

1.6.2 4 “As”, Made in Italy, COO.

Evidences prove the *value* of the Italian furniture industry worldwide by encouraging companies to continue to invest in overseas markets. Italian furniture industry is one of the four well- known industry excellences that include also fashion industry, food and beverage, automation and machinery or in Italian, “4 As”: arredo, automazione, abbigliamento, agroalimentare. (Fortis, 1998) In 2015, these four industry sectors represented 50 percent of the total export value (OEC, 2015). Behind the development of these four main sectors, there has always been a strong push towards the creation of business. Italy holds the first place in quantity of SMEs per capita among all the major European countries, with the highest entrepreneurship rate: 9 % of manufacturing firms every 1000 people. (CENSIS, 2008). The Italian territory presents a variety of production realities that excel and are hard to imitate because shaped by a mix of know- how and skills handed down from generation to generation. According to the literature (Fortis, 2013), the interaction with the territory they are located in, and the ability to conceive it as the place where society, economy and culture merge together, represents the source of success of many Italian SMEs and consequently, the competitive advantage of Made in Italy. From an historic perspective, the reasons that lie behind the success of the Italian “design” seem to be traceable in the country’s artistic heritage, which make people, Italians, “aesthetically sensitive”. (Bucci et al., 2011) Furthermore, Italy is a country that has always been opened to international trade and travel, thus led them somehow to look

³⁴ *ibidem*

at themselves as “world citizens”. Their continuous contacts with different cultures, ethnicities and countries with the rest of the world have characterized its history since the age of the Roman Empire, the geographical discoveries of Vespucci and Colombo, to the migration in the United States in the XX century.

It is widely recognized that the fame of these four industries is attributable to the “Made in Italy” phenomenon, whose term does not refer only to the location in which a product has been carried out but to all the components, that makes that specific product *unique*. When a consumer think about an Italian product, in his mind, words like: design, art, culture, beauty, craftsmanship, traditional skills, expensiveness and many other adjectives came out. Many scholars, during the time, have attempted to define what Made in Italy actually represents, underlining different aspects of the Italian tradition. Professor Vescovi in his *Unexpected Lessons in Business Management*³⁵, highlights an interesting concept: he states that the “competitive advantage” of the made in Italy products is given by the *elegance* that differentiates Italian products from others and make them irreplaceable. With the term “elegance”, he points out the difficulty to reproduce elsewhere exactly the same product, because its value is deeply- rooted in the Italian culture and history. He talks about a kind of *elegance*, which possesses both grace and simplicity and discloses good taste and care without being excessively sophisticated, a perfect harmonic balance. The concept of elegance applied to luxury goods as well as to industrial products, requires a devoted attention to both, aesthetic qualities and construction and can be found in everyday objects or places. It is exactly when customers all around the world choose to buy a made in Italy product over another one that we can fully understand the importance of the *elegance* factor, which is linked to the psychological value that a product owns.

The psychological value is one of the decisive factor in the choice of a product or a brand and can be favoured by a positive *Country of Origin effect* (COO), another element that contribute to increase or decrease the reputation of made in Italy. Literally, the COO, has been described as the “psychological effect, which occurs when customers are unfamiliar with a product and the image of the product’s country of origin has a “halo effect” on the customers’ evaluation of the product”, and the *halo effect* consists in the reduction of the set of alternatives available for purchase decision. In literature, COO has been described

³⁵ Tiziano Vescovi, “*Unexpected Lessons in Business Management*”, 2016

as a phenomenon that affects both, purchasing behaviour and attitude towards a brand through different processes. (Obermiller & Spangenberg, 1989; Verlegh & Steenkamp, 1999; Zeugner-Roth & Zabkar, 2015). Consumers tend to be affected by the country's image of a product; every country may be seen indeed, favourable or unfavourable in the production of certain product categories. This is the most common association of a product to a specific country, known also as "cognitive process". (Roth & Diamantopoulos, 2009) Further, COO is often subject to shared stereotypes that drive consumers in the purchase decision. A positive or negative impression on a product will influence also the image of a country and vice versa. (Verlegh and Steenkamp, 1999) This kind of influence that can be defined *affective*, is based on the consumer personal feelings 'in a country regards. (Klein et al. 1998; Oberecker & Diamantopoulos, 2011) Another study conducted previously, had suggested a similar approach to analyse the COO's image, and seem to sum up all the aspects mentioned above. It identifies three main aspects that affect a consumer's attitude towards a country: cognitions, affect and conative behaviour. "Cognitions" refer to the knowledge about specific productions and brands, "affect" relies on the favourable or unfavourable bias toward the country and "conative behaviour" to the natural tendency toward purchasing a foreign brand over another. (Papadopoulos et al., 1993) The *affect* or emotional component sometimes may prevail on the rational one. Obviously, a positive COO reinforce the image of a product and let "uneducated" consumers choose that product, as well as a negative one let them leave it out from a range of possible choices. On the other hand, also companies have a sort of control on COO effect since can alter in a positive way the image of their brands and induce a favourable response by the consumers. This argument is extremely important, particularly in a not completely "educated" market like the Chinese one, where most of the time consumers have no knowledge about a product and the only way to make a purchase decision is relying on a well-known brand or on a product's COO cue. Although a big segment of consumers in China is already educated on high-end products, there are still a lot of them who are not aware of the value of Made in Italy, nor able to understand the details, the refined skills with which a product is made. Consequently, they cannot distinguish between a made in Italy product and another one.

The "brand" is also another element, which experts have demonstrate to affect a consumer purchase. When a consumer is approaching to purchase a good, especially if is an

expensive product and they seem to not have knowledge about, his choice is affected by both the COO and the brand image. Often customers associate a brand with a certain COO only because the name is foreign sounding or the brand can convey a specific country of origin perception. However, most times consumers, mostly Chinese, who are still unable to distinguish among the different European brands, tend to associate a particular brand to the wrong country. These two aspects cannot be underrated mainly by the Italian brands that in China are always regarded as sophisticated and valuable. According to recent surveys indeed, (Symbola, Fondazione Edison), Made in Italy enjoy of a good reputation abroad, especially in the American and in the Chinese markets where often our products are tried to be imitate.

CHAPTER 2 - LITERARY REVIEW

2.1 Drivers of Internationalization and analysis of *key factors* to take into consideration before entering a foreign market.

Along with the globalization process, during the last 30 years, international trade and investments have grown faster than the world economy itself. Firms all over the world have multiplied their presence abroad; hiring staff; selling goods with more and more common features; carrying the same brand across the world or yet, locating the manufacturing process in a low- cost country³⁶. The choice of those firms to “be international” is driven by either external and internal forces. Some firms can express the willing to go abroad as a reaction to the environment changing conditions while others because pushed by the desire to find better opportunities outside their domestic market. These two behaviours are respectively known as *reactive* and *proactive*. (Johnston & Czinkota, 1982; Piercy, 1981).

Concerning the *internal* forces driving a company’s decision to internationalize there are: a firm’s excess production capacity, able to satisfy the domestic demand and part of the foreign one (Johnston & Czinkota, 1982); the willing to reduce the inventory costs by selling it (Sullivan & Bauerschmidt, 1988); exploit the economies of scale’s advantage (Kaynak & Kohtari, 1984); and still the possibility for firms to charge different prices in the domestic market as well as in the foreign one, different from the one charged by competitors. (Crick & Jones, 2000). Other two reasons leading a company to go abroad are the networks that could support it and from which it could take advantage (Coviello & Munro, 1997) or a management team aiming at gain new competencies and acquire knowledge. (Morgan & Katsikeas, 1997).

Regarding instead the *external* forces pushing a company to go abroad there are: the high level of competition in the domestic market (Ursic & Czinkota, 1984); more favourable foreign country regulations or exchange rates (Bilkey & Tesar, 1977); attractive export incentives or a particular market’s growth opportunities (Albaum, 1983) and so on. All of these drivers may exist alone or be combined.

Philippe Lasserre in his *Global Strategic Management* attempted also to find answers on why companies engage in international businesses and in accordance with the factors

³⁶ Philippe Lasserre, “*Global strategic Management*”, Palgrave McMillan, 2012

listed above, he found out four main reasons: expand sales, acquire resources, minimize risks and exploit proprietary assets.

However, no matter which kind of driver pushes a firm to go abroad, scholars (Rudolf Grünig, Dirk Morschett, 2011) identify four key factors, which make a firm successful on an international scope: internal, external, infrastructural and congenital. *Internal* factors depends on the staff organization as well as on the firm's ownership, that is to say the capabilities and knowledge of people working for the company, the orientation of the entrepreneur, the characteristics of his team, firm's financial resources and competitive advantages. *External* factors refer instead, to the market conditions, the global financial crisis, the changes of monetary policy and technological developments. Following there are *infrastructural* factors, such as the governmental support in terms of financing, low interest loans and subsidies, infrastructure building and maintenance. Besides, a good network, in other terms a good connection enhanced by the diffusion of technologies like Internet, allow a company to easily communicate with its partners, customers, etc. *Congenital* factors relate to tariffs added to imported goods and non- tariff barriers. Non tariff- barriers imply restrictions on company's activities, such as: governmental regulations that imply asking for an official permission in order to buy or sell in a certain country, specific norms for foreign investments, or still on the composition of a company's board of directors.

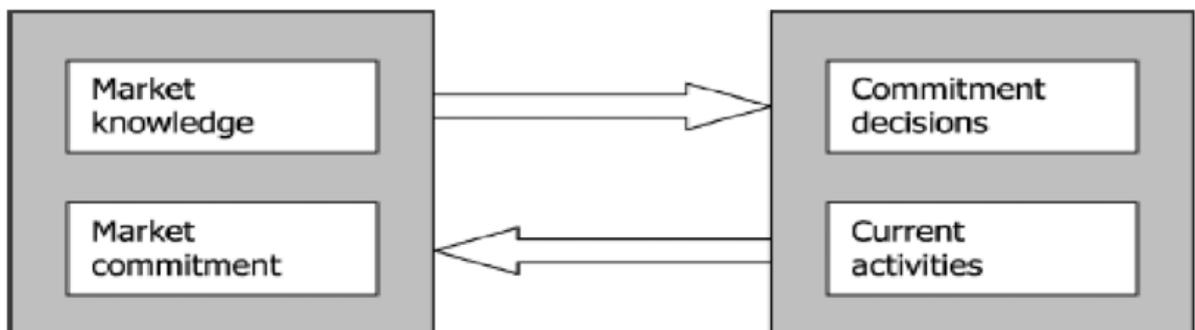
2.2 A brief outlook on firms' internationalization process theories

Despite of the forces pushing a firm to go abroad, more importance has to be attached to the most successful *mode* of entry to adopt in a specific foreign market. This is a very critical issue for a firm which has to choose accurately the best option in which invest as it involves a great amount of resources commitment that, in case of wrong choice will be really expensive for the firm in terms of both capital and time. (Root, 1987) Several studies have been conducted in order to help firms to avoid committing irretrievable mistakes. Some of the most significant ones are illustrated below. I will start to focus my attention on the "Uppsala model" that look at the *internationalization* process as a learning oriented process and which suggests to the firms to adopt a gradual and incremental approach, defined *evolutionary* in order to best reduce

their risk exposure. It explains how a firm should intensify its activities in a non-domestic market by identifying four sequential steps in the *establishment chain* according to which correspond a different amount of resources commitment, respectively:

- irregular export activities;
- export via independent sales representatives;
- establishment of overseas sales subsidiary;
- establishment of foreign manufacturing subsidiaries.

Since the internationalization process basically involves two main variables: *resource or market commitment* and *market knowledge*, according to Uppsala Model the more a company invests in a market the more market knowledge it will get, consequently the more knowledge it will get the more money it will invest. There are two different kind of knowledge: *objective* knowledge that is simply transferred from one market to another and the *experiential* knowledge, which is gained by experience, or learning by doing³⁷. To those variables should be added also current activities and commitment decisions. These are divided in their turn into *state* and *change* aspects, which interact with each other in a cycle.



Source: Johanson and Vahlne, 1977

The *state* aspects refer to the resources committed to the foreign market while the *change* ones to the decisions to commit resources and the performance of current business activities. (Johanson and Vahlne, 1977). While the *state* aspects help managers to take decisions, the *change* aspects are directly influenced by the first ones. Market knowledge

³⁷ *ivi*

and commitment have in fact an impact on how activities are carried out and the commitment toward these activities will, in turn, affect market knowledge and commitment.

If for Uppsala the best strategy to get into a foreign market is gradually penetrating the market, the theory conceptualized by Johanson and Vahlne (1977) focus on another important aspect, the *psychic distance* that recommend to start foreign operations from culturally and geographical close countries and move gradually to more distant ones. The term *psychic distance*, literally “the sum of factors preventing or disturbing the flows of information between firm and market” is the sum of cultural variables, legal factors and other societal norms that measure a foreign country’s degree of “foreignness”. Closer psychic proximity in fact make easier for firms enter foreign market as they do not have to face the *liability of foreignness* going abroad, another concept introduced by Johanson and Vahlne, which refer to the inherent disadvantage that foreign firms experience in host countries because of their non- native status. Foreign firms are usually discriminated against domestic ones and in order to offset the liability of foreignness, have to deploy a great amount of resources. This is particularly important also for Italian firms willing to penetrate the Chinese market, culturally and geographically distant from our own country and in which different governmental rules are in force.

Another model developed that can be considered a further development of the theory of internationalization is the *Eclectic Paradigm* (Dunning, 1993) also known as OLI model, respectively: ownership, locational and internalization advantages. While the theory of internationalization is based on the transaction cost theory incurring in making an economic exchange, this theory states that the transaction costs are made within an institution if the transaction costs on the free market are higher than the internal costs (internalization process). This process consists in establishing a subsidiary or in investing abroad, managing affairs directly from abroad. Other theories focused more on exploiting a country’s own competitive advantages that, on an international framework, allow countries to exploit cross-cultural resources reciprocally, in the price of goods or other factors coming from different level of specialisation. Smith, for example, with his *Absolute Cost Advantage* theory claimed that a country should specialise in and export goods in which it has an absolute advantage, in this case given by the economies of scale, and conversely import those goods in which it has an absolute disadvantage. Another

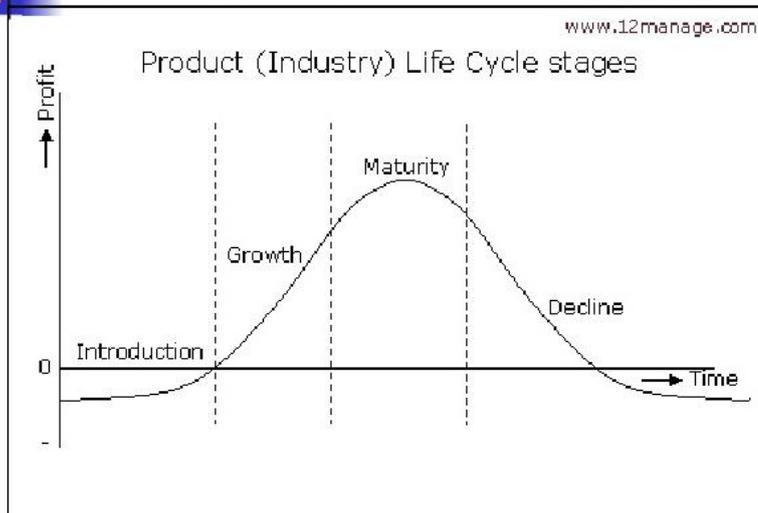
scholar, David Ricardo (1817) argued that a country does not necessarily has to have an absolute advantage in the production of any commodity, but it is sufficient that two countries benefit each other from trade as they both have a relative advantage; such as a greater efficiency in production or the use of less labor factor etc. Something that can be mutually exchanged by making them complementary.

Lastly, another renowned theory is the *Product life cycle theory* (Vernon, 1966) a sort of further development of the theories mentioned above. According to this theory, there are several stages in the life cycle of a product and each of this stage has a different implication in the internationalization process of the firm. In the so-called “introduction” stage, the firm will tend to focus mainly on the domestic market devoting low efforts in export activities. In the second stage, the “growth” stage, the firm will start to increase its export activities, through for example foreign direct investments; in the third stage, the “maturity” one, because of an excessive market saturation, the product will be standardized so the firm will tend to relocate the manufacture activity to countries with low labour costs. In the fourth and last stage, named “decline” stage, the demand for the product in question, is expected to be very low so the production will be sooner stopped. (Vernon, 1966; McKiernan, 1992).

Vernon in fact, support the idea that a country whose market is saturated, export its goods to another developed country market which, in its turn, will automatically learn how to manufacture the same product, while the original country, the first one will start to develop a new innovative version of that good and so on. This theory postulates a dynamic comparative advantage given by the fact that the original country of export shifts throughout the product’s life cycle. Obviously, the conditions under which a product is sold change over time as well the strategies adopted and must be managed through all the different stages³⁸.

³⁸ /vj

International Product Life Cycle Theory



2.3 Traditional foreign market modes of entry

Assessed that a firm is willing to expand its market activities going abroad, it has to evaluate when is the perfect time to do it and in which way enter the market, after decided obviously which market penetrate. Concerning this last point, it is recommended to conduct first, a sort of country's attractiveness analysis through which evaluate country's risks, costs and opportunities, including micro and macro-economic aspects. Regarding the *time* issue, a company should accurately take into consideration the size of the market it aims to penetrate, its resources commitment availability as well as the competitors position in that market. A firm, which plays the role of first player in the market by introducing a new product, or being the first one to penetrate a market segment, is commonly known as *early entrant*. On the other hand, a firm that recognize to not be able to enter the market on its own because of insufficient resources, because of a high level of competition or whatever, will certainly enter into a market by imitating the *first mover* approach or simply improving already existing products; this approach is adopted by the so-called *later entrants* players. (Hill, 2007)

Lastly, the most important aspect to consider is "how" to enter a market. Each of these approaches has its own advantages and disadvantages and it is one of the hardest

company's task identify which approach is the one that best fit its strategy. Some companies freely choose the kind of entry mode they need others adopt the one that facilitate them to respond to the external stimulus, like signing an agreement with a foreign partner. (Mencarini, 2003; Musso, 2000)

I will briefly illustrate below some of the major types of entry mode.

2.3.1 Export

The Export mode is the most common and the easiest way to enter a foreign market especially for firms which are about to start their *internationalization* process. It consists literally in the sale of goods or services produced by a company that manufacture its products in its own domestic market or in a third country and sell them to the host market. Since the transport of goods implies a cost, usually firms start to export their commodities from a geographically closer country, in order to exploit cultural similarities between the two markets, acquire experience and knowledge and boost later on their foreign operations. A firm that decides to adopt an export mode has to go through three phases, the following ones: *preengagement*, initial exporting and advanced phase. By doing so, a firm will start its activities of "intermittent" exporting until become "regular" exporters, after had gained sufficient experience and had become able to cope with exporting demand. According to the level of commitment, three different types of export activities can be distinguished: occasional transactions, long-term contracts, foreign agent/distributor.

There are two methods of exporting: *direct* and *indirect* selling. If the *direct* way consists in managing activities in a foreign market operating through the firm's own structure, the *indirect* way involves the intermediation of a third party, a role that can be performed by different actors, such as: *broker*, *buyer*, *export management company*, *export trading company*, *consortium* and *piggy back* are among the most common ones.

I will illustrate below, a brief introduction of each *distribution channel*.

All of them require a different degree of involvement, from the *buyer*, who is the easiest option to adopt, as he is just an independent actor who deal with foreign companies in order to sell them his own domestic market products to the agreement with an *EMC* or *ETC*, more complex organizations. Another independent actor as the *buyer* is, is the

broker which function is to create a linkage between the domestic company willing to sell its goods and a foreign company that wants to purchase them. It can act as the agent for either the seller or the buyer. Concerning the organizations, as we mentioned above, *EMC* is an independent firm that acts like an export sales department for several manufacturers ratified by an exclusive agreement. Its task concern in conducting business in the name of the manufacturer it represents by managing sales, promotion, advertising and all other activities in foreign markets. *ETC*, instead, is also an independent firm but with the task of buy products from manufacturers and resell them into foreign markets on its own account. It is also responsible for managing international transactions, transportations, storage, insurance etc. Other two organizations that operate in the same scope of those mentioned before are *consortium* and *piggyback*. The first one, the *consortium*, is a structure that support small firms that because of their size, the lack of experience and many other reasons are unable to cope with the foreign market and so to export their products. *Piggyback*, instead, is a sort of mutual benefit between two parts, a manufacturer also called *carrier*, who uses his distribution facilities to sell his products to another manufacturer, the *rider*³⁹. The two parts produce complementary goods so there is no competition between them. Both companies benefit from this agreement, as the smaller firm is in charge to enter the international marketplace and to learn its dynamics while the multinational enhance its product lines and its image overseas (Peng and York, 2001).

The two methods *direct* and *indirect* export, both have substantial advantages that include, a low initial investment, a complete control over production, market diversification, risks mitigation, economies of scale and so on, as well as some disadvantages, such as: potential costs of trade (transportation, tariffs...), limited learning and limited control over commercialization, difficulty to identify and promptly respond to customers' needs. The choice between the *direct* and *indirect* way depends on the purpose of the firm. A company aiming at reach the international market will choose the direct form of export, a company more concerned about reducing or avoiding financial risks and not interested in having a complete control over the foreign market will choose the indirect form. In any case, it will be better to choose accurately the right distributor to rely on. (Blomstermo et al. 2006; Johanson and Wiedersheim-Paul, 1975)

³⁹ *ivi*

2.3.2 Contracts

The category “contracts” refer to those types of mode of entry that do not require a fully involvement of a firm in the operations abroad by protecting it from potential risks’ exposure but at the same time require the establishment of a long- term relationship. Other reasons making firms opting for a contract form are high competition, government legal barriers or market lack of knowledge. The most spread form of contracts are franchising, licensing, distributors and agents. The last one is particularly adopted initially by SMEs willing to penetrate the Chinese market. *Licensing* and *franchising* are both form of indirect contractual agreement. By signing a licensing agreement, a company also called *licensor*, transfer to another company or *licensee*, the right to exploit some intangible properties, such as trademarks, patents, know- how and other manufacturing or managerial skills, technology resources etc. Licensee in his turn, grants “royalties” to the licensor, as a form of payment that can be calculated as a percentage of sales or as a fixed amount per unit sold. If on the one hand, this form of contract demands to licensee a low commitment in terms of personnel and capital, on the other hand it also has many disadvantages, like the risk of appropriation by the licensee, or yet the fear that the licensee could damage the image of the licensor in qualitative terms. By signing a *franchising* agreement, similarly to the licensing one, the *franchiser* allows the *franchisee* to use its name by receiving a financial compensation. Franchising, hence, allows the home firm to penetrate the market at a relatively low cost, to gain access to local knowledge etc., by sharing the risk with the franchisee. However, in order to preserve a high level of quality worldwide, franchiser can force franchisees to adopt universally a set of operating policies. As we have already mentioned above, these two methods have many aspects in common, but where the *licensing* agreement offers a more flexible way to allow both parties to serve their purpose, the *franchising* one set a number of strict rules that the *franchisee* has to follow. An example of a franchising furnishing multinational is given by Ikea, the Swedish company well known and appreciate all over the world and in China as well.

A further method to start to deal with a foreign market, can lead a company to rely on *local agents* and *distributors*. This operating mode is usually used by SMEs that because of their size and the limited amount of resources available, are unable to cope with the

foreign market demands, or it can be adopted to enter “risky” markets or yet to “test” the market without committing too much. What distinguish a distributor from an agent consists in the tasks they undertake. The *agent* is simply a sales person and an order-taken, the *distributor* instead, has also to perform some logistical tasks: stocking, transporting, billing and so on. The following operating mode is usually adopted at the initial stage of market entry, because when sales will increase, a conflict of interest can subsequently emerge. Distributors will expect to receive a higher percentage of sales while the company will try to dismiss them and invest directly in the market.

2.3.3 Foreign direct investments

Foreign direct investments is the most risky but rewarding mode of entry a firm can adopt. It gives the firm a tight control over operations in the different countries they operate. According to the different FDI chosen, a firm has a total or partial control over the local subsidiary. Behind the choice to enter a market through FDI have been identified three major reasons: *natural resource* seeking, *market* seeking, *efficiency* seeking, *strategic assets* seeking. A company can choose in fact, to invest in a specific country because endowed with a huge amount of resources to exploit (minerals, technology etc.); or to reach a specific target and to sell its products to that market. *Efficiency* and *strategic assets* seeking instead, refer to the opportunity to have access to some kind of inputs available abroad in the first case, such as low labour cost, or intangible resources in the second one, like technological knowledge⁴⁰.

Among the most common FDI forms there are: *merger & acquisition*, *greenfield venture*, *joint-venture*. A *merger* occurs when a firm merge itself with a foreign company into one single unit; an *acquisition* when a firm purchase an existing local firm. Lower cost of production and operations in the foreign country, the possibility to quickly acquire new competencies, know how, technology tools etc., to easily reach a good position and increase its market share are among the main advantages a firm can enjoy from this kind of alliance. However, the “purchasing” operation is quite complex, require the involvement of several “actors”, such lawyers and economists, and potential restrictions a country could have settled. The *home* country from its side will have a certain degree

⁴⁰ Philippe Lasserre, “*Global strategic Management*”, op.cit

of control over the foreign party and the facilitation of overcome any form of barriers, including the *liability of foreignness*. In both cases, *merger* and *acquisition*, the firm can operate immediately, so unlikely *JVs* and *Greenfield investments*, this entry mode is often adopted when time is a crucial issue.

A *Greenfield investment* consists in setting up a new company from the scratch in a foreign country. This method is extremely complex, expensive and the most time consuming but once it is completed it offers the highest degree of control over all the aspects a firm is engaged to and the opportunity to get back the highest financial return⁴¹. Costs and responsibilities are both undertaken by the parent firm, unlike to the *JV* agreements, in which are hedged between the two parties. Nevertheless, it benefits the new born company in multiple ways, from holding a high control over the personnel and the brand to the achievement of economies of scale and yet in production, marketing, R&D, HR integration, and all the activities a company is committed to. The first two options require both significant commitment of time and resources. The choice of adopting one instead of another is affected then by the investment costs, differences in technologies, market size, structure and competition intensity. (Müller, 2007). Thus means that, if a company will look for a “money saving” mode of entry, enter a small market with a low competition intensity and a reduced cultural distance, will choose the acquisition mode; conversely will opt for a Greenfield investment. Besides, these two forms of FDI, together with *JVs* are today, among the most common modes of entry adopted to enter the Chinese market. According to the laws of the People’s Republic of China (PRC) in fact, foreign firms willing to enter the Chinese market, can opt for the following entry modes: joint ventures (equity joint ventures or cooperative joint ventures) and wholly foreign owned enterprises (WFOE). *WFOE* are 100% governed by the mother company and can be divided into commercial enterprises or production and commercial enterprises. By 2004, the introduction of the Administrative Regulations for the Foreign Investment in the Commercial Sector has opened the door to foreign companies allowing them to freely access the wholesaling and retailing business⁴². A *JV* is, instead, an agreement between two or more parties interested in “joining” as the term itself highlights,

⁴¹ Laura Andra Stetco, “*Web and Internationalization: new opportunities for Italian Small-medium enterprises*”, 2013/2014.

⁴² Gabriella Cirese, “*Italian Design Furniture across Borders: an analysis of the Chinese market*”, 2014/2015

to establish a new legal entity distinct from the parent firms. These “strategic” alliances, have been used as “vehicles” for market entry since 1945 in order to add value to company’s activities. Japan and China are among the countries that have most encouraged the establishment of international JVs between foreign investors and local firms. Since 1980’s in fact, when China opened its doors to foreign companies, corporations from all over the world attempted to gain access to the Chinese market by establishing JVs with local partners, because seen as a guarantee. Besides, entering in a partnership with a local company help the foreign part to boost its image as well as its reliability in the eyes of the consumers. Even today, many corporations prefer to engage with large and reliable Chinese partners instead of venturing on their own. These alliances can take a wide variety of forms according to the different purposes they are established for, but always imply some sort of joint operations. Three major drivers seem to push foreign investors to enter a JV: administrative requirements, capabilities requirements and risk hedging. Concerning the *administrative* issue, some governments want to preserve their domestic benefits, so keep pushing foreign investors to form an alliance with domestic companies granting in return access to their market. Other foreign companies decide instead, to enter in a partnership with a local firm in order to acquire *capabilities* they might lack of, such as: market knowledge, distribution, technology resources etc. Managerial and human resources provided by a JV local partner will be more difficult to manage as they could not be so disposed to conform to the foreign part operations or strategy, will instead expect that the foreign partner will adjust to their market. Eventually *risk hedging* can be also considered a further driver leading a company to form alliances. The risks a firm can run into usually concern the complexity of a project, the uncertainty about a product or a service success in the invested market, and more general risks linked to a country’s political system or macroeconomic aspects. According to Beamish and Lupton (2008), the establishment of a JV has to go through four phases “assessing the strategic logic for creating the venture, selecting a partner, negotiating the terms and implementation and ongoing management of the business”. For each phase managers have to take strategic decisions that will determine in the future, the success of the partnership. Four are the key elements that need to be taken into account when establishing a JV: knowledge transfer, organizational culture, governance and ownership. Concerning the *knowledge transfer*, this might be difficult to achieve it since some companies will attempt to protect their

intellectual property. This is particularly true for companies dealing with Chinese partners, since the concept of intellectual-property protection is still new in China, thus appeal for legal tools can be a waste of time and resources. During the years, companies have then implemented new strategies, from keeping part of their intellectual property out of the JV to selling it to the newborn company or yet bringing only older technology to China and so on. Another factor that should be considered is the difference of both the two companies' *organizational culture*, because it could lead to communication problems, operating modes and similar. *Governance* and *ownership* are the most important factors the two parties have to agree on before signing a contract. The first one refers to the control of the JV, practically who will be in charge for taking decisions, which can be evenly shared or, entrusted to only one partner.

A further solution can be provided in splitting responsibilities by “functional expertise”, it means that each party will be entrusted to manage the function it is specialized in. (Beamish & Choi, 2004). Lastly, the *ownership* regards the shares distribution among partners. The firms involved usually agree the percentage each part will hold, but when dealing with some countries, such as India or China, there are some governmental restrictions that have to be followed. In countries like those, the government allow foreign companies to invest in their market by forcing them to collaborate with local partners or requiring them an investment of over 20%, exactly 25% at least, if in partnership with a Chinese firm⁴³. This kind of contractual agreement named “equity joint venture, is a special type of limited company, a hybrid form of equity and project partnership agreement. However, today circumstances have changed; Chinese government is still encouraging Western companies to choose local firms in establishing JVs but it started to more flexible, even accepting agreements with 100% foreign ownership. Eventually, another aspect that has to be clearly defined, among partners, is the purpose of the alliance. The most common mistakes that have seen a lot of JVs fail are given by a disagreement on partners' commercial interests. Many multinationals aims to increase investments' profitability while many Chinese companies are more inclined to expand, to grow. Therefore, sharing different priorities and the lack of cooperation brought many alliances to split up.

⁴³ Renzo Cavalieri, “*Lecture di diritto cinese*”, Venezia, Libreria Editrice Cafoscarina , 2012

Finally, another entry mode quite spread in the Chinese market consists in the settlement of a *Representative Office*. Actually, it cannot be considered as a real “operating mode” and it does not belong to any of the categories I have described above, as it does not involve any “direct activities” on the market, but it allows firms to explore the market, come in contact and cooperate with local players, by facilitating them to develop a future strategy⁴⁴.

2.4 Analysis of SMES modes of entry to global markets

In the previous paragraph are illustrated the most common types of entry modes a firm can choose in order to enter a market. However, as we have widely mentioned before, not all firms can adopt any kind of approach. Concerning for instance, medium- sized multinational enterprises and small medium enterprises, their choice is influenced by a set of aspects: firms’ size, its scope, the stock of resources available and so on. The stage of development (SD) model (Johanson and Wiedersheim-Paul, 1975) define SMEs internationalization process as a long, slow and incremental process depending on two dimensions: geographic/ cultural expansion and commitment.

According to Hollensen (2004), company’s size is an indicator of its resources availability. Its involvement in a market is directly related to the amount of resources available. This is the reason why they are more likely to enter foreign markets by export modes, especially at the beginning, because they do not have “enough” resources to enable them to have a high degree of control. (Hollensen, 2011)

Before analyse the characteristics that make those companies so challenging and why the attention in their regards increased in the last years, I will briefly illustrate the aspects to take in consideration in order to classify a firm as a MMNE or a SME. The acronym SME is generically used, in different contexts, to qualify all those enterprises that cannot be defined as large. A common definition of “micro” enterprises and “medium” enterprises does not exist yet, for this reason, parameters used by national governments and international organizations are set on two variables, number of employees and turnover. Based on European Union parameters, medium- sized enterprises have less than 250 employees and annual turnovers below € 50 million, while small medium enterprises have

⁴⁴ Gabriella Cirese, “*Italian Design Furniture...*”, op. cit

less than 50 people employed and an annual turnover below € 10 million. Based on WTO classification, a SME is a firm whose number of employees range from 10 to 250⁴⁵. Since the size of a firm is assumed to reflect its stock of resources as well as its performance, it follows that customers, employees, suppliers, investors, perceive large firms as more reliable than the smaller ones and prefer to interact and conduct businesses with them. In addition, empirical studies for long time, have focused their attention on the internationalization process of MNE, excluding MMNEs and SMEs from their scope, making them think to not be able or not have acquired yet competences needed to venture alone, in distant global markets. As a consequence, international trade has been viewed as a field for big global companies for ages, and only a threat rather than an “opportunity” for small medium companies. (Zhao, 2005).

“Market size” or “firm size” have always been considered crucial in terms of economic and industrial policy as these two dimensions are viewed as a sort of link between macro and industry studies and micro researches. This is the main reason why until the 90s, governmental and institutional agreements, mostly oriented towards new or emerging markets, involved only MNCs. In the last twenty years, with the introduction of new internationalization strategies, due to a change in the nature of political and international relations, even MMNEs and SMEs seem to have aroused a growing interest. Official sources as the Organization for Economic Cooperation and Development (OECD) and similar, state that SMEs at the beginning of the 21st century, represented already a significant percentage of exports in many industrialized countries. (Knights, 2001). Even the E.U. in a note, titled the Small Business Act (SBA) has recognized “the central role of SMEs in the EU economy” in terms of promoting growth and job creating. (EU, 2008) even if, the recognition of the importance of this new category of companies is still too broad and present some imprecisions in defining the size limits⁴⁶.

“Small and medium enterprises (SMEs) are the backbone of the economy of the European Union (EU) and the long-run competitiveness of the EU critically depends on the ability of SMEs to be active in international markets” (European Commission, 2014)⁴⁷.

⁴⁵ Laura Andra Stetco, “*Web and Internationalization...*”, op.cit

⁴⁶ Andrea Pontiggia, Tiziano Vescovi, “*When Size does matter. Trends of SMEs Internationalization Strategies in Chinese economy*”, May 2013

⁴⁷ Francioni, B., Pagano, A. and Castellani, D. , “*Drivers of SMEs’ exporting activity: a review and a research agenda*” , 2016

It is a matter of fact that “going global” is costly and difficult to manage especially for small sized firms, which have always be considered as home market- oriented (Lindmark, 1994);

but today, in most countries, the amount of SMEs accounts for 95 % on average, so recent studies have been focused more attention on the role performed by the latter⁴⁸. Besides, SMEs’ adoption of a new active behaviour is challenging the traditional thinking pattern. (Oviatt & McDongall, 1994). Up to date, very little is known about their presence on the international scene. Furthermore, to date, a clear theoretical framework, able to explain why and how SMEs manage their international activities, has not been conceptualized yet, mainly because of the heterogeneous “nature” characterizing SMEs. Secondary, studies conducted until now, have focused their attention only on SMEs internationalization in developed countries. Traditionally, the most part of SMEs start to “internationalize” gradually, by doing sporadic exports; others, are engaged in international business activities from scratch or right after their establishment, the so-called *born global*; some others are integrated in GVCs⁴⁹. By adopting the traditional gradual approach, SMEs have to go through different stages according to which, correspond a different degree of commitment that is supposed to increase over time. The first phase that is characterized by occasional export activities will be followed by the signature of a contract with independent intermediaries and distributors, whose task does not consist only in exporting, but also in “learning” from the foreign market and acquiring the information needed to carry on their operations. Later, the firm will be able to settle its own sale branch abroad, followed by the setting up of production facilities. (Johanson and Vahlne, 1977)

Following then the traditional approach adopted also by MNCs, in order to overcome the *cultural distance* issue, SMEs will also start their foreign operations in countries perceived as culturally, economically, geographically closer to expand, afterwards, to more distant ones. The same will occur in the choice of the most convenient operating mode to adopt. It follows that they will recur to higher commitment mode of entry, such as FDI, only after have acquired sufficient, knowledge, resources and experience in a

⁴⁸ World Trade Organization, “World Trade Report 2016: Levelling the trading field for SMEs”, 2016

⁴⁹ World Trade Organization, “World Trade...”, op.cit

specific market. Far from the “traditional” gradual approach, seem to be the pattern followed by the so- called *born global* firms.

Technological progress, the expansion of e-commerce, the evolution of global value chains and the introduction of new kind of agreements, are the assumptions that have paved the way for the setting up of this new type of SMEs⁵⁰. Scholars describe “born global” firms as “young, small and medium-sized entrepreneurial firms that, from or near founding, obtain a substantial portion of total revenue from the sale of outputs in multiple countries” (Oviatt & McDougall, 1994)⁵¹. These *born global* firms, also called “international new ventures”, are “internationally” oriented and endowed with a higher market knowledge and an international network from their settlement. Their peculiarity lies in their capacity to start an internationalization process from their inception or in their very early development (Moen, 1999). These high- technology start- ups view the world as unique market place, usually operating in niche- markets, they are able to operate in both domestic and international markets at the same time.

However, what makes a SME experience a fast internationalization has to be researched in the ability of its manager to implement a successful strategy and exploit his networks, in order to overcome potential barriers or benefit from any kind of resources. Managers who are able to exploit their alliances with other SMEs, by benefiting from the spillovers from these ones, can either overcome financial, human and management resource restraints or gain access to skilled labour force and acquire knowledge about technologies or certain products’ categories. Researches have proved that “individual level characteristics are actually more important than firm and industry level characteristics in overcoming resource and market constraints”⁵².

This is the result of a growing interest in international entrepreneurship (IE) aroused in the past two decades (Keupp and Gassmann, 2009; Zahra and George, 2002). It focuses on the entrepreneurial characteristics, such as self- commitment, self- efficacy, experience, dynamism and motivation as personal traits a manager has to possess, in order to overcome potential barriers he might run into in managing firms’ access to emerging countries.

“Entrepreneurial and management skills can be defined as the ability to capitalize on ideas

⁵⁰ ivi

⁵¹ Andrea Pontiggia, Tiziano Vescovi, “*When Size does matter...*”, op.cit.

⁵² ivi

and opportunities by successfully implementing a business strategy” (Porter, 1990) As a result, several studies on SMEs highlight the role of entrepreneur as a “strategy maker”. While literature on MNCs emphasizes in fact, the relationship between stockholders and managers or the “agency dilemma” referred to potential conflict of interests that could arise between the two parties, the literature about SMEs, underline the limits of an individual decision- making, and emphasizes instead, the importance of a strong managerial component in order to ensure a further development. According to the classification drafted by *WTO*, the *born global* firms approach, can be adopted also by those firms which have already entered a foreign market, but without achieving their fixed goals. Those firms, known as *bornagain global*, after had experience scarce results in the foreign market, could decide to relocate their business in the domestic market and return later to the international scene by committing a higher amount of resources and had acquired a certain level of knowledge. Other types of *bornagain global* SMEs decide, instead, to adopt a gradual internationalization approach, and implement a new strategy only after had experienced a “significant” event, such as changes in the firms’ ownership and management, the acquisition of the company by another one located overseas and similar events.

The fourth and last pattern identified by the *WTO* classification is the “global value chains approach”. Global value chains involve a set of interrelated tasks or activities, like design, production, marketing, transport, support of a product or service, etc. that, together with production networks are dependent on a larger firm, supplied with components or services provided by SMEs or other firms. SMEs are involved in the global value chain by exporting directly to those large firms located overseas or, indirectly, to firms established in the home country market. Being engaged in global value chains can benefit SMEs in different ways, from importing intermediate goods to deploying their resources on tasks they can take advantage of. By starting exporting firms will increase their level of productivity and innovation, as well as their growth and employment rate through economies of scale. Eventually, participating in GVCs facilitate information flows, and allow firms to exploit their commercial linkages with customers, suppliers, etc. to further internationalize and expand the export activities. On the other hand, competition among SMEs is particularly high, new suppliers can easily replace the previous one, by offering better comparative advantages at lower costs. (Abonyi, 2005). This is why some SMEs,

start progressively to move along the GVC, by increasing the quality of the products or services they supply.

2.4.1 Drivers pushing SMEs to internationalize: advantages and disadvantages of the “third mover”

Timing and *manners* are not anyway, the only aspects a SME should take into account before entering a foreign market; unlike larger firms, medium- smaller ones are affected by a set of barriers that can obstruct their access to the international trade, among which, the fixed exporting costs play a central role.

It is commonly known that SMEs are more sensitive to trade barriers since they usually have less amount of resources and, unlike larger firms, have to face higher borrowing costs. (European Central Bank, 2013; Vossen, 1998) Therefore, higher tariffs in the target market make it more difficult for firms make a huge profit, so only the more productive ones could be able to afford to export in such an environment; and their volume of exports will be reduced as well. In addition, in order to enter a foreign market successfully, satisfy customers ‘demands by adapting products or services to their tastes, and learning how to deal with new bureaucratic procedures, developing new marketing channels, etc. firms have to face further high costs, because it implies collect information about a specific market, its regulations and opportunities. Delivery and logistical aspects are other two important issues that affect SMEs’ operations, have access to distribution networks is crucial for firms either to develop their business or to segment customers from one region to another. To face all these costs firms need credit but, most of the time, banks charge them higher interest rates and fees. From another perspective the major obstacles for firms, have to be found inside the firm itself, in its internal resources and capabilities, and not outside, in the external environment. Although small firms have to strive to overcome these barriers, their management team and their competitive advantages are responsible for their international success. (De Chiara & Minguzzi, 2002)

A report issued by OECD (2006), confirms this theory and highlights that there is a difference between firms already exporting and non- exporting ones. If the first ones stress the importance of the business environment barriers, the second one focus more on financial and access barriers.

Studies on SMES' internationalization modes reveal how the variety, characterizing the latter ones, is related to a number of both internal and external factors. (Leonidou, et al., 2007).

Internal factors are "firms'-specific", it means that are related to firms' resources, competitiveness, characteristics and export marketing capabilities. (Nazar and Saleem, 2009).

There are three types of SMEs internal factors that have been found to have an impact on different aspects of SMEs' internationalization. The role of the manager inside the firm, his skills, attitude, behaviour, etc. is supposed to influence firms' internationalization patterns. The type of the firm and the resources is endowed with, from knowledge and experience to networks, technology, but also marketing skills, ability to adapt to a specific market and to satisfy customers, instead, seem to influence the strategy followed. "External" factors are linked instead to home and host- country characteristics. There are multiple home- country reasons pushing a firm to engage in international activities, such as: saturation or shrinkage of the domestic market, fierce domestic competition, or yet, other factors influencing a firm to go abroad include import and export regulations, transport infrastructure, costs and time related to export and marketing activities. Host-country factors, on the other hand, are related to tariffs/ non- tariffs measures, competition, business codes, external risks (legal, political...), geographical and cultural distance. The combination of these external and internal risks, can promote or hinder the internationalization process of SMEs⁵³.

A different approach was used by Hollensen, who instead of analysing advantages and disadvantages of firms willing to go abroad, focused the attention to the "motivational forces" pushing a SME to go global, that somehow are very similar to either internal and external factors mentioned before. He distinguishes between *proactive* and *reactive* motives.

The first ones consist in a series of incentives attempting firms to change strategy in order to exploit *unique* competences, or marketing opportunities; while the *reactive* motives encourage firms to react to external or internal "threats", coming from either the domestic

⁵³ Philippe Lasserre, "Global strategic...", op.cit

or the foreign market (*home/ host-* countries factors), by forcing them to adjust to the circumstances over time. (Hollensen, 2004)⁵⁴.

Major motives for starting export Internationalization motives

Proactive

- Profit and growth goals
- Managerial urge
- Technology competence/unique product
- Foreign market opportunities/market information
- Economies of scale
- Tax benefits

Reactive

- Competitive pressures
- Domestic market: small and saturated
- Overproduction/excess capacity
- Unsolicited foreign orders
- Extend sales of seasonal products
- Proximity to international customers/psychological distance

Source: adapted from Albaum et al. (1994, p. 31)

As regards *proactive* motives, the first one showed on the list above, “profit and growth” seem to have both an influence on SMEs, particularly at the initial stage of exporting. “The stronger the firm’s motivation to grow, the greater will be the activities it generates, including search activity for new possibilities, in order to find means of fulfilling growth and profit ambitions”. (Hollensen, 2004) The second one, “managerial urge” reflects the role of management in global markets. Managerial urge is the direct consequence of *entrepreneurial motivation*, in other words: a company’s management policy towards market growth and expansion. Given SMEs’ size, generally a single decision- maker is enough to manage their activities, exports included, thus managerial attitude is crucial in directing firms’ operations. Another proactive reason to internationalize can be provided by products’ superior “technological” quality. Firms whose product are *unique*, or which have developed higher competences in a specific scope, are more facilitated to explore

⁵⁴ Jiaping Wu, “SME Internationalization: “Motivations to Internationalize and Influential Factors on Entry mode choice”, November 2015

overseas market by exploiting their competitive advantage. Following, the exploitation of “foreign market opportunity” thanks to a certain degree of market knowledge in a given country, is a further appealing stimulus for firms able to respond to those needs. Most part of SMEs, focus their efforts on a single market. Furthermore, “economies of scale” and “tax benefits” are other two important aspects a firm can benefit from, especially the latter, as strictly linked to the *profit* motive, as allow firms to sell products at a lower cost but by making a higher profit. Shifting to the *reactive* motives stimulating a firm to expand, there is the competition first, perceived from both internal and external environment. Competition can arise in fact, either in a domestic environment, as firms may lose their market share because of competitors exploiting economies of scale, or in foreign environments, if domestic firms have already ventured in the targeted market. On the other hand, also some firms’ “factors” that can be considered as obstacles, such as “saturated market” or “overproduction/ excess capacity”, can be exploited in order to take advantage of them. The first one, push companies to export goods, which are probably at the declining stage of the product life cycle in its own market, but it might be at the growth stage in another market. The second one, follows more or less the same path, that is to say, if there is an exceeding demand of a given product in the domestic market, firms can still act as suppliers for those market which are lack of. The same occur when a firm’s equipment is not fully exploited, firms can decide to apply it to achieve distribution of fixed costs. (Hollensen, 2011). “Unsolicited Foreign Order” can be also included among the reactive motives leading a firm to internationalize, as make firms aware of the potential opportunities beyond their home markets. Eventually, “extend the sales of seasonal products” can act as well as a stimulus for enter foreign market, as some countries have more seasons at the same time, this can secure an annual stable demand. “Proximity to International Customers and psychological Distance” is the last “factor” showed in the graph. It refers to the concept of *cultural distance* that demonstrate how physical, cultural or psychological closeness help firms to explore foreign markets starting from the closer ones with a similar background and other societal norms, to expand later on⁵⁵.

According to Porter, firms’ competitive advantages rely on the “*proactive* use of their unique resources or particular skills developed during their life cycles”. (Porter, 1985;

⁵⁵ ivi

Barney, 1991) Furthermore, he sustains that, firms' competitive advantages can be driven by two distinct forces: *cost leadership* and *product differentiation*.

Pursuing a *cost leadership* strategy, give firms the competitive advantage of exploit experience curve, economies of scale and gain control of overhead costs; while the *product differentiation* strategy is strictly linked to the ability of the entrepreneur of standing out against its competitors, by exploiting different tools, such as: price factor, products updating, customers' technical assistance, choice of efficient distribution channels and so on. The combination of these two forces give rise to a third type of strategy, called *focus* strategy, conceived to reach a particular market or market segment. The strategy consists in segmenting the market into different clusters and develop different activities for each one, by following market demand trends' prevailing at a given time⁵⁶. Researches⁵⁷ have proved that small medium firms are more prone to adopt a *focus* strategy relate to different competitive factors enacted according to the circumstances, rather than larger ones, which are more oriented towards both *cost leadership* and *product differentiation* strategies. The reasons leading SMEs opting mostly for a *focus* strategy, can be found in the vulnerable nature of the latter, to be easily affected by environmental changes; in their information system unable to promptly identify the different competitive advantage to enact and respond. (Ait El Hadj, Bidault, 1980; Covin, Slevin, 1989; Morgan, Katsikeas, 1998).

2.5 An introspection of Italian SMEs approach to international markets: standardization, adaptation, replication, mirroring back and new organizational forms

As widely discussed above, large and small medium enterprises adopt different approaches to global markets, as they seek their own competitive advantages in a different way⁵⁸. In this section, I will give some notions about the typical "internationalization strategies" adopted by MNCs such as *standardization*, *adaptation*, *replication*, and I will

⁵⁶ Roberto Cafferata, "*Competitive Advantage and Internationalization of Italian small and medium sized manufacturing firms*", McGraw Hill, edition 2008

⁵⁷ Bamberger, 1982; Kaynak, Kothari, 1984, O'Rourke, 1985; Craig, Beamish, 1989; Bonaccorsi, 1992; Calof, Beamish, 1995

⁵⁸ Roberto Cafferata, "*Competitive Advantage...*", op.cit

illustrate the adaptation process of these models by SMEs, together with the introduction of *new organizational forms* conceived exclusively for the latter.

Actually, research studies (Pontiggia and Vescovi, 2013) have proved as imitating MNCs “manners” of approaching global markets is not feasible for smaller units and, have confirmed their tendency of transferring overseas models and routines conceived and applied in their domestic markets. “Economies of replication and scarce resources”⁵⁹ inspire entrepreneurs to implement new alternative strategies. Evidences prove so, that, the size of firms “matters” and, besides, force entrepreneurs to develop new efficient organizational forms that fit best to both, their stock of resources (tangible, intangible, financial, etc.) and their capabilities or better their *flexibility, agility, adaptability* and *reactiveness*. (Volberda, 1996) Despite MNCs they are more inclined to “innovation”, thus allow them to quickly respond to new technologies and satisfy specific market demands. (Oviatt and McDougall, 1995)

The right balance between this mix of resources, allowing SMEs to gain access to the international stage, is commonly known as *ambidexterity by size* and is an “exclusive” advantage for SMEs, which are less affected by high organizational costs and bureaucratic norms. In order to validate the hypothesis described and supported above: “how” a company’s size affect its range of operations overseas, I will briefly review, one by one, the different internationalization strategies. The *standardization* approach benefits from the advantages offered by the globalization, among which there are, a widespread market similarity and consumers ‘convergence of needs and tastes. Economies of scale achieved by a wide range of activities, including marketing, production, R&D; a well-established brand image on which could rely on worldwide; and a tighter control and coordination of foreign operations represent some of the effects of the adoption of the standardization approach. Opposite to the standardization approach, there is the *adaptation*. Conversely to what has been asserted above, the adaptation do not stress the “value” of globalization as a potential source of advantages, instead, it supports the idea that is impossible to adopt a unique approach worldwide. Every market has in fact, its own peculiarities, such as consumer behaviour, needs, distribution infrastructures, customs, laws and regulations etc. It follows that, is one of the main firm’s task make adjustments to its marketing mix

⁵⁹ Andrea Pontiggia, Tiziano Vescovi “*Internationalization of Middle sized multinational enterprises in Chinese markets: Mirroring back effects*”, September 2014.

elements and its strategy as well, in order to reach and satisfy its market segment. Obviously, the type of strategy a firm will opt for depends on its objectives. If one of the firm's goal is reduce costs, it will undoubtedly choose the standardization approach, if instead, its objective consists in increase profitability, through higher sales, it will opt for an adaptation approach. A third solution is provided by the *replication* approach divided into two stages, an initial phase of "exploring" to ensure the available space for replication, followed by an "exploitative" phase of the format. (Winter and Szulanski, 2001); (Winter and Jensen, 2006) It is viewed as a sort of alternative between standardization and adaptation, seen as "two ends of the same continuum"⁶⁰. From an organizational perspective, *replication*, whose intrinsic property is "modularity", is characterized by "standardized" modules, a sort of "self-contained units", following the same rules and involving shared actions and behaviours. The main advantages provided by the adoption of this model are lower costs, since it does not involve large amount of resources as the adaption does, and no specific knowledge is required. Furthermore, the replication of home country forms, such as: structure, processes, routines etc. "mirrored" internationally, led firms to reach a balance between the headquarter and its subsidiaries; reduce the control over the latter as well as the coordination costs required for managing the interdependence between them. Although this model seem to be widespread across countries, since it is undoubtedly easier for firms replicate their own business model, instead of creating a new one from scratch; evidences proved that many firms, in the implementation phase, had to face the so-called "competences trap", a sort of obstacle, that inhibit firms to innovate from the internationalization process. Another source of disadvantage emerge from a "misfit" between the domestic competitive landscape and the target environment, that can be caused by either differences of markets or small niche markets, unable to offer a sufficient economic return.

To sum up, two factors are supposed to influence a company's decisions in adopting it: the market specific demands at a certain time, and the impact of the company's strategy internationally. Examples of well-known firms that have implemented a *replication* strategy, by transferring overseas their business model and value chains are McDonalds, Starbucks and Ikea in China; while among the benefits generated by the same, there are economies of scale and brand recognition. (Winter and Szulanski, 2001) An

⁶⁰ Ivi

“evolutionary” approach of the *replication* strategy can be found in the *mirroring back*, especially adopted to enter big distant market as the Chinese one. If we suppose that a company decide to apply the same business model conceived for its domestic market to foreign markets, through a “replicative” process, after had realized that the performances obtained are not rewarding the company as expected; as a result, the firm can decide to enter in the “exploration” phase, to understand the reasons why the model is not efficiently working. Reasons that can be due to a “non- acquainted” market or a consumers’ segment not able to appreciate their offer yet. At this stage, the company has two options: wait for the market “acquaintance”, by keeping selling the same product to other foreign markets, or start to “adapt” its business model to that specific market it wants to be rewarded. Both the options present some risks. The first one, that I will call “wait and see” approach⁶¹, can be jeopardized by potential competitors who can exploit the situation thanks to the “temporary” absence of the firm, or simply the market can “mature” differently than as expected. By developing new “options” to enter the market, the company is developing its internal knowledge as well, through the incorporation of what it has assimilated (experience) during the mirroring back phase in its original business model. Eventually, a further “approach” consists in following the market “evolution” to internationalize, in other words, make sure that the involved consumer segment own a sufficient level of knowledge, experience and competences necessary to understand and evaluate correctly a foreign company’s offers. (*acquainted* market definition) The degree of *acquaintance* of a market, affect a set of company’s choices regarding aspects such: timing, target and entry mode. The degree of acquaintance of a firm is strictly related to its size, and to each one correspond a specific *mover advantage*, respectively: first, second, third. It follows that only MNCs are able to enter big global markets, the Chinese one included, as big size enterprises with a global well-known brand and a sizable stock of resources; while MMNCs will be expected to implement a *second mover* advantage’s strategy, consisting in entering the foreign market by leaning on MNCs that, are assumed to have already paved the way for them. The same argument should be valid also for SMEs which, given their small size, are recommended to wait for MNCS and MMNCs start their foreign operations in the interested market before arrange

⁶¹ |vi

their access on the market (*third mover advantage*) ⁶²

The strategy just explained, seem to be particularly devoted to those firms, without previous international experiences, since it allows firms to acquire resources and knowledge demanded by the market environment.

Scholars, (Eriksson et al., 1997) have classified the concept of *foreign market knowledge* into three levels: *institutional*, *business* and *internationalization* knowledge. The first category focus on the set of foreign culture, rules, institutions etc., the second one to competitors, customers, to market environment generically, the last one the internationalization knowledge, refers to the ability of a firm to adapt its resources and capabilities in order to engage to international businesses. “Whilst the first two assist firms in being aware of opportunities and problems in the foreign market, the third enables the firm to take appropriate action to open up new markets” (Lianxi Zhou, 2007).



Source: Pontiggia and Vescovi, 2013

2.6 Italian SMEs' Internationalization pathway

Since the beginning of the 70's, the export rate of Italian manufacturing firms have been increasing continuously. Three main stages can be distinguished in the process of internationalization of Italian firms. Each stage concerns a different player, a different industry, market target, driver and form or mode of entry, as reported from the table below. (Balcet, 1977)

Stages	Main players	Areas of destination	Sectors involved	Main motivations	Forms
Until the 1970s	Big groups Minor multi-nationals	Latin America European countries	Scale-intensive	Market-oriented (tariff-jumping)	Greenfields Joint-ventures cooperative agreements
1980-1988	Big groups	European countries	Scale-intensive	Market-oriented Economies of scale	Acquisitions Joint-ventures cooperative agreements
1988-2003	SMEs	European countries Europe Far East	Scale-intensive Traditional	Market-oriented Cost saving	Acquisitions Joint-ventures cooperative agreements

Source: Balcet, 1977; Mariotti, 2004

As shown from the data collected by Balcet and Mariotti, the internationalization of small medium enterprises take place only in the third phase of the Italian firms' internationalization process, at the end of the 20th century till' today. Since their appearance on the scene, these firms revealed their "flexible" nature and seem to be endowed with high skills and strong capacities to adapt imported technology, develop marketing, design and brand policies. (Balcet and Vitali, 2000). Their drivers or main motivations were *market orientation* and *cost savings*. The industry sectors in which they were operating are the "scale intensive" such as: transportation equipment, household appliances; the typical Italian traditional industry, or "4 As": apparel, automation, food and beverage, furniture; and capital- intensive activities (cement). As regards the entry modes, the most used are JVs and Cooperative agreements; when it comes to the target markets towards which address their foreign operations, Central Eastern European

countries and Far East are the most appealing ones as being low- wages areas⁶³.

2.6.1 Analysis of Italian SMES points of strength, weakness and competitive advantages

A wide group of scholars⁶⁴ have been exploring for long time, the “internationalization” process of Italian SMEs, their strategic choices and the organizational models adopted etc., the results obtained reveal that SMEs are much more dynamic than larger firms, even in an European landscape⁶⁵. Furthermore, they have identified some of the points of strength that can serve as a source of competitive advantage for Italian firms, such as entrepreneur’s attitude and skills; constant update of manufacturing processes; ability to take advantage from organizational models, networks etc. to fill specific needs; and efficiency in promotional activities, concerning for instance, new innovative products. In the following paragraph, I will present data obtained by surveys conducted on samples of Italian SMEs, through which, have been collected helpful clues about points of strength, weakness and successful factors influencing different aspects of business, promotion, distribution, cultural dynamics etc., common to many Italian firms in entering foreign markets. One of the surveys mentioned above, conducted by scholars (Cedrola, Battaglia, Tzannis), on 546 Italian SMEs, all of them engaged in international markets but belonging to different industrial sectors, highlights two main obstacles firms have to overcome, fierce competition and high operating and distribution costs⁶⁶. The increased competition influenced deeply Italian firms, which seem to have no other choice than boosting their position in a given niche market. The drivers pushing Italian SMEs to “go global” are quite similar to those pushing other firms worldwide, some of them aim at lowering production costs, others to overcome the domestic market competition and increase profit as well. Eventually, a good network on which rely on seem to be determinant in order to succeed abroad. Conversely, issues as managerial/ strategic aspects and price control seem to not arise a particular interest.

⁶³ Laura Andra Stetco, “*Web and Internationalization...*”, op.cit

⁶⁴ Pecci, Maria, 1979; Scott, 1983; Pepe, 1984; Varaldo, Rosson, 1992; Grandinetti, Micelli, Rullani, 1993

⁶⁵ Mele, 1986; Varaldo, Rosson, 1992; Becattini, 1989; Schwalbach, 1994; Genco, 1995; Varaldo, Bellini, Bonaccorsi, Riccaboni, 1998

⁶⁶ Elena Cedrola, Loretta Battaglia, Alessandra Tzannis, “*The Italian SMEs in the International context. A model to succeed in the global arena*”, March 2009

Below, I have showed Italian typical behaviour in conducting business internationally, by taking as examples different aspects to consider in planning a market entry.

Knowledge about the culture

By using theoretical notions, Italian SMEs tend to use *reactive* motives rather than *proactive* in entering global markets. The following of reactive motives by Italian SMEs, is justified also by the common attitude of the latter to internationalize “randomly”, without having a direct knowledge of a specific market.

As reported from the survey, it emerges that Italian SMEs tend to not rely on marketing researches in order to plan their access to the market, mode of entry, timing, marketing mix, etc. included, and only a few part of them buy data from specialized agencies. Besides, the most part of them seem to not rely on foreign partners as well to investigate on the market, acquire knowledge about customers, trends, distribution channels and so on, mainly because of a lack of trust.

Distribution channels: distribution is viewed as a crucial aspect for small medium enterprises, the same for Italian SMEs. Data collected show that only below 20 % of the interviewees hire an export manager and choose direct export to enter foreign markets, while the majority prefer to entrust agents, representatives to intermediate with foreign partners. Italian entrepreneurs tend to look at the activity of “selling abroad” as secondary to the domestic market penetration⁶⁷. As a result, when firms decide to go abroad to internationalize they will usually opt for an import /export strategy

Promotion, advertisement campaigns: evidences showed also that Italian SMEs are likely to stress the value of “communication” and “promotional activities” as tools for increase customers’ awareness, with particular regard to direct contacts. Although a big percentage of interviewees support the use of new technologies for promoting firms and their goods, the face-to- face contact seem to be yet the favourite tool. Entrepreneurs in fact, firmly believed in the establishment of reliable relationships, exchange views etc. during meetings, exhibitions and similar events. However, if on the one hand firms seem to put greater emphasis in the establishment of human relationships and in the direct contacts, on the other hand, a very few number of interviewees is truly interested in cooperate with

⁶⁷ Roberto Cafferata, “*Competitive Advantage...*”, op.cit

foreign partners. The study highlights how Italian companies are still reluctant in collaborating with third parties.

Culture and cultural dynamics: another aspect that a survey has underlined is the value of the “cultural dynamics” characterizing a specific country market that, a firm has to take into account in choosing the marketing mix elements that fit that specific market. “Culture” indeed, has always been the focus of many scholars, since affect “needs and desires of consumers, the local marketing mix and the firm’s operating mode, interacts and communicates with individuals, companies and countries”. (De Burca and Fletcher and Brown, 2004)

“To export one’s commercial methods without adapting them to the hosting cultural context may be risky: local commercial partners could reject them and, consequently, business relations could be ineffective and preclude the progress in negotiations.”(Battaglia and Tzannis, 2007)

These cultural variables affect potential adaptations of either products or services, according to the market demands, such as: colours, style and design, customization etc. relate to products, and elements like, manuals, language, assistance, web services, relate to service localization. Service localization in particular, is assumed to encourage Italian SMEs to elaborate new innovative ways addressed to foreign markets. (Cedrola, 2007) A quarter of the interviewees asserted to be “pro- localization”, however there still remain a percentage of those that seen “localization” as a difficult approach because of different reasons: tastes, adaptability of the product/service, cultural distance etc. It follows that, the only negative experiences on foreign markets are the result of a non- management of the cultural differences, and this explains also why companies usually rely on intermediaries to operate abroad; even if it would be recommended to establish long term relationships with local partners.

To sum up, they tend to use a “standardized” approach almost in every market they operate, as consider that, products’ intrinsic qualities, such as the *design*, represent their main source of competitive advantage. It follows that they tend to not “localize” and to not exploit the advantage of *flexibility* in product or service modifications, and this can be due to a limited knowledge of foreign markets or simply to an orientation towards niche markets. A scarce attention seem to be devoted to the services that are mainly handled indirectly. Concerning the “approach”, evidences attest that most of them decide

to expand abroad more for “necessity” rather than for strategy, this means that tend to react to recognized market needs. If this approach can bring immediate return, on the other hand demonstrate a lack of long-term vision. The same “lack” is highlighted also in their reluctance towards the establishment of alliances, first because of a lack of trust that inhibit them to establish strategic long-term relationships and because are not seen as a way to favour business expansion. Consequently, tend to rely on traditional distribution channels instead of opting for more developed ones as JVs or franchising. Among all the obstacles inhibiting the development of firms businesses, the crucial one is the lack of “trust” as it allow an exchange of knowledge and competences without which there is no opportunity for growth or expansion⁶⁸. This sort of philosophy of “entrepreneurship”, was embraced already by Italian scholars⁶⁹ of Italian industrial districts, who emphasize the importance of three aspects in particular, knowledge, resources and expertise, deeply rooted in the Italian culture. (Garofoli, 2006)

However, since the industrial districts’ business model is deeply rooted in manufacturing traditions, and according to scholars, is “inappropriate” for developing intangible assets, share skills and knowledge related to innovation, marketing fields and similar; as a result, it presents some limitations to cultural, strategical and organisational issues. “Change attitude” should be a must for those companies: “it is important to create a district governance to guide efforts and investments of all enterprises towards cost efficiency, value innovation and market protection with an appropriate brand policy and an ability of development and integration into the international markets” (Varaldo, 2006).

2.6.2 Examples of Italian typical shortages in approaching the Chinese market - The case of Foscarini

In this section, I will illustrate some of the most common shortages of Italian SMEs in approaching the Chinese market and, I will provide some insights to the latter, in order to succeed and expand their business in China. This study is the result of a personal research, conducted with a group of colleagues, during an academic project, the “Experior project”

⁶⁸ Elena Cedrola, Loretta Battaglia, Alessandra Tzannis, *“The Italian SMEs in the International...”*, op. cit

⁶⁹ (Varaldo, 2006; Varaldo and Bellini and Bonaccorsi and Riccaboni, 1998; Varaldo and Dalli and Resciniti, 2006)

attended last year, in 2016/2017. Our research focus on a particular case study: Foscarini, an Italian well-established firm, specialized in the lighting design industry, founded in Murano (Venice Island) in 1981⁷⁰. Since the beginning, the company has worked in collaboration with designers from all over the world; offered high quality products and distribution services as well; “free of any mental barriers or technical restraints” as asserted on their website. In 2013 the company set up two venues, respectively, in Milan and New York. Later on, has opened several points of sale worldwide, China included: respectively in Shanghai, Beijing, Chongqing, Shenzhen, Suzhou are among the biggest ones. Although the company was offering the same products line, employing the same strategy and marketing mix elements, to direct its operations in all the foreign markets it deals with, it seem to not be able to increase its volume of sales only in China. Through the combination of both, an analysis of the approach adopted by Foscarini in the Chinese market and the customers’ feedback emerged from reviews posted on 淘宝 *Taobao*⁷¹, we have identified which is, according to us and not only, the key element that must be take into consideration when operating in the Chinese market: *increase brand awareness*. The “dilemma” of Foscarini is a common dilemma of many other Italian and European firms. Even if a company is able to overcome any kind of market entry barriers, only when is able to create a sizable amount of sales it can define its entry successful. To increase sales a foreign firm must be able to be appealing, be desired by the Chinese consumer. It follows that the promotion of the firm’s brand and its products is, of paramount importance. According to a Forbes⁷² survey involving more than 300 China based companies', “consumer awareness” in China is of the utmost importance and raising consumer awareness is one of the most common objectives, among Chinese (35%) and non-Chinese (32%) companies. Actually, Chinese market is a big and distant market, culturally and geographically, and Chinese customers, unlike to European ones, have a different cultural background, different tastes, therefore, “educate” them, is not easy at all. Chinese people are not easy to “handle” in business terms, they spend a lot of time by analysing accurately every single detail of their potential purchase. If you are not able to involve them by explaining and showing them the value of your product, how it is

⁷⁰ <http://www.foscarini.com/>

⁷¹ The major Chinese platform for online shopping

⁷² Forbes Insights, “Marketing to the new Chinese consumer”, 2011

https://images.forbes.com/forbesinsights/StudyPDFs/Marketing_to_the_Chinese_Consumer.pdf

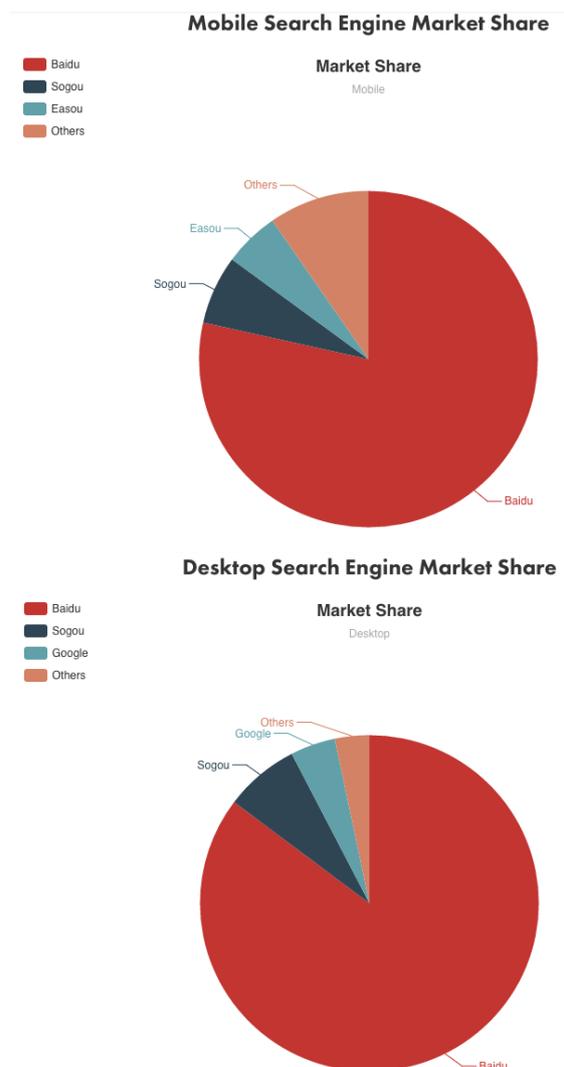
produced, the competences as well as the story that lies behind your company, etc. they will not ever buy it. Our proposal consists in implementing a strategy based on the idea of bringing a modern European product that can “speak” Chinese into Chinese houses and reach Chinese customers like a Chinese firm would usually do. Based on these assumptions, I have listed below some of the most important factors, emerged from our research study, contributing to increase brand awareness.

- *Stress the COO effect value:* owning Western goods is a matter of prestige since it confirms their professional success and allow them to live a high life standard. In a society like the Chinese one, where not so long ago being different wasn't an option, now, buying and showing Western brands is a way to stand out.

- *Increase online presence on social networks, blogs, and use common Chinese search engines:* with a web population of one billion users (2017), it represents the largest user base in the world, with a booming e-commerce and m-commerce industry. However, Internet landscape in China is very different from the Internet landscape in Europe; the platforms used in China diverge greatly, mostly due to the ban set by the government on specific websites. Social and selling platforms such as Facebook, Instagram or Amazon and ebay do not have the same reach in China, or simply do not exist as they have been banned, or yet are very hard to get access to. It follows that, join Chinese popular platforms and social networks, such as *Sina Weibo*, *Qzone* and *Ren Ren*, among the most widespread, could be a tactical move to boost their brand's image. This means that the choice of media will be crucial in implementing the strategy that will allow to reach a certain market segment at the right time and in the right way. Among the wide range of objectives a company can achieve via using social media as marketing media platforms, there are:

Create/improve brand awareness
Build/improve brand and product reputation and recognition
Increase traffic to your website
Improve brand loyalty and create trust in the consumer's mind

Another benefit provided by social networks, is the possibility to monitor successes and failures, via the use of many available metrics. Once, joined these platforms, establish collaborations with key opinion leaders (KOL), famous bloggers or celebrities will be the next move, considered the importance attached to them by Chinese consumers. Obviously, these kind of partnerships are time and fund consuming and need to be chosen very wisely, selecting only communities that have a big impact on the selected target group. If done effectively, this kind of marketing is very powerful in China. The same implications can be drawn by using Chinese search engines, *Baidu* in particular. With approximately 85% of market share, Baidu is by far the most used searched engine in China. The two following graphics show the percentage of market share of the search engine Baidu in China on mobile (left) and desktop (right).



Source: Forbes Insights, “Marketing to the new Chinese consumer”, 2011

- *Plan or take part to international Fairs, Exhibitions, Events*, in order to create a network, establishing local relationships with potential partners, distributors, buyers; or on the other hand, to yet increase its market presence, accelerate its development process and start to arrange some advertising campaigns

- *Foster partnership with Chinese furniture stores, magazines*, in order to receive support from local reliable brands, “trustable” from Chinese customers. Establishing a partnership agreement instead of establishing a wholly owned subsidiary reduce costs and risks. To this purpose, deserve to be mentioned: 红星美凯龙 Red Star Macalline, 居然之家 Easy Home, 时尚家居 Trendshome

- *Offer a Chinese translation of the website*

- *Include a customer pre and post- sales assistance or show them a tutorial on how to assemble furnishings components*, as emerged from the feedback given by the customers, company products are often difficult to assemble, consequently mostly prefer to opt for other brands offering easier alternatives.

CHAPTER 3- LOCALIZATION AND ADAPTATION STRATEGIES IN FURNISHING INDUSTRIES: EVIDENCES FROM THE CHINESE MARKET

3.1 Review of the last Italian furniture exhibition in Shanghai (23- 24- 25 November 2017)

Last November, Shanghai has hosted the second edition of the *Italian furniture exhibition*. Data issued from Shanghai Exhibition Centre and published on *East Media*⁷³, reported that from 23 to 25 of November, 20,000 entries have been registered and 109 Italian brands had taken part to the event. All of them are well known and enjoy a high reputation in Italy and abroad as well, examples are: Natuzzi, Poltrona Frau and Cattelan Italia that I will present later in detail, as case studies of my research. Evidences prove the strong interest of Chinese market towards “Made in Italy” products and design, and encourage Italian firms to continue to invest in the latter, thanks also to the support of Federations like Federlegno and Furniture fairs. During the exhibition, firms had the chance to come in contact with local partners, distributors, agents with who establish relationships and sign agreements. Besides, in the last six months, the Italian export rate of furnishing has increased of 37% and the country gained a leadership position in China, by confirming itself as first furnishing supplier, with a percentage of 18,2 on the total export rate. A strong market demand has been manifested especially towards soft furniture: bedrooms (+56%), mattress (+55%) and living rooms (+38%). Although Italian companies hold a leadership position compared to other European firms operating in the Chinese market as well, they seem to not exploit at most their competitive advantages. As can be read from the review drafted by Jiaqi Luo, working for East Media, Italian firms need to improve their strategy and adapt their marketing mix to fit the country’s market requirements. For instance, not owning a QR code associated to a Wechat profile is seen as a serious lack for either Chinese entrepreneurs, suppliers, or customers. Actually, since its introduction, Wechat, 微信 *Weixin* in Chinese, has changed completely people’s lives, conceived initially as a popular app for messaging and calls, sharing “moments”, post music, texts, pictures and similar, it became such a powerful tool, a sort of digital world conceived to

⁷³ The first Italian Digital Marketing agency specialized in East Asia markets (China and Russia)
<http://www.east-media.net/>

make people lives easier. A numerous set of functions (mobile payment, transfer money to other users, order/ book goods and services booking, etc.) have been added over time. Therefore, this has an impact also on companies investing in the Chinese market. People in fact, are so used to rely on Wechat every day and for so many purposes that, even when they want to collect more information about a specific brand, instead of look at the official website of the firm, will immediately search for the firm's account on Wechat. Do not have a profile on Wechat means not be trustworthy or do not have high prestige, as a result, the firm will not be so much appealing for Chinese consumers. Nowadays, "scan QR codes in China, is more common than exchange business cards." However, Wechat is not the only efficient tool for doing business in China, also offers a Chinese translation of its own official website, which should be optimized through *Baidu* (Chinese search engine), and have a Chinese domain, helps firms to expand their businesses. Eventually, another element to consider in implementing their strategy, is involve also *KOL* (Key Opinion Leaders) such as: famous bloggers, celebrities, that are crucial in order to became "known" in China. A further study conducted by McKinsey & Company, confirms what has already been said and stress the importance of the Web as a "bridge" between companies and customers, because particularly influent in consumers' purchasing behaviour. He suggests to implement a sort of combined online / offline strategy. To date, over 730 millions of Chinese users rely on the Web, mainly through smartphones, to chat, collect information, acquire knowledge etc. but through tools, different from the ones used by Westerns. (*Weibo* and *Wechat* as social networks and *Baidu* as search engine).

3.2 Evidences from the Chinese market

In this section, I will provide some information about three Italian firms operating in the Chinese market that I have investigated by distributing them a survey. On a sample of approximatively 50 companies, all of them taking part to the last Furniture exhibition hold in Shanghai, only three of them gave me a feedback. I will start with a brief summary of the story of each one and I will proceed by analysing their organization and strategy.

PRINCIPALI AZIENDE PER FATTURATO 2016

Rank	Azienda	2016	2015	Δ %
1	NATUZZI	457	489	-6,4
2	GRUPPO MOLTENI*	366	319	14,7
3	POLTRONA FRAU	320	300	6,7
4	POLTRONESOFA'	259	216	20,0
5	SCAVOLINI	220	202	8,9
6	LUBE	197	175	12,8
7	B&B ITALIA	185	170	8,8
8	VENETA CUCINE	171	155	10,4
9	POLIFORM**	155	154	0,8
10	GIESSEGI	127	107	18,1
11	SNAIDERO	127	117	8,0
12	ARREDO 3	124	106	17,0
13	CLUB HOUSE ITALIA	120	107	12,0
14	CALLIGARIS	117	114	2,0
15	KARTELL	111	99	12,1
16	STOSA	98	84	16,2
17	BATTISTELLA	87	78	11,5
18	BOFFI	84	76	10,3
19	PEDRALI	80	72	11,1
20	ARPER	72	68	6,4
	TOTALE	3.477	3.208	8,4

*Fatturato aggregato
**Fatturato consolidato

Fonte: Pambianco Strategie di Impresa

Source: *Pambianco Design* magazine, 2016

Case studies: *Cattelan Italia, Poltrona Frau, Natuzzi*

3.2.1 Cattelan Italia- Company's Profile

Cattelan Italia is a typical example of the Italian *family owned* small medium enterprise. It was founded in 1979 in Vicenza by Giorgio and Silvia Cattelan, who started their activity by producing accessories and small pieces of furniture realized in marble.

⁷⁴Gradually, the company included more items to its collection, from tables of different

⁷⁴ www.bredaquaranta.it/en/furniture/cattelan-international-dealer.htm

sizes purposely designed for meeting the foreign market demands, to dining tables, chairs, beds, bookshelves, lighting and miscellaneous. The wide range of materials employed for the realization of the products (wood, glass, leather, metal etc.) are all thought to be both comfortable and stylish. The founder himself affirms: *“Home is the symbol of precious things, a world where everyone is comfortable in the surrounding elements form and substance. The beautiful to me, is the useful”*⁷⁵

The company hence, began exporting since its establishment, and immediately after its initial success abroad, came into contact with talented worldwide designers and architects with who entered in close collaboration and who help the company to constantly “innovate” and fit to different countries environment demands. As reported from its website: *“Cattelan Italia’s core business has always been associated with a global pool of famous experienced and talented designers. So new trends are set every year and our customers are enticed by attractive collections”*⁷⁶.

In 2011, the company acquires Arketipo, a Florentine company, famous all over the world for its sophisticated products that allows the firm to specialize in the upholstery design industry. Today, present in 150 countries, with a number of employees of approximately 75 and an annual turnover of about 65 million, is well known all over the world for the production and distribution of home furnishings directly and online, since 1994. Its aggressive strategy of expansion is allowing the firm to open new markets and consolidate its position on the established ones, although, it owns already about 104 offices scattered across countries and more than 2500 point of sales.⁷⁷

Distribution, is one of the points of strength of Cattelan, which benefit on the one hand from a strong network constituted by different agents operating worldwide, and on the other hand, from an efficient online service that gives the opportunity to customers to purchase online their products that will be delivered immediately at home. Employees who are in charge of checking that the order will be dispatched to the addressee and without any manufacturing defects, will personally offer a prompt assistance, in case of need; by encouraging customers to buy online as well, as convenient and safe. Thanks in fact, to the know- how acquired over the years, the firm is able to suggests to every customer the item that best suit his/her needs.

⁷⁵ <https://www.cattelanitalia.com/>

⁷⁶ ibidem

⁷⁷ www.bredaquaranta.it/en/furniture/cattelan-international-dealer.htm

A further point of strength of the firm can be found in the decision of investing more in its brand image, in order to consolidate its position across markets. To accomplish its mission, Cattelan is planning to boost also its promotional activities, by taking part to international fairs for instance.

How Cattelan operates in the Chinese market

- ✚ Although the company has no production partners or factories deployed abroad, its annual turnover includes a consistent percentage obtained by export activities: 75%. Among the countries in which the company exports there is China, which represents for the company, the market with the higher growth rate.
- ✚ Cattelan's first entry in the Asian market go back to 5 years ago, when the company decided to collaborate with an agent appointed to sell its line of products to local retailers. The collections sold in the Chinese market are equal to the ones promoted in its domestic market or in other foreign markets. No adaptations are carried out to any markets.
- ✚ Their products as described above, are a mix of functional, beautiful but sophisticated and expensive goods, thereby their target can only be represented by upper- middle class consumers, educated and "quality- sensitive" consumers. Besides, they support the idea that Chinese market, or at least their selected target is already "acquainted" and able to appreciate "Made in Italy" products.
- ✚ Concerning the set of market barriers or potential obstacles the firm can run into, in entering such a distant and big market as the Chinese one, the only difficulty detected by the firm consists in finding good local partners with whom collaborate.
- ✚ Discussing on the strategy implemented in China, it seems to not differ greatly from the approach adopted in other countries. Promotional activities conducted by the company are among the most common internationally: advertisements, fairs, events and so on.

✚ Despite its wise choice to count on local partners to promote its brand, and the attitude through which they have been able to coordinate foreign staff and activities as well, the firm needs to make further adjustments to its business plan if willing to increase their operations in China. As a matter of fact, although today statistics report that 730 million of Chinese users rely on Web for purchasing items, collect information, and more and more other activities; the company affirmed to not consider Chinese e-commerce platforms or social networks at the moment, as a strategic means to better expand in the territory and increase its volume of sales and brand recognition.

- SWOT Analysis

Cattelan Italia Keywords: *Quality products, Brand, Top- rated customer assistance*

Business SWOT analysis

<p style="text-align: center;"><i>Strengths</i></p> <ul style="list-style-type: none"> - COO's effect, "Made in Italy" products - Innovation efficiency - Good enough distribution service and customers care - Entrust a local to explore the market and acquire knowledge - Efficient online service worldwide 	<p style="text-align: center;"><i>Weaknesses</i></p> <ul style="list-style-type: none"> - Do not use e-commerce platforms, Chinese search engines or social networks - Difficult in finding reliable partners
<p style="text-align: center;"><i>Opportunities</i></p> <ul style="list-style-type: none"> - Boost its market presence and increase brand "awareness" - Establish a subsidiary or establish partnership agreements with locals (local designers included) - Environmental sustainability - Adapt offers to the market needs and expectations - Production offshoring in low- cost countries 	<p style="text-align: center;"><i>Threats</i></p> <ul style="list-style-type: none"> - Strong competition from other Italian strong brands and North European "known" brands - Competition from locals, because: high price, weak brand recognition and quality, lack of trust

3.2.2 Poltrona Frau

- Company's Profile

Poltrona Frau is one of the most known top high-end furniture manufacturers in Italy, qualified in the production of furniture, furnishings and decorative solutions for home, office, interiors for transport vehicles and hospitality industry (lodging, event planning, transportation and additional fields related to the tourism industry). Founded in 1912 in Turin, with an annual turnover of approximately 300.000 million (2016)⁷⁸ and a number of employees amounting to 500, the company holds today the third place, following Natuzzi and Molteni, on a furniture national classification published by the magazine *Pambianco Design*.(see image above)

A series of M&A investments allow the company to acquire Cassina in 1927, Cappellini in 1946 and to establish Poltrona Frau Group in 2005, the leading international group in the high- end furniture sector, which was acquired by Haworth⁷⁹ in 2011. All of the three brands are highly complementary, since offer a combination of traditional and contemporary design styles. As a matter of fact, the company is specialized in two main divisions: contract and residential: the first one engaged in custom- designed furniture for public spaces and the second in luxury furnishings for homes and offices⁸⁰. By 1960 Poltrona Frau headquarter was moved to Tolentino (Macerata) where the production process mostly takes place, even if the company has several production partners and number of factories as well. In 1980's the company included an analysis laboratory that works in compliance with the R&D Department, a sort of "factory of creative brilliance and technological know-how"⁸¹. They have an internal design centre but cooperate also with famous international designers and architects. A particular regard is addressed especially to Jean- Marie Marceau and Roberto Lazzaroni, the two designers more able to "interpret the company's philosophy and create models for international people"⁸², as stated by Roberto Archetti. (Brand director of Poltrona Frau)

⁷⁸ Pambianco Design magazine, April/May 2016

⁷⁹ Global leader in planning, and production of flexible and sustainable work environments

⁸⁰ Cheuvreux, "Italy: Poltrona Frau", 24th August, 2007

⁸¹ <https://www.poltronafraugroup.com/it>

⁸² The Australian, "Poltrona Frau brand director Roberto Archetti on his vision for the Italian furniture company", April 4, 2014

Another important aspect to underline is the attention devoted to the environment and “sustainability” issues, thing that contributes to increase the company value added, especially nowadays that more and more companies are embracing a “green-thinking” philosophy and encouraging the purchase of eco-friendly products worldwide. Company’s *mission* consists in preserve the “excellence” and “high quality” of the products offered, through constant researches and innovation applied to all the phases of production process and by hiring designers who understand Italian tradition and style. The key values pursued by the whole company, employees included, are:

- quality and design
- teamwork
- leadership
- integrity
- change and innovation
- focusing on people
- sense of responsibility

After almost 100 years of history and experience and after had acquired a certain level of expertise, the company is well-known almost everywhere in the world. It operates through either their own distribution channel or authorized retailers and dealers in the most strategic international business hubs (Milan, London, Paris, New York, Los Angeles, Miami, Dubai, Mumbai, Shanghai etc.)

- How Poltrona Frau operates in the Chinese market

- ✚ The company started its operations in China at the beginning of the 21st century, by adopting a “cautious” approach, relying on retailers to distribute their goods, and after a “trial” period to evaluate the outcome of their offers, opted for a more direct approach to the market, thus in 2013 established the first branch. The following year opened the first monobrand store that served as a model to follow and replicate in other cities.
- ✚ As regards the product line sold in the market, is almost the same offered in all the markets they are operating. However, since three years ago, new “items”

realized by local designers, have been included to the collection, aiming at recreating the Chinese traditional atmosphere and result more appealing to the latter. Firm's wide range of offers are addressed to niche markets. From the materials selected for the realization of the products to the treatment and the attention devoted to the different stages of the production process, the company seem to care about every single detail of its goods, this is why its products are of "high quality" and quite expensive. "All the products are realized with an extreme attention and devotion from the choice of raw materials to the following production and design phases. 95 % of the production is completely hand-made"⁸³.

- ✚ Their strategy aim at reaching a specific target that I will define a *luxury-branded consumer* goods, which exemplifies the stereotype of the rich upper- middle class Chinese consumer, who wants to show off its Western product but at the same time the only able to understand and appreciate such a product. To date, the Chinese market is one of the most profitable market segments as stated by the General Manager Mr. Coropolis, who confirmed that hire Chinese designers helped the company to increase its brand awareness in China and, *confirmed by Mr. Roberto Archetti, brand director of Poltrona Frau. "We opened four new showrooms in China last year, and the Chinese market represents a great opportunity for us. The Chinese love our classic collection, because even as they open to the ideas of the Western world, still their deep roots are in the past and Chinese culture remains rich in detail, rich in decoration."*⁸⁴ Furthermore, the company firmly believes that even if Chinese people do not represent an "acquainted" market in terms of design, considered their little knowledge about it, a company with such a long story, tradition and expertise as Poltrona Frau is, has no need to "educate" or pursue Chinese consumers to purchase its goods.

⁸³ <https://www.poltronafrau.com/en>

⁸⁴ The Australian, "Poltrona Frau brand director Roberto Archetti...", op.cit

- ✚ In addition, since its entry to the market, the firm could rely on the support of an expatriate who was living in China for 20 years and this, has undoubtedly, helped the company to smoothly overcome potential barriers. The strategy implemented by the firm involves two phases: first, the company exploit expatriate's knowledge, experience about the Chinese culture, market, and all the aspects that may influence company's activities, and tries to collect and assimilate as much information as possible, in order to enter the market successfully and establish a relationship with local partners. In the second phase, once had boosted its position in the market, the company start to “educate” local resources and transfer its own core values to the latter. This will result in a more “harmonic” integration of activities and coordination of resources as well.
- ✚ Regarding the *promotional* activities, despite the traditional widespread “means”, as taking part to events, furniture exhibitions and alike, the firm has begun already to use Chinese social networks and are increasing their presence on Chinese platforms, from which they are taking advantage of. Moreover, they do not neglect the idea of include “online retailing” in their strategy given both, the huge number of Chinese customers purchasing online on *Taobao*, *Alibaba* and similar retailer platforms, and the profitability they may benefit from. However, there is still a lack of trust towards their partners, who might jeopardize the company's reputation, image, and add further expenses, through the production of counterfeits products. Nevertheless, the company appears satisfied from the results obtained until now and willing to expand their business.

- SWOT Analysis

Poltrona Frau Keywords: *Coherence, Tradition, Capacity to perceive needs*

Business SWOT analysis

Strengths

- Well-diversified luxury furniture brands
- COO effect: "Made in Italy" products
- High quality products, 95% handmade
- Capabilities to "innovate" and adapt to locals' needs
- Environmental sustainability
- Presence on Chinese platforms
- Collaborations with locals

Weaknesses

- Do not use e-commerce platforms
- Expensive products (niche markets)

Opportunities

- Expand their business areas
- Increase brand awareness and promotional activities
- Strengthen their local "guanxi"

Threats

- Risk of "counterfeit" products from locals
- Strong competition from other Italian strong brands and North European "known" brands
- Potential increase of raw materials price

3.2.3 Natuzzi

A study conducted by *Pambianco Strategie di Impresa* on the performances of the Italian furnishings industry in 2016, registered a growth rate of 8,4% of the sector⁸⁵, with Natuzzi ranking first. Since the end of the 90's the group, that counts today about 5.171 employees and an annual turnover of approximately 457 million, represents the largest company in the world for the production of leather sofas, accessible to every target. Firm's initial strategy indeed, consisted in producing goods affordable by a market segment as wide as possible. This strategy was pursued and consolidated over the years, through constant improvements. Born as a small workshop located in the south of Italy, Natuzzi, which takes its name from the founder, was established in 1959 in Apulia. At the beginning of the 70's, the company was already an "incubator of Made in Italy excellence" as reported on their website, and new collections were produced⁸⁶. As a result, in the second half of the 70's, the group started to export until increase its presence and build sales network in 123 countries, among which the most important are US, UK and China. As a matter of fact, about 90 % of the annual turnover relies on exports. It took for the company ten years to start to develop its own style, made of colourful and comfortable leather sofas. Natuzzi offers to its customers two complementary lines of products: Natuzzi Italia and Natuzzi Editions, both 100% Made in Italy. The first line includes: sofas, armchairs, and part of home furnishings, such as: lamps, accessories and living room furniture sold by retailers in Natuzzi Italia stores and galleries. The second one, Natuzzi Editions offers instead, a wide range of leather sofas. Furthermore, the company owns a private unbranded label devoted to the mass market. In the mid- 90's the group, after has been listed on New York stock exchange, encouraged from the success achieved with Divani & Divani and aiming at expand its control internationally, started to open a series of monobrand stores. Nowadays, thanks to a global reach in its sector, seven manufacturing plants, twelve commercial offices and over 1,200 points of sale the group confirms its leader position. The 90's represent a radical turning point for the company that begins to pursue an "aggressive" politics of expansion leading the company to internationalize. At the same time, the threat arising from new players

⁸⁵ Pambianco Design magazine, op.cit

⁸⁶ <http://www.natuzzi.com/>

operating in the same market in which Natuzzi was expanding its business, such: China, Brazil and Eastern Europe, began to take shape. Unlike to Natuzzi, companies located in other countries offering a range of products “equal” in terms of design and quality, to the one sold by Natuzzi, benefited largely from: lower labour costs; services and infrastructures constantly improved; and a huge amount of raw materials. Therefore, at the beginning of the 21st century, along with the globalization, the company could not but outsource part of its internal activities. It follows that the company begin to establish factories abroad, specifically in China, Brazil and Rumania, with which is horizontally integrated, and to differentiate their offer to meet the demand of a wider market segment, price sensitive customers included. The implementation of the new strategy led Natuzzi to turn into a B2C manufacturing company. To achieve its mission the firm had to repositioning its brand and invest hugely in R&D activities, “innovation”, in the development of retail channels and advertising etc. R&D department, particularly, is one of the branch in which the firm has mostly invested. In Santeramo in Colle, where the firm’s HQ is located, a group of professionals was hired to monitor new trends around the world, selection of materials and so on. To sum up, the company invested hundreds of thousands millions in:

- creating a strong and consistent brand worldwide
- expand its retail network that counts today over 400 monobrand stores and 612 galleries
- establish factories overseas
- increase manufacturing costs to support maintenance costs related to Natuzzi Editions and Divani & Divani

A further reason pushing the firm to internationalize was given by the global economic crisis which deeply affected also the furnishings industry. The firm that has always been characterized by a strong corporate sense of responsibility, in order to protect its resources decide to internationalize, alternatively half of its staff would have been dismissed. There is a set of core values around which Natuzzi has shaped its path:

- authentic quality and strong commitment to research (innovation and quality tests)
- social responsibility
- environmental sustainability (renewable energy sources)

Lastly, a further point of strength of the company can be identified in the *customer care*. Natuzzi offers delivery services around the world, pre and post sales assistance, and develops a system allowing customers to track their orders.

- How Natuzzi operates in the Chinese market

- ✚ Natuzzi begins to expand its business in China in the second half of the 90's, after had taken part for the first time, to the Shanghai Furniture Exhibition. At the end of the 90's, exactly in 1998, the company opens its first store in Shanghai followed two years later by the establishment of a factory. In 2001 Region Asia Pacific was set up in Hong Kong and moved to Shanghai 3 years later. In 2011, with the establishment of a new manufacturing plant in Shanghai, covering an area of over 100.000 m² and destined to the production of both the lines Natuzzi Editions and the unbranded line addressed to the Asia Pacific and the American markets, the company begins to consolidate its position in the Chinese market.
- ✚ Data reports that, at the end of the last year (2017), Natuzzi owned in total 150 stores in China, 50 Natuzzi Italia, exclusively devoted to the sale of Made in Italy products and a hundred Natuzzi Editions Store designated for the sale of Made in China products. The two lines of products created by the company, Natuzzi Italia and Natuzzi Editions cover two different market segments, respectively upper and middle class consumers. Although the two product lines are produced in different factories, the range of products sold in China are equal to the one offered in Italy and in third markets.
- ✚ Operate in a market like the Chinese one, through all these years, gave the company numerous opportunities. First of all, the possibility to increase its sales in the lower middle class market segment. After the economic crisis that had affected the whole furnishings industry, Natuzzi included, the company in order to protect its business in those segments that had experienced a drastic fall, decided to move their business to China. As a matter of fact, the expansion in China allowed also the company to boost its brand equity, the image of "Made in

Italy” products and therefore to support the economic development of China, whose market seem to appreciate a lot Natuzzi offers.

- ✚ To date, the Chinese market is one of the higher growth rate market on a global scale and one of the most profitable for the group. In 2017, for the third year in a row, the Asia Pacific region was the area that registered the higher growth rate, even superior to the one recorded in Europe and America. Since twenty years ago China has always influenced company’s choices in terms of production, marketing and distribution activities.
- ✚ Concerning the set of promotional activities the company carried out in the Chinese market: advertising, events, PR activities and so on, those seem to not differ greatly to the one implemented for other markets, the local one included.
- ✚ Therefore, being a firm with a strong social responsibility, engaged in promoting environmental sustainability, facilitated the consolidation of the relationship that links Natuzzi to China. The country’s interest in developing new eco-friendly policies and embrace a green thinking philosophy seems to be in constant growth. The exploitation of the PV energy, environmentally- friendly technologies, raw materials, such as wood and leather, strict environmental policies, environmental and quality certifications are clear examples of the group’s commitment in the field.

- Company’s past and future agreements with China

Since 2011 the company is working on a project aimed at improving the energy- saving system of the factory established in Shanghai, by reducing any internal energy waste and optimizing devices’ performances. The success achieved by the group was confirmed by obtaining of ISO 14001 certification in 2016. As a matter of fact, the company was able to reduce both electricity consumption of 12 % more than the previous year, and gas consumption of 28%.

Encouraged by the successes obtained, the group is planning to establish an equity JV agreement with Kuka, leader in Chinese furnishings industry with over 3.000 monobrand stores in China and everywhere in the world, to expand its retail network. Their plan

known as “Greater China” has the purpose of including Continental China, Hong Kong and Macao.

The preliminary agreement ratified by the companies states that Natuzzi grants to the society the exclusive right to distribute both its lines of products “Natuzzi Italia” and “Natuzzi Editions” in the “Greater China”, mentioned above; and Kuka, by its side, is expected to invest 65 millions of euro to bear the costs needed for the expansion of the retail network. According to the laws regulating the establishment of JVs in China, Natuzzi will hold 49 % of the shares while Kuka 51%. If the parties will not reach an agreement within March 31, 2018 the preliminary agreement will be cancelled.

- SWOT Analysis

Natuzzi Keywords: *“Love for our work: this is what has made us the greatest artisans in the world”* (Pasquale Natuzzi: Chairman and Chief Executive Officer of the company)

Business SWOT analysis

Strengths

- Strong presence in the Chinese market
- Efficient retail network and R&D department
- High- quality products: 100% handmade
- Diversified range of offers
- Establishment of local manufacturing plants
- Environmentally friendly firm’s policies
- Efficient customer care

Weaknesses

- Do not rely on Chinese platforms, social networks etc. to carry out promotional activities
- High manufacturing costs

Opportunities

- Future perspectives of collaborations with Chinese important brands
- Offer a product’s line closer to Chinese customers taste and hire Chinese designers
- Offer a Chinese translation of their website

Threats

- Competition arising from local strong brand and international brands
- Potential increase of raw materials price
- Risk of “counterfeit” products from locals (Natuzzi owns an unbranded line of products)

3.3 Chinese Customers Survey

In the second part of the chapter, I will report data collected from a survey distributed to a sample of 60 Chinese customers. The survey is divided in two parts and, consists of multiple and open questions. The first one includes a set of personal questions and the second attempts to analyse consumers' furniture buying behaviour, and has the purpose to explore the Chinese market furniture consumption, customers knowledge about Italian furniture brands, their tastes, frequency, and the drivers pushing them to buy a certain brand over another.

The most common Chinese platform used to answer to the questionnaire was *Wechat* with a percentage of 91.8%. The respondents were coming from different provinces of China and part of them from Taiwan as can be seen below.

地域分布



TOP 8

未知

北京市

吉林省

重庆市

河北省

广东省

天津市

台湾省

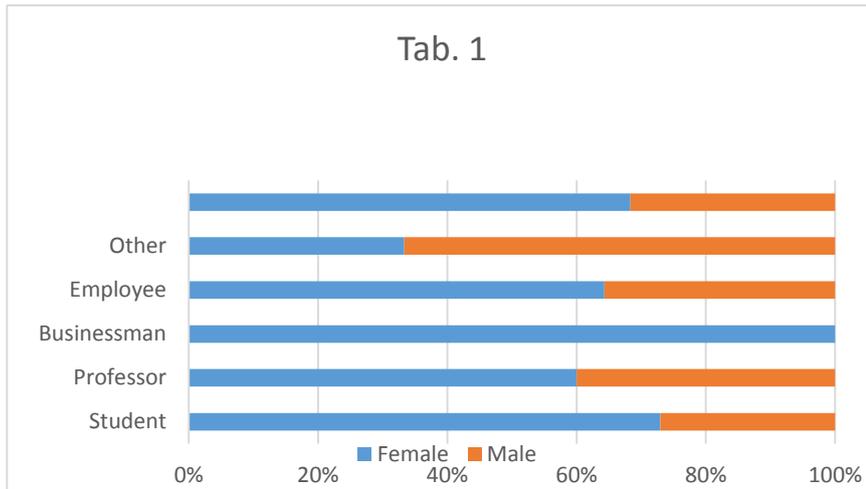


Figure 1: Personal information of the respondents

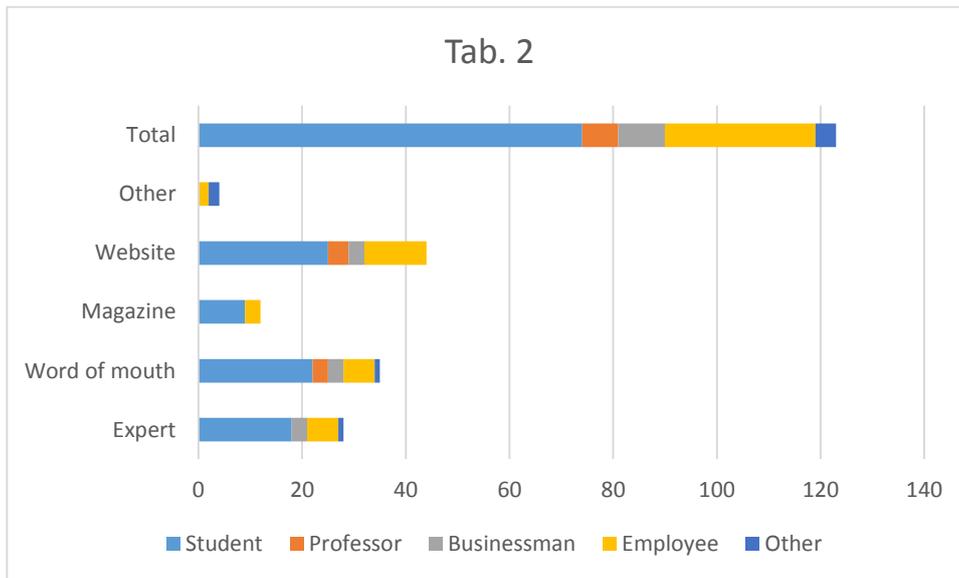


Figure 2: Sources of information on which each category relies on to collect data before make a purchase.

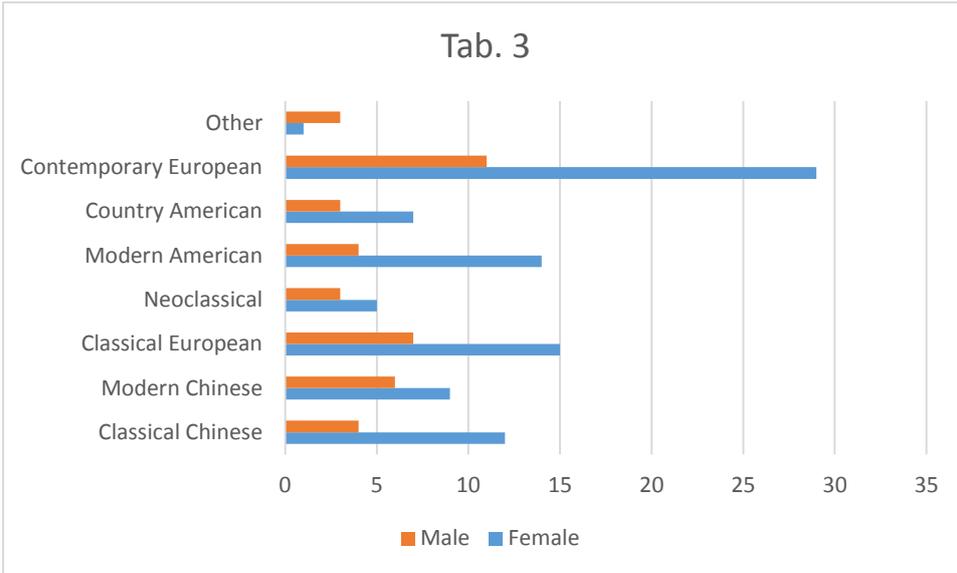


Figure 3: Preferences on the different style of furniture according to the gender

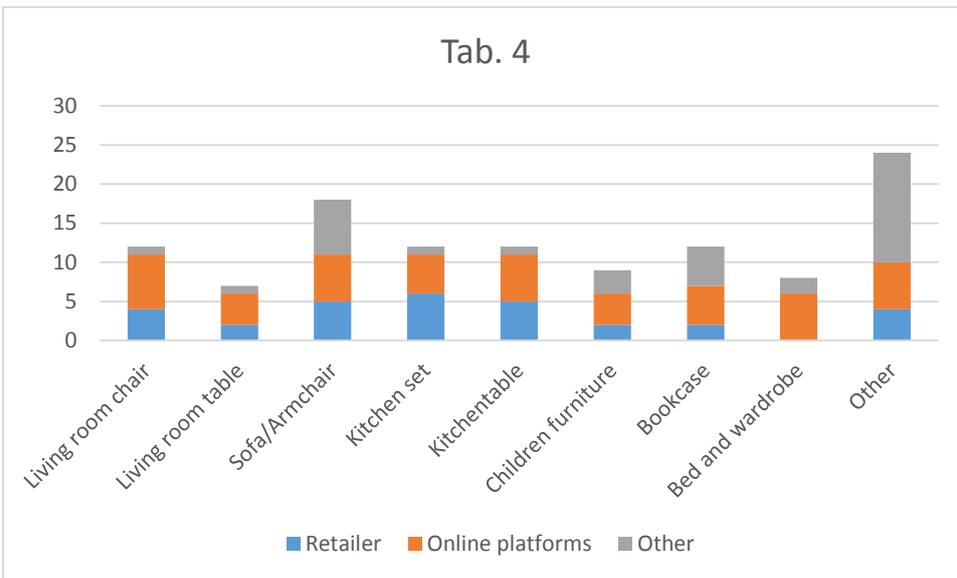


Figure 4: The most types of Italian imported furnishing goods purchased by Chinese costumers and how they are purchased

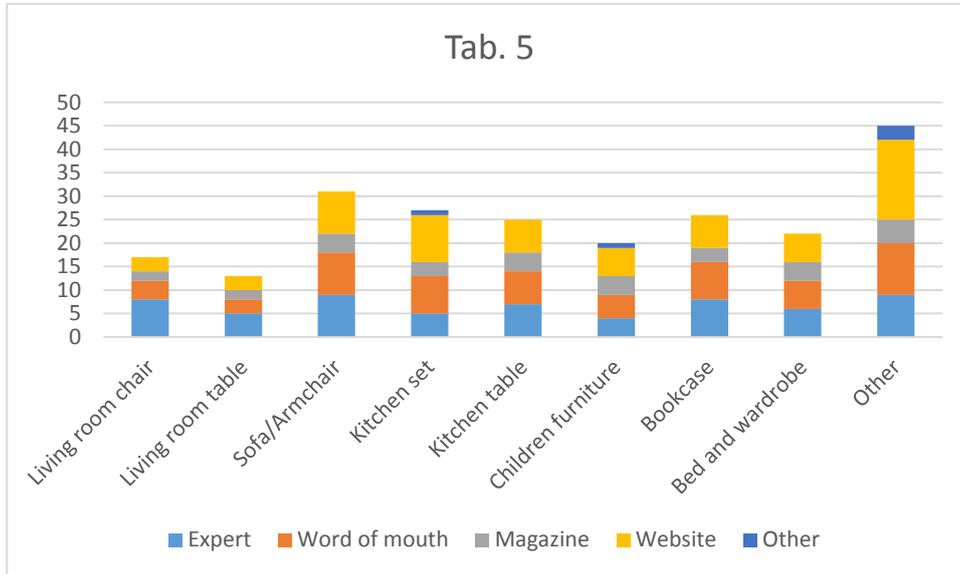


Figure 5: Sources of information used accordingly the piece of furnishing purchased

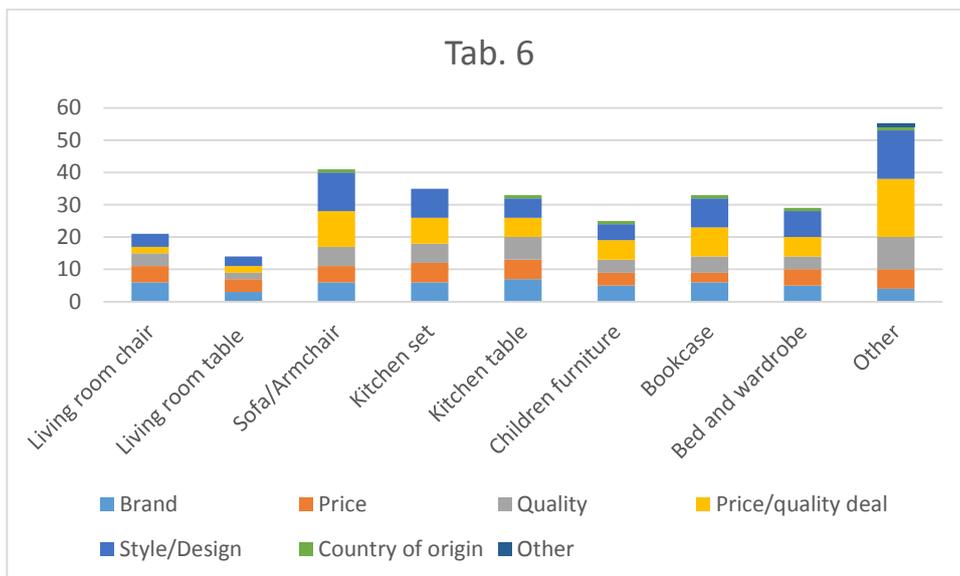


Figure 6: Purchase decision's drivers on which customers rely on in purchasing import products inserted in

the

graph

3.3.1 Analysis of data collected

Data reported from the cross tabulations illustrated above, reveal some of the “habits” belonging to the Chinese customers and influencing their purchasing behaviour. Examples are:

- ✚ *drivers*’ pushing consumers to purchase a specific good (quality, price, brand, good deal quality/price, style/ design, country of origin...);
- ✚ favourite furniture *styles* (classical Chinese, modern Chinese, country American, modern American, neoclassical, contemporary European design...);
- ✚ the most purchased pieces of *imported furniture* (living room table and chairs, sofas and armchairs, children furniture, kitchen set, bookcases, beds and wardrobes...);
- ✚ the *sources of information* on which different market segments rely on before purchase an Italian brand furnishing piece (magazine, websites, word of mouth, experts etc...) and *how* they buy those (retailer, online platforms, other...)

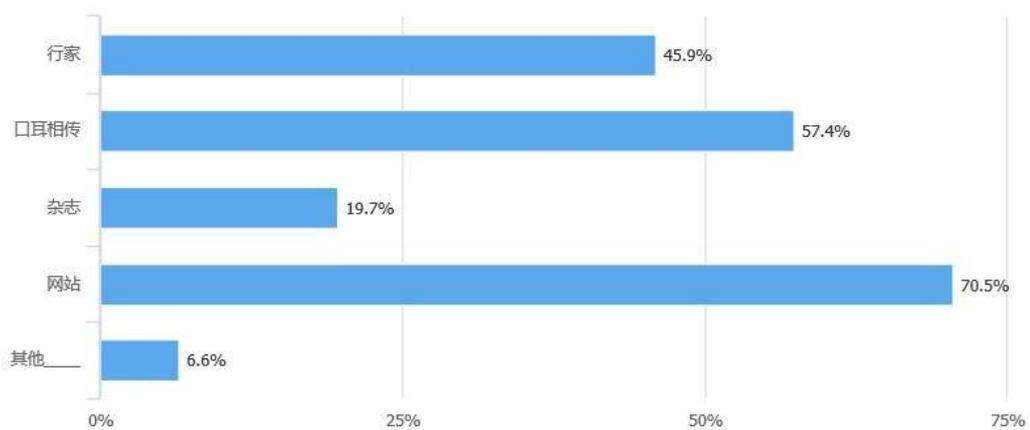


Figure 1: Sources of information used by Chinese consumers before purchase furnishings, illustrated in the percentages above, respectively from top to down: experts, word of mouth, magazines, websites, other sources.

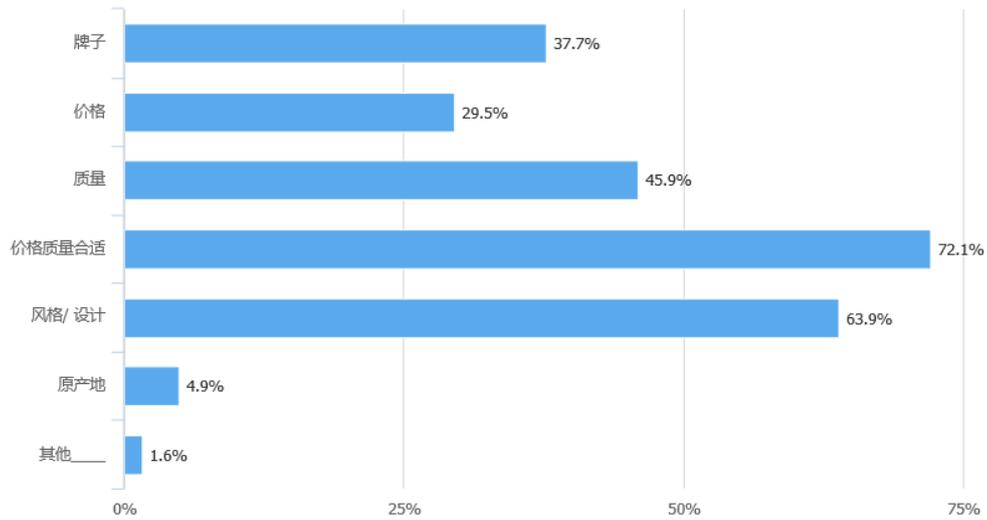


Figure 2: Drivers' pushing consumers to purchase a specific good, illustrated in the percentages above, respectively from top to down: brand, price, quality, price/quality deal, style/design, country of origin, other sources.

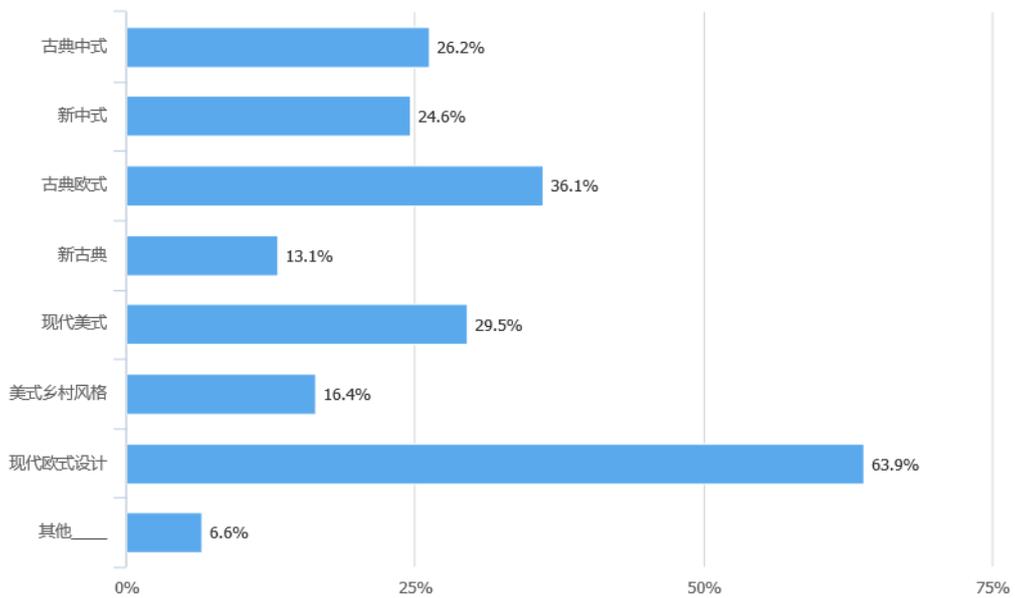


Figure 3: favourite Chinese furniture styles illustrated in the percentages above, respectively from top to down: Classical Chinese, Modern Chinese, Neoclassical, Modern American, Country American, Contemporary European design, other sources.

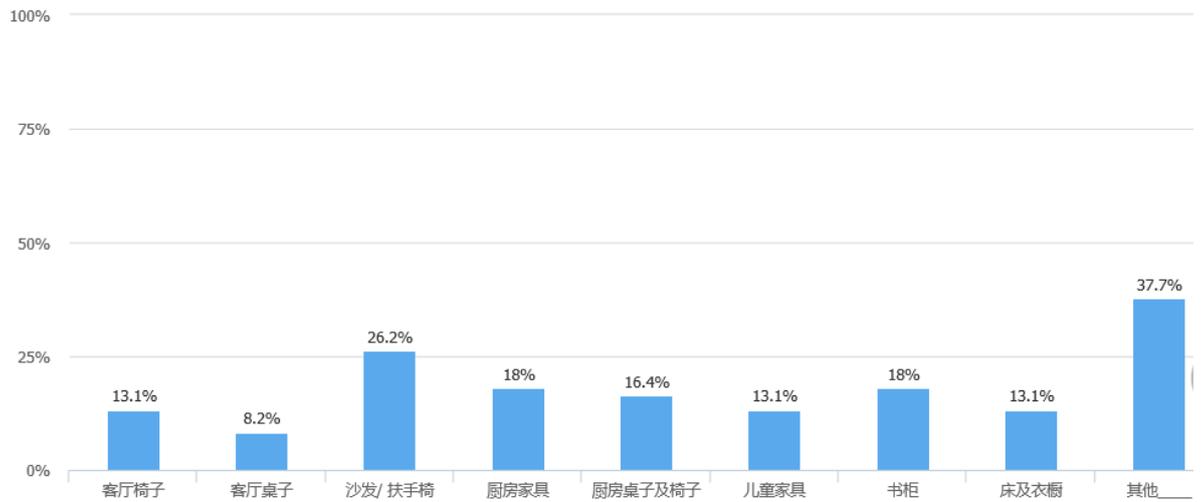


Figure 4: the most purchased pieces of *imported furniture*, illustrated in the percentages above, respectively from left to right: living room chairs, living room tables, sofas and armchairs, kitchen set, kitchen tables and chairs, children furniture, bookcases, beds and wardrobes, other.

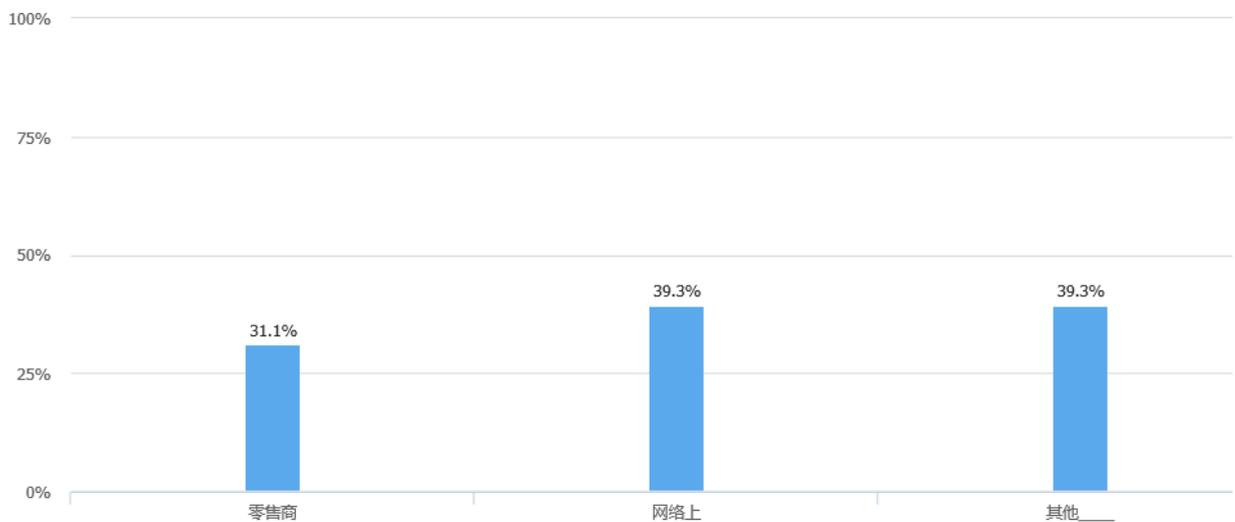
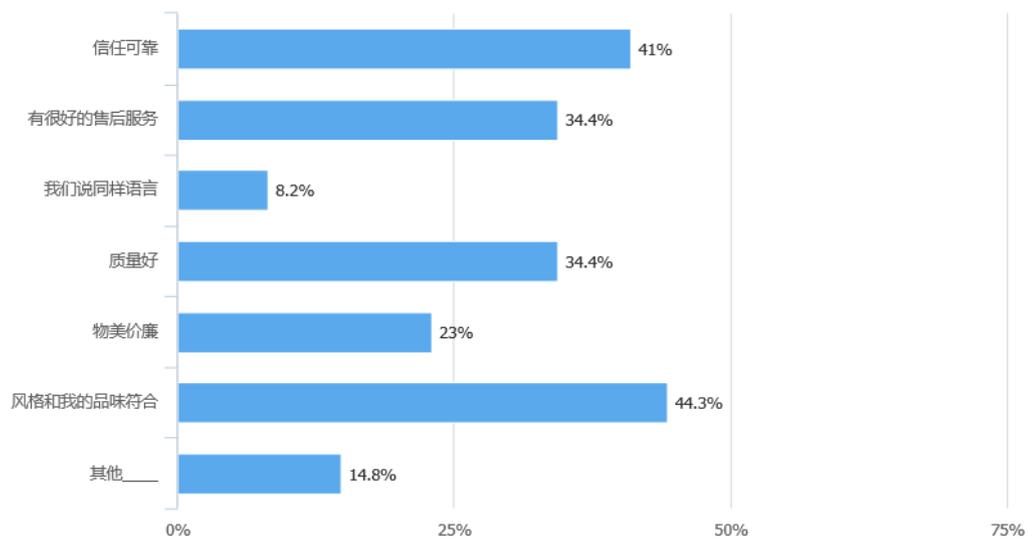


Figure 5: platforms used by Chinese customers to purchase Italian brand furnishings, illustrated in the percentages above, from left to right, respectively: retailers, online platforms, others.

Lastly, I will report some information provided by the open questions included in the survey. The latter, are more focused on the Chinese consumers' knowledge/ preference about purchasing local furnishing brand goods, Italian ones or lines of products sold by

international competitors; and which are nowadays the most known and trustworthy foreign brands according to the Chinese consumers' opinion.

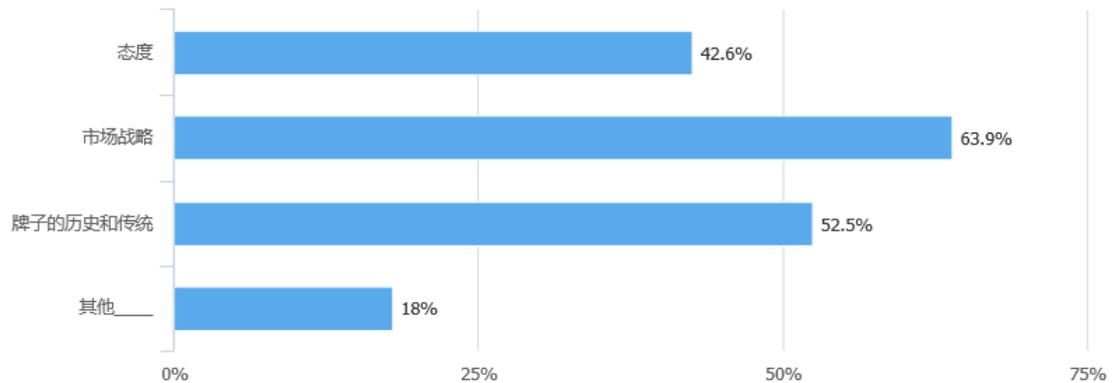
On a sample of 61 interviewees, 22 respondents seem to prefer Italian brands products, 24 are still a bit reluctant towards foreign brands or simply prefer goods fitting their own taste, while the remaining 15 asserted to not rely mainly on the country of origins of the product but, on the style, design and quality.



As showed in the graph above, the majority represented by the 44.3% of the respondents choose to buy goods that best fit their tastes; 41% of them prefer to purchase items considered more reliable; while 34.4 percent of them attach more importance on the quality of the product, as well as on the pre and after sale services offered by the firms. The following categories, 14.8% and 8.2% in the buying process, tend to consider other criterions to look at. The most part of them affirmed also to not have ever bought a piece of Italian furnishings because too expensive; while the minority declared to have purchased them for the design and because encouraged by a positive word of mouth. As concerns instead, the most international brands known in China, the majority stated to not have a good enough knowledge to distinguish brands country of origins yet; however,

some of them mentioned firms, such as Armani, Versace, Fendi, Poliform, Da Vinci, Alessi, Flos and Ikea.

Furthermore, I have asked them to mention which are in their opinion, the key elements that makes a firm successful in China. 63.9 % of them sustain that the key element is given by the marketing strategy used, 52, 5 % believes that depends on the firm's story, tradition and values, while the 42.6% give more importance to the approach used. (See the graph below)



CONCLUSION

The aim of the present consisted in investigating the strategies adopted by Italian small medium sized furnishings enterprises in approaching the Chinese market. As I have explained in detail in the first section, in 2014, the demand of high- end furniture in China was estimated to have reached US \$8 billion, and this rate is expected to steadily grow in the following years. A market research conducted by Frost and Sullivan forecasted a further increase of the rate of per capita annual expenditure on furniture in China from 2015 to 2020, especially in China's office furniture industry. In addition, by 2020 as estimated by Mc Kinsey & Company, about 60 % of the total amount of the population will move to the cities and new furnishings sectors' of employment will be introduced, by leading China to turn into a consumption- driven economy. On the other side, Chinese consumers have always showed a positive attitude towards "Made in Italy" products, with special regard to Italian luxury and furniture brands, in terms of quality and design. Recent surveys show that "Made in Italy" benefit from a large reputation abroad, especially in China, which has often tried to "imitate" our products. Wealthy Chinese are used to pay particular attention to how "furnish" their apartments⁸⁷. It follows that with the increase of consumers' purchasing power, as reported from Mc Kinsey review, the opportunities for foreign firms' Italian included, will increase as well as their profit. Besides, Italy represents today the leading furniture exporter and the second largest furniture manufacturer internationally but above all, the first exporting partner for China and its presence is expected to increase even on e-commerce platforms. These are some of the reasons pushing Italian companies in the last years to venture to such big global markets as the Chinese one. If according to the dataset that I have provided, Italy seem to holds a leadership position in China's furniture market, on the other hand, the results obtained from those companies are not fully satisfying yet. China is a big opportunity but also a big and complex market and enter in such a market is challenging and requires an accurate analysis of every single aspect involved from the mode of entry to the strategy adopted, the choice of marketing mix elements, distribution channels,

⁸⁷ Italian Trade Agency, "China's High-end Furniture market", 30 June 2015
file:///C:/Users/olga/Desktop/MATERIALE%20TESI/Considerations%20for%20Italian%20Players%20Article.pdf

customer care etc. As a result, I have given a brief outlook on firms' internationalization theories and mentioned the typical foreign market modes of entry. However, as I have stated throughout my work, great differences exist between MNCs and SMEs in terms of both stock of resources and capabilities, thus I have devoted a special attention to the second category, which embodies the common traits that characterize the majority of Italian firms'. My analysis combines both research studies conducted by experts and data that I have personally collected. Scholars, who have been investigated for long time the behaviour of Italian SMEs worldwide, seem to agree in confirming that the most part of them is likely to adopt *reactive motives* in justifying their entrance to global markets. The majority of them decide to expand abroad more for "necessity" rather than for strategy, this means that tend to react to perceived market needs. If on the one hand, this approach can bring immediate return, on the other hand demonstrate a lack of long-term vision. Empirical evidences showed a lack of "organization" leading them to internationalize "randomly", in other words without having a deep knowledge of the market they are entering. Besides, the most part of them seem to not attach great importance to the value of market researches as basic tools in arranging their business plan, and to be reluctant in entrusting foreign partners to collect information about the appointed market. This "lack of trust", that is one of the main sources of disadvantages for Italian firms', is perceived also in the choice of entering the market and distribute its products as well. At date, below 20% of Italian companies decide to hire export managers or to adopt a risky approach by opting for a direct operation mode. The majority of them still prefer to assume a cautious approach, by entrusting agents or representatives to distribute their goods, and this is in part due to a lack of trust, and partly to the way the Italian companies for long time, have looked at the activity of "selling abroad" as an ancillary activity. As concerning the approach used to both promote and sell their line of products, the same "negligence" towards cultural differences seem to prevail. The most part of them tend to use a "standardized" approach in every market they operate, in China as well. This strategy aiming at enhance the quality and the manufacturing lying behind their products, that since ever have represented the main source of competitive advantage of Italian firms, at the same time put them at a disadvantage. "To export one's commercial methods without adapting them to the hosting cultural context may be risky: local commercial partners could reject them and, consequently, business relations could be ineffective and preclude

the progress in negotiations.”(Battaglia and Tzannis, 2007) Additionally, one of the main advantages of being a small medium sized enterprise is the *flexibility* that characterizes SMEs’ asset by allowing them easily localize their offer. The attitude of Italian SMEs to not “localize” their offer for either a limited knowledge of foreign markets or simply to an orientation towards niche markets hinders companies to exploit at best this asset. It follows that, the only negative experiences on foreign markets are the result of a non- management of the cultural differences. Based on these assumptions, I have decided to conduct a research on my own to have a clear framework of the current situation. For this purpose, I have structured two different questionnaires, one addressed to a sample of Italian firms operating in China and the other one addressed to a sample of Chinese customers to test Italian furnishings industry presence and awareness in the Asian market. Regarding the draft of the first questionnaire, I have contacted approximatively 50 companies, all of them already dealing somehow with the Chinese market, by taking part to International Furniture Exhibitions, sending “expatriates” or part of their resources abroad to better explore the interested market and acquire knowledge and skills, or appointing agents to begin to introduce their offers. The three Italian companies that I have investigated are: Cattelan Italia, Poltrona Frau and Natuzzi. The questionnaire addressed to the latter, that I have attached below in the Appendix, is divided into two sections, the first one provides information about the company’s profile, while the second describes the approach adopted by each firm in the Chinese market. For each of them then, I have conducted a SWOT Analysis through which I have gained a clear framework of their opportunities and their points of strength to boost in order to increase their presence in China and, the set of threats and points of weaknesses they should become aware of. Despite of its size and positioning internationally all of them have a different degree of involvement in the Chinese market and a different strategy as well. Cattelan Italia, for instance, is at the initial phase of its experience in China. The company has started exporting there only 5 years ago by appointing an agent. The line of the products sold overseas is identical to the one produced for its domestic market. Pursued that their competitive advantage is given by the high quality of their products and from the “Made in Italy” effect, they did not “adapt” their offer, nor hired oriental designers or use specific promotional and distributional channels fitting best the market. For what

concerns the relationship with locals they seem to not have any, at present, because of the difficulty to find reliable partners. Unlike to Cattelan, Poltrona Frau and Natuzzi seem to benefit from a well- established position in the market in question, although the strategy adopted by the two differ. Poltrona Frau operates in the Chinese market since the beginning of the 21st century and after a couple of years the company had already established a branch overseas. The key element of its strategy consisted in relying on an expatriate, a member of its staff who was already living in China for long time. Thanks to his/her support the company has been able to smoothly overcome potential barriers, get acquainted with both the foreign market culture, tastes, operating mode and the market segment. As a result, the company opened a series of monobrand stores, hired oriental designers in charge of realize a collection closer to Chinese customers' taste and establish relationships with locals. Furthermore, the group asserted to be prone to use new promotional and distribution channels if strongly required from the market, and to be already present in some Chinese platforms.

Natuzzi, on its side, has already a strong recognized position in China, where at the moment, owns a series of stores and manufacturing plants scattered across the country. As emerged from statistics, Chinese market represents the most profitable segment for the company, which seem to be encouraged in boosting its *guanxi* with local partners. New future projects will be soon implemented. In addition to the results obtained from the interviews, I have distributed a survey to a sample of Chinese customers' to test the real presence of "Italianity" in China's furniture market, the "footprints" left by the latter and potential opportunities to exploit or shortages to fulfil. Evidences prove that on a European scale, Italian design and furnishings style is well appreciated in the different areas of China, and by different targets. Data showed that Italian most imported pieces of furniture are: sofas and armchairs, kitchen set, bookcases, living room furnishings, etc. while the rate of industrial sectors as children furniture and beds is growing. The main sources of collecting information for Chinese customers are progressively, from the most used to the less one: online websites, WOM and experts advices. As I have widely discussed in the first chapter, China is a collectivistic country in which the *social* meaning conveyed by a product matters a lot. As a result, "be able" to benefit from a good

reputation in China is one of the crucial aspect to succeed. Among the platforms mostly used by customers to purchase Italian brands' goods, online platforms hold the first position, followed by retailers. Concerning instead, the drivers' pushing consumers to purchase a certain good over another, the first criterion considered by customers is a good deal quality/ price. Several of them have stated to not be willing to pay such a high price for purchasing a "Made in Italy" product, regardless its top- rated quality. Design and quality seem to be the two main factors that they usually take into consideration in make a purchase, followed by the brand image. From other responses collected by open questions, I can assert that exist a total equality in the choice between locals and foreign brands. The only reasons that seem to discourage potential customers are related to the high price of foreign brands. To sum up, considering the dataset collected, I agree in part with the empirical evidences in stating that the *lack of trust* and the *lack of a long- term vision* are the main obstacles for Italian firms to succeed in China. However, is also true that for small-medium sized enterprises that constitute the majority of Italian companies, entering such big and complex markets is risky, costly and complex. On the other hand, I also believe that if those firms for long time have considered exporting or investing abroad as a secondary activity, it is because their size and their limited amount of resources could not allow them to do it. It follows that, not being used to approach global markets, led companies arrange their business plan "randomly", so that most of the time results in a series of failures. A further "mistake" that I found out is due to the excessive emphasis put on the "Made in Italy" aspect that sometimes divert companies attention from their purpose. Having top quality products, raw materials and an excellent manufacturing is obviously a strong competitive advantage, but this does not imply that the company has to adopt worldwide a standardized approach. Adapting its line of products to the local taste, by relying for instance on the support of local designers, or according to the suggestions advanced by firm's staff working abroad, it does not reduce the value of the product, but helps companies to feel closer to the country's they are investing. The same occurs when companies keep using traditional tools or platforms for promoting their products, without adding new ones widespread in the country they are dealing with. According to both data collected and the aspects that I have highlighted, in the paragraph above, in order to boost its presence in China and succeed companies should:

- strengthen their *guanxi* with local partners
- adopt where possible a more direct approach to the market
- take into consideration cultural variables as well as customers' demands by maintaining high standard products in terms of design and quality
- boost their presence on different market channels: online platforms, social networks, blogs etc.
- enlarge the range of products offered involving more market segments

These are only a set of guidelines that I will recommend the companies to adopt. China's market growth is constantly increasing along with customers' demands and expectations that becomes higher, it goes without saying that the companies have to be aware of the continuously "changing" circumstances and try to have a high control on them. Although, nowadays, thanks to the globalization, countries and markets appear to be closer and boundaries seem to disappear allowing a rapid development of the business environment in many industries, the situation seems to be more complex. No matter the reasons why a company decides to go abroad, foreign entry does not come without costs. When a company decides to cross its national borders, it has to make some adjustments to fit the target culture and market it is willing to penetrate. Although over the last two decades, the new governmental policies allowed China to open up to foreign investments, the concept of *cultural distance* still matters. The more a firm would commit to China, the more it would understand and get involved to its reality. According to Varner and Beamer (2011): "*Culture explains how people make sense of their world*" so, people from different cultures are "different" in how they perceive the world.

However, some questions still remain.

To what extent does culture affect firms' actions in a distant market? How potential cultural barriers could be overcome?

Could the proximity of Western and Chinese countries and cultures lay the foundation for a "standardized" approach? Would the new governmental policies hinder foreign firms'

operations?

These are some of the questions, to which I did not find real answers. Scholars for long time have conceptualized different theoretical frameworks, aiming at allowing SMEs to “internationalize” and better exploit their competitive advantages. However, it is truly possible overcome cultural barriers and is really “worth” for firms in terms of cost and time?

There are no doubts that “going global” bring firms many advantages. However if we take into consideration SMEs’ size, stock of resources and the series of adjustments they need to make in order to approach the Chinese market, it results that they should carefully evaluate every aspect of their strategy as well as the impact that this will have on them. China is a huge and fragmented market, and its cultural roots affect every aspect of the society. Nevertheless, Chinese people when positively impressed are loyal and this should be one of the main drivers pushing entrepreneurs to reach the segment in question, that considered its size, represents one of the biggest “portion” of the market. Change attitude and behaviour is a “must” if a company desires to enter the market. It follows that China is a long-term investment, money and time consuming but with great opportunities to offer.

APPENDIX I

SAMPLE OF FIRMS SURVEY

COMPANY'S PROFILE

1. Business Scope
2. Number of employees
3. Yearly turnover
4. Export countries
5. When did you start to export?
6. Percentage of export on total turnover?
7. Production process: in-house/production partners? Location and number of factories/production partners
8. Design: do you have an internal design office? Do you collaborate with famous designers?

ABOUT CHINESE MARKET

9. When did you enter the Chinese market and which modes of entry did you adopt? Have you established a branch overseas or do you rely on retailers entrusted to promote and distribute your products?
10. Do you export abroad and in China the same line of products/ collections sold in the domestic market?
11. Which kind of strategy did you implement to enter China?
12. Studies show that today in China can be identified three main categories of consumers:
 - Avid consumers: a rich group inclined to buy expensive Western brands, classical Chinese style and avant- garde furniture
 - Luxury/branded goods consumers: driven by a strong aesthetic taste and cultural elements.

- Average wage-earning consumers: embody the majority of consumers, opting for a good deal quality/ price

13. Which are in your opinion the major obstacles in entering to China? (linguistic, legal, cultural factors...)

14. China is not so popular in the field of “design”, so that many Chinese companies seek for Italian designers to hire, in order to acquire knowledge, know how, competences etc. Based on this assumptions, do you think China is already an acquainted market, able to appreciate your products?

15. Which is the best way to educate Chinese customers to your offer? Could the latter, be considered a potential obstacle for firm?

16. Data report that Italy, at present, is one of the first furniture exporters in China. Which country in your opinion benefit from the same advantage?

17. Which are the marketing mix elements planned to promote your goods in China? Did you adopted the same “means” (exhibitions, international fairs etc.) used in other foreign markets or do you also operate in Chinese platforms?

18. Concerning the HR aspect, what do you think is the easiest and faster way to coordinate your resources: hire foreign staff and transmit them the core values of your company or send expatriates overseas to acquire knowledge about the foreign market?

19. To date in China, the rate of people “purchasing” on online platforms is constantly growing (Taobao, Tmall, Alibaba are the most widespread), do you think that include “online retailing” to your strategy could represent an advantage?

20. Most part of Chinese consumers today, seem to embrace a new lifestyle, more and more people are sensitive to environmental sustainability and prefer to opt for eco-friendly products. As a result, companies worldwide have embraced a “green thinking” philosophy as well. Do you think can the latter considered a competitive advantage? Which is your opinion regarding it?

21. To sum up, are you satisfied of the results obtained in the Asian market? Among all the countries in which are you exporting, where do classify China? Do you think is one of the most profitable investments? Which are your next projects in China?

22. Which are the key factors in your opinion to successfully enter China?

APPENDIX II

SAMPLE CUSTOMER SURVEY

FURNITURE CONSUMER QUESTIONNAIRE 家具消费者调查

1. Nationality 国籍

2. Province of residence 住在

3. Gender 性别 Female 女 Male 男

4. Date of birth 出生日期

5. Profession 职业:

-Student 学生

-Professor 教授

-Businessman 商人

-Employee 员工

-Other 其他

6. Annual Salary 年薪

7. Are you married/single? 您结婚了没有?

8. Do you have any kids? 您有孩子吗

9. How many times do you usually purchase furnishings? Why? 您多次买了家具? 为什么呢?

10. When you plan to make a purchase do you usually rely on which kind of source of information? (experts, word of mouth, magazines, websites or other.) And why?

您决定了购买一个商品时，为了采取品牌的信息您通常用什么样的媒体？(行家，口耳相传，杂志，网站，其他. 为什么？

11. What makes you decide to purchase a specific product over another?

您为什么购买某家具产品？

(brand, price, quality, good price/quality deal, style/design, country of origin, word of mouth, others)

牌子,价格,质量,价格质量合适,风格/设计,原产地,其他

12. What furniture style do you prefer? 你喜欢哪种家具风格？

Classical Chinese 古典中式 Modern Chinese 新中式 Classical European 古典欧式 Neoclassical 新古典 Modern American 现代美式 Country American 美式乡村风格 Contemporary European Design 现代欧式设计 Other 其他

13. Have you ever purchased imported brands' products? 您购买过进口家具产品吗？

If yes, which piece of imported furniture did you purchase? 您买了那种家具了？

Living room chair 客厅 椅子 Living room table 客厅桌子 Sofa/armchair 沙发/扶手椅 Kitchen set 厨房家具 Kitchen table and chairs 厨房桌子及椅子 Children furniture 儿童家具 Bookcase 书柜 Bed and wardrobe 床及衣橱

14. If you could choose to buy a local Chinese furniture item and a foreign one, which one would you choose? And why? 如果你有机会购买一种中国家具商品还是一种外国家具商品，你会选择那种？

为什么？ They are reliable 信任可靠 They have good after sale services 有很好的售后服务 They speak the same language 我们说同样语言 The quality is good 质量好 They offer a good deal 物美价廉 The style matches my taste 风格和我的品味符合 Other 其他

15. Have you ever bought a piece of Italian brand furnishing? If yes, why and how (retailer, online, etc.) 你从来买了一个意大利家具品牌的商品，没有？是的话，为什么？怎么买了？(零售商，在网络上等)

16. At the present, what do you think are the most known Italian furniture brands in the Chinese market? (目前，中国市场上，您认为最有名的意大利家具品牌是什么？

17. And on a global scale? Which one are the most known and which are, in your opinion,

the reasons why they are so successful? i. e:
国际上呢? 对您来说, 最流行/时兴的外国家具品牌是什么呢, 他们成功了的原因是什么

- approach or marketing strategy used 态度, 市场战略
- its own story, tradition 牌子的历史和传统
- other. 其他

18 Do you have any suggestions or complaints to make on the product you have purchased or regarding to the service offered by the company? If yes, which ones. 您对您购买的商品还是服务有没有建议? 有没有投诉?

有的话请,说明一下

REFERENCES

Abbiati Magda, Propizio è intraprendere imprese. Aspetti economici e socioculturali del mercato cinese, Venezia, Libreria Editrice Cafoscarina, 2006

Aiello G., Donvito R., “L’immagine paese e l’immagine di marca: gli esiti di una ricerca empirica sul Made in Italy”, pdf., 10th International Congress Marketing Trends Conference, 2011

Atsmon, Y., Ding, J., Dixit, V., Leibowitz, G., Magni, M., Zipser, D., 2009 Annual Chinese Consumer Study. Part II: One Country, Many Markets – Targeting the Chinese Consumer with the McKinsey ClusterMap, 2009

Atsmon Y., Magni M., Li L., Liao W., Mc Kinsey & Company, Mc Kinsey Consumer & Shopper Insights, “Meet the 2020 Chinese Consumer”, March 2012

Cafferata R., “Competitive Advantage and Internationalization of Italian Small and Medium sized Manufacturing Firms”, pdf., McGraw Hill, 2009

Cavalieri R., Letture di diritto cinese, Venezia, Libreria Editrice Cafoscarina, 2012

Cedrola E., Battaglia L., Cantù C., Gavinelli L., Tzannis A., “Italian small and medium enterprises in china. Relationships and cultural distances throughout the supply chain”, pdf

Cedrola E., Battaglia L., Tzannis A., “The Italian SMEs in the International context. A model to succeed in the global arena”, March 2009

Centre for Industrial studies, “Previsioni sul settore dell’arredamento in Italia e nel mondo nel 2017”,pdf., 2016

Cirese G., “Italian Design Furniture across Borders: an analysis of the Chinese market”, 2014/2015

China Britain Business Council, “China’s Middle Income Consumers”, pdf.,

CSIL, “Previsioni sul settore del mobile sul settore dell’arredamento in Italia e nel mondo nel 2017”, pdf., 28 November 2016

De Chiara A., Minguzzi A., “Success factors in SMEs internationalization processes: An Italian investigation”, *Journal of Small Business Management*, 2002

Forbes Insights, “Marketing to the New Chinese Consumer” pdf, 2011

Forzato E., Newsmercati, “Il mercato cinese del mobile e dell’arredo”, pdf., Newsletter n.51, 21 March 2013

Francioni B., Pagano A., Castellani D., “Drivers of SMEs Exporting Activity: a review and a research agenda”, article, *Multinational Business Review* 24, Centaur

Frost & Sullivan, Industry Overview, “Overview of the Furniture Market in China”, pdf., 2015

Italian Trade Agency, “China’s High- end Furniture Market”, pdf., 30 June 2015

Johanson, Jan, Vahlne, Jan-Erik, “The Internationalization Process of the Firm-A Model of Knowledge Development and Increasing Foreign Market Commitments”, *Journal of International Business Studies*, Volume 8, Number 1, 1977

Lasserre P., “Global Strategic Management”, Macmillan International Higher Education, June 14, 2012

Menini G., “Preserving the value of Made in Italy”, 2015/2016

Mohibul I. M., Fernandez A., “Internationalization Process of SMEs: Strategies and Methods”, June 2008

Pambianco Design magazine, “La partita Asiatica”, pdf., April/May, 2016

Pontiggia A., Vescovi T., “Internationalization of Middle Size Multinational Enterprises in Chinese Markets: Mirroring Back effects”, pdf., September 2014

Pontiggia A., Vescovi T., “Panni stesi a Pechino. Esploratori e pionieri nei nuovi mercati internazionali”, Egea, 2015

Pontiggia A., Vescovi T., “When Size does Matter. Trends of SMEs Internationalization Strategies in Chinese Economy”, pdf., December 2013

Stetco L. A., “Web and Internationalization: new opportunities for Italian Small medium enterprises?”, pdf., 2013/2014

Usunier J. c., Lee J. A., “Marketing Across Cultures”, Sixth Edition, 2013

Vescovi, Tiziano (edited by), *Libellule sul drago. Modelli di business e strategie di marketing per le imprese italiane in Cina*, Padova, CEDAM, 2011

Vescovi T., “Unexpected Lessons in Business Management”, 2016

Vianelli Donata, DE LUCA, Patrizia, PEGAN, Giovanna, *Modalità d’entrata e scelte distributive del made in Italy in Cina*, Milano, FrancoAngeli, 2012

Wong P., Michael C.Y. Lin, and Jessica Jackson, “Best Performing Cities China 2016”, pdf., September 2016

World Trade Organization, World Trade Report 2016, “Levelling the trading field for SMEs”, pdf., 2016

Wu J., “SME Internationalization: Motivations to Internationalize and Influential Factors on Entry mode choice” pdf., November 2015

WEBSITES

<http://www.asianz.org.nz>

www.borsaitaliana.it

<http://www.bredaquaranta.it>

www.cattelanitalia.com

<http://www.chinabusinessreview.com>

<http://www.cnfa.com.cn>

<http://dailystorm.it>

<https://data.worldbank.org>

<http://daxueconsulting.com>

<http://www.east-media.net>

<http://www.exposicam.it>

<http://fortune.com>

www.foscarini.com

www.hktdc.com

<http://www.icpartners.it>

<http://multimedia.scmp.com>

www.natuzzi.com

www.poltronafrau.com

<https://www.poltronafraugroup.com>

<http://www.scmp.com>

<http://www.statesmansyearbook.com>

www.statista.com

www.theaustralian.com

<https://www.worldfurnitureonline.com>