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Internationalization of Italian Companies in China: Facilitating Factors and Perceived Difficulties

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Why this study?

- China is asking for famous brand names, luxury products and western lifestyles...
- Italy is producing the right products to serve such needs. Yet, Italian companies haven't been particularly successful in China, so far.

Research questions

- Which are the main facilitating factors for the Italian companies selling in the Chinese market?
- Which are the main difficulties perceived by Italian companies selling in the Chinese market?
- Are such difficulties differently perceived and evaluated by the Italian companies and their Chinese counterparts?

Methodology

- **Literature review**
- **Quantitative research (structured questionnaire)**
- **Qualitative research (semi-structured interviews)**

Literature review: Facilitating factors in China

Facilitating factors	Literature
Company's global vision	Cavusgil, 1992; Hiu et al., 2001; Mechem, 2004; Campbell e Jones, 2005; Demattè and Perretti, 2005; Deloitte, 2005; Yueh, 2005; Sinha, 2007; Borgonjon and Hofmann, 2008; Chapman and Xu, 2008; Hill, 2008; Kedl, 2008; Alon et al., 2009.
Company's entrepreneurial attitude	
Internationally recognized brand	
Consolidated international experience	
Company's know how	
Availability of financial resources to be invested in the local market	
Informal and personal relations with local counterparts	
Existing and formalized business contacts in the local market	
Relations with governmental bodies and supporting institutions	
Relations with consulting firms providing support and assistance	

Literature review: Perceived difficulties in China

Difficulties	Literature
Obtaining information on local market characteristics	Oliver and Coulter, 2004;
Understanding (and adapting to) the local culture	Wong and Zhou, 2005;
Finding a suitable target for the product	McEwen et al., 2006;
Very high competitive pressure at the local level	Campbell and Jones, 2007;
Obtaining suitable information and operational support from institutions and business partners	Ho and Tang, 2006;
Heavy burden of regulations and administrative rules	Lin and Lin, 2008;
Risks of violation of intellectual property rights	Campbell and Jones, 2005; Malhotra, 2010;
Matching local market priorities with a firm's strategy oriented to other markets	Parnell, 2002;
Firm's risk aversion	Sangiorgi, 2005;
Establishing reliable partnerships in the local market	Scott and Di Maggio, 2008;
Monitoring the distributor activity	Campbell and Jones, 2005; Malhotra, 2010;
Establishing effective relations with governmental institutions	Teng, 2004;
Establishing effective relations with consulting companies	Qiu, 2005;
Too limited international experience	Vianelli and de Luca, 2010
Too limited financial resources	

Quantitative research

- **Items** were selected according to the literature review.
- A structured questionnaire was submitted to managers and entrepreneurs, who were asked to rate the main perceived difficulties in selling in China, using a **7-point Likert scale** ranging from (1) “fully agree” to (7) “completely disagree”.
- The collected data met the statistical requirements for a proper estimation of the **factor structure**.

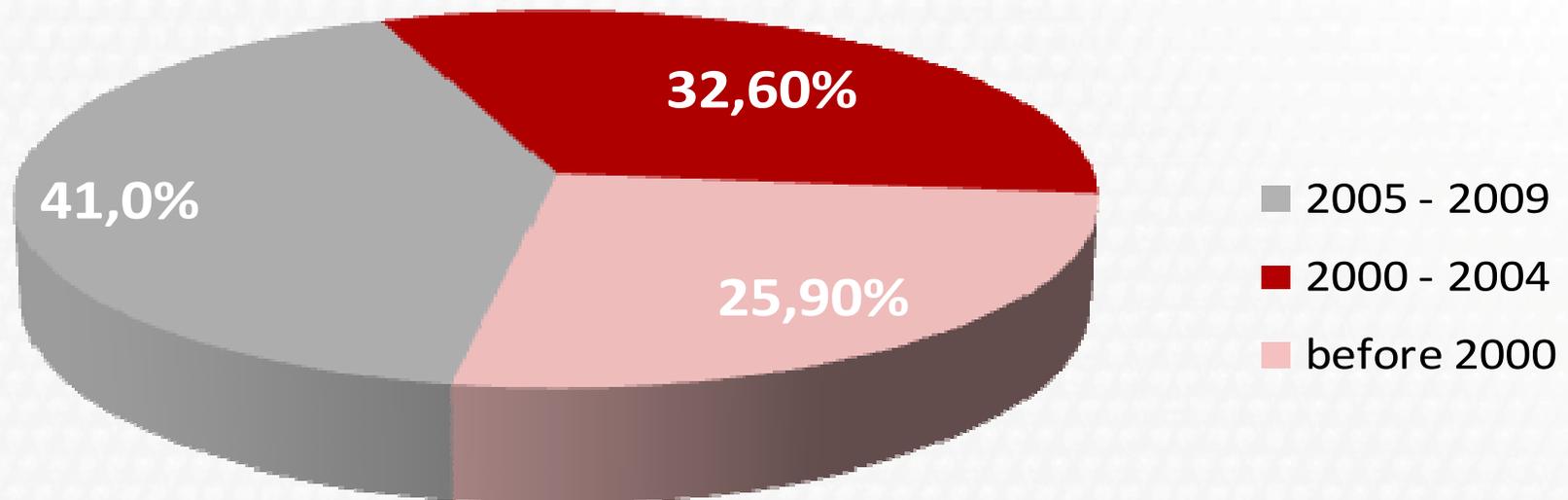
Sample building

- According to the Osservatorio Italia-Cina, there were about 2,000 Italian companies having a presence in China in 2011. In order to identify the statistical universe for our research, a **database of 1,183 companies** was built using secondary data.
- The researchers got in phone contact with all such companies, checking their willingness to cooperate and identifying the **most appropriate respondent** in the firm.
- An e-mail with an introductory letter and the link to the questionnaire (surveymonkey.com©) was sent to **879 companies** that agreed to cooperate. The research team collected the data in the period November 2009 – July 2010.
- A total of **130 questionnaires** were returned (response rate of over **14%**). The sample ensured that a wide range of companies were represented in terms of both size and sectors of activity.

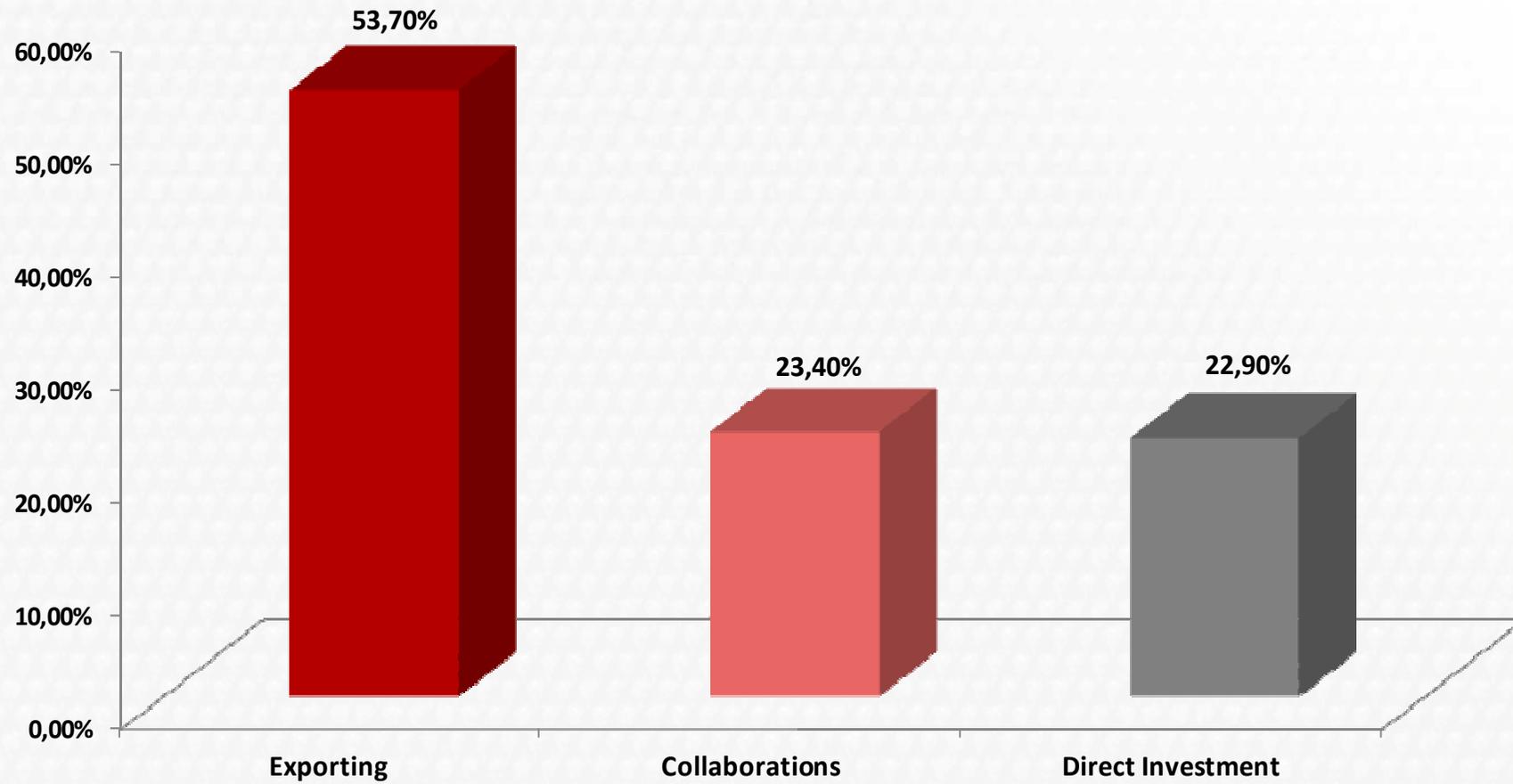
The sample

Size (turnover, millions €)	Sectors					<i>Total</i>
	<i>Food & Beverage</i>	<i>Fashion</i>	<i>Furniture</i>	<i>Mechanics</i>	<i>Services and others</i>	
Small companies (<2-10)	7	17	6	5	9	44
Medium-small companies (11-260)	9	11	11	16	13	60
Medium-large companies (260-500)	4	3	3	6	10	26
<i>Total</i>	<i>20</i>	<i>31</i>	<i>20</i>	<i>27</i>	<i>32</i>	<i>130</i>

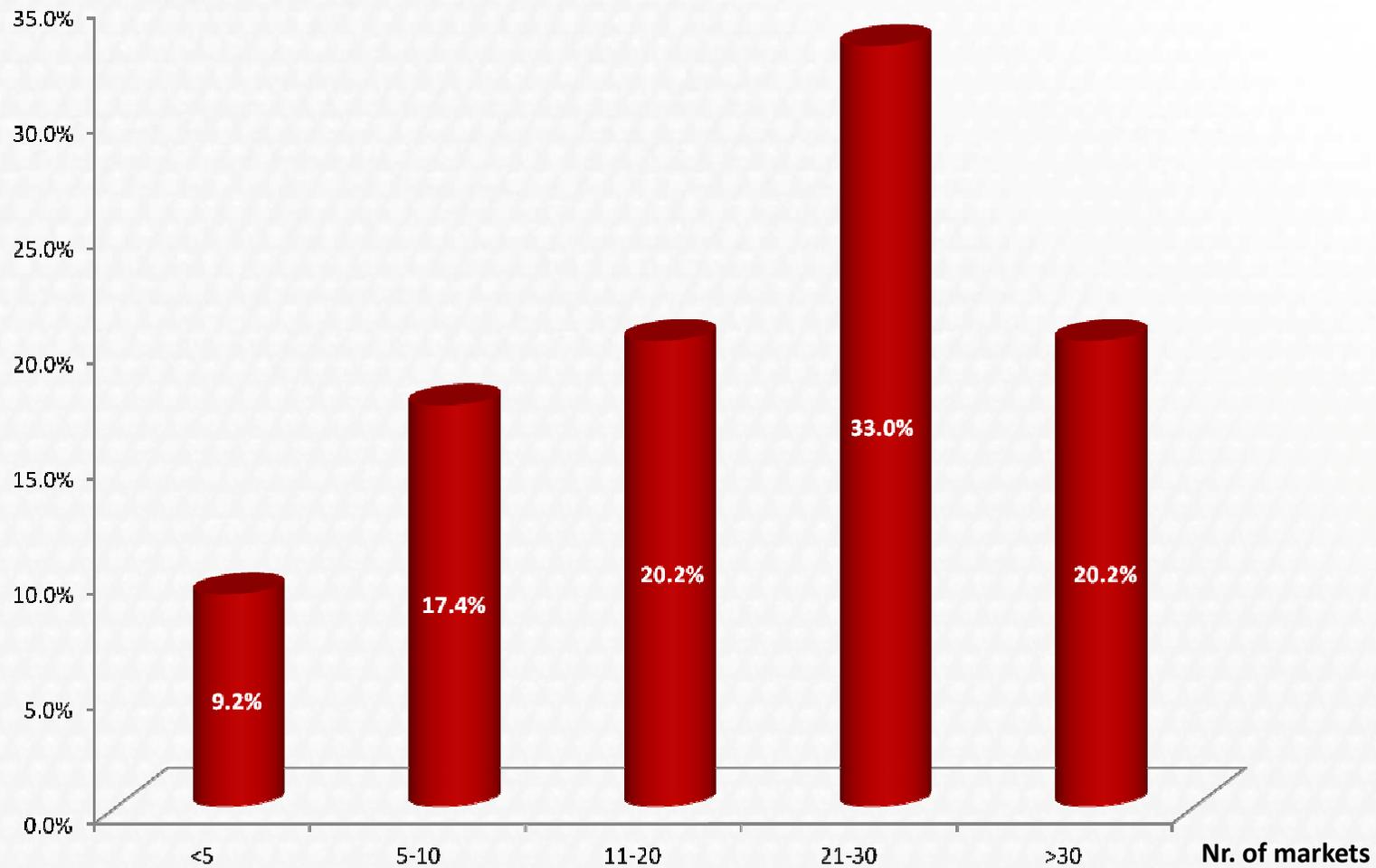
When did Italian firms enter the Chinese market?



Prevalent entry modes in China

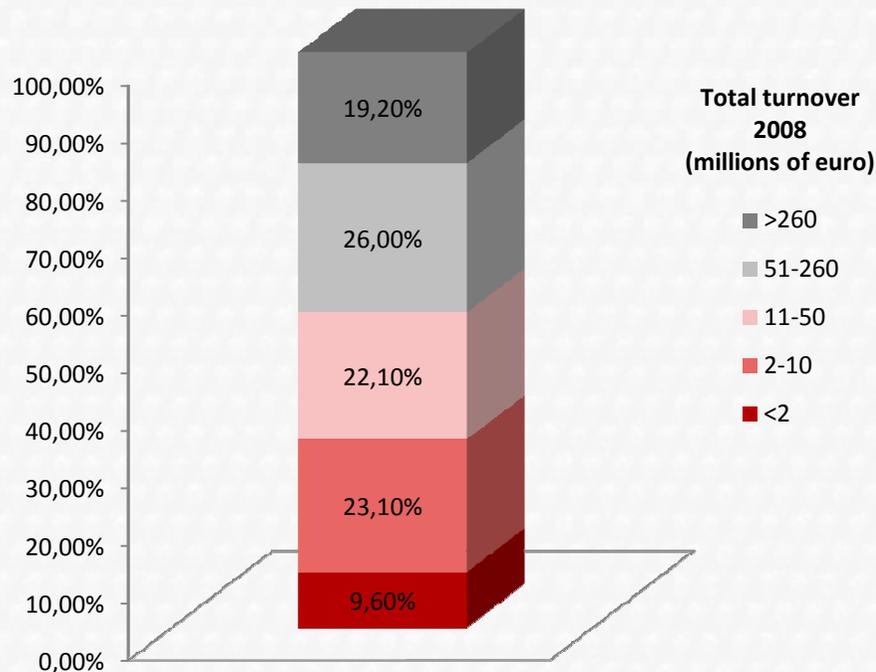


Market diversification and international experience



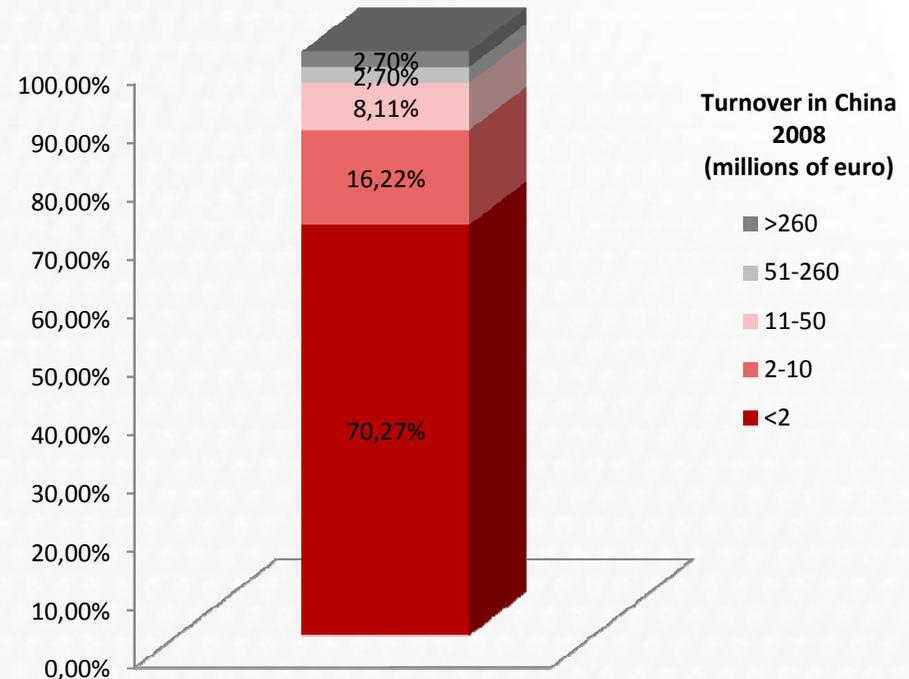
How much does China count on Sales Turnover?

2008 Total turnover



Almost half (45.2%) of the firms had a turnover **exceeding 50 million euro**.

2008 Turnover in China



The majority (70.3%) of firms generated in China a sales turnover **lower than 2 million euro**.

Facilitating factors for selling in China: our findings

Variables	Factor 1 Relational capabilities	Factor 2 Strategic capabilities	Factor average	Variable average
Relations with governmental bodies and institutions	0,894		3,92	3,32
Informal and personal relations with Chinese partners	0,840			4,54
Existing and formalized business contacts in the Chinese market	0,832			4,25
Relations with consulting firms providing support and assistance	0,629			3,04
Availability of financial resources to be invested in the Chinese market	0,604			4,47
Company's global vision		0,818	5,21	5,15
Company's know how		0,738		5,47
Company's consolidated international experience		0,733		5,10
Company's entrepreneurial attitude		0,709		5,31
Internationally recognized brand		0,613		5,02
Explained variance	31,319%	28,475%	-	-

Perceived difficulties in selling in China: our findings

Difficulties...	F1 Relational difficulties	F2 Strategic difficulties	F3 Market obstacles	F4 Legal obstacles	Factor average	Var. average
Establishing reliable commercial partnerships	0,848				4.29	4,89
Monitoring the distributor activities	0,811					4,55
Obtaining suitable information and operational support from institutions and business partners	0,764					4,62
Establishing relations with providers of support services and assistance	0,544					3,15
Establishing relations with governmental institutions	0,491					4,24
Lack of or limited international experience		0,759			3,04	2,69
Lack of or limited financial resources		0,744				3,45
Firm's strategy more oriented to other markets		0,714				3,21
Company's risk aversion		0,689				2,82
Finding a suitable market segment for the product			0,696		4,24	4,07
Obtaining information on the market characteristics			0,682			3,76
High competitive pressure			0,658			4,33
Understanding and adapting to the local culture			0,626			4,80
Too heavy regulatory and legislative burden				0,814	3,95	4,06
Risks of violation of intellectual property rights				0,451		3,83
Explained variance	18,756	16,607	14,881	11,625	-	-

Difficulties perceived by Italian firms dealing with Chinese distributors: our findings

Items "It is easy to find a partner that..."	F1 Sales skills	F2 Marketing skills	F3 Financial capabilities	F4 Relational skills	Mean score Factors	Mean score Items
Has an adequate market share	.880				4.33	4.46
Has an efficient sales network	.763					4.30
Has a stable product (and client) portfolio	.752					4.60
Guarantees a good geographical coverage	.670					4.43
Has experience in the target market	.625					4.18
Guarantees a good service before and after sales	.623					4.46
Is on time with deliveries	.562					4.11
Has established good relations with the local community	.539					3.90
Has a good product knowledge		.702			4.59	4.69
Sells products of similar quality/ brand image		.690				4.53
Has good managerial skills		.668				4.70
Is able to effectively implement a marketing plan		.643				4.53
Has a good reputation among its past and present clients		.487				4.20
Can protect and develop the company's brand's equity		.423				4.89
Is ready to invest in the development and training of sales networks			.805		4.97	4.74
Is ready to invest in product's communication			.799			4.76
Can financially support the marketing and sales activities			.604			5,35
Has a consolidated experience of dealing with other foreign companies				.575	4.16	3.98
Has effective communication and language skills				.486		4.33
Explained variance	23.9%	17.4%	15.6%	9.1%		

Qualitative research

- **Semi-structured interviews**
- Within the sample of 130 firms, a **sub-sample of 25 companies** was selected, respecting the *purposive sampling* approach (Kerlinger, 1986) - **extreme experiences of success and failures.**
- Four interviews with relevant **Chinese distributors** have been carried on.

Who should make the investments?

Italian companies point out that one of the most crucial factors in dealing with the Chinese distributors is their **reluctance to invest in the relation.**

Yet, our research raises the following question: How much of this investment should be made by the company itself rather than the Chinese distributor?

Such question remains mostly unanswered.

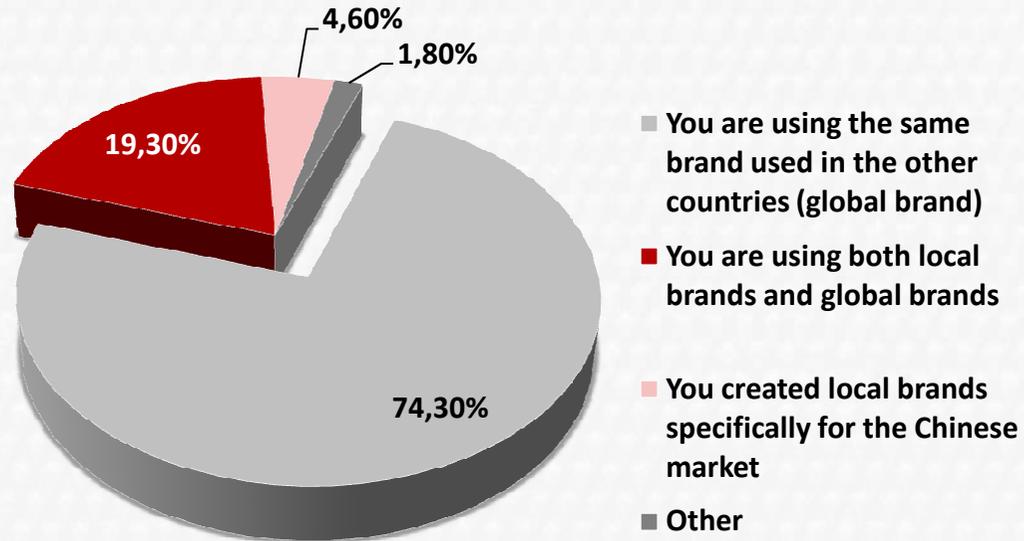
What Chinese distributors say

"We are keen to deal with Italian products and not just with the big names, but often the **Italian companies are not willing to invest and do not want to customize their products and adapt** them to the tastes and physical structure of Chinese consumers, and this is a **problem that we cannot resolve**" **Chinese businessman, fashion and accessories**

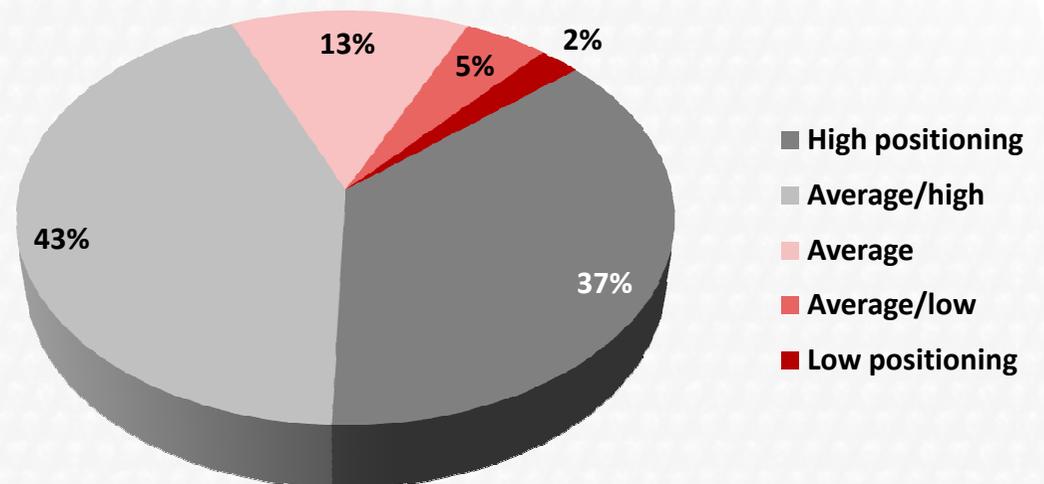
"Italian shoes are beautiful, and although they are expensive, that's fine; in fact, it's even better, but **if the brand is not known, no one will buy them**, even if they are the best shoes on earth. **This is a concept that Italians do not seem to understand**" **Chinese businessman, fashion and accessories**

Branding Strategies of Italian companies in China

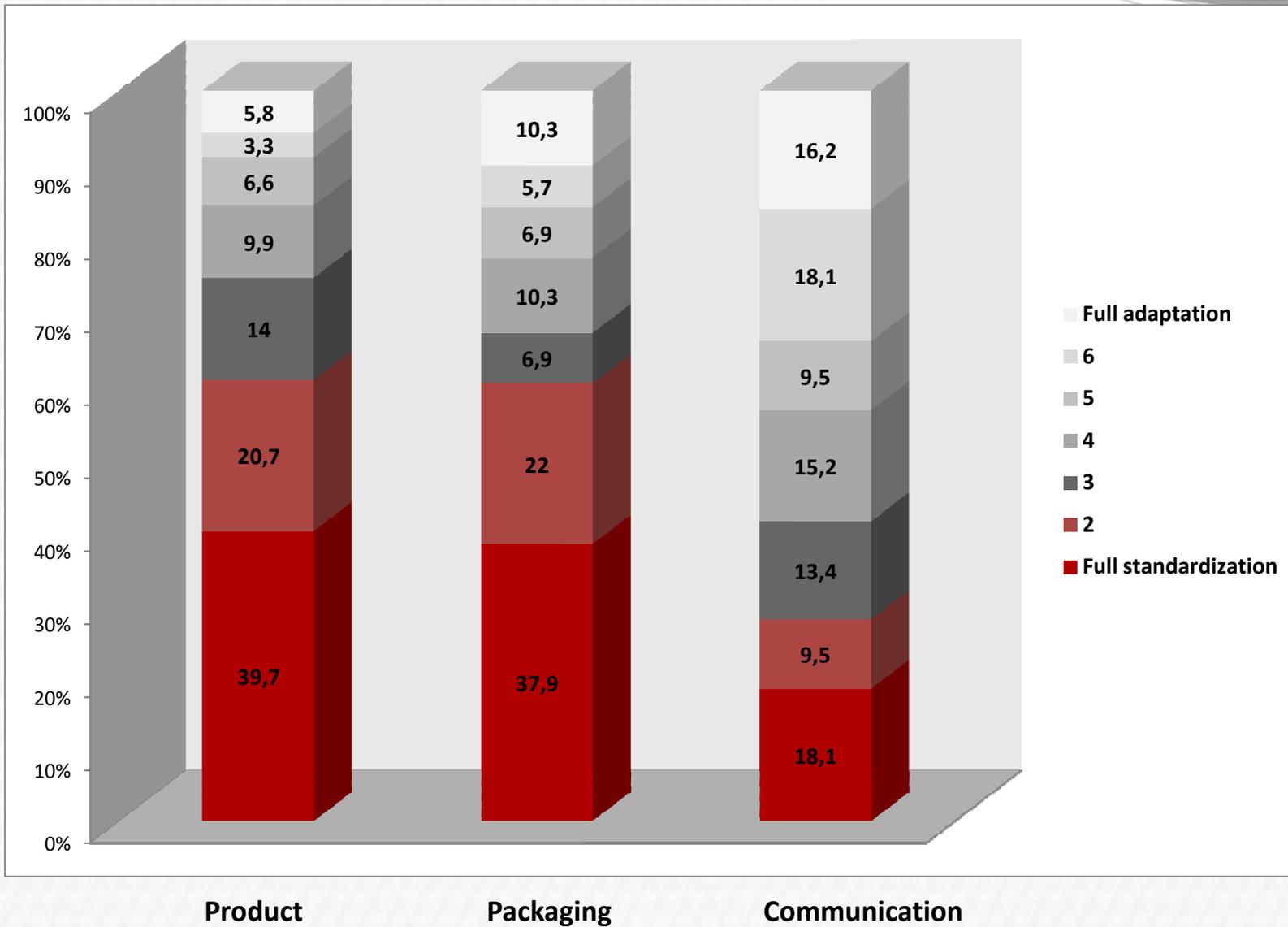
Global vs Local brand



Brand positioning



A lack of adaptation



Conclusions

- A growing number of Italian companies have recently entered the Chinese market
- Sales **performances are still rather poor**, due to several difficulties
- The major difficulties are perceived at the level of the **relations with Chinese distributors**
- Italian companies and their local distributors have **conflicting expectations** as to who should invest in the relation. There is the **expectation** that it's the Chinese distributor who has to invest and that there is no need for the Italian firms to do the same, as they are confident in the strength of *Made in Italy* and, thus, they tend not to adapt to the needs of the Chinese market.
- **In fact, the *Made in Italy* image is not sufficient to establish the Italian products in the Chinese market.**
- The further establishment and consolidation of Italian companies in China calls for a different approach both in terms of **marketing adaptation** and in terms of **partnering models** with local distributors.