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The Chinese Online Market: opportunities and challenges for Italian SMEs

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Do not judge wrong what you don't know,

take the opportunity to understand.

Pablo Picasso

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Chapter 1. Introduction

“To contribute to society through bridging East and West”. This is the statement embossed on the entrance wall at the International Business School of Suzhou at Xian Jiaotong Liverpool University. During the first months of 2019 I had the opportunity to join the Overseas program and experience the Chinese culture, as well as participating to a course named Doing Business in China, with the aim of bridging my east and west management know-how. Throughout my stay I couldn’t help but notice how technology impacts the everyday life of the Chinese people. The heavy use of mobile payments and e-commerce has fascinated all Westerns travelling to China, as such thriving digital market appears to be very different from the western concept of e-commerce. This is due both because of the cultural differences between East and West and the heavy infrastructure development China has made in building up an efficient and appealing digital market.

With such premises and given the economic crisis of the Western world, it is difficult not to think: can our local firms exploit and learn from such dynamic market? How can they experiment? How can they grow?

At the same time China seems to be appealed by the Italian excellence of SMEs. Following the success of made-in-Italy products among the Chinese consumers, Kuo Zhang, the general manager of Alibaba.com, defined Italy as a “top priority market”. Indeed, the popular e-commerce website Alibaba recently stated that its target market in Europe is the Italian one. More specifically, the goal of the Chinese company is to have 10 thousand Italian SMEs on the platform within 5 years (Cavestri, 2019). Such premises mean a huge opportunity of internationalization for small and medium enterprises, both facing business difficulties and not. However, reaching a new market, especially the Chinese one, needs a well-thought strategic plan.

The literature concerning the opportunities of the Chinese digital market for SMEs has been analysed in an academic paper concerning New Zealanders firms. The study analysed how digital platforms impacted the New Zealand small and medium enterprises that entered the Chinese market, discovering how they can be a useful tool to lower entry barriers specific to SMEs (Jin & Hurd , 2018). Another study focused on analysing with empirical evidence the e-commerce specific barriers of SMEs through the use of surveys on Italian companies in the food and fashion industry. The study also showed that only few Italian companies use e-commerce in order to grow in foreign markets (Elia, Giuffrida, & Piscitello, 2019). The studies will be deepened in the SMEs chapter.

This dissertation aims to build upon existing literature, analysing the opportunities and threats for Italian SMEs on the Chinese digital market, with a main focus on the B2C market. The study will first analyse the Chinese internet infrastructure development and legislation formulation, focusing on the strong support the Chinese government has had in such matter. The following chapter will analyse the Chinese digital market and the changing patterns of it. More specifically, the chapter will be concerned with the internet user structure, the analysis of the e-commerce field, the characteristics of the online Chinese consumer, the cultural barriers, the cross-border e-commerce analysis in China and the overview of the Chinese online distribution channels, which are found to be different according to the internationalization stage of the foreign firm. The next chapter will focus on SMEs. First, it will depict the globalization scenario, then the internationalization processes of SMEs, the differences with multinationals, the limitations of internationalization and entry modes and strategic planning. Subsequently, the chapter will unfold the benefits of exploiting digitalized international markets and the inhibitors of e-commerce at international level. The following chapter will concern a case study based on a summer 2019 internship I participated in between Shanghai and Hong Kong, concerning the manufacturing and selling of Italian-style bags and accessories exclusively for the Chinese online market. Lastly, the final chapter will reprocess the research data focusing on the following questions: should Italian SMEs enter and focus on the Chinese digital market? What are the best practices to adopt in such a market? The chapter will use Porter's Five Forces model, SWOT analysis and proceed with the formulation of the best practices for Italian SMEs operating in the Chinese digital market.

Chapter 2. Historical Context Overview

2.1 Introduction

The internet infrastructure in China has been developing rapidly in the last 30 years. China's fast economic growth came along with heavy investments made by the Chinese government. These investments revolutionized Chinese people's life, thanks especially to the improved communication infrastructures. China was more and more able to be increasingly internally connected which in future would have been the basis for the largest digital and non-digital market in the world. China's connectivity moved through different steps, starting from the first e-mail to the planned development of a nationwide network, from the development of online market policies to the well-organized internet censorship.

2.2 The beginnings

By the end of the 80s, China was able to have its first interaction with the digital network. However, the exact year is still currently under discussion. One theory states that the first email was sent on August 25th, 1986 by the researcher Wu Weimin from the Chinese Academy of Sciences, Institute of High Energy Physics to a scientist by means of a computer. The email was then received by the CERN (European Organization for Nuclear Research) scientist Jack Steinberg in Switzerland. Another theory claims the email was sent by a Chinese and German team from the Chinese Institute of Computer Applications (ICA) in Beijing to the University of Karlsruhe in Germany September 20th, 1987. The project leader was the professor of Computer Science at Karlsruhe University and head of Computing Center IRA (Informatik Rechnerabteilung) Werner Zorn, who had the responsibility to work with the Chinese and German scientists to establish a connection between China and West Germany for academic purposes. The content of the email was said to be: "Across the Great Wall we can reach every corner in the world" (Goldkorn *et al*., 2012).

Following the first email, on April 1994 China was able to achieve a full-functional connection to the internet, officially opening China to a worldwide connection, becoming the 77th country to access the internet (China Daily, n.d.). This revolutionary step into a more connected and globalized world was made under the presidency of Jiang Zemin, whose decision was influenced by Alvin Toffler's " third wave" theory, which advocated the basis of the third industrial revolution, expounding how the world was moving from the Industrial Age (second wave) to the Information Age (third wave). Jiang Zemin aim was to facilitate China in the trade and industrial competition with other countries and making Internet accessible in the country was a fundamental requirement. Moreover, this move was coherent with the past policies of the Chinese government. As a matter of fact, since 1979 President Deng Xiaoping opened China to foreign trade and investment as well as to western knowledge by means of the Open-Door policy (pingp, 2011).

It was only in 1995, however, that internet services were provided to the public. On that year, indeed, China's first internet service provider Infohighway Information & Technology Co Ltd was funded in Beijing by the Ministry of Posts and Telecommunications. As a result, on the following year, in 1996, the first internet café was opened in Shanghai. As computers were expensive and hardly users owned them, internet cafes started spreading. However, they were frequented by youngsters and people who had a good grasp regarding technology (China Daily, n.d.). As more and more users started browsing the web, in 1997 the state council established the CNNIC (China Internet Network Center). The CNNIC role is to construct and operate the information society in China and its mission is to serve the Chinese internet users by facilitating the orderly development of the web. Such organization is still existing today and is responsible for China's internet infrastructure development as well as the data gathering regarding the online activities of Chinese users (icann.org, 2006). The establishment of the CNNIC set the start of a programmed and planned construction of institutes collecting data and progressively controlled internet content. As a matter of fact, after Deng Xiaoping Open Door policy was implemented, China had to balance the intake of western technology with limiting western ideology that influenced Chinese citizens. This endeavour could be summarized by President Deng Xiaoping with its famous line "if you open the window for fresh air, you have to expect some flies to blow in". As a result, during the 2000s the Chinese government tried to focus its attention on keeping away these "flies" by formulating the Gold Shield projects, making the implementation of them one of the most ironic dilemmas in contemporary history. As a matter of fact, on one hand the Chinese government needed to exploit new information technology for China's economic and social growth. On the other hand, Internet is a tool that democratizes society by encouraging the share of different ideas. The internet was as much important to China's economy as much as it undermined its political stability, a dilemma that is to be seen today as the Chinese government is striving to balance these two ends (pingp, 2011).

During the late 90s and early 2000s, the government managed to complete the primary phase of the Golden Bridge Project, connecting 24 provinces via satellite. As China was becoming more and more connected, an internal market was starting to emerge. It is during these years that companies that would have been important for China's digital environment emerged and gained importance. As a matter of fact, Tencent, China's WeChat owner, was founded in 1998 and in 1999 was able to issue the first version of QQ, which at the time was the most popular instant messaging platform. During that same year Alibaba was founded and in 2003 launched the e-commerce website Taobao, which is today the largest C2C website in the world. Again, in the year 2000 Baidu was set up and is today the largest search engine in China (Goldkorn *et al*., 2012).

As previously mentioned, during the 2000s the government implemented the Golden Projects, which were the foundation of China's superhighway as we know it today. Indeed, in the early 1990s, data communication was gaining importance in the international competition and the overloading of the public telephone network created the need for the construction of a second network. Consequently, in 1993, the Minister of the Electronic Industry Hu Qili suggested the idea of the" Three Golden Projects" (Chen & Ning, 2002) in (Xiang & Jing, 2014). The aim of this proposal was the development of the information economy and the building of administrative capabilities. The final goal would have been the construction of China's information highway which would have pushed economic development and modernization in the country, as well as the development of national IT services and the unification of the country, from central government to the provinces, and within the central government itself (Lovelock , Clark , & Petrazzini, 1996) in (Xiang & Jing, 2014). The projects implementation amounted for a cost of 16.1 billion US dollars in 2003. The following points unfolds China's golden projects, explaining the main shareholders and the main objective for each project.

- Golden Bridge: the construction of the basis for the nation's information superhighway, focused on the transmission of data, images, voice, and multimedia. The shareholders involved were the ministry of electronics and the state information centre and the enterprise selected was Ji Tong.
- Golden Customs: the construction of an import/export statistical database and an EDI platform along with creation of a foreign trade tax network, quota management systems, domestic returns and foreign currency arrangement. The shareholders involved were the Ministry of Foreign trade and the customs department and the enterprise selected was Ji Tong.
- Golden Card: the construction of an electronic-based financial transaction system and information service, along with a 10-year long-term goal of spreading the use of credit cards across 400 cities, having 200 million credit cards for 300 million people. The shareholders involved were People's Bank of China, Ministry of Electronics and Ministry of Internal Trade and the enterprise selected was Great Wall Computers.

- Golden Sea: improved connection between China’s top government leaders and the institutional offices under the responsibility of the Communist Party Central Committee, through the construction of a data network with N-ISDN capability. The shareholders involved were People’s Bank of China, State statistical bureau and the enterprise selected was State information centre.
- Golden Macro: the construction of a database that could incorporate state policies regarding statistic, industrial economics, taxes, investments, transport, communication, energy and commodity prices. The shareholders involved were China Exim Bank and the Ministry of Finance and the enterprise selected was State Information Centre.
- Golden Tax: the facilitation of the flow of funds across China through electronic tax receipts and direct bank connection. The shareholders involved were Ministry of Finance, Ministry of Electronics and the National Taxation Bureau and the enterprise selected was Great Wall Computers.
- Golden Intelligence: a platform which could guarantee research professionals and teachers to receive precise and on time information, as well as international and national communication and cooperation. The shareholder involved was the State Education Commission.
- Golden Enterprise: the construction of a nation-wide enterprise and product database, as well as the creation of an integrated enterprise distribution system. The shareholder involved was the State Economic and Trade Commission.
- Golden Agriculture: the construction of a database for agricultural supervisory, calculation and forecasting. The shareholder involved was the Ministry of Agriculture.
- Golden Health: the creation of a platform for the medical sector where to share scientific information in the medical sector. The shareholder involved was the Ministry of Health.

- Golden information: enhance and improve the real-information flow. The State Statistical Bureau was the shareholder responsible.
- Golden Shield: the improvement of public security and central government and police control. The ministry in charge was the Ministry of Public Security.

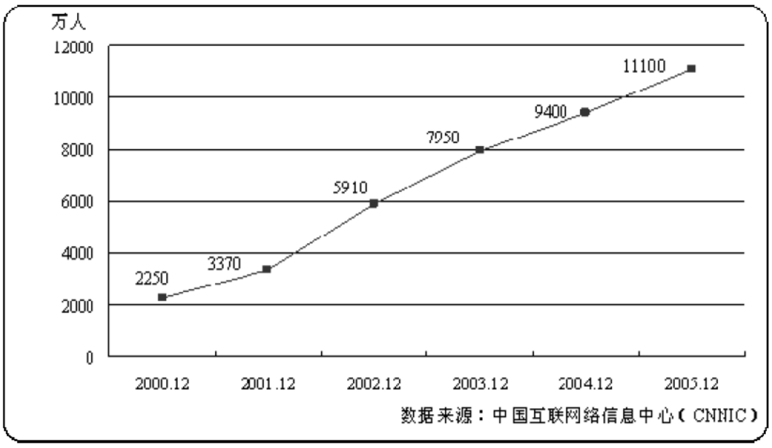
  (Lovelock , Clark , & Petrazzini, 1996) in (Xiang & Jing, 2014)

2.3 Diffusion

Rogers identified diffusion as "the process by which an innovation is communicated through certain channels over time among the members of a social system" (Rogers, 1983, p. 10). Rogers, indeed, describes the spread of a technology with the function of an S-shaped curve, increasing slowly at first, but gaining rapid adoption as the technology improves and reaches a higher user base. As a consequence of the implementation of the Golden Projects, China's government was able to significantly improve the communication infrastructure, generating a rapid spread of the Internet websites and users. Indeed, by the end of 2005, the .CN domain registrations had an annual growth of 154%, resulting in over 1 million. Such increase has also been pushed by a heavy promotion campaign made by the government through newspaper ads, TV commercials and national road shows with the aim of helping the implementation of the Golden Project reforms and the diffusion of the IT adoption by the users. Also, the spread of the domain .CN was caused by the relatively lower price compared to the .COM domain (icann.org, 2006).

Concerning the number of users, such number increased rapidly. In 1997 the number was estimated to be 600,000 internet users (CNNIC, 1997) in (Xiang & Jing, 2014) After the push given by governmental policies, the number increased to 111 million in 2005, with an increase of 17 million from 2004, and of 179 times since 1997 (see Figure 2.1). Also, during the same year there was an increase on the computers connected to the internet from the 49.5 million of 2004 to 7.9 million (icann.org, 2006).

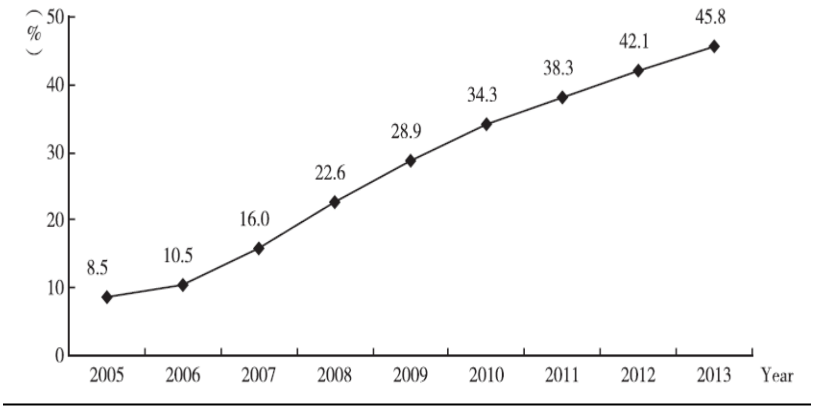
Figure 2.1 – Growth of Chinese Internet users 2000-2005 (in ten thousands)



Source: (icann.org, 2006)

The growth of the following decade resulted to have an exponential speed in the percentage of internet users in the Chinese population (see Figure 2.2).

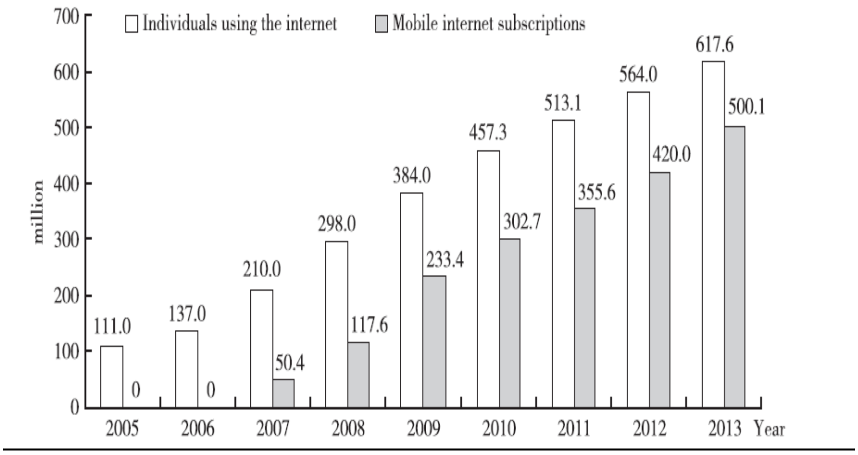
Figure 2.2 – Internet penetration rate in China



Source: CNNIC in (Xiang & Jing, 2014)

From the 1,8% of users in 2001, to the 8,5% in 2005, to an increase in 2010 to 34,3%, to a 45,8% in 2013. Indeed, as of December 2013 the number of online users reached 618 million (see Figure 2.3).

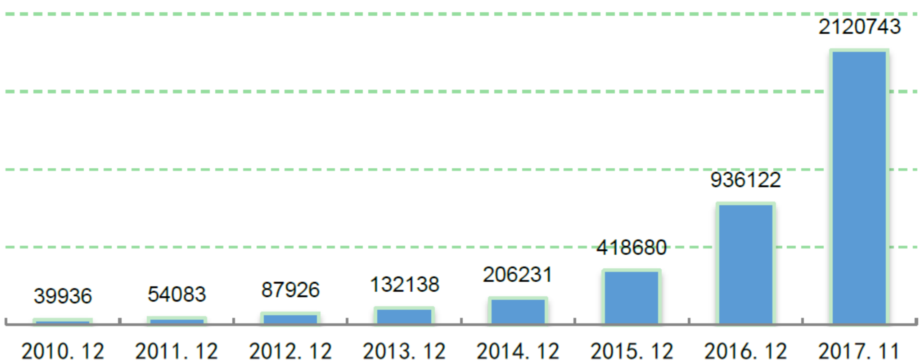
Figure 2.3 – Individuals using the internet and mobile internet subscriptions



Source: CNNIC in (Xiang & Jing, 2014)

As a matter of fact, along with the increasing spreading of the use of the internet, mobile phones were getting more and more sophisticated, both in hardware and software.

Figure 2.4 – Mobile Internet Access Traffic (10,000 persons)

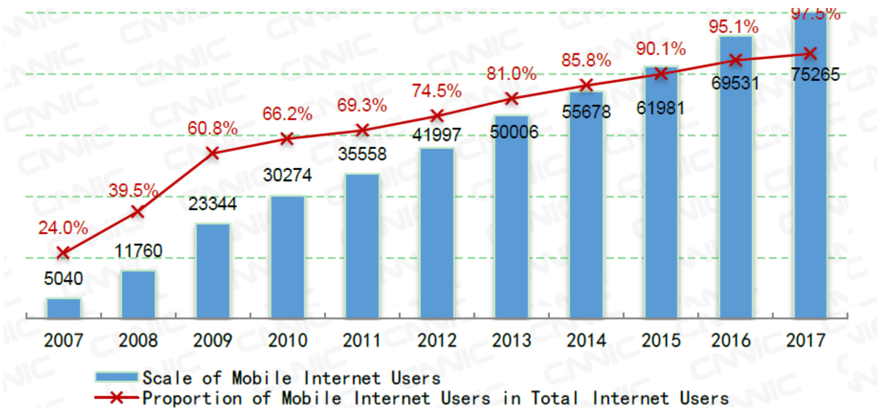


Source: (CNNIC, 2018)

As, a result the introduction of 3G and subsequently 4G, along with an improvement of the hardware components of mobile phones from private firms, followed a rapid development of the mobile internet. Indeed, the mobile phone users with internet access kept increasing at high-speed, giving a boost to the mobile internet traffic (see Figure 2.4). In the last decade, the mobile internet traffic rapidly increased from 399 million in 2010 to 1.3 billion in 2013, to a peak of 21.21 billion gigabytes in 2017.

The increase of mobile data was due mainly to the increased user base (see Figure 2.5). China's mobile internet users in 2010 were around 50 million (24% of total internet users) and recorded a dramatic increase to around 233 million users (60,8% of total internet users) in just two years, to finally reach 2017 with around 753 million mobile internet users, an impressive 97,5% of total internet users (CNNIC, 2018).

<u>Figure 2.5 - The Scale of Mobile Internet Users and Their Proportion in Total Internet Users in China (10,000 persons)</u>



Source: (CNNIC, 2018)

The combination of the governmental push for internet adoption and the improvement of the communication technology tools resulted in China overtaking the USA as the world largest internet user base in 2008 (China Daily, n.d.).

2.4 The last decade

The election of president Xi Jinping in 2012 enhanced the censorship and internet limitations in china. Indeed, the great firewall has always been present on the internet, as above mentioned, with the aim of pushing back western mindset influences. In the last decade, China wanted to be more concerned about the internet content, counteracting what could harm the Communist Party's interests. As a matter of fact, China managed to develop a technology that enabled it to have greater control over the internet. Indeed, in 2015 China blocked many VPNs that citizens used to avoid the stringent Great Firewall, with the surprise of multinationals, banks and retailers (Economy, 2018). Indeed, a great shock for these latter ones was already given in 2012, when China's Firewall blocked Google websites and services (Kan, 2012).

On the other hand, the last decade was characterized by continuous support by the government and the institutions for the development of internet and its digital market. Indeed, in 2011 the People's Bank of China issued the first third-party payment licences, facilitating online payments to grow (China Daily, n.d.). The government, on the other hand, in 2015 formulated the "Internet Plus" strategy, proposed in the Government Work Report, in order to push to the integration of traditional industries and internet economy, which in 2013 represented the 4.4 percent of GDP, more than the United States and Germany. The Internet Plus is a five-year plan that aims to integrate cloud computing, big data and Internet of Things with different industries, such us manufacturing, commerce, banking, agriculture and many more, pushing towards the implementation of the industry 4.0. The project aims to:

- Improve internet connections in large cities
- 98% of population reaching broadband connectivity
- Increased funds for research and development and innovation in technology

This further resulted in a growth in mobile devices, cloud service, apps, big data and analytics, attracting at the same time offshore businesses interested in investing in the Chinese internet economy (China Telecom Americas, n.d.).

Moreover, the Chinese government has been researching for international cooperation for its economy growth. As a matter of fact, in 2013, China announced its Belt and Road initiative, with the aim of strengthening China's connectivity with the world. Indeed, it plans to connect with 65 counties around the world, creating a combined GDP of $23 trillion, including some 4.4 billion people, along with building hard and soft infrastructure and cultural ties (China Power Team, 2017).

This project is seen by Europe, and especially by Italy for its strategic position in the Mediterranean, as an economy booster. Indeed, Italy aims to strengthen its export towards the thriving Chinese market and involve Italian SME's and Italian harbours in the international marketplace. Concerning the e-commerce field, the agreement aims to promote cooperation and connections between firms and customers both in China and Italy, facilitating the collaboration between SME's and big platform operators as well as the innovation knowledge flow between the two. Moreover, this partnership includes the creation of scientific and technological parks, industrial clusters and venture capital investments for the internationalization of start-ups, by means of the share of knowledge, ideas and people management (Inghirami, 2019).

2.5 E-commerce development

Along with the push of the internet development and adoption, since 2004 the Chinese government has been focusing on formulating legislation and policies concerning the digital market.

Indeed, on April 1st, 2005 the *Electronic Signature Law of the People's Republic of China,* already passed by the National People's Congress in 2004, became effective. This was China's first attempt to regulate the emerging digitalized market and focused on the regulation of e-commerce and of electronic transactions security. The law established the standardization of the act of electronic signatures, the validation of legal effects of electronic signature and the safeguard of the lawful rights and interests of the concerned parties. On the same year the State Council issued a general guideline for the development of e-commerce in China named *Certain Options on Accelerating the Development of E-commerce*, which aimed at promoting e-commerce by highlighting the fundamental impact on such market on the economy and society. Two years later the State council with the National Development and Reform Commission, enhanced the development and adoption of e-commerce in China, pushing for electronic transactions and establishing e-commerce support service, promotions and application, under the name of *E-commerce development plan During the 11th Five-Year Period.* This plan focus foresaw e-commerce as an important industry in China, that could lead to national economic growth and social relevance worldwide.

A great protagonist of China's digital market development has been the Ministry of Commerce. Indeed, since 2007, its focus was to the healthy development of the online business by means of standardizing online business operations and preventing business risks. In this regard, the *Guiding Opinions of Ministry of Commerce for Online Trade (Provisional)*, the *Certain Opinions of Ministry of Commerce on Accelerating the Development of E-Commerce* and the *Specification for E-business Model* were promulgated through 2007 and 2009. In this latter year, the *Certain Opinions on Accelerating the Development of E-commerce* document was issued with the aim of supporting traditional commercial enterprises to expand its sales channels on the digital market and helping online retail and large wholesale enterprises. In this regard, the Ministry of Commerce continued to support the online stores of large retail enterprises with the *Guiding Opinions on Promoting the Development of Retail Trade during the 12th Five-Year Plan Period* issued in 2012, adding, however, a focus on the SMEs by supporting the creation of third-party transactions platforms. One year later, the Ministry of Commerce kept promoting the application of e-commerce in China by accelerating its development through the *Implementation Opinions on Promoting the Application of E-commerce.*

The impact of these policies pushed many enterprises to join the digital market. In order to maintain order in such emerging and early market, the State Administration for Industry and Commerce formulated the *Provisional Administration Measures on Online Commodities Trade and Related Service Activities* in July 2010, along with the *Administrative Measures for Online*

Trading in March 2014. The aim of these measures were respectively the regulation of online commodity trade and service exchange on digital transaction platforms, as well as the administration guidelines of these, and the protection of consumer and platform operators' rights.

Similarly, a push for the development of national e-commerce was given by the National Development and Reform Commission, which along with other government departments, in 2011 formulated the *Guiding Opinion on Commencing the Creation of E-Commerce Model Cities in China*, with the aim of establishing several e-commerce model cities throughout China. In the following years the National Development and Reform Commission issued:

- In 2012, the *Circular on Issues Concerning the Promotion of Sound and Fast E-commerce Development* to promote the application of Integrated Circuit (IC) cards and e-commerce standardization, as well to establish an expert consulting committee for the e-commerce model cities project;
- In 2013, *Circular on Further Promotion of Sound and Fast E-commerce Development* for the promotion of a safe and credible e-commerce transactions environment.

Moreover, along with the development of the digital market, the regulation of online payment was necessary. Indeed, People's Bank of China issued measures in order to promote and regulate the payment service market, prevent payment risks and protect the rights of the parties concerned, as well as to introduce for nonfinancial institutions a national administrative permit and payment services licence:

- In 2005, the *Electronic Payment Guidelines (No. 1)*
- In 2010, the *Administrative Measures on Payment Service of Non-financial Institutions* (Xiang & Jing, 2014)

As the digital market kept growing, the need for keeping order in such market grew. As a result, the Chinese government built a new policy upon the previous e-commerce legislation and on January 1, 2019, China's new e-commerce law took effect. The law addresses consumer protection, like data privacy and cybersecurity, as well as fighting false advertising, that most of all gives China the reputation of the country of the knockoffs, and tax fraud.

With the new e-commerce law, China starts to take into consideration smaller e-commerce operators, like micro-stores and online third-party retailers who do business on social media platforms. In this regard, e-commerce in China has been classified into:

- Platform operators: the traditional e-commerce operators like Taobao

- Operators on platform: sellers who are present on traditional e-commerce platforms with an online store

- Other e-commerce operators: operators that sell through self -established websites or channels other than platforms, for example the vendors on WeChat

Moreover, the main points of the law include:

- Strengthening of customer rights and privacy. The sellers must disclose precise information about the product or service offered, and e-commerce must set up a system for posting of consumer comments and for avoiding misleading information and attempts to manipulate the market. Moreover, the law complements China’s Cyber Security Law (2007) by enhancing privacy and personal data protection.

- Platform operators will be considered legally responsible if the contents of the platform will violate the rights and interests of the consumers. In particular, the law focusses its attention on the protection on intellectual property and a penalty for platforms operators and sellers that do not counteract it. As a result, product manufacturers and designers will feel encouraged in joining China’s digital marketplace, especially by foreign companies, aware of the intellectual protection they will receive.

- Regulation of market competition. Big operators must not impose restrictions or fees on sellers or manipulate the competition for their own advantage.

This law regulates indeed the cross-border e-commerce and pushes for the participation of small and micro firms in the digital market by protecting intellectual property and by regulating fair competition in the market. At the same time, businesses who are not compliant will be excluded from the market. (Clark, 2019) (Fang K. , n.d.)

The Chinese government has always been very supportive about the development and the growth of the online market, seen as a big booster for the economic growth. Since 2005, the legislation and guidelines in this matter contributed to the construction of a standardized and vital market, which is today the biggest in the world.

2.6 Conclusion

The Chinese government has always acknowledged the importance of the internet communication development, along with its digital market. Indeed, the digital world has been for China an important element for its economic growth as well as for its country unification and improved quality of life. China's internet has always been seen as a job creator, an education enabler and a path for growth. The reasons for such rapid growth are to be found, first of all, into its market user numbers: 1.4 billion of citizens. Second of all, it is impossible not to notice the government active participation through its heavy expenditures in network infrastructures over the years, which created an attractive environment for investments. The government has insisted on standardization and regulation, which led to fast consensus and consequently to fast adoption. By 2017, China's internet reached 772 million users, a number higher than the actual population of the US (323 million), Russia (143 million), Germany (82 million), UK (66 million), France (65 million), Canada (33 million) combined, with 98% of Chinese users active on mobile and 92% present on messaging apps. Moreover, Taobao, the country largest e-commerce platform, has 580 million active users per month, 80% larger than Amazon. Indeed, even if the internet is restricted and manipulated by China's central government, it is massive and has contributed to create an environment for businesses to grow and explore. For example, in China, online platforms made possible to create the so-called Taobao Villages, meaning that small rural producers can market and sell goods online and be able to reach far distribution areas. Today such villages account for half million online active stores, with a comprehensive 19 billion-dollar annual sales and 1.3 million new jobs created. Such numbers seem to have the opportunity to grow: China's internet penetrations accounts for 56% of the population, in contrast with the 88% of the US, resulting in a market with high growth potential, with 600 million people still offline, nearly twice of the US population (Liu, 2018). Along to that, China seeks international cooperation, for the further development of its digital marketplace, as well as taking into consideration small and medium enterprises that can find in such market a way to explore, experiment and grow.

Chapter 3. Market Context Overview

3.1 Introduction

In order to be successful in a foreign market, especially in a psychically distant one like the Chinese, SMEs need to analyse the potential customer base, how to reach it and how it is evolving. In this chapter we will first analyse the macroeconomic changing patterns of the Chinese economy. Next, the chapter will focus on the data overview from CCNIC regarding the internet users' structure and statistics. The following paragraph will start describing the e-commerce field in China and the changing patterns that characterize the modern Chinese online consumer, as well as the cultural barriers SMEs may face. The chapter will conclude with the cross-border e-commerce analysis in China and the overview of the Chinese online distribution channels, which are found to be different according to internationalization stage of the foreign firm.

3.2 Chinese economy landscape

In the past couple years China has been experiencing an evident cooling of its GDP growth, with the concern of multinationals and firms. However, China is still characterized today by one of the most impressive growth rates in the world and its consumers keep evolving to more expensive and high-quality goods. The Chinese economy trends may be analysed into four different main points:

- Slowing growth, yet still one of the most enviable in the world
- The evolution of consumers
- Conscious deleveraging and credit reduction
- Acquisition opportunities

3.2.1 Growth

During 2008 the economic activity slowed down with a GDP growth of 6.6 percent, the lowest rate since 1990, a ring bell that alarmed many stakeholders of the Chinese economy. Despite this, the Chinese economy still owns one of the fastest rates in the world, adding the equivalent of the whole Australian economy to its GDP each year. The main concern for companies would be the adaptation to such a growth slowdown and be able to adapt its strategies to such externality.

3.2.2 Consumers

Along with the economic growth cooling, there has been a concern by multinationals and domestic firms over the strength of China's consumer base. Despite the dropping in sales for Apple and other multinational companies, China still remains today the world's best consumer base to invest in. Indeed, Chinese consumption expectations of growth are estimated to rise to 6 trillion US dollars through the next decade. Such a sum is equal to the total consumption growth expected from United States and Western Europe over the same period of time, double that of India, and ASEAN economies combined. At the same time, companies need to be aware of the changing consumer pattern. For instance, along with a drop in autos and cosmetics, online sales grew with a strong 24 percent. Also, the success of the new platform for trading down Pinduoduo has disrupted China's historical e-commerce duopoly, reporting a changing and evolving market.

3.2.3 Credit

The government policies regarding economy stimulus is characterized by a heavy push given in the eight years following the financial crisis, and a credit reduction and conscious deleveraging in the following years. The post crisis stimulus and financial liberalization brought both rapid growth and shadow banking and informal lending. This contributed to a high debt-to-GDP ratio, risen from 120 percent in 2007 to 253 percent in Q2 2018 (greater than the Germany and United States ratios), along with asset bubbles in the economy generated by an excess in liquidity. Since 2016, the Chinese government acknowledged these issues by pushing on deleveraging. Consequently, this has resulted in a drop in credit availability in the past couple of years. Growth in outstanding credit fell to 7 percent in

2018, below 9.7 percent nominal GDP growth. This credit reduction impacted the smaller enterprises in the private sector and companies in smaller cities, with a repercussion on incomes, consumption, and overall growth. The Chinese policy makers are currently finding solutions to these issues by applying credit lending criteria. For example, the People's Bank of China aims to increase bank liquidity with bond issuance, and consequently allow banks to issue bonds and lend more, but under certain minimum credit standards.

3.2.4 Acquisition opportunities

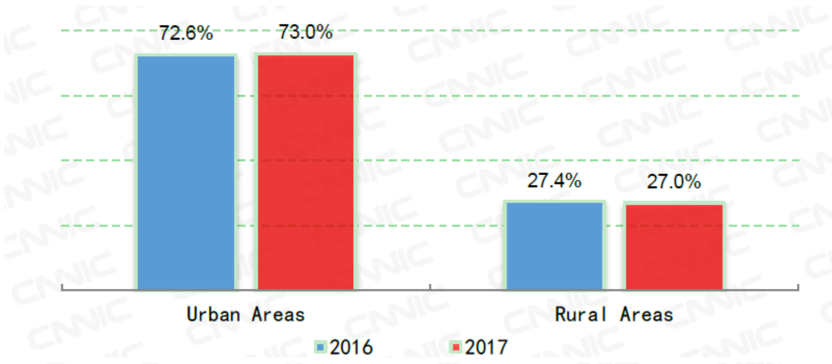
As a consequence of the government restrictions on credit lending, the intense pressure on mid-size private companies is expected to generate a substantial round of consolidation. Indeed, industry consolidation was beneficial to state owned enterprises rather than to smaller private competitors, and today the private sector might be following this path. This, combined with an increased openness to foreign direct investments, may be a great opportunity for multinationals to acquire domestic competitors being affected by the credit restrictions. "Ironically, just as headlines about China become less exuberant, now might be precisely the time to more purposefully step up presence and engagement". (Leung, 2019)

3.3 Internet data and user structure

As of December 2017, China registered 772 million users, and an internet penetration of 55.8%. Among the internet users, 753 million are mobile netizens, accounting for 97.5% of the internet users.

Concerning the classification of the users, in 2017 China registered 209 million rural Internet users, 27.0% of the total national netizens, an increase of 7.93 million or 4.0% from the previous year. On the other hand, urban internet users accounted for 563 million users, 73% of netizens, a slight increase from the previous year (see Figure 3.1).

Figure 3.1 - The Urban rural Structure of Chinese Internet Users

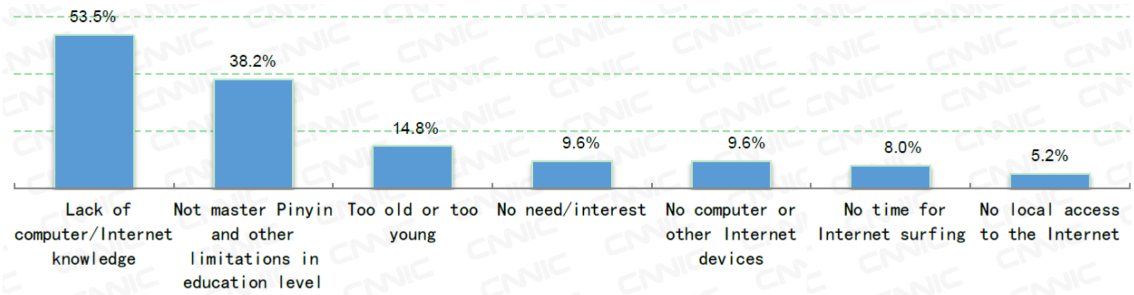


Source: (CNNIC, 2018)

Internet application use varied from one region to another, depending mainly on the type of App and regional characteristics. Concerning business and finance apps, rural users lagged behind. Indeed, the gap between urban and rural ranged from 20% and 25% in the usage of online shopping, travel booking, online payment and finance apps, as well as for apps with regional features like online meal ordering, online car and bike sharing. However, for apps for instant messaging, online music and video, the utilization gap between urban and rural was not significant (10%).

Moreover, rural resident are still the majority of the non-internet users. Indeed, as of 2017, in China there are present 611 million of non-internet users, 37.6% coming from urban areas and 62.4% from rural places. The main reasons why Chinese citizens do not access the internet are to be found in the shortage of Internet skills and limited literacy levels. According to CNNIC, 53.5% don't access to the web because of lack of technological knowledge, 38.2% don't have a good understanding of pinyin (the Chinese phonetic alphabet), 9.6% don't have any particular need on accessing to the web, and 14.8% do not have access to the internet or do not own a computer (see Figure 3.2).

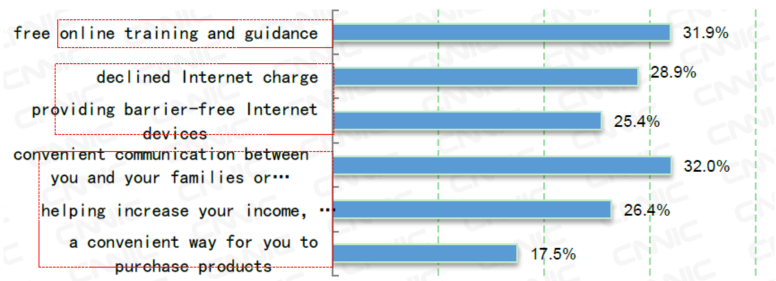
Figure 3.2 - Reasons Why Non-Internet Users Don't Access the Internet



Source: (CNNIC, 2018)

However, according to the CNNIC survey, 31.9% of non-internet users are willing to access the Internet if free internet training was provided. At the same time, 28.9% and 25.4% of users demand respectively for reduced internet charges and free accessible devices. Other factors for facilitating the internet spread are to be found in the reasons why users access to the web. Indeed, 32% chose to access the web to better communicate with others, 26.4% to increase monetary income and 17.5% for shopping online (see Figure 3.3).

Figure 3.3 - Factors Facilitating Non-netizens to Access the Internet

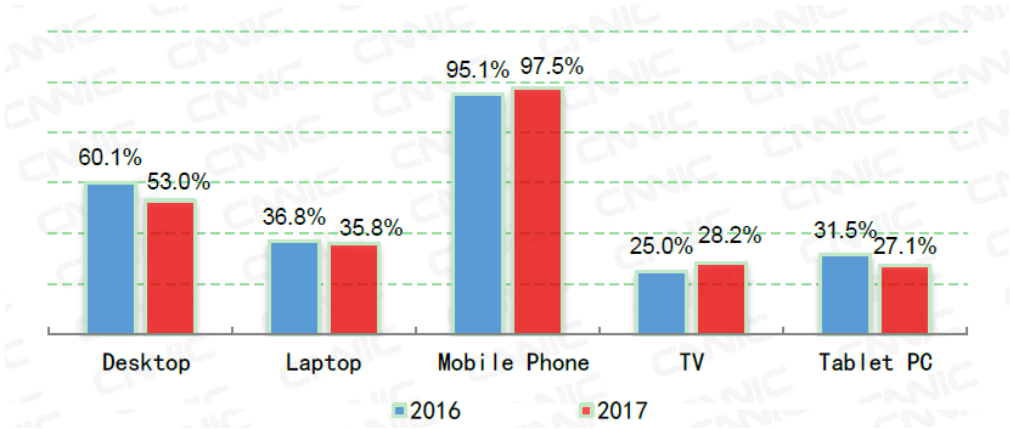


Source: (CNNIC, 2018)

The preferred device chosen from the Chinese netizens to browse the internet seems to be the mobile phone. By December 2017, it has been recorded an utilization rate of 97,5% Chinese netizens users accessing through such device, the highest ever documented. On the other hand, the use of desktop and laptops is declining, with a rate of respectively 53% and

35.8%. At the same time, it is interesting to notice an increase in internet access through TVs (see figure 3.4).

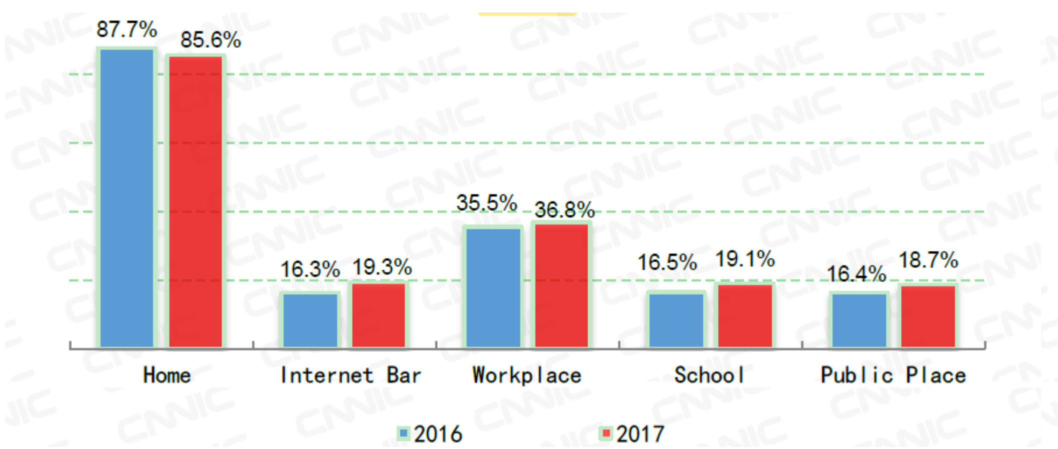
Figure 3.4 - The Usage of Internet Access Devices



Source: (CNNIC, 2018)

Specifically, for computers, users' access points seem to prefer their home when navigating on the web, even if the percentage is declining. On the other hand, Internet bars, workplaces, schools, and public places all became slightly more popular (see Figure 3.5).

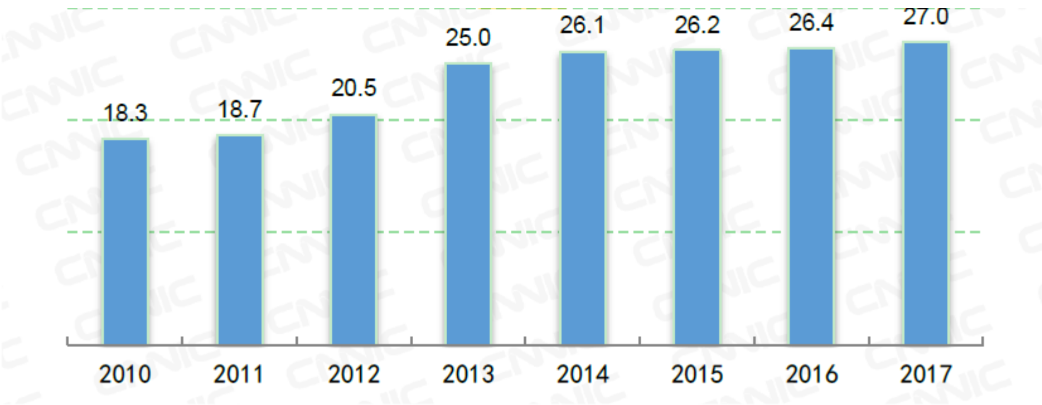
Figure 3.5 – Venues where Internet Users Use Computers to Access Internet



Source: (CNNIC, 2018)

The average online internet duration increased through the years, with a peak of 27 hours per week (see Figure 3.6).

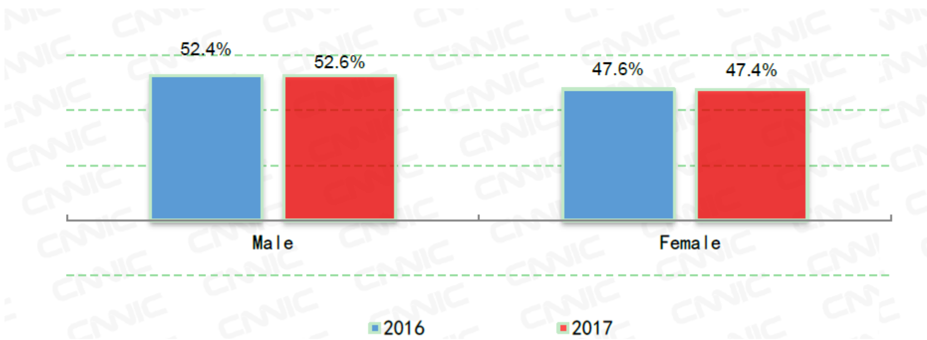
Figure 3.6 - The Average Online Duration of Internet Users, per Week



Source: (CNNIC, 2018)

Focusing on the user structure, the male to female ratio in 2017 among Chinese netizens is 52.6:47.4., becoming closer to the sex ratio of the total population (see Figure 3.7).

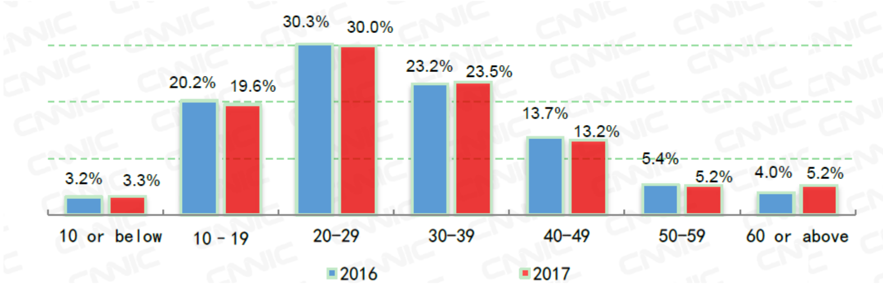
Figure 3.7 - The Gender Structure of Chinese Internet Users



Source: (CNNIC, 2018)

Regarding the age pattern, the majority of netizens users are aged 10-39, being 73% of the internet population. More in depth, 30% are aged 20-29, 19.6% are aged 10-19 and 23.5% are aged 30-39. Interesting to point out is an increase of elder netizens, indicating an increase in the internet use among the over 60s (see Figure 3.8).

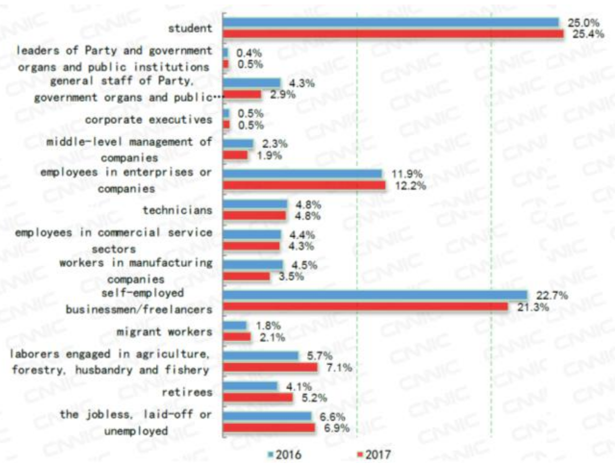
Figure 3.8 – The Age Structure of Chinese Internet Users



Source: (CNNIC, 2018)

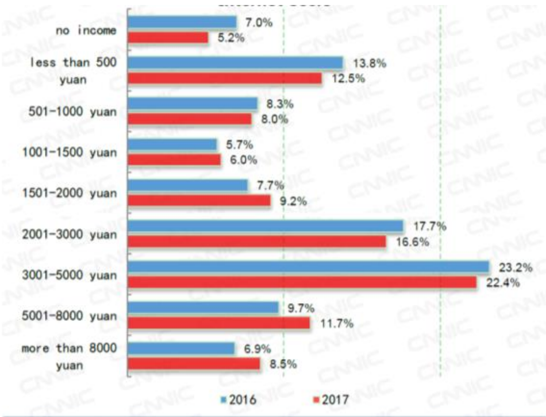
The majority of the web user base owns a secondary education level. At the same time, the largest occupational group of the internet user base are students (25.4%), followed by self-employed businessmen and freelancers (21.3%) and by enterprise managers and ordinary staff members (14.6%) (see Figure 3.9). Moreover, users with a middle and high monthly income level make up the majority of netizens. This refers to a monthly income of RMB 2001-3000 and RMB 3001-5000, with respectively 16.6% and 22.4% of users. Interesting to point out is the increase of high-income netizens (> RMB 5000), meaning a potential increase in customers with higher purchase power on the e-commerce market (see Figure 3.10).

Figure 3.9 - The Occupational Structure of Chinese Internet Users



Source: (CNNIC, 2018)

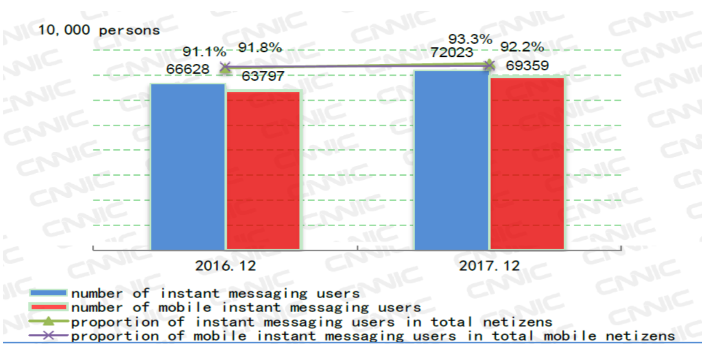
Figure 3.10 - The Structure of Monthly Personal Income of Chinese Internet Users



Source: (CNNIC, 2018)

Focusing on the app usage, the most popular internet applications seem to be instant messaging, online searching and online news. As for the first one, 93.3% of Chinese netizens are instant messaging users, and 92.2% are on mobile, with a linear increase between 2016 and 2017, as platforms like WeChat improved their services and contents (see Figure 3.11) Indeed, in 2017 Wechat was able to upgrade its platforms introducing services such "Search" and "Top Stories" to make exploration of user needs more effective and efficient. Also, "Mini Programs" were added to better bond online and offline connectivity for users and for businesses, covering 200 subcategories in over 20 industry categories.

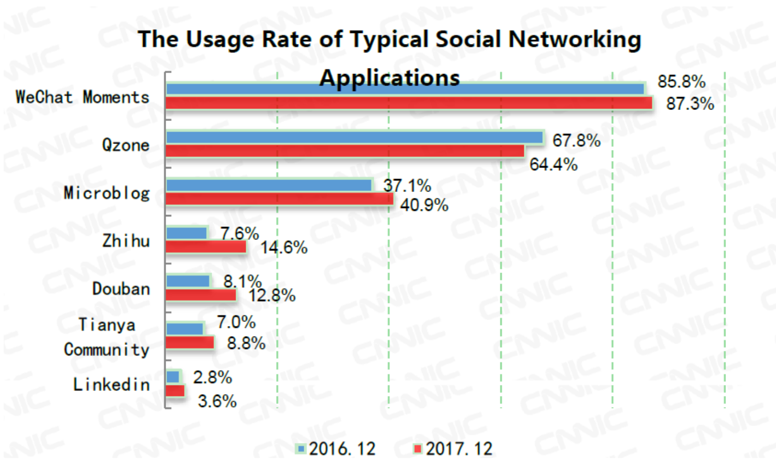
Figure 3.11 - User Scale and Usage Rate of Instant Messaging/Mobile Instant Messaging Dec. 2016 Dec. 2017



Source: (CNNIC, 2018)

Furthermore, the usage rate of social network applications increased for most platforms, especially for Wechat, with 87.3% of utilisation rate (see Figure 3.12), keeping Wechat as the most used social networking app. Indeed, social networking has been an important leverage for business in the last years. Marketing services and mobile advertising have been appealed by such platforms, which are also able to offer social circles and location services and marketing targeted tools to enhance sellers' e-commerce. At the same time, the communication through social media is gaining increasing influence. (CNNIC, 2018)

Figure 3.12 - The Usage Rate of Typical Social Networking Applications

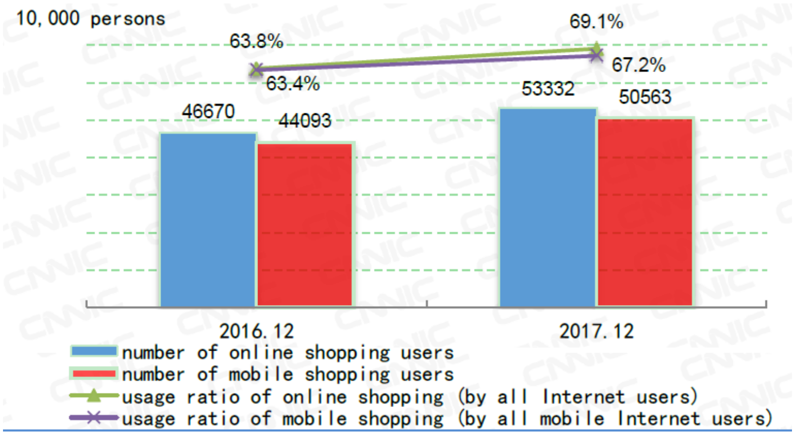


Source: (CNNIC, 2018)

3.4 The E-commerce field

As of December 2017, China registered 553 million online shopping users, with a 69.1% of total netizens, an increase of 14.3% from the previous year. Moreover, concerning the mobile shopping environment increased to 506 million, reaching 67.2% of all mobile internet users (see Figure 3.13). Also, online retailing registered maintained its high-speed growth with an annual revenue of RMB 7175.1 billion.

Figure 3.13 - User Scale and Utilization Ratio of Online/Mobile Shopping Dec. 2016 Dec. 2017



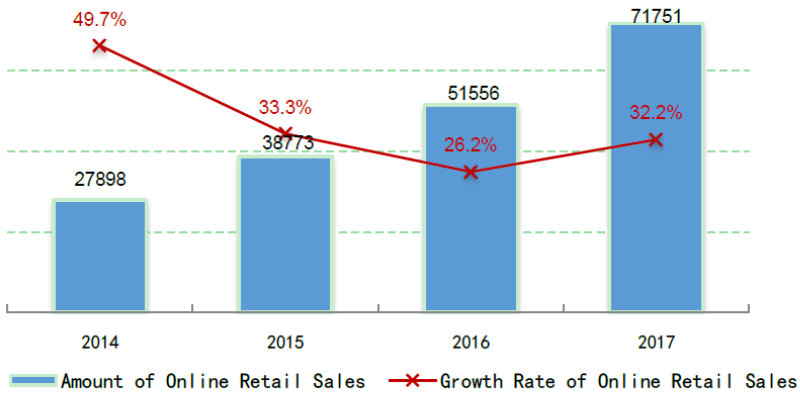
Source: (CNNIC, 2018)

As above mentioned, the development of e-commerce was heavily pushed by governmental policies, which permitted an increase of the digital market user base. Also, the quality of online consumer goods has been improving, thanks to the increased popularity of premium e-commerce platforms. Again, the online service-oriented consumption keeps growing at high-speed, reaching RMB 1694.5 billion. At the same time, green e-commerce and second-hand e-commerce, for instance used vehicles and green packaging, is now experiencing a rapid development. Finally, it is importance to point out the increased connection the online environment is having with its brick and mortar stores. Indeed, e-commerce companies are increasingly moving to more traditional shopping experiences offline; for example, JD.com established offline stores for consumers to experience the products in real life.

Concerning the payments, in 2017 China registered 531 million online payment users, with an annual increase of 11.9% and usage ratio of 68.8%. Mobile payments are indeed growing at high-speed, with 527 million users and a utilization ration of 70%.

Despite the slowdown of the growth rate of monthly cumulative revenue in 2016, e-commerce platforms generated in 2017 a RMB 218.8 billion revenue. The online retail sales generated a record of RMB 7.18 trillion, with an annual increase of 32.2%, and specifically for physical goods it reached RMB 5.4806 trillion (see Figure 3.14).

Figure 3.14 - Online Retail Sales in China (RMB 100 million)



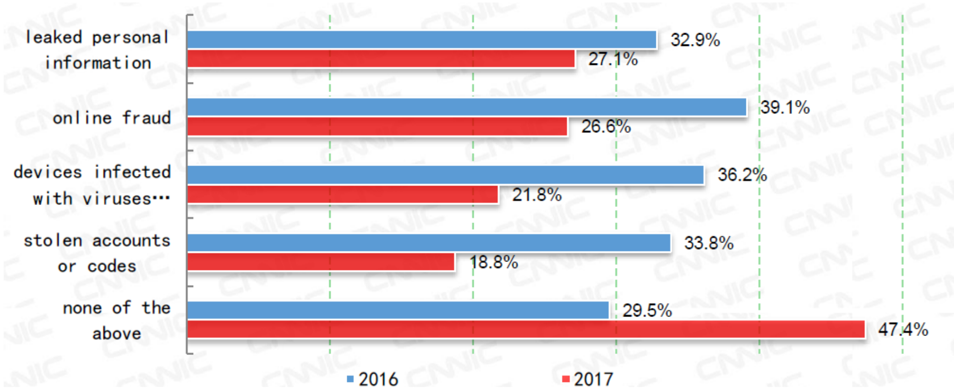
Source: (CNNIC, 2018)

Indeed, the B2C field has been experiencing new types of technologies and business forms, for instance unattended store or in-office shelves, and facial recognition payment increase the convenience of online retail. At the same time, e-commerce has cracked into and empowered traditional formats, digitalizing their upstream services, and at the same time exploiting technology in its offline stores, experimenting with virtual and augmented reality.

Regarding the B2B field, the use of bug data and cloud computing technologies improved the quality of the supply chains. These advanced platforms can facilitate the connection of upstream and downstream customers and provide improved financial services for the completion of business transactions.

Moreover, the main issue for the development of e-commerce, cyber security incidents, have been reduced, generating a healthier environment that encourages the entrance of new users (CNNIC, 2018). Indeed, according to PWC's Total Retail 2017 survey 69% of Chinese consumers expressed concern regarding their personal information being stolen when purchasing through mobile devices (PWC, 2017). However, in 2017 users encountering cyber security issues declined heavily by 17.9 percentage points from the previous year. More specifically, between 2016-2017, personal information leakage dropped by 5.7 percentage points, becoming however the most experienced incident, whereas stolen accounts or codes dropped significantly (see Figure 3.15). (CNNIC, 2018)

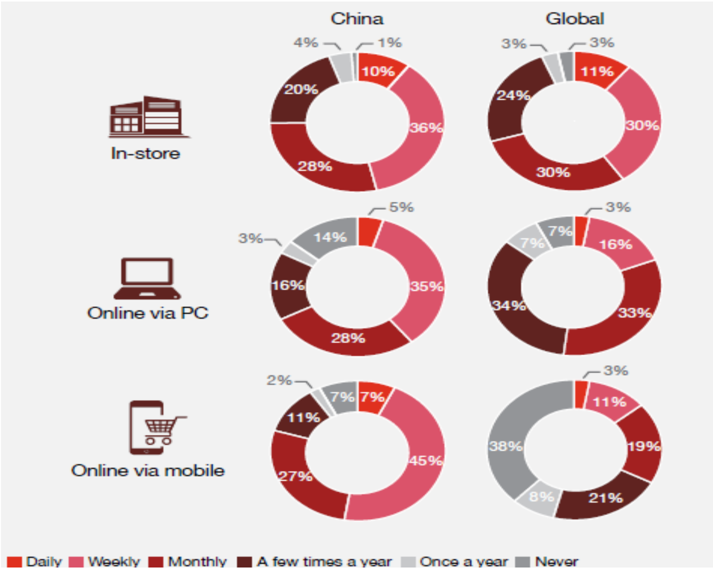
Figure 3.15 - Types of Cyber s ecurity Incidents Encountered by Netizens



Source: (CNNIC, 2018)

Despite the obstacles that the spread of e-commerce faces, the Chinese digital market is today the largest in the world. As a matter of fact, in the first quarter of 2018, these Chinese online sales reached 307.4 billion dollars with a year-on-year increase of 35.4%. On the other hand, in the US the online sales reached 123.6 for the same time period considered, with a year-on-year increase of 16.4%. Such success it is not only given by a larger user base, but also by the innovation in the instruments that deliver the offer to the customers and retail innovation (PWC, 2018). PWC Total Retail 2017 survey analysed how the frequency of mobile shopping is higher than in-store shopping. Indeed, 46% of Chinese consumers shop in physical stores on daily and weekly basis, whereas 52% shop through mobile for the same frequency considered (see Figure 3.16). This can be a result of the increased popularity of Tmall which gives the opportunity for physical stores to sell their products.

Figure 3.16 – Mobile Shopping behaviour in China is more frequent than store visits



Source: (PWC, 2017)

As a result, Chinese retailers are investing in omni-channel digitalization in order to improve operations, customer experience and profitability. It is not only just a matter of the mere online sale but leveraging digital tools to enhance customer retention. PWC found out that 31% of online Chinese shoppers keep purchasing to their favourite retailer because of reliability and flexibility in delivery options. At the same time, the gap between offer and demand is closing. In the last couple of years, the development of data analytics instruments, allowed sellers to improve and deepen customer profiling and personalised advertising. Such condition is particularly effective in China, as consumers are more prone to click on an advertisement that is relevant to them (31%), in comparison to the global average (16%). For instance, Nestlé partnered with Alibaba in order to personalise its Tmall store, by analysing the customers historical and real-time transaction and browsing behaviour. Consequently, different customers were shown different products based on their tastes, with benefits both for the customer experience and Nestlé. Moreover, data analytics may be used to improve the product development. For example, Quaker partnered with JD.com and was able to identify an unserved market segment and develop a drink specifically for the Chinese market. In the past, companies could only rely on internal customer data to improve their offer. However, today companies are able to have a bigger picture and have new customer insights thanks to third party platforms which opened up through application programme interfaces (APIs) and the development of data management and digital marketing tools.

At the same time, e-commerce platforms have upgraded from the mere selling of goods. For instance, Tmall is not only considered to be the Chinese Amazon, since 61% of Chinese consumers start their product research process on Tmall, whereas on Amazon only 39% of global consumers use the platform for such purpose. This makes Tmall not just an eCommerce platform, but also a search and discovery engine just like Google. Moreover, third party platforms help merchants to enhance consumer experience, incorporating KOLs (key opinion leaders), virtual reality, games, communities, videos and livestreams. Indeed, third party platforms are gaining popularity over the official brand websites. According to PWC's survey, Chinese consumers are willing to shop from the brands website instead of the third-party platform if they find better warranty/guarantee (49%) and a wider product choice (42%), surpassing what would be, at a first glance, considered the main driver: lower prices.

Moreover, the social platforms are increasingly becoming more important for e-commerce, as consumer experience is integrating the information found on such platforms. Indeed, 45% of Chinese consumers discover brands and products through social media, compared to the global 39%. Also, social media is used by customers to compare the quality of a product though reviews and feedbacks (54%), buy directly on such platforms (25%), and write reviews regarding personal purchases (27%), more often than the global average (respectively 47%, 15% and 20%). As a matter of fact, brands that want to enhance its presence in the market should consider entering social media platforms and appeal potential customers in such environment. As a result, according to PWC survey, 79% of Chinese customers (46% global) acknowledged that positive interactions with brands on social media led them to have a higher evaluation of the brand and, as a result, 71% spent more (44% global). Moreover, if such brands are linked to a KOL (key opinion leader) or a celebrity, the better. Indeed, 29% of Chinese consumers use social media platforms to be informed on hat KOL or internet celebrities buy and use (13% global). If brands want to stand out in such a dynamic market, they need to be present where the customer is finding inspiration for purchase, and in China is mostly on social platforms. Moreover, other popular platforms which Chinese customers take into consideration are, as above mentioned, multiband websites, as well as price comparison websites and mobile apps, rather than blogs and digital press magazines, indicating a major autonomy in consumers on the research of information and trends (see Figure 3.17). (PWC, 2017)

Figure 3.17 - % of Chinese and global respondents who use online platforms as a source of inspiration for purchase

Source: (PWC, 2017)

3.5 An evolving consumer

As China's economy growth driver switched from the agricultural sector to the industrial one, the Chinese population's general purchase power and education level kept increasing. Indeed, jobs started to move from low-skilled and low-paid to new carrier opportunities, for instance in the senior management, computer science or engineering field, making the service market grow and the consumer taste change. Such "middle class" potential consumers are estimated to grow over 400 million by 2021 and city urbanization is expected to increase 10% by year 2020. Indeed, urbanization is a phenomenon that remains at the root of the consumer evolution, as jobs in bigger cities tend to be focused on the service market, with higher education levels and consequently higher purchase power. It is therefore essential not to evaluate the Chinese market as one and homogenous, but rather consider China as a very heterogenous market which contains different types of customers, tastes, wages, and mores. Chinese zones have been developing in the last 5 years and are therefore divided according the level of urbanization and industrialization, which consequently shape the customer habits:

- 1st Tier cities – Shanghai, Beijing, Guangzhou, Shenzhen
- 2nd tier cities – Provincial capital and richer capital cities which are developed (20+ cities)
- 3rd tier cities – Less developed provincial capitals and non-capital (20-30 cities)
- 4th tier cities – Prefecture level (200+ cities)
- 5th tier cities – County level (300+ cities)
  (TMO Group, 2019)

Different tiers, different consumption patterns. Indeed, cities like Nanjing, Kunming, Chongqing are definitely more optimist regarding its current and future purchase power, whereas in the north-eastern part of China it is the opposite as the local industries have been slowing down. Moreover, the interest in e-commerce is different: in first tier cities it is almost saturated, whereas in the third and fourth tier cities the web use is increasing. In cities that have limited access to the distribution networks, people use e-commerce to buy want they can’t find in brick-and-mortar stores (East Media, n.d.).

The rising of household incomes and the accumulation of wealth have shaped the purchasing pattern. Households with 18,000 RMB or more per month have quadrupled from 2010 to 2018 and the percentage is predicted to be 55% by 2030. Consequently, part of the income is increasingly doomed to be spent mostly on apparel (7%), household goods (6%) and personal products (3%) (Woetzel, et al., 2019). At the same time, as the middle class rises, consumer taste changes. According to McKinsey and Company, the Chinese consumer is indeed evolving: "Gone are the days of indiscriminate spending on products. The focus is shifting to prioritizing premium products and living a more balanced, healthy, and family-centric life. Understanding and responding to these changes in spending habits will be decisive in determining the companies that win or lose, whether international or domestic competitors" (Zipser, Chen, & Gong, 2016, p. 5). More specifically, Chinese purchase taste is trading up from mass goods to premium products. As a matter of fact, according to a McKinsey's 2016 survey, 50 percent of the interviewed Chinese consumers prefer to spend money on the most expensive and high-quality good, within the personal range of purchase power, an increase of 19% from 2011. Moreover, also branding is considered important to customers, which are now more loyal to a particular brand they like or is on trend and prefer not to move outside their preferences, with only 30 percent of customers willing to experiment between different brands. Also, according to the same previously mentioned survey, 59% of customers would buy famous branded products if they had higher purchase power, an increase of 18 percent since 2011. In this sense, most Chinese brands do not serve in premium segments, like skincare and fashion, and foreign brands are actually gaining market share thanks to their strong brand proposition (Zipser, Chen, & Gong, 2016).

Consequently, Chinese consumers' demand for foreign products is rising, and is seen in the increase of cross-border trade: "In 2014 there were around 60 million cross border retail e-commerce buyers. This number has been increased to over 200 million by 2017 and was predicted to over 250 million by 2020. The transaction value of China's cross-border e-commerce platforms will grow from $21 billion in 2014 to $245 billion by 2020" (Fan, 2019, p. 53). According to Qiuyan Fan, a researcher at School of Business, Western Sydney University (WSU), the Chinese cross border shopping users have usually a high education level and higher incomes. Also, female customers appear to be the majority of cross border online customers. More in depth, what seems to concern the most about shopping for foreign products is the quality of the good, the security of online transactions and, most of all, brand names and country of origin which indirectly assesses the quality of the products. This product verification is especially done through social media and mobile search, which keeps consumers always updated on the latest trends. Consequently, mobile adapted websites and apps are a must for overseas firms to reach such consumers (Fan, 2019).

What are consumers searching from foreign brands? Since China opened to the world by joining WTO in 2001, the country has been reached by many overseas companies which established their local presence through FDIs. However, as a natural economic response, many home-grown companies started to arise in the marketplace, based on foreign companies' business model, but adapting it better to the Chinese customer needs and culture. An example are smartphones from global brands which stimulated the development of local tech companies and domestic brands. This certainly influences which overseas products are preferred by the Chinese consumer, and which local goods are prioritized. Foreign companies have gained share in product categories that are able to sustain product differentiation compared to their Chinese counterpart and that convey to consumers to be of superior quality. For example, branded sportswear has increased their share of 20 percentage points between 2008 and 2017. Also, baby food experienced growth in market share, growing 27 percentage points in the premium segment and 17 percentage points in the mid-tier segment, both in the 2008-2017 time range. Altogether, Chinese consumers seek from foreign manufacturers the following product categories:

- Sportswear
- Baby food
- Surface care
- Footwear

- Bags and luggage
- Laundry care
- Traditional toys and games
- Snacks
- Homewares
- Apparel
- Spectacles
- Home furnishing
- Beer
- Jewellery

Despite the success, overseas firms lost market share in commodity products and where differentiation has been lost. For example, as Chinese tech firms caught up on high-tech, competition has increased, and these firms were able to offer quality products at lower price points. As a result, market share of foreign companies downgraded from 90 to 10 percent in less than 10 years and the top four smartphone market leaders are all domestic. Moreover, regarding commodities, dishwashing liquid soap can be an example, as it is a product category in which it is perceived little quality difference. Indeed, the two market leaders are domestic brands and own more than 50 percent of the market. Altogether, Chinese consumers do not seek from foreign manufacturers, and rather choose local brands, the following product categories:

- Dishwashing
- Computers and peripherals
- Over-the-counter drugs
- Major appliances
- Small appliances
- Watches
- Carbonates
- Passenger vehicles

- Video games
- Pet food
- Smartphones

Finally, there are some product categories in which overseas firms have retained share. More in depth, these categories were able to keep its market share in their high-end segments and lose it in their lower-end segments. It is the case of beauty and personal care at high-end level, which were able to push on premium price and a higher quality image. On the other hand, mass beauty products offered by local brands where able to sweep away the foreign counterpart. Same happened for passenger vehicles, with its lower-end market led by five local brands which own more than 50 percent of the market. Altogether, Chinese consumers still seek from foreign manufacturers the following product categories (in their higher segments):

- Personal luxury
- Spirits
- Beauty and personal care
- In-home consumer electronics
- Paediatric consumer health

(Woetzel, et al., 2019)

As a consequence, it is noticeable that consumers focus its attention on product differentiation and high-end quality when it comes to foreign brands. Such premium prices can however be managed by a higher purchase power which needs to be sustained by younger people as they are the ones that navigate more online and shop e-commerce. This can undermine market stability as China's population mean age is getting higher as a consequence of the one child policy. However, according to surveys from the McKinsey China Consumer Survey, the China Aging Finance Forum 50 Survey, HSBC's Beyond the Bricks, and Xinan University of Finance and Economics, demographical aging may not impose significant risks to

Chinese consumption growth. The reasons for this are the accumulation of wealth by the elders that occurred to help their retirement and the robust and steady income of the middle-aged generation that together are able to sustain their younger generations. Youngsters in their 20s and 30s may receive from their family a good financial support to led them spend freely. According to McKinsey's China Consumer survey, 40 to 50 percent of young generation individuals get their parents to cover their expenses and never worry about how to manage their income. (Woetzel, et al., 2019)
"The dual effects of wealth accumulation and income transfer may smooth out purchasing power across generations" states McKinsey Global Institute, which created a simulation of how income and wealth is transferred between generation in larger cities. "The third generation consists of young adults who have just begun to work in a Tier 1 or 2 city, earn enough for subsistence and save little. However, these individuals receive help from their parents, who are expected to contribute a down payment when they marry and purchase a first apartment. The third generation can expect to inherit significant property from the previous two generations. Our analysis suggests that this transfer downward is likely to persist and be substantial because the third generation may inherit high-value properties from their parents. Upward wealth transfers to the elderly tend to be less significant in wealthier households because elderly members can already cover most of their own living costs". (Woetzel, et al., 2019, p. 92)
Regarding this new generation, youngsters from the 80s and 90s, PWC dug deeper to analyse it. Indeed, in the last 5 years, a lot of attention has been brought to this generation of consumers, mainly for its large user base of 410 million, more than the USA population. PWC then classifies these consumers in Innovators (21%) those who are the first to try products, want to inspire people around them and tend to spend more , Fast followers (52%) which typically share content on social media, and Laggards(27%) who are slow in adopting new technology and products. Following this distinction, it is evident how companies should focus most of their attention on innovators: they are willing to spend more money than their financial

position allows (41% vs average 18%) and shop daily on their mobile devices (23% vs average 9%). Consequently, PWC created 3 personas of innovators that want to be indicative when conducting market research:

- The wellness explorers – JR and Sophia
  These innovators want to understand how they could live a healthy lifestyle and practice sport. They are on their late 20s and earn around 16,000 RMB monthly. Moreover, they come from 1st tier cities and own higher-education level. In order to pursue their goal their purchasing behaviour is summed up in "buying for a purpose": how the product can fit their healthy lifestyle and concern for the environment. In this regard they value recommendations from wellness experts and seek educational and brand-sponsored goods. As a pain point, they are still seeking for sportswear that is can be considered fashionable.

- The sassy modern mom – Ying
  This innovator is a young mom that wants to balance family, personal life and career. She is on her late 20s and earn around 24,000 RMB monthly. Moreover, she comes from 1st tier cities and own higher-education level. In order to pursue her interests, Ying buys quality products and is willing to spend a premium price. She connects with other young moms online and shares ideas about family and baby products and navigates Tmall and JD.com daily. In this regard she values recommendations from other online moms but also follows her own idea while shopping. As a pain point, she lacks time to look after herself.

- The post-90s trend-setter – Mandy
  This innovators wants to show her personality through fashion and be a style icon. She is on her early 20s and is given around 6,000 RMB monthly from the family. Moreover, she comes from 1st tier cities and

is studying in university. In order to pursue her passion for being a trend-setter, she purchases from Daigous at the lowest possible price, in order to own products not yet available in China. In this regard she values recommendations from fashion influencers and KOLs on Wechat and navigates fashion websites in order to find new brands and inspiration. As a pain point, she strives to find unique items on main online platforms without much success.

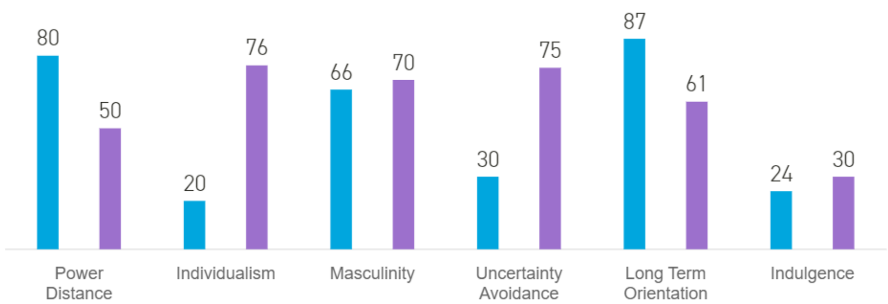
(PWC, 2018)

3.6 Cultural barriers

When dealing with Chinese consumers, or even business partners, firms need to consider the psychic distance between their culture and the foreign market one in order to be successful, limit culture shock and avoid forced ethnocentrism. Moreover, as the Chinese culture is of a high-context type, being able to interpret the hidden messages in the communication is not easy and needs a deep study and analysis before engaging in it.

Using the Hofstede model, it is possible to understand how to engage with different cultures and consequently satisfy certain business aims which can, for instance, be the successful development and selling of products for that foreign market or the effective people management in a foreign subsidiary. (HOFSTEDE, 2001).

Figure 3.18 – Hofstede model, China (blu) vs Italy (violet)



Source: (hofstede-insights, n.d.)

Power distance – refers to power being distributed unequally throughout a country. China has a high level of PDI, meaning that subordinates acknowledge and do not defy the superiors' power.
Individualism – refers to the self-image of people, considering themselves part of a "we" or not. Chinese culture is mainly collectivistic and therefore ranks low in individualism. Consequently, Chinese people have the tendency to act in the interest of the group and personal relationships may prevail over the company duties.
Masculinity – indicates if people in a society are mainly driven by competitive and successful achievements or by the taking care of others. China is mainly success oriented and leisure time is not so important.
Uncertainty Avoidance – refers to the degree of being able to cope with uncertainty. China has a low certainty avoidance meaning that Chinese people are comfortable with ambiguity. Indeed, the Chinese language needs a deep study and practice as it requires a certain degree of interpretation, compared to Western languages.
Long Term Orientation – refers to the way people in a society deal with the challenges of the future. Chinese people tend to save, invest and adapt traditions to changed conditions.
Indulgence - refers to the control people in a society want to have on their desires and impulses. Chinese people rank low in indulgence and therefore tend to be cynical and pessimist, as well as feel that social norms restrain them.
Italian SMEs that want to engage in the Chinese market need to focus on the differences between cultures and avoid ethnocentric international business strategies. (see Figure 3.18)
(hofstede-insights, n.d.)

Such cultural dimensions depicted by Hofstede have mainly a philosophical heritage. As a matter of fact, Chinese mindset is based on different current of thoughts which appeared throughout the Chinese history (Taoism, Confucianism, Legalism, Buddhism, Communism…). The most influential one appears to be Confucianism. Such philosophical current advocates the *Five Constant Virtues:* humanity, righteousness, property, wisdom and faithfulness. "Confucius saw a world in which harmony could best be achieved by everyone recognising his or her place in the world. Confucius thus legitimised the strong hierarchical order which dominated the family and the society of his time and throughout much of Chinese history. This is in interesting contrast to Western thinking, where liberation of slaves, for example, is associated with the overthrow of the current governance" (p93). Consequently, heavy pressure is given to relationships and the correct management of these. The concepts of *mianzi* and *guanxi* are therefore fundamental. Mianzi means to give face and is an important aspect to consider when establishing relations with Chinese people. This includes to respect and praise the counterpart, especially in public. Making someone losing face will most likely challenge the relationship. Connected to mianzi there is the concept of guanxi, which means relationships. The relationships network is at the centre of the Chinese culture, especially because of the Confucianism influence which thinks that relationships (and the good maintenance of them) is what define the person. An individual exists because its aim is to be part of a network of relationships (Ambler, Witzel, & Xi, 2009).

When approaching Chinese consumers, firms need to consider that customers are more prone to accept information from their relationship networks through word of mouth. Indeed, although the trend is changing, collectivism has always been a big influence in Chinese customers. Indeed, these latter ones find that being accepted by others is important to them. (Yan, 2009). The concept of mianzi and guanxi mean that Chinese people want others believe they are rich, generous and have good taste, even if this is not true. Such condition determines the increased consumption in luxury and high-quality products, especially when buying goods for their social and symbolic value rather than consumption (Jiang, 2005) in (Yan, 2009). At the same time guanxi make the role of gifts important. Buying high-scale quality presents as gifts is believed to enhance mianzi and improve guanxi. (Yan, 2009)

Also, it is important to design “8-numbered” products meaning build products which are coherent with a set of rules. Habits. symbols and morals of the Chinese people. In this case 8, as opposed to the number 4, is a lucky number in the Chinese culture. If westerns are not aware of such set of norms, they may be losing business opportunities. (Fang T. , 2006)

When firms deal with Chinese business partners, they need to remember that negotiations in China are based on Chinese philosophy, guanxi and mianzi, long term time horizon and a different value of contract. In the west, on the other hand, negotiations are typically focused on content and end, the outcome is a binding legal contract, and fairness is assessed by the outcome (Wang & Chee, 2011).

The philosophical currents which influence business practices in China are Maoism, Confucianism and Sun Tzu’s Art of War. In the first case, business partners will see China's national interest as a priority and reveal themselves as tough negotiators. In the second case, the business partner will be a Confucian gentleman who seeks cooperation and a win-win solution, as well as the avoidance of conflicts. Lastly, the business partner will see the negotiation process as a zero-sum game and the marketplace as a battlefield and consequently elaborate stratagems in order to benefit from the partnership in any way.
The Chinese negotiator uses all these types of approaches and can choose to undertake a cooperation strategy or a competition strategy (coop-comp strategy). This may be viewed by foreign firms as paradoxical, contradictory, strange and inscrutable. So, when would the Chinese use the cooperation strategy and when would they use the competition strategy? If there is high mutual trust between the counterparts the Chinese will be confusion gentlemen and seek for win-win solutions. On the other hand, if

there is low mutual trust the Chinese will act like Sun Tzu strategists and try to manipulate the foreign party (Fang T. , 2006). How can the foreign counterpart build mutual trust? Through the use of guanxis. Relationships with the Chinese need to be built with time and dedication. In order to improve guanxis, employees of the foreign firms should spend time and effort to know the counterpart outside the meetings as well as enhance mianzi. Moreover, the contract between the parties is seen as a symbol of building up relationships and trust and the signing of it doesn't necessarily mean the deal is done. Indeed, Chinese partners through the contract want to establish and develop a relationship as the contract is seen as the beginning of a long-life relationship and the counterpart may want to continue negotiating even after the signing of the contract (Buttery & Leung, 1998).

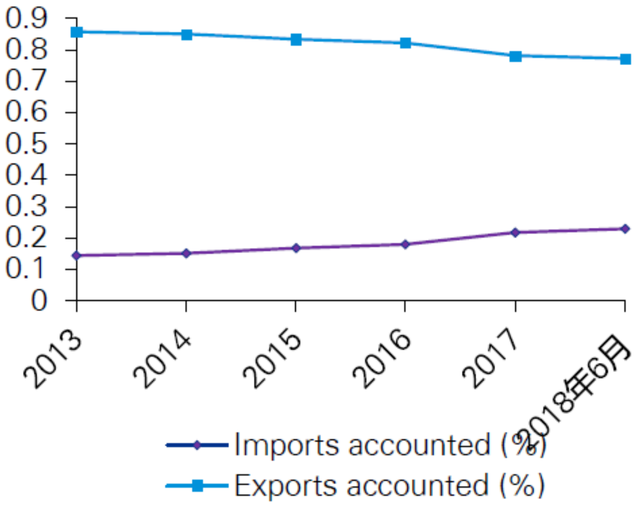
In order to avoid risks, the firm must choose the right managerial strategy. Firms need to send the right team to China, meaning the status of the team members need to be coherent with their high context approach of China's negotiations. At the same time the firms need to consider the Confucian approach and strive for cooperation spirit and trust building. Also, the firm want as well to use local Chinese employees in order to penetrate better into the Chinese counterpart and establish a trusting relationship. Moreover, firms should be coherent with the concept of mianzi and guanxi, and give face to the Chinese partners, as well as get to know them outside the meetings, perhaps during dinners (Fang T. , 2006).

3.7 Cross-border e-commerce

The Chinese government has been supporting cross border e-commerce, both in exports and imports, as it has been acknowledged as an emerging business. This is seen in the heavy investments China has made both in internet infrastructure, as well as the construction of an efficient logistic network. Indeed, in 2017 cross border e-commerce transactions have reached 8.06 trillion yuan (KPMG, 2019), with an impressive 31.63 trillion yuan trade volume in 2018 (Xinhua, 2019). Despite a slowdown in traditional trade, cross-border e-commerce kept its high growth rate, especially thanks to the e-commerce regulation updates and the opening up of China to the world with its initiatives like the Belt and Road.

Concerning the import trade volume of e-commerce, China has been changing path since it opened up to the world. Indeed, the Chinese government was at first concerned with investment-led and export-oriented economy as a model for economic growth. However, this policy has been gradually changed, giving more and more space to consumption as the key driver for economic growth. Indeed, in 2018 consumption's contribution to economic growth has been 76%, hitting 38.1 trillion yuan with a 9% year-on-year increase. These consumption needs definitely stimulated the imports. Although, cross-border e-commerce imports are a small fraction of all cross-border e-commerce transactions, the proportion of them increased through the years. More specifically, in 2013 the percentage accounted for 14.3%, rising to a 22.9% in 2018 (see Figure 3.19). Indeed, the year-on-year increase of cross-border e-commerce imports have reached 53.7% with a dominance in the 2C for the retail field. (KPMG, 2019)

Figure 3.19 – Import/Export proportion of cross-corder e-commerce in June 2013-2018



Source

According to Consulate-General of the Kingdom of the Netherlands in Shanghai, the Chinese cross-border market has been evolving through the last two decades:

- CBEC 1.0, Daigou era, 2005-2007.
  In the Daigou era the consumer base was limited and therefore the demand was low. Products were bought from relatives, friends or professional buyers, making it difficult to understand the authenticity of the product.
- CBEC 2.0, Haitao era, 2007-2014.
  The amount of overseas shopping was increasing. Users bought online from websites like Ymatou and Haitao.com, which offered logistics and shipping to China at an affordable price.
- CBEC 3.0, CBEC era, 2014-today.
  Cross-border trade has become more regulated and concerns more high-quality products. Indeed, thanks to the Chinese government push, CBEC is becoming less of a grey market for Daigous importers and is more open to firms willing to comply with the local legislation. Also, the market is dominated by platforms such as Tmall Global, JD Global and Netease Kaola.
  (CONSULATE-GENERAL OF THE KINGDOM OF THE NETHERLANDS IN SHANGHAI , 2019)

China has been going through changes in its polities of economic growth, going from a more export oriented economy of the typical “Made in China” products, to an acknowledgement of the importance of an increase in consumption and consequent rise in the imports that can serve just high-demanding market. Italian SMEs can benefit from such a switch in policies, having the opportunity to serve such a big and high demanding market, which is evolving and gradually changing its taste towards more sophisticated products. However, such a move should be considered to be done as quickly as possible, as an increase in imports means more competitors in the market and higher entry barriers. As a matter of fact, several countries strive to sell in such market. Among the top bestselling countries in the CBEC field, Japan is the leader with 43,9% of Chinese online customers, selling mainly cosmetics, nutrition and healthcare. The following countries are:

- South Korea with 38.8%, focused on selling cosmetics, bags, fashion, food and beverages;
- USA with 38.5%, focused on selling nutrition, healthcare, fashion, childcare;
- France with 25.2%, focused on selling cosmetics, childcare, nutrition and healthcare;
- Germany with 22.4%, focused on cosmetics, childcare, nutrition and healthcare.

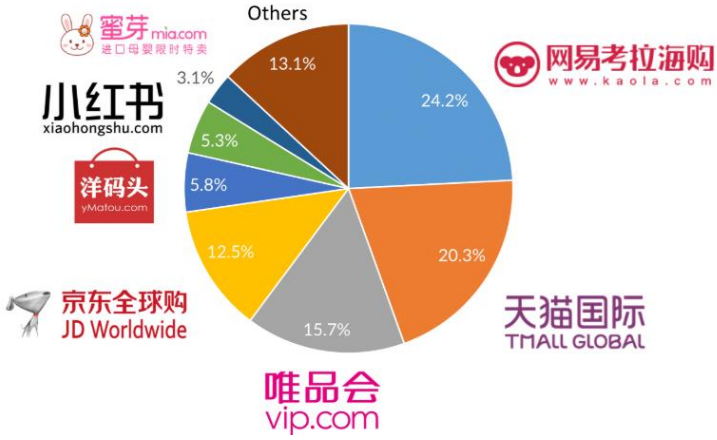
  (GRAZIANI, 2017)

3.8 Distribution channels

China's development of cross-border economy led to the creation, and was at the same time influenced, by platforms and service providers. Such platforms are essential for facilitating international transactions both in import and export in China, connecting overseas buyers and suppliers through the web, at least in the initial stage of a firm's internationalization process, where the focus is on the mere import/export phase, rather than establishing a local subsidiary.

Focusing the research on the import platforms, the cross-border e-commerce in China is much more fragmented than the domestic e-commerce, which is dominated by Alibaba (60-70% of market share). Indeed, despite Alibaba's Tmall Global and JD.com being significant players like in the domestic market, no participant in the market field exceeds 25% of market share (see Figure 3.20). (GRAZIANI, 2017)

Figure 3.20 – Cross-border platform marketshare



Source: (GRAZIANI, 2017)

Such diversity and fragmentation in the market may create confusion for firms that want to sell their goods from overseas. It is indeed important to know how these platforms differentiate between each other and what is their target audience. These marketplaces may be classified in the following way:

- B2C generalist marketplaces
- B2C hypermarkets
- B2C vertical marketplaces
- Flash sales marketplaces
- B2B domestic marketplaces
- APP and Social Media

B2C generalist marketplaces include Tmall Global, JD worldwide and Amazon China.

As for Tmall Global, this platform allows foreign companies to sell its products to Chinese customers without the need of establishing a physical presence in China. This platforms gives the opportunity to open up an online store page, creating a sub-domain for each store and linking it to Alibaba's popular online payment platforms and network of delivery vehicles. At the same time, it is possible to outsource activities which would be considered cost and time consuming for a firm with low experience on the Chinese market, such as the page design, customer service, digital marketing and promotions. Despite Tmall Global being a great cross-border selling platform, it is known for being highly competitive in the cross-border platform field. Also, the user base tends to be keener on prices than quality, making Tmall Global a platform more towards the commodity offer. Such platform is more suited for bigger companies who can heavily invest in market visibility and sell commodities produced cheaply and in great volumes.

JD worldwide is the cross-border e-commerce platform of the popular JD.com. It is suited for companies, brands and vendors legally registered outside China who sell goods produced outside China. Such platforms provide global shipping and warehousing, ensuring great efficiency in the transportation and delivery of the goods.

Amazon.cn entered the Chinese market in 2004, after acquiring the e-commerce website Joyo.com. Despite owning just 3% of the market share, Amazon.cn has a good reputation and is mainly used to buy premium and authentic imported products. Indeed, as opposed to Tmall Global and JD.com, the user base is less price sensitive and customers are rather searching for quality foreign products. Moreover, Amazon.cn operates in two different ways:

- Foreign sellers can import products using trading companies, importers or through their entity (considering logistics, warehousing and customs clearance) and then sell it to Amazon.cn
- Through amazon end-to-end services (including logistics, warehousing, custom clearance, marketing and after sale services) with a pre-purchase of inventory made by Amazon from the seller. In exchange, the vendor shows its home country or other global Amazon platforms sales data.

Such services may help the vendors who would like to sell in China and don't have much expertise with the market. At the same time, the possibility to sell quality foreign products may be interesting for Italian SMEs, which may leverage on the C.O.O. (Country of origin) effect and apply premium prices on their products.

Hypermarket platforms' business model is based on the source and direct purchase form suppliers. However, sellers may open a store and sell goods not yet owned by the platform.

Kaola.com is owned by one of the largest internet companies in China, and it is a platform that is specialized in selling Western brands. Moreover, it operates in three types of ways: wholesale, online marketplace or integration of seller's website and its main products are cosmetics and baby products.

Yangmatou has been the first-mover in the cross-border market in China since 2009. It focuses on cosmetics, fashion and food buying products directly from overseas suppliers, who must prove their overseas residency in order to partner with such platform.

Yihaodian is focused on selling products that can be found in major Chinese supermarkets. As it is owned by the US company Walmart, this hypermarket is licenced to import food and beverage from overseas. Moreover, its logistics is similar to the JD's one, with seven warehouses and 200 distribution centres in 40 cities. Also, foreign sellers may sell tax-free, as well as without specific label requirements or permits.

B2C vertical marketplaces are specialized on one particular industry, rather than selling a horizontal variety of products.

Mia.com is a leader platform for infantry products. This platform pre-purchases goods from international suppliers and manages alone logistics, warehousing, marketing and custom clearance.

Another B2C cross-border vertical market is Xiu.com, focused on mid-end and high-end quality products like apparel and fashion accessories. This

platform offers a facilitated entrance in the Chinese online market. Indeed, Xiu.com offers a drop-ship model, meaning when a product is purchased on the platform, the third party seller ships it directly to the customer without the need for the platform to have an inventory. Also, the platform handles the marketing budget if the company agrees to commit just on that platform and not sell anywhere else in China. Such conditions are appealing for a brand that wants to have a facilitated entrance to the market, keeping a low budget.
This latter platform main competitor is called Shangpin. Like Xiu.com, it offers mid and high-end fashion goods with a drop-ship model for international brands.

Flash sales marketplaces are based on appealing promotions and discounts offered for a limited period of time.
Vip.com (Vipshop Holdings) is focused on offering short-term discounts on female popular branded products in China. The products range from apparel and fashion accessories to cosmetics offered in flash sales windows of 4-12 days. The popular brand on such platforms are, for example, GAP, Calvin Klein and Tommy Hilfiger. The international office of Vip.com is in London and will both purchase from sellers or shipping directly to the Chinese customers.

Regarding the B2B field, the B2B domestic marketplace is mainly driven by Alibaba. Specifically, as for exporting products from China, Alibaba uses its well-known platform Alibaba.com for importing B2B goods in China, exploiting its platform 1688 which has traditionally been focused on transactions inside the internal market. Indeed, 1688.com imported goods have been growing. However, among all e-commerce platforms, the wholesale owns a small market share for imported products. Also, products sold on 1688.com need to be registered in China. (International Trade Centre, 2018)
Other platforms which help cross border B2B businesses are:

- Global-sources, focused on electronics and gift industry;
- eWorldtrade.com, which facilitates demand and offers match of sellers and buyers;
- ECVV.Com, which offers an end-to-end service for suppliers and is based on a pay-per-click strategy model;
- HC360.com, which offers a full marketing and distribution channel service, both online and offline;
- Makepolo.com, which offers a wide product range from 10 million SMEs all over the world;
- DHGate.com, which focuses on limiting business frauds;
- Made-in-China.com, with more than 10 million daily views, but with a high number of traders making the platform rather competitive;
- EC21.com, an online marketing tool that helps global vendors to extend the customer reach coverage, as well as to sell directly on such platform.

  (WANG, n.d.)

APP and Social Media are experiencing a boom in use in China, especially on the e-commerce field. Concerning the cross-boarding e-commerce there are several options.

Xiao Hong Shu is both an online shopping site and a social media platform. Users are able to share pictures of products they suggest using and like, with the possibility for other users to buy such products. Such platform appears to be appealing for foreign companies, especially in the fashion and luxury field, since there is possibility to interact directly with the Chinese customer base and get immediate feedback on products, as well as influence users through the use of KOLs (key opinion leaders).

Pinduoduo (PDD) is a hybrid between social-media and e-commerce platform focused on creating buying groups with family members and friends, saving money on high-quality goods. Unlike other e-commerce platforms, Pinduoduo sells only through mobile app and is has a unique business model. Indeed, it combines Wechat and Alibaba, bringing together the social world of close and personal contacts with Alibaba’s marketplace type of offer. Moreover, opening up a shop on such platform requires a mere deposit, which will be given back to the seller once he or she decides to close the shop.

Wechat is the most popular social network in China and is owned by Tencent Company. The app bonds instant messaging and communication with social media, online shops and payment services using the Wechat wallet. Such popularity of this app is derived by the fact that it includes many different services in the app and is the go-to for offline electronic payments in China. However, Wechat international account registration limits domestic users to access to such international accounts. Therefore, in order to access to the Chinese market, a company needs to open a Chinese Wechat account, which requires company registration or Chinese citizen's ID card. In this sense, the social commerce of the Sina Weibo platform follows the same rules. (International Trade Centre, 2018)

Indeed, in case firms already managed to physically enter the market and register in China, or perhaps establish a relationship with a local business partner, the platform market structure considered differs from the mere cross-border one. As a matter of fact, the market results dominated by two platforms, Tmall (56.5%) and JD.com (24.7%), which together dominate over 80% of the market share, followed by competitors with individual market share lower than 5%, like Amazon.cn, Suning.com, Vip.com, Gome.com.cn, Dangdang.com, and Jumel.com (TMO Group, 2019). There are however occurring some changes, as above mentioned, thanks to the enter in the market of the Pinduoduo platform, which is currently fast gaining market share.

In order to better understand the differences and the impacts the cross-border and domestic platforms have, a comparison between Tmall and T mall global will now follow.

As a first difference, the domain for Tmall is .cn, whereas for Tmall Global is .hk. Moreover, on the first one all local businesses with business licence in China can apply, while on the Global version that is not the case. Indeed, overseas firms with no Chinese licence (or with a local presence lower or equal than 2 years in Mainland China) can apply on Tmall Global only through invitation and not through public application. More specifically, what distinguishes these two latter types of firms in the platform application are the stock location and the years of presence in Mainland China. Indeed, the first one needs to be located in China and not overseas, and the second requirement means that a seller on the local Tmall needs a minimum of a 3-year domestic presence. Furthermore, considering shopping experience and logistics, overseas firms sign an agreement to confirm the genuineness of the product sold and the cost of the import is on the personal parcel tax; in case of product return, the good will return to the Chinese based warehouse, and, at the same time, the firm based overseas must provide customer service in the Chinese language. On the other hand, the domestic firm only concerns with customs duties / VAT / income tax. Again, in order to process orders, both type of firms need to open an Alipay account, however overseas firms do not need to open a Chinese bank account to do so. Concerning general costs, there are some similarities and differences:

- The deposit fee in case of infringement of Tmall’s rules and policies is set to be $7 000–$23 000 (¥50 000–¥150 000) for local Tmall and $25 000 for Tmall Global;
- The commission fee on sales is between 0.5% and 5%, and is calculated the same way for both platforms: Commission fee = Product price + Logistics fee * Applicable commission rate based on product category;
- The annual technical service fee is based on different product categories and is valued ¥30 000–¥60 000 for Tmall and $5 000–$10 000 for Tmall Global.

(International Trade Centre, 2018)

4 Conclusion and future trends

Despite China's economic growth is slowing down, consumption keeps growing and still remains one of the main economic drivers. Indeed, as the rural and lower tier cities still need to fully exploit the digital market, the potential for growth is very high. At the same time, in the more saturated digital market of the industrialized and developed 1st tier cities (and even dome 2nd ones), the consumer taste is evolving in a much more sophisticated direction. As a matter of fact, China is a collectivistic type of country and its people tend to conform in buying patterns. However, things are changing. Indeed, Chinese customers seek in foreign goods high-end quality and premium brands, rather than commodities and low product differentiation. In these latter case, Chinese local firms have gained a substantial slice of market share. However, foreign companies that want to sell commodities on such market, may exploit the liquidity excess and credit reduction at macroeconomic level which is impacting smaller Chinese firms and seek for local acquisitions. At the same time, considering the mere import stage, cross border e-commerce selling has been increasing heavily and many digital platforms have risen in order to exploit and help overseas firms to sell in China.

Italian small and medium companies that want to exploit such conditions need however to consider the peculiarities of the Chinese consumers and the latest market trends: Chinese cultural barriers, heterogeneous market, informed young innovators (without underestimating a web rise in elder users), shopping embedded in social media and mobile commerce, high brand loyalty, customer retention and experience. Jack Ma, the founder of Alibaba, in a late 2019 interview suggested companies to enhance customer experience. "Shopping is fun" he states "Every night there are about 17 million people browsing Alibaba, Tmall, Taobao without buying anything. […] Try to make your site not a shopping site, but a site of experience, a site of fun, a site that can make people talk and share". (Latest JackMa interview, 2019). According to McKinsey Global Institute, the Chinese digital economy is based on three strengths:

- The market is large and young. In 2018, there were 800 million internet users, a greater number than the EU and USA combined, and a great portion accessed exclusively on mobile;
- The digital ecosystem is based on three giant firms: Baidu, Alibaba and Tencent. These firms have shaped and stimulated the digital ecosystem, offering one-stop shop platforms that integrate with social media and other services (for instance, health and insurance). Today, new players, like Pinduoduo and Huawei, have entered the market to challenge the traditional industry and offer new types of customer experience;
- The Chinese government long waited before intervening in the market to regulate it. The main reason was for digital players to experiment in such liberalized environment. For example, 11 years after Alibaba's first money transfer, the government set a cap on online money transfer. Also, the government has always been supportive about the development of online markets by, for example, building state-of-art infrastructure.

  (McKinsey Global Institute, 2017) in (Woetzel, et al., 2019)

Regarding future trends, PwC predicts that categories which will increasingly become more popular in the following years follow the global market trends, with the peculiarity of the Chinese speed in change and adoption. The Global Customer Insight Survey states that in 2018 52% of Chinese spent more on experiences (for instance, travel and events), compared to the 26% of the USA. Also, product categories such as luxury, beauty and apparel seem to find high growth in the next 3 years. The keywords for the future consumptions seem to be premium, health, interactivity and lifestyle. (PWC, 2018)

Chapter 4. SMEs, Internationalization and Innovation

4.1 Introduction

As the world confronts itself with the enhancement of the globalization process through the integration of markets and cultures, firms, large and small, are facing the need to refine their international business strategies. Concerning SMEs, such firms differ in their internationalization process compared to bigger firms and, if capable of exploiting their peculiarities of flexibility and high-quality production, may gain a competitive advantage over these latter ones. The following chapter will first depict the globalization scenario, then the internationalization processes of SMEs, the differences with multinationals, the limitations of internationalization and entry modes and strategic planning. Subsequently, the chapter will unfold the benefits of exploiting digitalized international markets and the inhibitors of e-commerce at international level.

4.2 Is the world globalized yet?

In the latest decades, firms all over the world, both big and small, have been dealing with opportunities and threats caused by globalization, causing them to rethink their strategies and operations. According to the International Monetary Fund, the economic globalization can be defined as an historical process resulted from "human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through trade and financial flows. The term sometimes also refers to the movement of people (labor) and knowledge (technology) across international borders." Such definition became popular since the 80s, as technology and transportation advancements permitted to have easier, quicker and facilitated international transactions. Indeed, approaching global markets is considered an opportunity to access larger markets and customer bases, as well as knowledge, technology and capital flows. At the same time, if firms do not plan a suitable strategy, such benefits could not be reached and exploited. Sometimes countries may erect barriers to protect their market and their labor force or the international community may despise firms that exploit poor countries for the production stage (IMF, 2002).

Nevertheless, firms compliant with international laws and country rules, may find new outlets for enlarging their businesses. Indeed, firms tend to globalize when their domestic market is saturate, or want to steal their rivals' customer base, as well as lower unit costs through economies of scale and reduce development, production and inventory costs. But how does globalization affect such growth? According to Aghion et al., it is not just a matter of increased profits, but also a matter of accumulation of knowledge. The integration of people and cultures and markets via international trade stimulates knowledge flows and accumulation, which becomes embodied in firms as "technologies" and in people as "human capital". As opposite of capital gains and market share, knowledge is a non-rivalrous asset for competitive advantage. Knowledge gained from the integration of markets can be shared and stimulated without precluding its simultaneous and subsequent use by others. (Aghion & Howitt, 1992). Similarly, the American political commentator and author Thomas Friedman advocates for knowledge to be, more than ever, the key competitive advantage in the global playing field. In the New York Times article "New Rules", Friedman criticizes Bill Clinton's and Obama's political mantra "work hard and play by the rules", meaning that American citizens should expect an automatic middle class better life if they act so. The author defines such slogan as out of date and advocates for lifelong learning, other than playing by the rules. Such criticism derived from the latest global changes: during Clinton's mandate, the internet was still emerging, and the cold war was coming to an end. "We were still living in a closed system, a world of walls, which were just starting to come down. It was a world before Nafta and the full merger of globalization and the information technology revolution, a world in which unions and blue-collar manufacturing were still relatively strong". Such world is gone to leave space for an open system where technology and globalization are requiring economic players to be more and more skilled and focused on lifelong learning (Friedman, 2012).

As more economic players enter the global market, remaining competitive becomes the main concern for firms. In this regard, Thomas Friedman, deepens and discusses its view on globalization in the best-selling book "The World is Flat". According to Friedman, the world is increasingly becoming a level playing field, where all economic players have now equal opportunities, advocating the need for companies, but also countries and individuals, to remain competitive in such an environment which is characterized by geographical divisions becoming increasingly less relevant. Moreover, in his opinion, the concept of globalization changed through time and, more specifically, evolved through three phases:

- Globalization 1.0 (1492-1800), led by national-states and powered by the wind;
- Globalization 2.0 (1800-2000), led by multinational companies and powered by steam engines, railroads and telegraphs;
- Globalization 3.0 (2000-today), led by the individuals and powered by the internet.

Moreover, the author pinpointed ten elements that contributed to the "flattening" of the earth:

- Collapse of the Berlin Wall (11/9/89), as a symbol of the end of the Cold War and the enhanced connection between individuals thanks to the increased adoption of personal computers;
- Netscape (8/9/95): as the web browser Netscape went public, the Internet became accessible to a wide audience of non-geek users, enhancing integration between individuals around the world;
- Workflow software: applications and machines can talk to each other without human constant interaction, which determined work, images, files, film, music and words to be shared easily.

Following this situation, software protocols (for example, HTML and SMTP) started to emerge and influence individuals work and personal life. As a consequence, a global platform emerged along with multiple forms of collaborations which characteristics contributed to “flatten” the earth even more:

- Uploading: Friedman considers this phenomenon as the most disruptive, as users could jointly operate on projects, documents and websites, for example Opensource and Wikipedia, and generate self-organizing collaborative communities;
- Outsourcing: vertically integrated firms were disentangled and could split its value chain reorganizing the activities in an efficient and cost-effective way;
- Offshoring: companies relocating to cheap labour countries to lower production and manufacturing costs. More specifically, the entrance of China in the World Trade Organization in 2001 contributed to a drastic change in the world economy, as more and more firms relocated their facilities there;
- Supply-chaining: connected to the above point, firms became more concerned with managing their supply chains around the world, using technology to enhance efficacy and efficiency of them;
- Insourcing: as opposed to outsourcing, many companies started to integrate services performed on behalf of other companies. Friedman uses UPS as an example, describing how its employees repair Toshiba computers on behalf of Toshiba;
- Informing: the possibility for individuals to gain and share information increased with the advancement of search engines like Google, Yahoo and MSN Web Search;
- "The Steroids": wireless, VoIP and file sharing tools that are embedded in portable devices like smartphones and iPods, which gave the possibility for individuals to share and manipulate content easily and rapidly, anywhere by anyone.

As a remedy for the increased competitiveness of the global marketplace, Friedman, referring specifically towards US companies, advocates the constant updating of the workforce and its adaptability. Also, he encourages the US government to formulate policies for facilitating job switching, as well as to provide health insurance for employees and help employers to limit income losses when an employee switches job (FRIEDMAN, 2005).

As an opposite view to Friedman's one, the economist Pankaj Ghemawat suggests how the world isn't at all flat yet. Ghemawat analyses how global the world currently is (or is not) through the 10 percent presumption. He illustrates how cross border phone calls (2%), immigration (3%), FDI (less than 10%), export on GDP (less than 20%) are very far from what people may think as a benchmark. "If someone asked me to guess the internationalization level of some activity about which I had no particular information, I would guess it to be much closer to 10 percent […] than to 100 percent. I call this the "10 Percent Presumption"" (GHEMAWAT, 2009). Indeed, people have the tendency to overestimate numbers when it comes to globalization and counties interconnectivity, and Ghemawat defines such phenomenon as Globaloney. Such condition is mainly derived by lack of more definite and precise data on the matter, as well as peer pressure, which makes people who question about the world's globalization level considered antique and outdated. The final reason for the globaloney phenomenon is what the economist calls "Techno Trances", engagingly referring to the effects of techno music on someone's brain. Indeed, such brainwash activity seems to happen also with exaggerated conceptions of how state-of-the-art technology is overpowering geographical, political and economic barriers in the short-term run. Such conditions are, however, considered by Ghemawat to be dangerous. As a matter of fact, acknowledging that the globalization level is not as high as expected, people would tend to see the great potential there still is for additional integration and strive to reach better interconnectivity and global welfare. Secondly, avoiding overstatements may counteract people's fears of globalization. For example, when the Chicago Council on Foreign Relations did a survey asking Americans to guess how much federal budget was designated to foreign aid, the answers were averagely 30%. However, the right answer is about 1%. When such data was pointed out to the interviewed people, these latter were more prone to increase such funds for international aid (Ghemawat, 2012). Indeed, according to The Guardian's writer Nikil Saval, an inflated idea of globalization can be harmful. Hyper globalization of the 80s, pushed by the lead of Margaret Thatcher and Ronald Regan in respectively UK and USA, brought with it a wave of anti-globalization which accused free trade policies to have devastating effects in the world. The most devastating event of hyper globalization happened to be in Latin America during the 80s. Indeed, the "Washington consensus" planned to transfer IMF loans, lower trade barriers and privatising several industries. However, the consequences were not as expected and generated growth to weaken and Latin American citizens to revolt against such privatizations. Particularly, Argentina faced a severe crisis in 2002, causing a left-populist to upsurge. In recent years, such a fear and anxiety towards globalization generated Farage, Trump, Le Pen, Podemos and Five Star Movement to be in the political spotlight, which advocate nationalism and protectionism (Saval, 2017). With such a geopolitical scenario, Italian SMEs will have to take into consideration such macroeconomic dynamics (not necessarily favourable) when formulating international strategies, establishing new positionings within the international division of labour.

4.3 SMEs and Internationalization models

We refer to internationalization as a process which starts from a simple yet systematic interaction between companies and foreign markets, and eventually steps up to foreign direct investments or other collaborative or competitive relationships with the stakeholders in such foreign market (Rispoli, 2002).

As above said, this integration of people, economies and markets through technology and trade generated in the global market arena an increasing competition. This makes it even harder for SMEs that want to expand from their local market into a foreign one. Indeed, if small and medium firms want to become global, they need to think with a global mindset and plan an international strategy that can establish their competitive advantage in the foreign market.

As the subject of this study are Italian SMEs, a brief definition of them is necessary. The quantitative criteria imposed by the European Union on defining SMEs are employees, turnover and balance sheet total:

- Medium – sized enterprise:
  Annual work unit (AWU) < 250
  Annual turnover <= 50 million OR Annual balance sheet total <= 43 million
- Small – sized enterprise:
  Annual work unit (AWU) < 50
  Annual turnover <= 10 million OR Annual balance sheet total <= 10 million

Moreover, as for qualitative criteria, SMEs are usually concerned with two main set of issues: market failure and structural barriers. Indeed, SMEs may have difficulties in accessing monetary resources or funds for research and innovation or for complying with environmental regulations. At the same time, SMEs sometimes face lack of management and technical skills and have limited knowledge on internationalization strategies (European Commision, 2016). Nevertheless, great emphasis has been put on SMEs, especially in Italy, as they represent a main driver for the country's GDP.

How do SMEs internationalize? Several studies suggest adapting multinational strategies to the small and medium context. However, it is important to acknowledge the fact that SMEs face different issues compared to bigger sized firms when internationalizing.

The main internationalization theories suitable for analysing the SMEs internationalization process are two: the stage approach and the born global approach. On one hand, the first approach refers to firms that gradually enter the international market starting from their domestic one, on the other hand, the second approach concerns firms that avoid the gradual entrance in the international market, but rather are globally present since the start of their businesses.

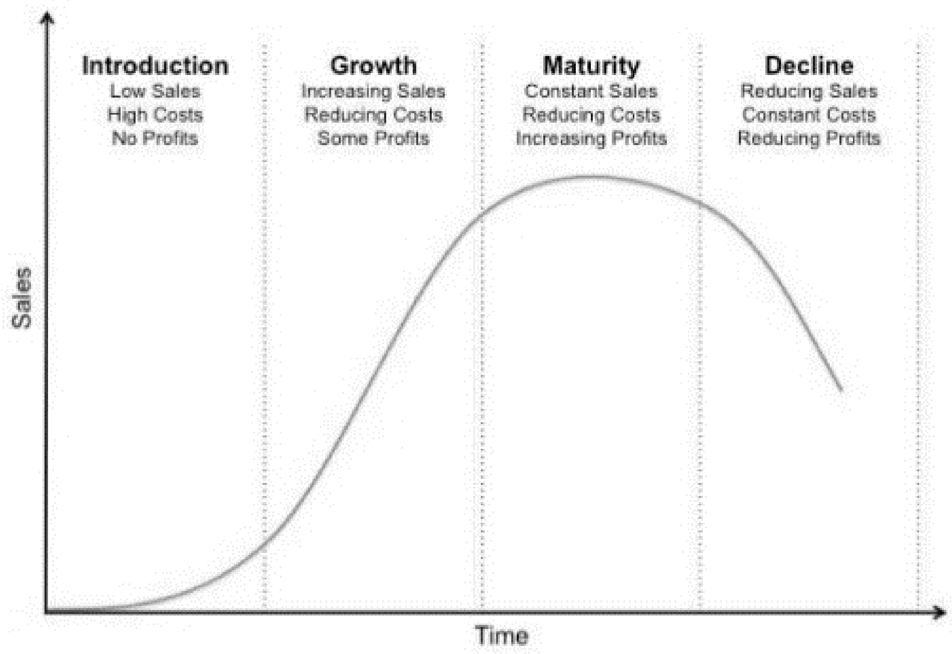
The stage approach may be found in two different models: Raymond Vernon's Product Lifecycle Hypothesis and the Uppsala model.

Based on the trade landscape of the 60s, according to the American economist Raymond Vernon, the internationalization process depends on the bond between product life-cycle and international market expansion. More specifically, this theory explains the movement from the domestic/parent country to the foreign countries. To explain this movement, Vernon identifies four stages:

1. Introductory stage
2. Growth
3. Maturity
4. Decline

(see Figure 4.1)

Figure 4.1 – Product Lifecycle model



Source: (Complete International Business Unit 3 Revision, 2015)

During the first stage, the products are produced for the domestic market and demand is not high but gradually building up. The products are new and not standardized, price elasticity is low, and the characteristics and dimension of the market are still uncertain. At this stage, firms that want to survive need to be flexible and experiment with models of business and production, and at the same time locate their operations in the domestic market they are serving in order to respond quickly to the market that they are gaining knowledge from. Such stage is characterized by the *first mover* firm, which will be soon copied by its *followers*.

During the second stage, companies gained experience and more information about the market they are serving. As demand is rising, products are becoming more standardized and production facilities start to spread in different locations domestically. The need for flexibility is reduced and firms start experimenting with scale economies and mass production in order to be cost efficient. Moreover, similar developed foreign markets start demanding the product, which stimulates the first wave of exportations. Assuming that the production capacity is not saturated for the domestic market, this exportation phase will continue until transportation costs and marginal cost of production together will be lower than the cost of production in the exporting markets. In such case, the firms will start moving their product facilities abroad.

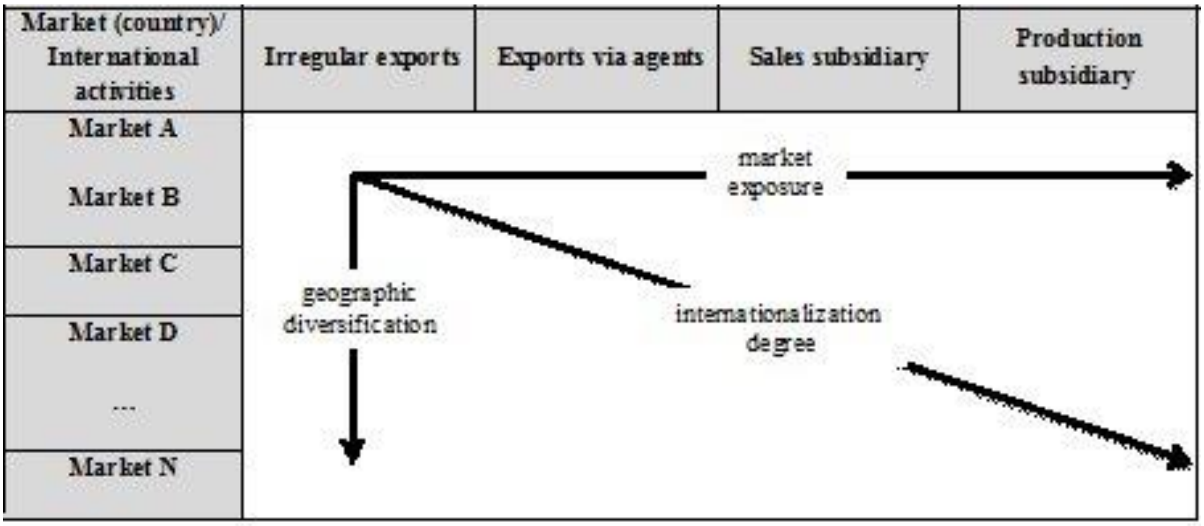
During the third stage, the products become standard, therefore no new experiment will be done, or feature will be added, and the same products will be sold both domestically and abroad. Production is based on scale economies located in all the served markets. At the same time, because technology is brought in the foreign markets, smaller imitators start to appear, facilitated by the still deregulated market and by local governments that encourage the development of the local industries by pushing back importations.

Finally, in the declining phase the demand starts to weaken as new technologies are being developed by new competitors. Original firms start opening production facilities in developing countries in order to lower costs as much as possible. Alternatively, firms can decide to exit such market and offer substitute products starting the cycle all over again (Vernon, 1979).

The Uppsala model instead focuses on the firms' experiential knowledge.
The assumptions of this model are that firms have imperfect and asymmetric information about the market and consider internationalization a compulsory step to take in order to gain knowledge of such market. Consequently, information regarding customers, competitors and other market issues in a foreign market are gained by the company only if it directly operates in it. This model describes the behaviour of firms that internationalize. Johanson and Vahlne demonstrate how investments in foreign markets are done gradually, as the firm gains experience and knowledge, in order to reduce risks.
Also, the model analyses the concept of psychic distance, which can disturb or prevent the information flow. Indeed, in order to reduce the risks connected to the process of internalisation companies should first enter markets that are psychically closer to them, meaning they should target countries with similar language, culture and political system to their own. Subsequently, after a firm gained enough experience in such markets it will be able to expand also in countries that are psychically more distant, usually through a joint venture form of partnership. Other variables that influence international internationalization are trade development, communication system, as well as dimension and potential of the market.
As a result, the Uppsala model defines the process of internationalization through a precise and defined step-by-step pattern based on three variables: market exposure, geographic diversification and internationalization degree (see Figure 4.2). At first the firm has no regular export activity and the firm is mostly present in the domestic country. Secondly, the firm will expand through international sales representatives in order to first explore the foreign market. After gaining enough information about the market, the company will establish sales subsidiaries and at last manufacturing subsidiaries. Each step requires the former one

to be completed as according to the model success of the firm is based on the gradual gain of knowledge and experience (Johanson & Vahlne, 1977).

Figure 4.2 – Uppsala model (steps)



Source: (International Expansion based on Upsalla model – cases of McDonald's and Sfinks Polska, 2018)

However, these two incremental internationalization models are not so recent and do not show the whole picture. Indeed, SMEs internationalization can be defined also through the Born Global model.

The Born Global term was first introduced during the 90s by Rennie for a McKinsey survey regarding exporting firms in Australia. This survey defined born global SME's as firms that see the world as their target market since the beginning of their business activities and do therefore not consider their domestic market as the main one and foreign markets as secondary ones. Moreover, these firms have the competitive advantage of offering quality products through innovative design and technology. Also, compared to multinationals these born global firms are more flexible and can respond to the market changes more easily. (Rennie, 1993) in (Monetti, 2011/2012).
The reasons why born global firms arose, especially in the latest decades, are, first of all, the development of electronic communication and transportation, the convergence of consumer taste at global level and the necessity for firms to source new knowledge and materials outside their

country. These drivers, which are both technology push and market pull, created a global environment where markets are more interconnected and the consumer base for a single product larger. Consequently, SMEs see in the international field a way to grow and expand in new markets with benefits in terms of revenue and know-how gain.

Similarly, to the above model, Oviatt and MacDougall name these type of firms *international new ventures*, following a study conducted on more than 10 geographic areas, in which firms were able to grow. According to these authors, international new ventures are business organizations that right from the beginning of their business activities, try to create a competitive advantage from using resources and selling products in different countries (Oviatt & McDougall, 1994).

Concerning the born global approach, it is necessary to mention the concept of international entrepreneurship, which is defined as new enterprises which undertake international activities (Ruzzier, Hisrich, & Antonic, 2006) in (Bose, 2016). This condition is characterized by the attitude and inclination of the entrepreneur, which is the engine of the rapid internationalization of the firm. Indeed, the entrepreneur has innovative ideas and a global mindset and knowledge (Collinson & Houlden, 2005) in (Bose, 2016) as well as financial and technological resources (Dhanaraj & Beamish, 2003) in (Bose, 2016).

Another author, the professor Joseph Ganitsky, identifies born global firms as *innate exporters*, as opposite to *adoptive exporters*. Indeed, this type of firms gained a high level of know-how regarding foreign markets, have an international perspective in the strategy planning and development and the management has an international training and perspective. However, this type of firms, As opposed to multinationals, may lack of experience and resources internationally (Ganitsky, 1989) in (Monetti, 2011/2012).

4.4 How SMEs differ from MNCs

As a matter of fact, SMEs differ in many other ways from MNCs. From an organizational structure perspective, multinationals deal with a higher number of employees and division of labor that stimulates a higher degree of job specialization. Such internal complexity needs to be tamed by more elaborate coordination mechanisms compared to small enterprises. Standardization of work processes and outcomes are therefore key for the smooth running of the firm. As a result, such big organization tends to be more hierarchical and formalized, and at the same time decentralized. Consequently, what distinguishes SMEs and MNCs regarding the coordinating mechanisms are:

- Informal communication: the synchronization on work activities and the information sharing is easier to achieve in smaller firms;
- Formal hierarchy: rules and assigning legitimate power to employees or managers are mechanisms that more likely appear in bigger firms do to their tall and hierarchical structures;
- Standardization: routine and rules generate in less flexibility, which is a big concern of MNCs.

  (Galbraith, 1973), (Mintzberg, 1979), (Nadler & Tushman, 1997) in (Pontiggia, 2016)

Indeed, small and medium enterprises have greater organizational flexibility due to a flatter structure, with fluid and rapid communication within the firm. Consequently, this makes these types of organizations more adaptable to market changes, as well as more internally motivated as the entrepreneur is able to stimulate and address directly its employees (Costa & Gubitta, 2008) in (Agostinetto, 2016/2017). Flexibility is therefore the key term that characterizes SMEs. This may be also seen in the relationship with the clients: the firm can create products which meet as much as possible the customers' demand, since the interaction between these two parties is deeper than in bigger firms. Such condition makes smaller firms able to capture changes in the demand taste and react with rapid changes in their business strategies (Preti & Puricelli, 2011) in (Agostinetto, 2016/2017).

Moreover, SMEs are customer focused. Because of this, being so close to the clients stimulates brand loyalty and at the same time makes the firm always updated on the tastes and evolution of the demand. What games are competitive advantage to smaller medium enterprises compared to larger firms, is how they deal with information and knowledge and how they retain his knowledge will stop indeed, all they know how gained with experience is kept and developed and shared easily within the firm , generating the basis for on always learning context which can For see how the market will change and quickly adapt to it. (Barney & Hesterly, 2006) in (Agostinetto, 2016/2017)

In this regard, Ghobadian and Gallear identified the advantages and disadvantages of small and medium enterprises regarding Total Quality Management. According to the authors, SMEs have internal resources and competences that assure quality in the production and design of the products. The entrepreneur indeed focusses its endeavours on emphasizing high-quality, as opposed to bigger organizations. Moreover, as small and medium enterprises have a flat structure, they are more influenced by the project teams which are the core of the commitment and support for quality. At the same time, SME's employees are closer to the firm products and customers and therefore have a higher sense of responsibility and commitment towards them. Also, as the number of employees is low, training and involvement of them is easier and quicker, which motivates them to always offer high quality products and come up with ideas that improve and expand the business. Also, quality awareness is raised by easier communication flow mechanisms.
However, such unsystematic management style can lead to a mismanagement in dealing with the resources. As a matter of fact, lack of resources is the main disadvantage of SMEs, as they may run out of specialist know how, time (from lack of economies of scale), and financial resources. At the same time, the entrepreneur may influence the company's culture in in a negative way, enhancing inflexibility and rigidity. This results

in the personnel and management being less motivated and uncommitted and as a result influence the quality of the outcome and the health of the business as well as to mere focus on the production aspect of the business, instead of refining the marketing and brand aspect. (see Figure 4.3). (Ghobadian & Gallear, 1996)

Figure 4.3 – Large vs Small and medium organizations

Large organizations	Small and medium organizations
Hierarchical with several layers of management	Flat with very few layers of management
Clear and extensive functional division of activities. High degree of specialization.	Division of activities limited and unclear. Low degree of specialization
Strong departmental/functional mind set	Absence of departmental/functional mind set. Corporate mind-set
Activities and operations governed by formal rules and procedures.	Activities and operations not governed by formal rules and procedures.
High degree of standardization and formalization	Low degree of standardization and formalization
Mostly bureaucratic	Mostly organic
Extended decision-making chain	Short decision-making chain
Top management a long distance away from the point of delivery	Top management close to the point of delivery
Top management's visibility limited	Top management highly visible
Wide span of activities	Span of activities narrow
Multi-sited and possibly multinational	Single-sited
Cultural diversity	Unified culture
System dominated	People dominated
Cultural inertia	Fluid culture
Rigid organization and flows	Flexible organization and flows
Many interest groups	Very few interest groups
Incidence of fact-based decision-making more prevalent	Incidence of 'gut feeling' decisions more prevalent
Dominated by professionals and technocrats	Dominated by pioneers and entrepreneurs
Range of management styles: directive; participative; paternal; etc.	Range of management styles: directive; paternal
Meritocratic	Patronage
Individuals normally cannot see the results of their endeavours	Individuals normally can see the results of their endeavours
Ample human capital, financial resources and know-how	Modest human capital, financial resources and know-how
Training and staff development is more likely to be planned and large scale	Training and staff development is more likely to be ad hoc and small scale
Specified training budget	No specified training budget
Extensive external contacts	Limited external contacts
High incidence of unionization	Low incidence of unionization
Normally slow response to environmental changes	Normally rapid response to environmental changes
High degree of resistance to change	Negligible resistance to change
Potentially many internal change catalysts	Very few internal change catalysts
Low incidence of innovativeness	High incidence of innovativeness
Formal evaluation, control and reporting procedures	Informal evaluation, control and reporting procedures
Control oriented	Result oriented
Rigid corporate culture dominating operations and behaviours	Operations and behaviour of employees influenced by owners'/managers' ethos and outlook

Source: (Ghobadian & Gallear, 1996, p. 87)

4.5 Why SMEs internationalize

SMEs plan their internationalization strategies based on the reasons why they internationalize. Indeed, cross-border expansion may generate a growth for market share and profits. Firms' main targets when internationalizing are:

- Improving profit margins by finding new customers and revenue streams, or save costs by relocating;
- Competing for new sales, contracting competitors to enter the market and gain market share;

- Diversifying the business by spreading slowing demand risk across different markets and source resources unavailable in the domestic market;
- Recruiting new talent with know-how and skills not yet available to the firm in the domestic market.
  (Kokemuller, 2018)

Indeed, the literature regarding this topic expands beyond these four drivers.

According to Nanut and Tracogna, firms internationalize both because of necessity and will to exploit a competitive advantage. More in depth, firms may want to gain a competitive advantage or use an existing competitive advantage on new markets. Indeed, firms may want to find new opportunities in a new market using existing products or other competences, for instance state-of-the-art technology or a brand with a strong awareness and proposition. In another case, firms may want to search for and gain a competitive advantage, which, for instance, can be in terms of lower costs of production or access to limited resources. Moreover, firms that internationalize may be searching for a diversification strategy, reducing operational risks by selling and sourcing in different markets. Firms may take the decision to internationalize based on their strategic aim. Indeed, firms may want to internationalize in order to defend their market positioning or, on the other hand, to grow their organization and maximize profits (Nanut & Tracogna, 2003).

Another author, Caroli, identifies two main forces that push for the internationalization of the firm: external and internal.
Internal factors are connected to the firms strategic aims regarding strengthening their competitive positioning based on the strategic, organizational and financial assets of the firm. The variables which affect such factors are two: the firm’s peculiarities and resources and the international entrepreneurial mindset within the firm. More specifically,

what drives the internationalization process of the firm are three drivers: the acquisition of competitive advantage derived by a global presence, the exploitation of an already existing competitive advantage (already existing domestically) in new markets and the search for competitive advantage in a specific foreign market, for instance lower costs or access to specific resources.

On the other hand, external factors consider the necessity to respond to the changing environment in which the firm operates, both in a market defensive or in a market penetrating strategy. Indeed, a firm may want to prevent competitors to enter a new market and reinforce their positioning or it may want to gain market share and avoid domestic market saturation. More specifically, the external factors variables of the firm's internationalization are the competitive environment and the context conditions. In the SMEs drivers that can trigger a cross-border market expansion are:

- Number of competitors
- Technological complexity
- Cost structure and resource availability
- Importance of the international presence in the competitive advantage of the firm
- Growth rate of the foreign market demand
- International openness of the foreign market

(Caroli M. G., 2000) in (Agostinetto, 2016/2017); (Caroli M. , 2012), (Caroli & Lipparini, 2002) in (Rocchino, 2013/2014)

Concerning the will of the company to establish competitive advantage, SME's, as opposed to big firms, have the advantage of producing high-quality goods for the niche market and have deep knowledge about the environment they are serving. This condition makes small and medium firms successful in their niche markets both domestically and abroad, as opposed to MNCs. According to Simpson and Thorpe, small and medium firms that have a strategic focus on their product, on their image and on their niche brand, may gain advantage on bigger firms by highlighting the characteristics and distinctive peculiarities of their offer and consequently have a long-term success in international markets (Simpson & Thorpe, 1995) in (Monetti, 2011/2012).

However, as previously mentioned, SMEs often find themselves to deal with low resource availability, as opposed to bigger firms. This determines also their international strategy. Pepe classifies two reasons made by small or medium firms that want to go international, defining them active or passive. In the first case, SMEs enter the foreign market because they see in it opportunities to grow and expand their organization, for instance they see that the foreign market has a high demand for their product, low labor costs, or the foreign country is experiencing significant growth in its economy. On the other hand, other firms may want to defend themselves and enter international markets because they are overwhelmed by the context in which they operate, for example a saturation of the domestic market or the need to grow their revenues (Pepe, 1984) in (Agostinetto, 2016/2017).

Moreover, SMEs have other competitive advantages on the international markets. According to Phyllis, internationalization of SMEs is also pushed by the presence of strong ties and networks that characterize these types of firms. Indeed, small and medium firms have the advantage of making deep connections with other firms, suppliers and clients within the cluster they are set in. Therefore, when the internationalization process is planned, firms may exploit such relationships with suppliers, clients, partners or even competitors that already went international and access foreign markets in a facilitated manner, rather than just relying on their own resources (Fillis, 2001) in (Monetti, 2011/2012).

Finally, as above mentioned, what influences the internationalization process and expansion of small and medium enterprises is the entrepreneurial culture within the firm. More specifically, Burpitt e

Rondinelli, state that company culture and managers' view and perspectives may influence the internationalization process of the firm, both stimulating it or counteracting it. Managers who see global markets as an opportunity to grow will probably be more successful in their internationalization process compared to managers who see the global environment as a threat and as an environment which needs to be necessarily explored to survive. As a matter of fact, managers with an international view regarding the future of a company, with developed leadership skills and international functional coordination capacities will achieve quicker and easier successful goals compared to managers whose target is to grow and learn merely from the domestic market (Burpitt & Rondinelli, 2000) in (Monetti, 2011/2012).

4.6 Entry mode and strategic planning

The Chinese market is a complex environment, both for the high competition and for its psychic distance from the western firms. Indeed, companies should evaluate and plan their entry strategy precisely in order to counteract potential difficulties that they might encounter in such a challenging environment.

Considering a pure domestic firm, such entity may want to adopt one of the two international approaches stated above: a sequential approach or go directly global. This decision is based most of all on the knowledge the firms has regarding the foreign market and on the firm-specific set of resources, which can be a patent, a particular technology, a brand or anything that ensures the competitive advantage of the firm.

The entry choices a firm can choose from are mainly three:

- Exporting
- Contractual
- Investment

Exporting may be divided into two subcategories. One is indirect exporting, which means that the firm pays a sales agent or a trading company to take care of the export transactions. Such choice may be made by the company which has little experience and knowledge regarding international trade. In this way the firm will gain experience with the foreign market before moving on the next step of internationalization. The other category is direct exporting, which means that the firm is responsible for the export itself and doesn't rely on a specialized firm.

The contractual mode requires more engagement compared to the export phase. However, firms which still lack experience in global trade and knowledge and may seek for a partner who could carry out activities itself in the foreign market. The key characteristic of this entry mode is that the relationships concerned are markets-based and arm's length, and consequently do not concern ownership. There are three types of contractual market entry. One is licensing which means that the foreign firm is allowed by the home country firm to use its production process, logos, trademarks, designs and branding in the foreign country in exchange of royalties. However, the issue might be that the home country firm might transfer technological know-how to the foreign firm which might in the future become a potential competitor. The second contractual type is the franchising one. In this entry mode the home-country firm licenses a foreign firm to use its production process in the foreign country. However, the home-country firm still has a deep control over production and marketing in order to establish consistency of the brand. Next, the preferred type of contractual foreign market entry is subcontracting, meaning the home-country firm signs a contract with the foreign firm to produce the product with certain materials, processes and quality.

The last macro category of foreign entry modes is the investment one. This mode concerns three different subcategories. The first one merging and acquisitions is the most popular one when entering foreign markets: the firm will buy shares partly or fully of the foreign country firm. The other category is joint venture, meaning the home-country firm establishes a separate firm with a foreign-country firm abroad. The last subcategory concerns greenfield investments, in which a domestic firm establishes is a fully owned production facility in a foreign country, in order to have high control on its technology and avoid spillovers.

The entry mode choice is evaluated based on the greatest risk adjusted or expected return on the entry investment. However, it is not the only reason that influences the choice of entry in a foreign market. As stated above, a firm may choose its internationalization level based on its resources and its knowledge regarding a certain market and it may enter gradually or directly on the chosen stage. Concerning the strategic planning regarding the choice of foreign market entry there are three variables the firm considers in such matter. The first one is a degree of control the firm wants to have on its resources and avoid know-how spillovers. The second one is the level of resource commitment, both managerial and financial, resulting in providing the needed assets to achieve the firm's goal. And the last one is a degree of dissemination risk, meaning the risk of technology and knowledge spillovers.

Consequently, a firm that wants to have a high degree of control, high level of resource commitment and low dissemination risk will focus on an investment entry mode. On the other hand, firms which do not concern with the degree of dissemination risk and don't mind having low control and resource commitment will prefer the contractual strategy. Finally, firms that concern with trade have a low degree of control, low level of research commitment and low degree of discrimination risk (Reinert, 2012).

Defining the entry strategy, however, is necessary yet not sufficient for being successful in the foreign market. As a matter of fact, defining the key elements of the strategic plan can determine the success or failure of a firm operating in international markets, characterizing its way to adapt to the changing and evolving environment.

Managing Across Borders is a book published by C.A. Bartlett and S. Ghoshal in 1989, which illustrates the research of how firms deal with cross border interactions and is still today a bible for scholars researching in International Business.

This book analyzes three instinct industries, consumer electronics, branded packaged goods and telecommunications. According to the authors in the 70s firms competing in the global consumer electronic markets managed to be successful thanks to their economies of scale which made them pursue efficiency. This type of industry was defined as global industry which is defined by the falling transportation and communication costs, low tariffs, protectionists barriers, and increasing homogenization of national markets.

Next, the global consumer packaged goods industry was able to be successful thanks to its given national responsiveness. Such strategy created the multinational industry which was characterized by national differentiations in terms of consumer preferences and low research and development investments as there was no need for economies of scale. Indeed, local differentiation was the reason why this type of businesses established multiple national industries.

Lastly, the telecommunications industry was connected to the international industry, with a focus on the international product cycle. This cycle was based on 3 steps: products were developed in the multinationals home country, then the products were adopted in developed nations and exported abroad and finally the new technology or product was adapted and refined based on the local needs.

However, starting from the 80s these industries began to face transformations due to the enhancement of globalization. Indeed, consumers were starting to get over standardized global products and rather prefer differentiated products and at the same time governments pushed companies to set operations in the foreign country. Such conditions determined the need for a change in the international strategy. Consequently, an emerging industry started to arise, which was called the transnational industry. Indeed, according to the authors, a firm which survives in the international landscape needs to be a mix of the above defined industries. The firm needs to develop multinational capabilities and focus on global efficiency, quick national responsiveness and strive for worldwide learning.

In order for a company to become transnational the organization should be characterized by three strategic focuses:

- Geographic management
- Business management
- Functional management

Moreover, to become transnational the company needs to overcome oversimplifying assumptions and define new strategic guidelines. This means that a firm should not settle in its competence trap but rather always question itself, its organization, its processes and its knowledge and constantly strive to innovate. At the same time the transnational company moves:

- From Symmetry to Differentiation, by adapting organizational structures and administrative processes to the markets served;
- From Dependence to Interdependence, fostering collaborative information and problem solving, as well as resource sharing and cooperative support;
- From Control to Coordination and Cooperation, focused on the socialization process meaning the company should encourage the transfer of people, informal communication channels and interunit learning.

(Bartlett & Ghoshal, Managing across Borders: New Organizational Responses, 1987)

(Bartlett & Ghoshal, Managing across Borders: New Strategic Requirements, 1987)

in (Micelli, 2018)

4.7 Limits and barriers to internationalization

As previously mentioned, the more the foreign target market is psychically different from the domestic one, the more difficult it will be to understand

and penetrate such market. However, there are other barrier that can scare firms or counteract the internationalization process of a small or medium enterprise.

According to Barney and Hesterly, there are several dimensions of risk regarding the internationalization process of firms.
First of all, the author concerns with the monetary risks of running a business abroad, starting with the economic risk, which is an issue that firms encounter connected to the uncertainty of the demand market. Such risk lays in the domestic market as well as in the foreign one. However, as the firm may not have deep knowledge of a foreign market the economic risk may be higher compared to the domestic context. Moreover, the credit risk concerns the risk of losing money due to unpaid credits by the clients. Such risk maybe encountered also in the domestic market, however in the foreign market could be worse as legal actions may be more difficult to take, especially in a country with an underdeveloped legislation in such matter. Next, be financial risk may be a consequence of a big variation in exchange rates and affect the performance of an investment.
Moreover, the risks regarding the country's legislation and macroeconomic situation are considered. A firm may be afraid of political risks regarding a certain country which may have consequences on the economy and industrial sector of it. Such issues may include internal conflict, political instability, or even underdeveloped legislation. Moreover, a company should consider internal legislation and possible border taxes. Connect to this one, also the juridical risk should be considered. Such risk is connected to possible legal actions against the firm due to lack of knowledge regarding the country's legislation. Again, the technical risk is a risk connected to lack of knowledge regarding the legislation on products and services in the foreign country, for example toxic substances or limits in the amount of certain chemical (Barney & Hesterly, 2006) in (Agostinetto, 2016/2017).

More in depth, The Organisation for Economic Co-operation and Development (OECD) research and listed the main barriers for SMEs internationalization:

- Limitation of financial and physical resources;
- The difficulty in identifying business opportunities in a foreign market;
- Information asymmetry regarding foreign markets;
- The difficulty in finding and contacting potential foreign clients and reliable partners;
- The lack of managerial experience and time regarding internationalization, as well as the lack of adequate personnel.

(OECD, 2008), (OECD, 2009) in (NAGY, 2013)

Moreover, a similar research was conducted by the European Commission, which grouped the barriers in three different areas:

- Underdeveloped managerial skills and insufficient time for internationalization;
- Insufficient financial resources;
- Insufficient know-how regarding foreign markets.

Also, the study highlights how smaller the firm is, the higher the difficulties in building a structured management procedures needed for the internationalization process.

(European Commision, 2016) in (NAGY, 2013)

A more recent European Commission survey classifies such barriers in external and internal.

The internal barriers refer to the characteristics of the firm itself. The most popular concern for SMEs that already engaged in the internationalization process regarded the price of the products or services of the enterprise which may not be suitable for the foreign market. Moreover, the second most important barrier concerns the high cost of internationalization. Such barrier may be influenced by the information asymmetry in foreign markets and economic trade barriers. Concerning smaller enterprises, one of the biggest fears is the lack of qualified personnel regarding internalization strategies. Other barriers concern the quality of the firm's products, the specifications of firms products, and the language barrier.

However, when it comes to firms that want to internationalize but haven't undertaken this path already, the importance given to these above entry barriers seem higher. Such gap may signify that such barriers may be perceived as higher than they really are when actually entering the global marketplace.

On the other hand, external barriers are considered as well. Larger SMEs concern with laws and regulations on foreign markets, whereas micro enterprises are fearful of lack of capital. Moreover, SMEs who plan to enter the global market feel that lack of adequate information, the cost of difficult paperwork and cultural differences are the main issues. Other general concerns are the lack of adequate public support and tariffs or trade barriers in both the foreign and home country.

All in all, SMEs which are not yet in the global market are more concerned with exterior barriers compared to the internal ones, as opposed to already engaged SMEs. On the other hand, tariffs, other trade barriers and other laws and regulations score lower when it comes international inactive SMEs. (European Union, 2015)

4.8 Innovation through digitalization

All in all, what can overcome barriers to internationalization and strategic failures is adaptation to the environment and innovation. Italian SMEs who are facing and struggling with the economic crisis in the western world and with a market competition which is increasingly becoming fiercer due to globalization, can rather counteract these trends or try to adapt to them and innovate accordingly, perhaps finding themselves to be more successful. As previously mentioned, SMEs have the advantage to be flexible and focused on high-quality goods. This advantage could actually benefit SMEs, especially Italian ones which are focused on the made-in-

Italy quality competitive advantage, in the globalized market with a constantly changing environment.

Indeed, as the served markets become more and more saturated firms can decide to innovate using new channels to reach old and new markets. Digital channels have been popular for many years among bigger firms to sell products, especially abroad, however, SMEs should consider such channels as well in order to reach far and high-potential markets. As a matter of fact, as the world becomes flatter and as the playing field is being leveled, SMEs could undertake the process of digitalization to reach new markets. However, to do so in a successful way, firms need to consider the pros and cons as well as strategically plan how to sustain their competitive advantage in such an environment.

There are several benefits that the literature has pointed out regarding the use of digital market, which briefly refers to the firm growth, lower costs, and increased knowledge.

According to Cedrola, the benefits of the use of internet by SMEs can be explained by the 7Cs:

- Cost reduction: due to the reduction of costs in marketing communication, as digital images online may substitute printed advertisement, and the reduction in transaction costs, as e-commerce helps avoiding too many brokers;
- Capability: the digital world may create and enhance new opportunities as it facilitates the creation of new products and services, the knocking down of geographical barriers and the exploitation of new markets;
- Competitive advantage: the possibility of accessing the market earlier compared to the competition;
- Communications improvement: efficient and effective communication with clients, personnel, suppliers and distributors is improved as information is delivered fast and at lower costs and is always updated;
- Control: research on customers is improved and the firm knows where to focus on and where to improve quality;

- Customer service improvement: being able to enhance product customization and fast assistance to clients;
- Collaboration and information sharing: collaboration between firm, clients, suppliers and distributors is enhanced, and this is seen for instance on social media and blogs.

  (Cedrola, 2009)

Also, according to Piscitello and Sgobbi, ICT has given to SMEs a useful and essential tool for internationalization, as it facilitates the expansion in new and foreign markets (PISCITELLO & SGOBBI, 2003). Indeed, digital platforms give the opportunity to firms to reach customers all over the world at lower prices compared to traditional retail channels (Tan, Chong, Lin, & Eze, 2009) in (Jin & Hurd , 2018). Firms have the possibility to expand internationally and seek new opportunities. Also, the use of internet can lower certain barriers typical of the internationalization process of SMEs, such as liability of foreignness and lack of resources, as they are able to connect with clients and stakeholders all over the world at lower costs. (Arenius, Sasi, & Gabrielsson, 2006) in (Jin & Hurd , 2018). A study conducted by Sahbaz, pointed out the importance of international e-commerce for SMEs. Indeed, cross-border e-commerce is an important tool for small and medium firms as it can generate higher revenue and knowledge gain for innovation since they have to deal with global competitors, compared to firms that don’t engage in cross-border e-commerce (Sahbaz, 2017) in (Fan, 2019). More specifically, Qiuyan Fan analysed if cross-border e-commerce in China could be beneficial for Australian firms. According to the research, digital tools offer the opportunity to business to unlock unlimited opportunities, for instance firms have a facilitated access to the Chinese market without necessarily establishing a physical presence. At the same time selling in such way can be very complex and confusing. Indeed, firms have to deal with a new market with new users and clients and therefore need refine their business model. The research found out that selling in China through digital platforms from abroad unlocks firm growth opportunities, however firms need to have a deep understanding of the environment as well as customers' online behavior, digital marketing and the government's regulations (Fan, 2019).

However, using e-commerce and digital tools as a sales channel is not the only aspect to consider to be beneficial for a small and medium enterprise. Indeed, digital tools concerning web marketing and social media make bring benefits to SMEs.

According to Yamin and Sinkovics, firms interacting with online platforms and tools gain a deeper insight of customers and consumer behavior in foreign markets and are therefore able to reduce the psychic distance previously mentioned when analyzing the issues regarding the internationalization process (Yamin & Sinkovics, 2006) in (Jin & Hurd , 2018).

Moreover, according to Bertoli, web marketing gives the right degree of flexibility to a firm, as it can easily adapt to the changes in the market and perhaps push different products for different customers in a certain time period and change marketing strategy very quickly. At the same time, online advertisement requires less resources to invest compared to traditional channels, a critical issue for SMEs. Moreover, SMEs may find that web marketing enhances their internationalization process by reaching customers geographically distant and at the same time find out about niche markets which the small and medium enterprise can serve. Also, direct communication with customers is essential today, as clients expect to be able to contact the firms easily and quickly.

The opportunities the firm can grasp with the use of web marketing abroad are plenty and Bertoli continues with its analysis about it. Digital tools can increase brand awareness and reputation in the foreign market and reach customers easily. At the same time, brand loyalty is strengthened as firms can constantly communicate with customers for example through social media at a low cost. Indeed, firms can also ensure customer support and assistance faster and easier and detect the main issues clients are facing.

Also, the use of digital tools helps to gain customer and market insights in order to refine its strategy.

Bertoli also enhances the role of social media for SMEs business success. As a matter of fact, social media give the opportunity to firms to involve customers though the exploitation of storytelling. For instance, the firm could use its social media page to tell how the production process is working, how the product developing is structured, how quality is ensured or how the firm engages with CSR issues. At the same time also, customers may post content about the company, which can decide to share them on their company page.
Moreover, firms may have a direct contact with clients and gain a deep insight about their wishes and needs and consequently customize the offer in order to remain competitive. Also, the firm may detect issues customers are having with their products or services but also regarding the competitors' products and services an exploit the knowledge on these issues to refine their offer according to the customer needs and wishes.
Furthermore, firms on social media platforms are able to exploit the word of mouth and in this way be able to enter niche markets in a facilitated way, which is what SMEs are usually focusing on. The strategy can be pursued at lower prices compared to traditional channels and brand awareness can be developed even by smaller and medium firms (Bertoli, 2015) in (Agostinetto, 2016/2017).

4.9 Barriers to digitalization

Along with the benefits of international digitalization, inhibitors of e-commerce at international level slow down the internationalization process of the small and medium enterprises and make it harder to enter and survive in a foreign market, especially the Chinese one.
Among these inhibitors, there are the cultural and linguistic differences between the domestic market and the foreign one (psychic distance and liability of foreignness), information asymmetry, the legal burden, the

infrastructure and logistics development and the specific e-internationalization issues (e-commerce regulations, different online payment systems...).

Concerning the general barriers to e-commerce adoption by SMEs, Stockdale and Standing highlight:

- The lack of ICT knowledge
- Investment risk and uncertainty of the security and quick obsolescence of the e-commerce market
- The lack of financial and human resources

(Stockdale & Standing, 2006) in (Elia, Giuffrida, & Piscitello, 2019)

Moreover, Elia, Giuffrida and Piscitello conducted an exhaustive research regarding the e-commerce specific barriers for SMEs. More specifically, the researchers conducted a survey on a population of 600 large companies and SMEs operating in the Italian food and fashion industries.
The research found out that 48% exported abroad only though traditional channels, like retailers and trade agents, 1% undertake a pure online strategy, 28% adapt their strategy according to the market they are serving (for certain markets is pure digital, for other they use traditional channels), and 23% use both online and offline strategies in all their markets though a multichannel approach.
Focusing on the barriers in the adoption of cross-border e-commerce, SMEs highlighted the following barriers:

- The lack of knowledge regarding the use of online trade channels (40%)
- Issues in communicating with foreign customers (27%)
- Legal requirements understanding (16%)
- Product features compliance (13%)
- Cannibalization risk between online and traditional channels (9%)

Specifically focusing on the e-barriers to China, SMEs highlighted the following:

- The lack of knowledge regarding the use of online trade channels in China (31%)
- Chinese legal requirements understanding (24%)
- Managing Chinese logistics (22%)
- Managing communication (22%)

Indeed, the main concern for Italian SMEs when dealing with Chinese e-commerce are the culture and communication, the legal requirements, along with the logistics and payment systems, and how to manage the online trade channels efficiently and effectively. Consequently, the authors explain how much a local foreign presence can make a difference, especially when combined with an online/offline strategy, as it reduces liability of foreignness and outsidership. Such strategy, however, requires heavy FDI, and SMEs tend to lack financial and capital resources.

Also, the authors recommend SMEs to seek ways on how to enhance their knowledge regarding foreign online trade markets, as well as of foreign legal requirements. Indeed, with a scarce knowledge in such matter, the process of reaching foreign customers may appear more difficult and take longer.

Lastly, firms should gain knowledge also regarding the online payment systems in the different markets, especially when dealing with China. As the Chinese standard of credit card is set by China UnionPay and the Alipay platform is the most popular e-commerce payment system, foreign companies should be aware of such condition and provide it to their Chinese customers (Elia, Giuffrida, & Piscitello, 2019).

Similarly, Huijun Jin and Fiona Hurd investigated New Zealand SMEs use of Chinese digital platforms. The research investigated the barriers several companies had to face when dealing with the online Chinese market. What researchers found were significant barriers regarding resource constraints, followed by liability of foreignness, psychic distance and the consequent lack of market knowledge.

In terms of resources constraint, the authors highlighted how enterprises need human resources with deep market knowledge in order to grow and

highly perform in overseas markets. The interviewed firms altogether faced financial and personnel issues as they lacked human resources that could help the company in deepen the knowledge regarding the Chinese market, social norms and business practices. Also, financial resources were considered to be scarce.
In terms of psychic distance, the difference in the Chinese and New Zealander culture was considered a strong barrier according to the interviewed firms. In order to lower such barriers, the author points out again the need for qualified and trained human resources in such matter. Indeed, two firms acknowledged that hiring local people for dealing with the Chinese marketing helped them to perform better. The aim was not only to gain market knowledge quickly, but also increase the control on the Chinese market.
As regards to liability of foreignness, some firms in the research had to cope with costs arose from the unfamiliarity of the context and psychic distance. One firm had to engage in third-party inspections and quick communication with potential clients in order to prove the quality of the products and brand. Such extra costs foreign firms need to sustain are caused by the lack of consumer quality awareness of these products and unknown expectations regarding the brand (Jin & Hurd , 2018).

4.10 Conclusion

As globalization is being enhanced through the years, big and small firms have been dealing with threats and opportunities, causing them to rethink their business strategies. Indeed, approaching global markets is considered an opportunity for firms as it gives the access to larger markets and customer bases, as well as knowledge, technology and capital flows. According to Friedman globalization has reached its peak, requiring economic players to be more and more skilled and focused on lifelong learning. Furthermore, in the book The World Is Flat, Friedman states how today's globalization 3.0 is driven by individuals and powered by internet, acknowledging that the creation of different technological platforms (e.g.

Netscape, workflow software…) contributed to make the world a playing field where firms have equal opportunities (FRIEDMAN, 2005). At the same time, he advocates the need for companies, but also countries and individuals, to remain competitive in such an environment which is characterized by geographical divisions becoming increasingly less relevant (Friedman, 2012).

In such a context SMEs face the need to take into consideration such macroeconomic dynamics when formulating international strategies, establishing new positionings within the international division of labour. Several studies suggest adapting multinational strategies to the small and medium context. However, it is important to acknowledge the fact that SMEs face different issues compared to bigger sized firms when internationalizing. The main internationalization theories suitable for analysing the SMEs internationalization process are two: the stage approach (Raymond Vernon's Product Lifecycle Hypothesis and the Uppsala model) and the born global approach (Vernon, 1979) (Johanson & Vahlne, 1977) (Rennie, 1993). On one hand, the first approach refers to firms that gradually enter the international market starting from their domestic one, on the other hand, the second approach concerns firms that avoid the gradual entrance in the international market, but rather are globally present since the start of their businesses. SMEs usually see in the international field a way to grow and expand in new markets with benefits in terms of revenue and know-how gain, as well as to counteract the competitors moves and even exploit or gain a competitive advantage on new markets.

Such internationalization strategies will depend on the strengths and weaknesses intrinsic in small and medium enterprises. SMEs may have difficulties in accessing monetary, knowledge and human resources or in funding research and innovation or in complying with environmental regulations. Also, SMEs may lack management and technical skills and have limited knowledge on internationalization strategies (European Commision, 2016). However, SMEs, especially Italian ones, have the competitive advantage of offering quality products through innovative design and technology (Rennie, 1993) in (Monetti, 2011/2012), greater organizational flexibility due to a flatter structure, and are therefore more adaptable to market changes, as well as more internally motivated as the entrepreneur is able to stimulate and address directly its employees employees (Costa & Gubitta, 2008) in (Agostinetto, 2016/2017). Such condition makes smaller firms able to capture changes in the demand taste and react with rapid changes in their business strategies (Preti & Puricelli, 2011) in (Agostinetto, 2016/2017). Moreover, SMEs are customer focused. Because of this, being so close to the clients stimulates brand loyalty and at the same time makes the firm always updated on the tastes and evolution of the demand. (Barney & Hesterly, 2006) in (Agostinetto, 2016/2017). Also, as the number of employees is low, training and involvement of them is easier and quicker, which motivates them to always offer high quality products and come up with ideas that improve and expand the business (Ghobadian & Gallear, 1996).

All in all, SME's, as opposed to big firms, have the advantage of producing high-quality goods for the niche market and have deep knowledge about the environment they are serving. This condition makes small and medium firms successful in their niche markets both domestically and abroad, as opposed to MNCs (Simpson & Thorpe, 1995) in (Monetti, 2011/2012). Managers who see global markets as an opportunity to grow and innovate will probably be more successful in their internationalization process compared to managers who see the global environment as a threat and as an environment which needs to be necessarily explored to survive (Burpitt & Rondinelli, 2000) in (Monetti, 2011/2012). What can overcome barriers to internationalization and strategic failures is adaptation to the environment and innovation. Italian SMEs who are facing and struggling with the economic crisis in the western world and with a market competition which is increasingly becoming fiercer due to globalization, can rather counteract these trends or try to adapt to them and innovate, especially with digitalization. Digital channels have been popular for many years among bigger firms to sell products, especially abroad, however, SMEs should consider such channels as well in order to reach far and high-potential markets, as well as to experience increased profits, cost reductions, customer service and knowledge improvement. The use of digital channels can lower liability of foreignness and lack of resources barriers typical of small and medium firms (Arenius, Sasi, & Gabrielsson, 2006) in (Jin & Hurd , 2018), as well as gain a deeper insight of customers and consumer behavior in foreign markets and are therefore able to reduce psychic distance when analyzing the issues regarding the internationalization process (Yamin & Sinkovics, 2006) in (Jin & Hurd , 2018). Moreover, brand awareness, loyalty and retention can be enhanced through the use of web marketing (Bertoli, 2015) in (Agostinetto, 2016/2017). At the same time, however, firms should consider the need for human resources with deep market knowledge in order to overcome the inhibitors of e-commerce at international level: cultural and linguistic differences (psychic distance and liability of foreignness), information asymmetry, the legal burden, the infrastructure and logistics development and the specific e-internationalization issues (e-commerce regulations, different online payment systems...).

SMEs have the advantage to be flexible and focused on high-quality goods. This advantage could actually benefit SMEs, especially Italian ones which are focused on the made-in-Italy quality competitive advantage, in the globalized market with a constantly changing environment such as the digital one.

Chapter 5. Case study – Tradimento Blu

5.1 Introduction

From June 24th, 2019 to August 9th, 2019 I have took part in a 306 hours internship project in Mainetti LTD in its subsidiaries in Shanghai and Hong Kong. More specifically, Mainetti LTD recently set up a small online company named "Tradimento Blu" focused on manufacturing and selling Italian-style bags and accessories exclusively for the Chinese online market. My internship program focused on understanding the development of this latter company and gaining deeper knowledge regarding the Chinese online market and how its marketing and selling channels work.

5.2 Internship goals

This internship has been set up by Mainetti Asia Division specifically for my research regarding the opportunities for Italian small and medium enterprises. The goals of this internship have been gaining a deep insight on the motivations that moved Mainetti LTD to set up a side business focused merely on the Chinese online market, as well as how to implement such strategy. In this regard, I have been working both in the Tradimento Blu office in Shanghai, and in the Mainetti Hong Kong office as a freelancer for the project. During my stay I had the opportunity to gain a wider vision on how to use Chinese online tools for sales and marketing, specifically on Wechat and Weibo. Also, I took part in meetings with the external consulting team and participated in the strategic planning of the future business development of the project. The data used in this chapter refers to an interview made with the company employees and the consultant team on July 31st, 2019.

5.3 The company

Mainetti LTD was established in 1961 in Valdagno, in the Vicenza province, as a plastic hanger manufacturer. Today, Mainetti has a worldwide presence across 6 continents and its product portfolio includes hangers, packaging, garment covers, shopping bags, labels and tags. Mainetti's core business has always been in the B2B field, serving clients such as Zara, Decathlon, Chanel and many other famous retail and fashion brands. However, recently the company has been facing several challenges mainly brought by the increasing popularity of eco-sustainability, for its war against plastic and the increasing transactions in the e-commerce field, which do not require the enclosure of hangers in the purchase. Consequently, Mainetti LTD decided to take action developing B2B2C and B2C side businesses in order to earn margins and important know-how in these specific fields. At the same time, these side businesses could be leveraged by the existing knowhow of the holding company, as well as of the financial possibilities and Italian design knowledge.

In the second half of 2017 Mainetti LTD decided to establish a small side company named Tradimento Blu in order to exploit the emerging B2C field on the Chinese online market, which is becoming a more and more popular source for Chinese people to use when shopping. Tradimento Blu focuses on high-end Italian-style bags and plans to widen its product portfolio in the high-end jewellery and accessories field. The company focuses its attention mostly on the Chinese digital market for its sales and marketing communication channels.

5.4 The beginnings

Tradimento Blu is a company that manufactures and sells high-end Italian-style fashion bags. The company is based in a small office in Shanghai and is run by four experts: 2 designers, 1 copywriter and 1 director. The designers plan the shape and style of the products, the copywriter takes care of the website and online presence design and data insights derived from the online activity; the director coordinates the tasks and reports to the holding company, Mainetti. Furthermore, as above said, Tradimento Blu's output channels are to be found manly online in the Chinese market.

Indeed, Tradimento Blu has been set up by Mainetti as a way to take advantage of the popularity the digital market is gaining in China. As a matter of fact, the B2C service market in the digital world had, in the recent years, a rapid increase in adoption among the Chinese population.

In order to set the basis for the market research, the company relied on external Chinese consultancy agency in Shanghai named 上商策. The consultancy agency has been responsible for the market research concerning the digital B2C service market and is today the main source from which Tradimento Blu attains knowledge about the industry and about new opportunities to grasp.

Concerning the online B2C industry the consultant evaluation has been positive, and analysed the following aspects:

- Numbers in the B2C market
- Market trends – Mobile and Social Media
- Customer analysis

The Chinese B2C market is experiencing rapid growth and is today seen as a promising market.
The consulting company estimated the Chinese online shopping market size and growth rate between 2013 and 2020 and detected its high potential. Moreover, even though the annual growth rate seemed to slow down through the years, the market size still followed a positive tendency.

Moving on the industry analysis, the consulting company acknowledged the data previously mentioned in the market analysis chapter regarding the market share of the distribution channels and its evolvement. As more and more B2C have been entering the market, the consulting company suggested a rapid entrance in order to gain market share.
After analysing the industry data, the market trends have been considered in order to have a deeper view of the opportunities that could be grasped and consequently adapted to the offer.

Firstly, the fundamental trend that has been highlighted is the use of mobile devices, as considered in the market analysis overview above, showing an increase in the use of mobile over laptop. More specifically, the consulting company decided to focus on the mobile devices' channels following the rapid increase of the mobile devices as a channel for online purchase, as well as of social media.

The spread of social media brought improvements of the social media commerce platforms, giving more opportunity for small sellers to offer their products in such channel. Indeed, the advantages of social commerce are the reduced entry barriers and entry costs, as well as easier access to customer data. Consequently, social commerce results in a smart tool for small businesses that want to increase their turnover.

Moreover, the consulting team identified as the "90s generation" the core customer for the B2C sector, especially regarding custom made products. As a matter of fact, as previously seen, with the development of e-commerce, customers switched from a need to meet basic fashion requirements following big brands, to a greater interest for customization. This gives opportunity to smaller niche brands to emerge and offer products that allow customers to satisfy their new need for self-identification.

5.5 Building the brand image

The brand is inspired by Italian-European Renaissance and stresses out the Italian origins of the company. The design of the products evocates the Renaissance poetry, painting, sculpture, architecture and mythology and is targeted for a woman that wants to build its own artistic aesthetic. Indeed, the target the company focuses on is women in their 20s and 30s with high purchase power and who is keen about fashion, art and wants to stand out of the crowd showing its personal style.

In order to develop brand awareness and brand image, along with successful margin results, the company had to consider three aspects:

- Adaptation to the Chinese market
- Effective advertising
- Smart exploitation of the digital tools offered by the Chinese market

5.5.1 Adaptation to the Chinese market

As Tradimento Blu is a small company founded by Mainetti, information about local adaptation and strategy was relatively easy to embed in the company. However, since the brand is niche and new, it doesn't apply to Mainetti's customer base, which has always been mainly in the B2B sector for hangers and packaging. As a result, some aspects of Tradimento Blu strategy needed to be refined in order to best fit the market which is serving.

Concerning the heritage brought from Mainetti, TB kept the Italian design know-how experience, as the brand points out in its marketing campaigns to have Italian origins. Furthermore, TB was able to exploit the human resources Mainetti already had. As a matter of fact, the TB employers have been selected among the Mainetti staff, so to be able to keep the Italian design know-how, as well as to assure TB could have already trained employees. Indeed, the designers selected had both abroad experiences in Italy for design training. Moreover, these employees have been selected within Mainetti's Shanghai subsidiary, in order to adapt as much as possible to the Chinese context and language.

On the other hand, TB established different governance type strategy, with a supply chain focused entirely in China. Mainetti indeed had a global supply chain and was able to create an offshoring strategy, in which down-graded activities could be moved to low-labour cost counties and high-graded activities to first world countries, as well as a hierarchal type of governance. TB, as a small company, is not an integrated firm, and operates in China both for its office and design activities. Concerning its operations, the firm relies on external Chinese suppliers which guarantee flexible production and fast delivery to Chinese customers. Consequently, the type of internationalization strategy set from TB's start was a domestic strategy, in which the company since the beginning was highly adapted to its market and given decision autonomy regarding any aspect of the supply chain. This decision has been taken not only because of the difficulties of entering the Chinese market from scratch with a new brand, but also because of the quick response and flexibility it would give to a company that operates on such a fast-paced changing digital market. Also, entry barriers like language and culture have been turned down with the choice of hiring Chinese employees from Mainetti.

Concerning the product development, marketing and sales functions, and consultancy, they have been locally adapted as well. The consultancy agency, as above said, is a medium sized firm from Shanghai which is responsible for the market research and business development. This choice ensures to always be up to date with the latest Chinese e-commerce trends, as well as a deep understanding of the evolution of such market. Finally, the marketing, sales and product development are assigned to the employees of the company, which are Chinese. As above said, the designers have had Italian design training in Italy and have previously worked in Mainetti in China. This results in a product that is inspired by Italian design but is able to be adaptable to the Chinese consumer taste. Also, the copywriter is responsible for the marketing communication and has a deep knowledge on how to make an effective market campaign for the Chinese market, as well as has a good grasp on the use of Chinese e-commerce tools.

In summary, the adaptation strategy used has been both taken from Mainetti multinational experience in China and created from scratch for the new niche brand. The result is a mixture of Italian design know-how and Chinese human resources, which ensures to deliver in an effective way what the brand promises to deliver: Italian inspired high-end products.

5.5.2 Advertising

Marketing communication has been focused on the quality of the materials, the Italian design and the unique style that cannot be found elsewhere in the market. Moreover, it has been developed both online and offline.

Concerning the offline advertising the company was concerned with brand association and how it could be achieved. The consulting team suggested the company to take part at events promoted by high-end brands. In this regard, on September 17th 2019 the company participated in the Porsche event in Shanghai, where it had its own stand to show and advertise it products. Such an event represented an opportunity for the company to positively influence purchase behaviour. Being associated with a luxury company like Porsche, Tradimento Blu managed to convince customers regarding the quality and fashionable style of its products, which is something the company has always advocated for.

Moreover, Tradimento Blu implemented an offline store cooperation with Dong Liang Studios (栋梁), a multi-brand boutique located in Shanghai and Beijing specialized in niche designers and labels for fashion-forward individuals. The aim of the collaboration is a real-life experience with the product as the main selling channel remains the online commerce. Indeed, there is the option to purchase the products directly in the shop. As for the Porsche event, being able to use stores such as Don Liang enhance brand association, as well as brand identity and awareness. The offline channels chose effectively to reflect what the identity of the Tradimento Blu wants to be and focus on the target, which could be easily found in events or stores of this type.

5.5.3 Online exploitation

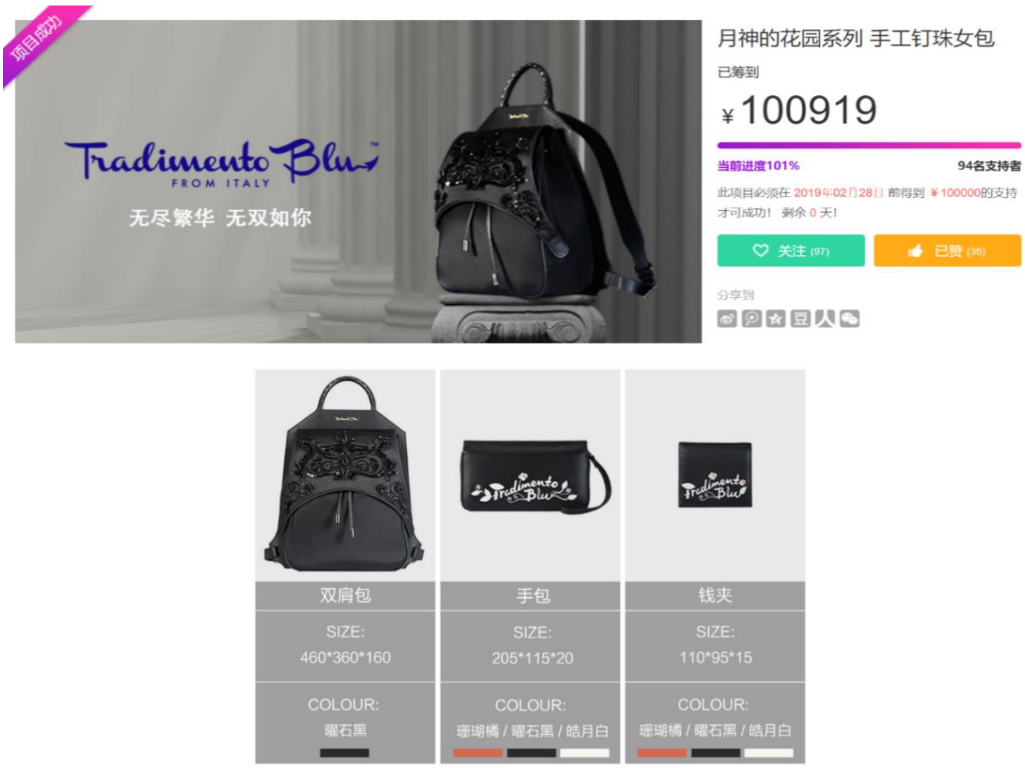
As above said, Tradimento Blu operates mainly online. As a result, knowledge regarding digital tools is highly valued inside the company. Tradimento Blu operates online for different purposes, which range from sales to marketing communication, from outsourcing to fundraising.

5.5.4 Crowdfunding

Following the market research, brand and product development, Tradimento Blu decided to start a crowdfunding campaign on the popular platform JD (Jingdong), as a way not only to raise funds, but also to be able to foresee if the project would have been successful and the brand was ready to take off. Indeed, JD extends its services outside the mere e-commerce, giving the possibilities to small businesses to grow. This service is to be found in JD Finance, and includes a wide range of finance and asset management tools.

The crowdfunding had a pre-period of 6 days, during which the crowdfunding was advertised, followed by an active crowdfunding period of 45 days, starting January 14th, 2019. The products on display were three: a bag, a wallet and a card holder. By purchasing one or more of these items, users supported the project and the purchase amount was added to the crowdfunding total gained. Such target was set at 100,000 RMB.

Figure 5.1 - Tradimento Blu page on JD crowdfunding



Source: (JD, n.d.)

The above image shows a total gain of 100,919 RMB, reaching and going beyond the 100,000 RMB target. The supporting users were 94. The crowdfunding campaign resulted successful and confirmed that Tradimento Blu was building its brand image correctly and aligned with its targets.

5.5.5 Outsourcing

The company currently outsources its consulting team, production and distribution. However, these aspects concern the offline world. The outsourcing tasks which relate to the marketing communication have a digital bond. Indeed, Tradimento Blu seeks freelancer photographers online. Indeed, the pictures regarding its 2019 bag collection have been taken by a photographer hired through Freelancer.com. This solution seems to benefit the company, even though it already has two designers as employees. Indeed, the office is located in a small room, in a building in the centre of Shanghai, and hiring a freelancer photographer avoids room renting as well as giving enough flexibility to differ the photographing style throughout the seasonal campaigns.

5.5.6 Marketing communication and sales

The online marketing communication and sales are focused on Wechat and Weibo channels, as well as the company website and the use of KOL.

On the WeChat platform there are three tools that Tradimento Blu uses:

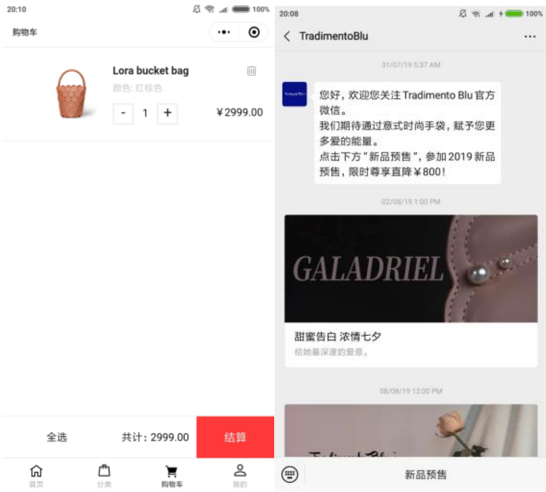
- Official account
- Moments
- Miniprograms

The official account is the TB's main page on Wechat. It is a news feed where it is possible to subscribe to for free and where customers receive news and discounts, with the option of push notifications. Moreover, it has a link to the official website and to the miniprogram.

Moments is the Wechat service used as a news feed for photos and statuses for the users one is following. However, this tool gives the possibility to create ads and target to users with specific characteristics. More specifically, it is possible to reach certain users by filtering age, sex, interests, budget and location. In this way, TB can strategically focus on their target, and is flexible regarding the ads publishing. As a matter of fact, TB increases its ads posts amount during holidays when a purchase is more likely to be made. For example, during Valentines period, the company tends to push for pink bags on its target customer.

The miniprograms are apps inside WeChat that allow to be used as an e-commerce platform. Here is where the customers can buy TB products.

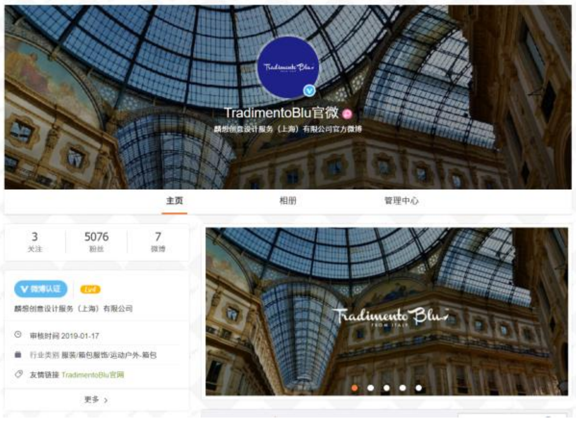
Figure 5.2 - Tradimento Blu purchase experience, Miniprogram and official account



Source: (Wechat, n.d.)

Similarly to Wechat, Weibo offers the opportunity to have an official account and also to target customers based on their characteristics, specifically on sex, age, interest, marital status, platform used to navigate (iOS, android, PC), connection used (WIFI, 2G, 3G, 4G), budget and location. The ads appear to target users on their news feed but, unlike Wechat, users can purchase product not just using mobile, but also though computer.

Figure 5.3 - Tradimento Blu page on Weibo



Source: (Weibo, n.d.)

The marketing communication is also based on KOL (key opinion leaders). The influencer TB has hired is a blogger named @menthae, which operates on the Weibo platform. The blogger was chosen as her page is focused on high-end brands and TB aims to enhance brand association with luxury brands (as the Porsche event above mentioned). Also, the influencer has a fan base of 1,493,184 users which guarantees great exposure. Moreover, TB pays the influencer per post published.

6 Conclusion

The JD crowdfunding was able to give the company an initial boost for its advertising and it gave the opportunity to expand its customer reach. Jingdong crowdfunding officially launched 2019 January 14th until February 27th. The crowdfunding amount was 100,919 yuan with a complete target ratio of 101%. The crowdfunding advertising stimulated the parallel online activity of social media. In particular:

- On the Weibo platform, the TB page gained 5076 users
- On Wechat moments 400 users reposted the JD crowdfunding
- On Wechat chats 200 users forwarded the JD crowdfunding

The JD crowdfunding and the consequent increase of interactions from the parallel channels guaranteed the success of the crowdfunding and was the confirmation for the company to continue the project, as the company was

able to grow in its customer base. Indeed, for its first collection (March-September 2019) the company managed to sell 80 items.
The consulting team valued such numbers as successful and the company was able to reach its short term target.

How is it possible to analyse the formula of such successful endeavour in the industry considered?
Tradimento Blu's competitive position in the B2C service sector can be analysed through the SWOT analysis.

- Strength: being able to rely on Mainetti's know-how in the fashion industry is a good background on which the company can count on in terms of Italian design and service experience. Indeed, as seen before, one of the main weaknesses of smaller companies is the lack of financial and qualified human resources. TB can rely on Mainetti's financial resources and already trained Chinese employees, being able to overcome cultural and language barriers, as well as financial restraints. Moreover, being a new and small business, TB is more flexible and can rapidly adapt to changes in the market compared to bigger sized firms. Furthermore, as above said, niche brands are becoming more and more popular with consumers, which are seeking for self-identification and customization, which is the company's value proposition;
- Weakness: as a new company, there is a lack of core technology and brand image, as well as a lack of powerful and famous design team. Secondly, as the firm was the first Mainetti's experiment with pure B2C e-commerce, and consequently the learning curve regarding this type industry is at its first stages. Also, as the production is outsourced, knowledge spill overs may occur;

- Opportunity: the consulting company identified a high growth rate in the accessory industry, allowing potential for high profit margins. Moreover, the market is now keener on sustainable materials even concerning accessories, and TB's leather is made from plant is environmentally friendly. Also, the Chinese consumers, as previously explained, when searching for foreign brands, seek for high-quality and outstanding aesthetic. TB focuses on creating high-quality accessories with an Italian brand, leveraging on the country of origin effect. More, WeChat and other new e-commerce and marketing tools can locate the target customer quickly and give better insights of the market. Consequently, marketing strategies can be adapted and targeted efficiently to specific customers;
- Threat: the consulting company detected increased costs for online promotion costs (> 200 RMB/person) and for advertising and events. Furthermore, lack of brand awareness is enhanced by the increased competition in the accessory industry, with a rivalry increase in the online commerce, especially by foreign brands as seen in the market context chapter.

Moreover, the company was able to grow in its know-how regarding this industry which was new for the trained Mainetti employees. Especially, regarding users and customer behaviour online and how-to better approach them in future marketing campaigns. This information could be useful for the next aim of the company, which is to grow in its product portfolio. Tradimento Blu is indeed planning to horizontally grow in its product offering, creating a line of backpacks and jewellery, as it is gaining deeper knowledge of the use of e-commerce platforms in China, as well as customer retention.

As a first collection, being the company still on the starting point of its s-shaped curve of growth, the company considers its results satisfying and aligned with its expectations. Currently the company is developing a new

seasonal collection for bags, with a target to develop a line of bag packs for the following year.
The satisfying results of the company reflect the well-thought use of existing resources. If the OLI framework is considered (Dunning, 2001), TB born-global entry mode in the market has been coherent such model:

- Ownership specific advantages: exploiting Mainetti's existing entrepreneurial skills, know-how and human resources, as well as resources embedded in the Chinese subsidiary;
- Location specific advantages: exploiting the emerging B2C service sector and the growth of the accessories and foreign products sectors;
- Internationalization advantages: despite the need for outsourcing, Mainetti's already existing relationships in the foreign location permitted to have reliable suppliers and remain flexible in the product development.

The implementation of human resources coming from the already existing Mainetti's Chinese subsidiaries guaranteed to lower the cultural and language entry barriers that are mostly to be found when entering the Chinese market. At the same time the employees had a good training level regarding Italian design which was essential for the product development process and to deliver what the brand promises to its target: Italian high-end design. Also, the external factors contributed to the successful results: the Chinese market is maturing towards a more sophisticated and self-identifiable products when it comes to foreign brands and fashion.

Chapter 6. Conclusion and Discussion

Following what has been discussed in the previous chapters, the discussion and conclusion chapter will reprocess the research data focusing on the following questions:

1) Should Italian SMEs enter and focus on the Chinese digital market?

2) What are the best practices to adopt in such a market?

In order to answer the first question, two models have been considered:

- Porter 5 forces
- SWOT analysis

The Porter's Five Forces model determines the attractiveness of an industry, as well as the level of competitiveness and potential lines of businesses. More specifically, the five forces considered by Porter are:

- Competitive rivalry (number of competitors, differentiation, quality offer, brand loyalty…)
- Threat of new entrants (barriers to entry, government policies, access to channels, brand loyalty...)
- Threat of substitutes (presence of substitute products, product differentiation, purchase patterns…)
- Bargaining power of customers (customer base size, price sensitivity…)
- Bargaining power of suppliers (number and offer of suppliers…) (Porter, 2008)

Considering Italian SMEs characteristics above depicted and their general high-quality offer, the application of the model on the Chinese online market may be unfolded as following.

Competitive rivalry: The e-commerce field and consumption in China is showing signs of great growth potential, permitting the existing rivalry to cool down. At the same time consumer patterns register a high brand loyalty, forcing companies in the market to push for customer experience and retention, increasing the competitiveness level. Such rivalry has been increasing due to the demand rise for premium foreign products and goods in high-end segments. Indeed, in lower segments and less differentiated products, Chinese companies have replicated foreign business models adapting it better to the Chinese context (e.g. Smartphones). Foreign firms should be careful of second-mover local firms, which could earn their market share.

Threat of new entrants: New entrants definitely see the industry potential and predicted growth. Also, as the Chinese government is pushing for the regulation of e-commerce with the aim of reducing cyber security accidents (one of the main reasons why users prefer not to use the internet), protecting intellectual property and regulating fair competition in the market, new firms may feel attracted to such circumstances. Also, due to the macro level issues in credit lending, foreign firms may exploit the need for Chinese local firms to merge and obtain in this way the precious local know-how and resources. Indeed, cultural barriers and psychic distance is one of the biggest issues when it comes to approaching the Chinese market. Firms need to remember the importance of social norms, habits, traditions, guanxi, mianzi and create products which local customers approve and are willing to buy. At the same time, the high level of brand loyalty makes it difficult for new entrants to establish an immediate connection with consumers, especially for small and medium firms.

Threat of substitutes: As the main target for Chinese consumers when buying foreign products online is the specific research of quality and differentiated products, the presence of substitute products is limited. The only concern could be seen in the case a foreign firm offering is based on commodities, which is not a favourable case as local firms have gained substantial market share.

Bargaining power of customers: As above mentioned, Chinese customers rank high in brand loyalty and prefer not to switch between brands. At the same time cultural and financial dimensions generate consumption stimulation. Indeed, Chinese consumers want to show they are rich, generous and have good taste, even if this might not be true. They buy high-quality products for social status, especially when making presents to enhance guanxi and mianzi. At the same time, the increase in high-income netizens boost the purchase power of potential online customers. Indeed, as above seen, Chinese cross border shopping users usually have a high education level and higher incomes and are willing to spend more money for quality products. At the same time, the modern consumer is informed about trends and brands through the use of social media, bringing the level of information available to the customers very high.

Bargaining power of suppliers: in this analysis we consider the e-commerce platforms as the suppliers. Platforms are gaining popularity over traditional websites, also because of their integration with social media and for their wider range of information availability. Considering cross-border e-commerce, the market is fractioned, with several suppliers that offer an extra service for foreign firms by helping them reach and sell in China, and consequently overcome several entry barriers. On the other hand, for FDI firms in China, the e-commerce landscape is different, with few players that own the market. Nevertheless, the new e-commerce law aims at protecting small and medium enterprises by regulating the market competition: big operators must not take advantage of their position and are prohibited to manipulate the competition and impose fees on sellers.

The digital market seems to be overall attractive for the Italian SMEs. Despite the increasing competition, e-commerce and consumption growth hit high rates and barriers to entry are strong due to cultural and language differences. Moreover, customers are demanding for foreign quality products, especially consumers who’s purchasing power is increasing, the threat for substitute products is low and the bargaining power of suppliers is a little more constraint by the new e-commerce law.

After having accessed the attractiveness of the Chinese digital market for Italian SMEs, the SWOT analysis will analyse if Italian SMEs are suitable entities for participating in such environment.

The SWOT analysis combines the external and internal analysis of the firm, and therefore identifies respectively the strategic opportunities and threats, for example a market still unserved or a pending legislation, and the organization strengths and weaknesses, such as the quality and quantity of the resources (Pontiggia, 2016).

Strengths: Given what has been analyzed in the previous chapters, the flatter structure of SME's give them the needed flexibility to respond to market changes. Indeed, this feature gives small and medium enterprises the advantages of having a rapid communication flow as well as generating motivated employees. As a consequence of more motivated employees, the quality of production and design is high as the personnel is closer to the products and to the customers compared to multinationals, and the training results are more effective. This adaptation to the customer demand and the high customer focus is able to generate higher brand loyalty and concentrate at best in the niche market. Also, SMEs are able to establish deep connections with other firms, suppliers and clients which give them the advantage of accessing to inheld resources.

Weaknesses: As seen before, the main issues with SMES are the lack of financial resources, technical know-how, internationalization process know-how, managerial skills and R&D endeavors. Also, the company culture and the potential negative influences of the entrepreneur may have great impact on the motivation of employees, internationalization level and quality standard of the products.

Opportunities: The external analysis focuses on the opportunities for SMEs that are found in macro and micro dimensions. First of all, as discussed in the previous chapters, the government support level for the development and enhancement of Internet infrastructures has always been very high. Indeed, the government has implemented several legislations in order to regulate Internet use and e-commerce, especially with its latest E-commerce law which aims to protect small and medium enterprises from big platform owners and from intellectual property violations. Also, the fast GDP rate, the potential and forecasted high growth of consumption, e-commerce use, Internet penetration and consumer purchase power offer an appealing environment for foreign firms. Also, thanks to credit restrictions to local enterprises new opportunities of merger and acquisitions arose. Moreover, with the implementation of the Belt and Road initiative, as well as the cross-border platform selling services and availability of data insights, small and medium enterprises may find a facilitated access to the Chinese market as geographical, cultural and financial barriers are lowered. On the macro dimension, the e-commerce law strengthens the users privacy and rights in order to push more people to use e-commerce tools. Also, consumers are trading up from mass products to high end ones and are willing to spend more money on high-quality products, as seen in previous chapters. This is a consequence of changing consumer patterns but also of cultural forces, as guanxi and mianzi are very important in the Chinese culture: buying high-end quality products help consumers show that they have good taste and premium product gifts help enhance relationships. This said, most Chinese brands don't serve in premium and high-end segments. Customers indeed seek such products in foreign brands. Italian SME's may especially focus on the country of origin effect pushing for Italian design and quality products in order to appeal the modern Chinese consumer, as seen in the case study.

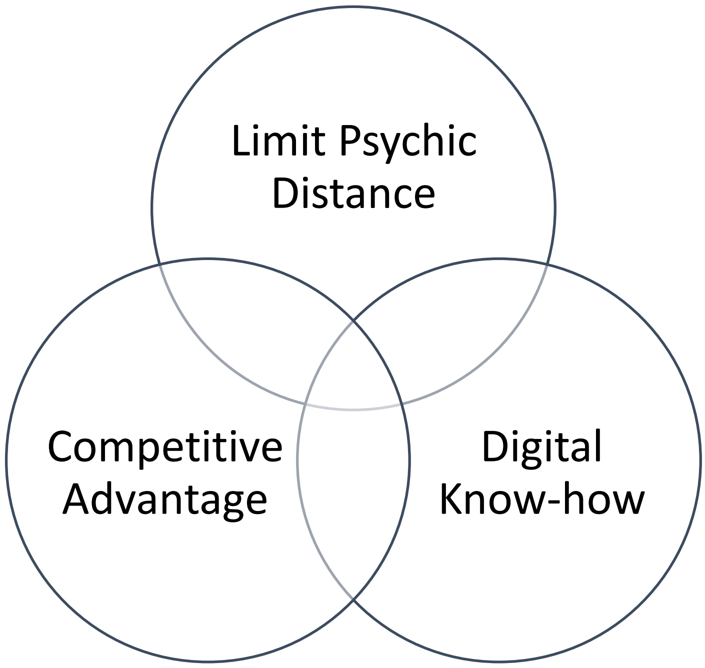
Threats: On the macro level the Chinese Internet censorship forces foreign firms to learn and gain know-how on Chinese websites and social media as traditional western websites may be blocked. At the same time, such high potential market has appealed many foreign firms and, as seen previously, cross-border activity in terms of imports has increased, making the market more competitive and in constant evolution. At the same time, brand loyalty is highly valued in the Chinese market as consumers are less willing, compared to Western countries, to switch between brands, making it essential for firms to focus on brand proposition, retention and experience. Also, foreign firms need to design products which are suitable to Chinese consumers, to their culture and social norms. Indeed, the psychic distance between cultures is a high entry barrier and firms need to gain specific language and culture know-how, as well as legislation and logistic specific knowledge, in order to be successful in the market. Moreover, Chinese local firms have in the past copied foreign firms business models (e.g. Smartphones) and adapt it better to the Chinese market. At the moment, premium and high-end segments are reserved to foreign firms, but it is possible that in the future Chinese local firms might move to such segments and win market share because of the non-presence of psychic distance.

The Italian SMEs have indeed the characteristics to fast and easily adapt to the changes that occur in a market that evolves rapidly like the Chinese online market. Given the weaknesses and the environmental threats above mentioned, SMEs can limit and counteract them by implementing a strategic plan aimed at gaining the right dynamic capabilities need for such evolving foreign market. Indeed, if exploited wisely, the digital market may lower typical entry barriers by reducing marketing and data gathering costs, enhancing know-how though experience in the market, reducing liability of foreignness issues and improving brand loyalty through more efficient customer service and interaction through social media.

Furthermore in the analysis, this chapter focuses on which best practices Italian SMEs should consider in order to be successful in the considered market. It is however important to notice that, just like the internationalization processes of SMEs analysed in the previous chapters, a formula “one size fits all” is unreasonable to formulate. Indeed, factors like product offer, network ties, know-how level, financial stability, company culture and so on, influence the design of different strategies for different firms. However, at the same time, the following analysis aims to enhance the already existing literature and contribute to the theoretical basis regarding the digital strategy of Italian SMEs which want to focus on the Chinese market.

After such premises, and given the competitive environment, firm strengths and weaknesses, the formulation of the best practices for Italian SMEs operating in the Chinese digital market may follow (see Figure 6.1).

Figure 6.1 – Best practices for Italian SMEs in the Chinese digital market



Limit psychic distance

In order to limit the difficulties due to the difference in culture between the firm’s home country and the target market, small and medium enterprises need to understand how to limit the psychic distance previously mentioned in the dissertation.

Starting from the entry mode choice, the company should acknowledge how much knowledge and experience regarding the foreign market is owned internally. Indeed, as seen in previous chapters, a firm with limited international experience should enter gradually in the foreign market, starting from cross-border trade, and start penetrating further as it gains experience. Indeed, the target level of internationalization will depend on the degree of control and resource commitment the firm wants to have. On the other hand, in case a firm already owns good network relationships, financial and human resources and internationalization know-how, may be suitable for a born global strategy, as seen in the case study.

The company culture and entrepreneur personality is indeed important as it can heavily influence the employees due to the direct communication and flat structure of small and medium enterprises. The company should push for an organization open to knowledge learning and dynamic capabilities construction that could add up to the already flexible nature of the SMEs and motivate employees to improve the quality of their work.

Indeed, the company should focus on deepening the Chinese culture, the habits and the social norms, as well as the country legislation, in order to design products suitable for the market and effective marketing plans. Also, firms need to monitor the consumer habits evolution in such a dynamic market and be able to fast adapt to it.

Such flexibility and adaptability skills are innate in the small and medium enterprise organization. However, as SMEs may lack of resources in terms of human capital and international know-how, firms should choose local people or people with high knowledge and experience regarding the market in order to limit the cultural, language and legislation barriers.

Competitive advantage

This dimension covers two main questions: What kind of competitive advantage? How to sustain competitive advantage?

Answering the first question firms will need to focus on what kind of competitive advantage they want to have in the market: premium price or cost. The first case is preferable, as we have seen that the premium segments of the market have not yet been taken by local Chinese firms and customers are seeking for high-quality among the foreign goods. The second case is not preferable as local Chinese firms gained most of the market share in such segment. The only case it could be advisable to enter the lower segments is through merger and acquisition strategies with Chinese local firms, exploiting the current credit restrictions which push local firms to merge with foreign ones.
Moreover, Italian SMEs should focus on the country of origin effect. As the Chinese online market consumers are keen on premium foreign products, which can also help convey good state and high status in the Chinese culture, Italian SMEs can exploit this condition. As seen in the case study, Italian design and quality has resulted to be appealing for online customers that were searching for premium and non-conventional goods.

Furthermore, how may a firm sustain competitive advantage?
SMEs are concerned with the lack of resources both financial and know how. Consequently, they should learn how to manage this void and perhaps exploit the established networks with clients and suppliers to lower market barriers. At the same time SMEs should hire suitable human resources that could help in sustaining the competitive advantage. For example the firm could hire local employees that have a deep knowledge regarding the foreign market.
Also, the flat structure of SMEs which generates good information flow and flexibility should be integrated with a company culture focused on dynamic capabilities and constant learning, which is focused on the customer needs and evolution and the enhancement of quality.
Moreover, firms need to be updated on the market trends in order to deliver products and marketing strategies suitable for the online public. Indeed, they should currently focus on brand experience, loyalty and retention as

well as learn how to communicate through social media in order to appeal customers.

Digital know-how

Last, digital know-how is essential when operating in the e-commerce environment. Indeed, it important for firms to know how to use digital tools in order to address and appeal clients in the digital environment, as well as know the legislation behind it. Indeed, firms may want to hire human resources that are trained in this matter.

Italian SMEs have indeed the right features to enter and penetrate in the Chinese online market. However, if an international strategy is not well planned, the difficulties intrinsic in the nature of these type of firms may takeover. At the same time, digital tools help lowering entry barriers that in the past scared smaller firms: costs and psychic distance. Given the current global economic situation, Italian small and medium firms should open up to internationalization strategies and participate in this "levelled playing field". Firms that are willing to do so will have the opportunity to grow not only in profits, but also in knowledge. Firms who want to learn, experiment and grow in such thriving market as the Chinese digital one, will end up being more successful than firms who counteract the force of an inevitable, dynamic and changing environment brought by globalization.

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