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Master Degree Project in International Business and Trade

Entry Mode Selection

A case study of an Italian Grocery Retailer and its Attempt to Access the
Chinese Market

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Abstract

In today's globalized markets, companies seek new opportunities in developing countries. The most attractive markets are usually growing economies due to their great potentials, i.e. profitability can increase rapidly and markets might not have tight competition yet. However, when companies plan to invest in a new market, they face several issues such as the selection of the right entry mode as well as country specific factors, which might limit or inhibit their competitive advantages. This is what Conad, the second largest Italian retailer chain, is facing now that the Italian consumption of food and beverages is experiencing a significant slowdown due to reduced incomes in households in the aftermath of the global financial crisis. Due to internal stagnation, Conad chose to target China (as a potential attractive nation to internationalize its business activities. This thesis seeks to investigate which market entry mode should be undertaken by Conad. Moreover, this thesis presents an analytical approach, which could be used by other European grocery retailers willing to internationalize their activities towards China. New market trends in China have disclosed high prospects for foreign grocery retailers willing to exploit market potentials. Among several entry modes, this master thesis highlights the benefits associated with direct exports as well as wholly owned subsidiaries. Due to increasing pollution, which affects food safety, Chinese consumers are starting to appreciate imported food and foreign companies are currently facing the opportunity of rapidly implementing their businesses thanks to de-regulations, which took place in the last decade.

1. INTRODUCTION

Conad, an Italian grocery retailer has recently decided to expand its business operation in Asia. However, the company does not have enough extra-European experience. Conad (Consorzio Nazionale Dettaglianti, National consortium of Retailers), is currently the largest Italian group of independent entrepreneurs working in the grocery retailing business. Conad is the second largest grocery retailer chain per market share after Coop Italia; it aggregates eight cooperatives and encompasses a total of 2722 stores (Conad, 2014:12). The company has recently targeted China for expanding its international activities. The internationalization process is pushed by: (1) the Italian stagnation of consumption in the aftermath of the global financial crisis (2) the relatively slow recovery and (3) the increasing costs of production in Italy (Conad, 2014: 37-44).

On the other hand, the pulling factors, which raised Conad's interest towards China are: (1) the increasing number of middle class, (2) a significant overpopulation that opens to high food sales potential and (3) impressive market results and successful experiences from European grocery retailers. As China has recently become the largest global market in terms of grocery sales and forecasted grocery consumption is expected to rise even further (IGD, 2016), this could represent a profitable investment for the company.

The phenomenon of internationalization of European retailers experienced a significant boom at the end of the 1980s. According to Pederzoli (2006), the globalized world in which we live in today, is bringing a higher degree of standardization concerning people's behaviours and lifestyles. In this scenario, retailers are concentrating on "global-scale efforts" hence developing international mindsets (Pederzoli, 2006). Dawson (1994: 267) has defined the international operations of retailers as: "*Operations, by a single firm or an alliance, of shops or other forms of retail distribution in more than one country*". The internationalization of retailers is drastically changing in the new millennium. Many market players (especially grocery retailers) have decided not to internationalize towards developed economies anymore due to market saturation and stagnation of consumption and have therefore targeted developing markets which are experiencing: relevant market growth rates, growing middle-class, weakness of local retailers and lastly those that have faced overpopulation in the previous century (e.g. BRICS countries) (Goldman, 1981). The overpopulation of many emerging markets along with recent economic prosperity are significantly shifting the global volumes of grocery consumption from western countries towards Asia (IGD, 2016).

The internationalization process occurs because of push and pull factors, which shape companies' choice of expansion towards foreign markets (Treadgold, 1988). As many scholars have realized, the international business literature of the last two decades has focused particularly on the motivations behind international activity. According to authors such as Treadgold (1988), Kacker (1985), Vida & Fairhurst (1998), internationalization patterns have been attributed to pushing factors being experience-related. They include (1) high levels of competition in the home country (2) format maturation and (3) heavy regulations. On the contrary, the degree of attractiveness of foreign markets is shaped by several pulling factors (Etgar & Rachman 2007). Pulling factors have been cataloged by scholars into five different categories: political, economic, social, cultural, and retail structure [Alexander & de Lira e Silva, 2002; Wood & Robertson, 2000].

Once the company has assessed the right target market, it is called upon to select the most convenient entry mode for its needs. In International Business studies, the selection of the most suitable entry modes received particular attention from several scholars, which implemented diverging visions on this matter [Chu & Anderson, 1992; Agarwal & Ramaswami, 1992; Buckley & Casson, 1998; Kumar & Subramaniam, 1997: 53-72]. In international business literature, authors have addressed the choice of different entry modes to (1) resource commitment, (2) risk exposure (3) control and (4) profit return (Pan & Tse, 2000)

Companies are called upon to select which entry mode best suits their needs among equity and non-equity modes. Equity modes have been classified as wholly owned subsidiaries (WOS) and Equity Joint Ventures (EJVs). Diversely, non-equity modes include contractual agreements and exports (Pan & Tse, 2000).

Food consumption (food revenues are the most important source of income for the retailer) was significantly affected by the aftermath of the economic crisis in 2008 prompting Conad to seek growth potential in overseas markets; consumption decreased from 475 Euros (average Italian households spending per month) in 2008 to 436 Euros in 2014. There have been no important signs of recovery with the exception of 2011 when consumption reached 2008 values once again but no further positive result has been seen yet (Istat 2016; Istat 2015). Along with lowering sales, the company is facing higher costs of production, which is inhibiting the possibility to invest in new infrastructures and business modernization. Due to country-related difficulties, Conad managers have thought about the opportunity of internationalizing overseas and specifically in China due to the growing middle class, economic prosperity and significant willingness of the Chinese people to taste food from different cultures.

1.2.1 RESEARCH QUESTION AND PURPOSE

This thesis investigates several aspects of high interest for the internationalization process of Conad with: (1) information (pulling factors) about the target market (2) insights on the available entry modes and (3) a comprehensive framework on entry mode selection

Given the above-discussed facts, the research question for this thesis will be the following:

Which would be the most suitable entry mode for a European retailer willing to internationalize towards China?

This research seeks to reveal the most suitable entry mode that Conad, an Italian retailer operating in its national market, should undertake when expanding towards China and suggest key directives to the company. Moreover, this thesis will provide a comprehensive framework suitable to European grocery retailers planning to internationalize their businesses to China.

Despite the research process and consequently the results of this master thesis can be generalized and applied to several European grocery retailers, the authors have paid attention to the Case company Conad in order to provide them with an accurate overview of China and disclosing the dynamics behind internationalizing to such far distant market.

1.2.2 THESIS DISPOSITION

This chapter namely “Thesis disposition” describes the structure of the Thesis (*see Fig.1*). Furthermore, it includes a brief summary of each chapter.

Figure 1: Thesis Disposition



This master thesis is divided into six chapters. The first chapter is an introductory chapter, which explains the contents upon which this research is based. Moreover, it includes the research question and purpose of the research. The second chapter is briefly aimed at overviewing the main contents of the thesis. Firstly, it deals with an outlook of China, including economic, cultural, political and demographical aspects. Secondly, it investigates the development of the Chinese grocery retail market and highlights the changes that have occurred over the last decades. In addition, chapter 2 introduces the case company Conad in more detail. The third chapter focuses differently on the

existing literature concerning the internationalization process of retailers. In order to deal with this, the authors introduce the hierarchical model of entry modes, which explain the reasons behind the choice of entry modes. Contrary to several other approaches used by scholars, this framework suits the case company as it provides a valid comprehensive approach for companies lacking knowledge on important matters such as country and industry specific factors of the target market. The fourth chapter is dedicated to the methodological part. In this chapter, the authors describe how the research has been conducted, the motives behind choosing a qualitative research approach and specifically explains what an “action research” is and how it has been applied throughout this master thesis. The fifth chapter discusses the findings obtained from the interviews conducted by the authors with a Conad manager. Moreover, based on the interviews, the authors enrich the empirical chapter with secondary data on matters of importance for Conad and for the purpose of the master thesis. Lastly, the sixth chapter is dedicated to the analysis, in which these findings will be examined with help from the developed theoretical framework. The last chapter discusses the concluding remarks as well as areas for future research.

2 EXPLORING THE CONTEXT: CHINESE MARKET DEVELOPMENT AND THE CASE COMPANY CONAD

The first part of this chapter will be devoted to examining the Chinese economy, development and outlook. Moreover, the Chinese political environment, demography as well as cultural aspects will be assessed before looking at the Chinese grocery retail market. The second part of this chapter will be devoted to the case company Conad, which will be presented in detail.

2.1 CHINA

2.1.1 ECONOMIC OUTLOOK IN CHINA

With a GDP of 10.35 billion USD in 2014, China is the second largest global economy after the US (17.42 billion USD in 2014) (World Bank, 2016a; World Bank, 2016b). However, the Chinese economy has not grown as forecasted by the Chinese government (which sets up a growth forecast every year) during the last years due to several factors, which have significantly impaired the economic prosperity of the country. The government set a GDP growth target of 7.5% from 2012 onwards. This target was met and went slightly above during 2012 and 2013 but in 2014 in the aftermath of the credit crisis started in 2013, the GDP growth fell to 7.4% hence below government expectations. Lastly, in 2015, the GDP grew by 6.9% (lowest GDP growth since 25 years) (KPMG, 2015, CNBC, 2016).

Moreover, the current economic scenario has its origins back in 1978, the year in which several economic reforms were introduced. The Chinese government has issued several “open market reforms” since 1978s aimed at freeing several industries in order to attract Foreign Direct Investments resulting in a strong economic performance. Those reforms fostering export increase, cheap financing and saving incentives, generated huge investments and enforced the Chinese industry. The most important reform has been the “Open-Door Policy” which included a set of administrative deregulations and several incentives for trading companies in order to start processes of exportation towards foreign markets (Chow, 2004: 131-132). However, fostering volatile exports as well as investments resulted in a declining share of consumption of GDP, which has hampered economic performance in the last years (World Bank, 2013). Because of this, growth slowed down after 2010 to rates lower than 8%. Moreover, weakening domestic consumption along with global uncertainties and the internal credit crisis ended up tightening Chinese growth even further in 2013 (Forbes, 2013).

2.1.2 TRADE-RELATED ASPECTS

Since 2001, when China joined WTO, there has been a significant openness towards global trade (KPMG, 2011). China has signed several free trade agreements. The most relevant have been agreements with: ASEAN trading bloc, Singapore, Japan and South Korea. Moreover, another important step in the internationalization of Chinese trade has been the creation of “bonded zones”. Those areas exist within domestic areas and have special arrangements for custom duties; foreign goods enter without paying duties and are stored there until they have been sold (MOFCOM, 2013; KPMG, 2011).

Exports and imports of goods have grown tremendously in China since the country joined WTO in 2001. They walked hand in hand until 2004 but then due to several deregulations in the export field, exports took over imports and the trend never converged again (ITC, 2016). Imports and exports of goods have faced only two contractions since 2001; one occurred in 2009 in the aftermath of the global financial crisis, the other on the contrary occurred last year in 2015. Differently, imports and exports of services have experienced a growth but still lag behind in comparison to goods (\$233.5 billion USD exported services and \$383 billion USD imported services in 2014) (ITC, 2016).

Figure 2: China Trade Balance (goods)



Source: ITC (2016)

The largest commercial partners for China in the last decade have been: the USA, Hong Kong, the European Union, Japan and South Korea (ITC, 2016).

2.1.3 DEMOGRAPHY IN CHINA

With a population of approximately 1.4 billion inhabitants in 2015, China is the most populated country in the world. Similarly, with 1.31 billion inhabitants in 2015, India is the second most densely populated country in the world and is expected to overtake the Chinese population in 2022.

The number of inhabitants grew tremendously after the 1950s and in 1985 China already accounted for 1 billion inhabitants (approximately 25% of the global population). The population increase has been attributed to factors such as: better life conditions which allowed for a better life expectancy and surge in birth rates. It is expected that the current population rise will flatten out in 2030 (to approximately 1.4 billion inhabitants) and in 2050, it should start to decline (UN, 2015). The period 1950-1980s was marked by a fertility rate of approximately 6.0 (World Bank, 2016c). To prevent an uncontrollable population surge, the Chinese government was forced to issue a policy known as the “One child policy” mainly strictly enforced in urban areas while more relaxed in rural areas (BBC, 2015). Thanks to the enforcement of this policy, the fertility rate dropped to 1.55 in the early 2000s. However, due to several political debates on the violation of human rights and inhibited personal freedom, in 2015, the Chinese communist party partially abolished this policy enabling couples to have two children (The Guardian, 2015, UN, 2015). However, this policy has also generated serious problems for the Chinese working population because the dependency ratio has increased dramatically. The dependency ratio was defined by the World Bank as “*The age dependency ratio is the ratio of dependents--people younger than 15 or older than 64--to the working-age population--those ages 15-64*” has been twisted since the one child policy and in 2014, the dependent population accounted to 36%. This implies that the working population in 2014 sustained 504 million “dependent” inhabitants (World Bank, 2016b; UN, 2013).

Population density is a major problem for eastern Chinese coastal provinces. The most densely populated areas can be found in coastal cities where the economy has experienced a significant boom such as Shanghai, Beijing, Tianjin and Jiangsu. Similarly, the most populated provinces are Guangdong (most populated Chinese province with 100 million inhabitants), Shandong and Henan (NBS, 2016).

2.1.4 ECONOMIC DISPARITIES

One of the most prominent elements to consider when studying the economic development in China is the existence of economic disparities on the Chinese territory. In the aftermath of the economic reforms that took place in 1978, the Chinese government has invested heavily on spatial development of coastal areas. This strong growth which started in 1978 has led the regions of Bohay Bay (includes Beijing, Tianjin), Yangtze River Delta (includes Shanghai, Suzhou, Hangzhou, Ningbo) and Pearl River Delta (includes Macao and Hong Kong) to be the most developed regions of the country. However, for the first time, since 2007 many inner cities and regions have begun to grow faster than the coastal cities. The most growing inner regions are: Changsha, Chengdu, Chongqing and Wuhan. The exponential growth in this region is primarily due

to the strong urbanization that has taken hold in recent years throughout China (The Economist, 2015; Sovereign, 2015) Currently, due to the strong existing economic disparities within China, cities are classified into five different groups based on the ratio of each city with the central government and its domestic consumption market. The cities classified as Tier 1 (e.g. Shanghai and Shenzhen) are classified as megacities and are the richest. The cities of the Tier 2 category are very similar to those of Tier 1 but slightly smaller (Hangzhou and Wuhan). Almost all the cities of the first two levels are located in coastal areas (east). Tier 3 and Tier 4 cities are smaller, underserved and geographically dislocated. All the remaining cities are included in Tier 5 (Keely, 2015).

2.1.5 DOING BUSINESS IN CHINA

An integral part of the Chinese culture and business climate is “*guanxi*”. *Guanxi* refers to relationship building and networking when doing business in China. Furthermore, China is ranked ‘90th when it comes to the ease of doing business, hence setting up a business is very time-consuming and usually takes more than three months due to bureaucracy and lack of efficiency (Doing business, 2016). Chinese culture is characterized by high power distance, high collectivism and low uncertainty avoidance. Moreover, in addition to *guanxi* other Chinese concepts of importance are, for instance *renqin* i.e. compassion and a paternalistic leadership. Furthermore, the Chinese business environment is characterized by long-term orientation and hierarchy. Nevertheless, culture is known not to be static and China is no exception. Hence, although traditional values and norms are well embedded in the Chinese culture, the business climate is slowly changing. For instance, it is getting more and more common to experience differences between social culture and business culture (Leung, 2008).

The Chinese political environment is based on the Leninist principles. According to those principles, the Chinese Communist Party (CCP) is endowed with monopolistic power over national institutions. As many scholars pointed out, the Chinese political environment has been characterized by the “nomenklatura system”. This regime refers to the old political system existing in the Soviet Union in which the central government had the role of selecting appointees throughout the union. Similarly, China experiences a vertical approach in which leaders select appointees throughout the Chinese territories aimed at sustaining development inside the country (Brodsgaard & Yongnian, 2006). However, the nomenklatura system has evolved during the years but has nowadays kept the same hierarchical pyramid. The National People’s Congress is at the top of the monopolistic system. Many economic and political decisions are decentralized. Local authorities, presided by trusting appointees of the Congress, are entrusted with making important decisions, which are

reported and approved by the Congress (Yongnian, 2009; Brodsgaard & Yongnian, 2006). Independently from provinces-specific factors such as high spread corruption, economic disparity and social differences, the decentralized system has not worked properly. Power dispersion has indeed created significant legal differences among the provinces resulting in decreasing FDI attractiveness of some specific areas (Yongnian, 2009).

Moreover, another major problem of Chinese politics, which inhibits FDI attractiveness, is the presence of a large number of state-owned enterprises (SOE). Those companies are either fully or partially owned by the Chinese government, which raises their power by financing the latter hence creating unfair competition (The Economist, 2012). This highlights that corruption in the Chinese institutions is a tangible issue. According to Transparency International, China ranks as a very corrupt country (on a scale ranging from 0 to 100, in which 0 identifies no or very low corruption while 100 implies high corruption, China scored 37) (Transparency International, 2016).

Due to high existing corruption in the country, non-transparent regulations issued by the government and relatively “limited” freedom of expression, the country has experienced terrible strikes against the government. Among those strikes, the renamed “umbrella revolution” which burst in Hong Kong in 2014 created tension as well as repression. Joshua Wong, the leader of this revolution was emblematically arrested on 26th September 2014 (Asia Risk, 2011; The Economist, 2014).

2.1.6 THE CHINESE GROCERY RETAILING

The Chinese grocery retailing market is currently the largest in the world with a total consumption of \$1119 billion USD in 2015 and it is expected to reach \$1491 billion USD in 2020. The US follows with \$1078 billion USD in 2015 (IGD, 2016). Retail sales in China already accounted for \$628 billion USD in 2004 and the country was the third largest global grocery food consumer. Growth accounted for a 9% yearly average in the first years of the new millennium (Hingley, Lindgreen & Chen, 2009).

In order to frame the modern grocery retailing sector in China it is necessary to understand how it has evolved in the previous years. China like other communist parties had a planned and centralized economy. The grocery sector was owned by the Ministries of Commerce and Materials (Lavigne, 1995). In a planned economy, the intention of the government is to provide food to the inhabitants only for necessity reasons and therefore there was no need to develop new products as well as product design to attract customers (Mun, 1988; Dawson et al., 1994).

The first foreign retailers, which entered China in 1990s, brought a high degree of innovation along with new retailing techniques which allowed the Chinese grocery retail sector to develop but several restricting rules existed and their performance was seriously impaired. However, in 2004, three years after China joined the WTO (World Trade Organization) regulations started to be lifted and a greater liberalization such as the possibility of entering the market with a WOS (wholly owned subsidiary) prompted new entrants to join (Hingley, et al., 2009). Competition exploded in the market and at the same time local food producers started to export their products, which were previously produced only for internal consumption (Ambler & Witzel, 2004). This transition from a communist economy to a semi-reframed economy evidenced the capitalist revolution. Many large grocery retailers remained state-owned while many became independent (Lavigne, 1995).

The post-deregulation market preserves many aspects of traditional China such as the presence of many SOEs (State-owned enterprises). In 2013, the market leader was a SOE namely CR Vanguard (CRV), with \$16,405 million USD in sales. Nowadays however, the market is very open to foreign players, who indeed play a major role in Chinese grocery retailing. Moreover, the import of foreign products is increasing every year, retailers are strongly introducing the concept of private labels inside their stores and lastly the free market is prompting many international players to invest (USDA, 2014).

Figure 3: National and International Grocery retailers (ranked by sales)

Leading Food Retailers in China: 2013						
<i>Chinese</i>						
Rank	Rank Company Name	Onwership	Business line	Sales* Volume (unit: million Dollors)	Store Count	Growth Rate of Store Number (%)
1	CR Vanguard (CRV)	China SOE**	Super/Hypermarket/Convenience	16,405	4637	4.8
2	Lianhua Group	China SOE**	Super/Hypermarket/Convenience	13,092	5604	-3.4
3	Yonghui Superstores Co., Ltd.	China Pvt	Super/Hypermarket/Convenience	5,729	292	17.3
4	Nonggongshang	China SOE**	Super/Hypermarket/Convenience	4,902	2644	-3.3
5	Wu Mart Holdings Co., Ltd.	China Pvt	Super/Convenience	3,548	547	1.7
6	Beijing Hualian	China Pvt	Super/Hypermarket/Convenience	2,402	140	7.7
<i>Multinational</i>						
1	RT-Mart	Taiwan	Super/Hypermarket/Convenience	13,092	264	20.5
2	Wal-Mart China	U.S. JV	Super/Hypermarket/Convenience	11,800	407	3
3	Carrefour	France	Super/Hypermarket/Convenience	7,632	236	8.3
4	Tesco	U.K.JV	Super/Hypermarket/Convenience	3,350	144	29.7
5	Metro	Germany JV	Super/Hypermarket	2,859	75	19
7	LOTTE Mart	Korea	Super/Hypermarket/Convenience	2,533	110	11.1
8	Auchan China	France	Hypermarket/Convenience	2,466	59	9.3
9	Lotus	Thailand	Hypermarket/Convenience	2,247	77	2.7

**Food and non-food sales *SOE=State-Owned Enterprise
Source: China chain store & franchise association*

Source: USDA, 2014

One of the key drivers of China’s grocery retail growth is the strong urbanization along with increasing disposable incomes. Urbanization is growing significantly (+3% in 2013). Urban areas offer higher salaries hence higher household spending for food (e.g. urban households spent on average \$1035 for food in 2013 vis-à-vis \$409 USD by rural households) (USDA, 2014).

Hypermarkets are the most important sales venue for international products in China due to their strong organizational skills and better management, which allow the latter to raise brand awareness of imported products (USDA, 2014). On the other hand, supermarkets are very specialized in typical Chinese products but recently introduced a limited presence of foreign products. Differently from hypermarkets, supermarkets are most likely to buy foreign products from intermediaries rather than establishing their own purchasing network (USDA, 2014). Very relevant for the sale of foreign imported products in Tier 1 and 2 cities, the specialty shops have a proportion of 50 to 80% (average) of foreign imported products (USDA, 2014). When one studies the Chinese grocery market, it is essential to analyze the growing e-tailing market. In 2013, 600 million users purchased via internet hence making up a significant share of the Chinese population (KPMG, 2014). Online shopping in China in 2009 accounted for \$36.6 billion; younger buyers, between the ages of 13 and 28, who spend a lot of time on the Internet, have primarily driven this growth. Moreover, one of the reasons behind the tremendous growth is said to be secure and more trustworthy payment methods (Forbes, 2010).

2.2 THE CASE COMPANY: CONAD

Conad was created on May 13, 1962 in Bologna as a cooperative society with limited responsibility. Since then several members joined and the company experienced a huge “entrepreneurial success” all over the country. The food industry is one of the most important pillars of the Italian economy; in 2014 it contributed to 8.7% of the Italian GDP (approximately 119 billion Euros of value added) and employs 13.2% of the employed (3.3 million Italians). The Italian food industry includes 4613 products officially recognized as “traditional” and a large share of the latter is currently produced by small family owned local businesses (Conad, 2014: 39-42). Since 2004, Francesco Pugliese, the newly elected CEO, engaged Conad in several new businesses other than grocery retailing. In 2005, Conad opened its first petrol station in Lucca. Similarly, in 2010, Conad opened a concept store dedicated to glasses namely “Ottica”. Similarly, in 2004 Conad and Rewe started a cooperation aimed at improving competition on the Italian territory. Lastly, one of the most recent as well as successful business differentiations has been the opening of “Sapori&Dintorni” stores in the heart of Florence (Conad, 2016a)

The organizational structure of Conad is based on three structural layers. Firstly, the national consortium which works as a central hub and coordinates national and international strategies, services, marketing and communication and is responsible for the private labels. Secondly, the cooperatives which operate in different regions of the country; their aim is to support and coordinate the activities of each single associate from administrative, commercial, logistical and financial perspectives. Each cooperative encompasses at least one Italian region. The eight cooperatives are: Nordiconad, Conad Centro Nord, Comm. Ind. Ass., Conad del Tirreno, Pac2000A, Conad Adriatico, SicilConad and Conad Sicilia (Conad, 2014: 17). Lastly there are the associates, hence the owners of the retailers (Conad, 2014:12-16).

The market shares in 2014 was 11.7% (+0.3% relative to 2013) vis-à-vis the market leader Coop Italia which in contrast bears 15% of the national market share (unchanged from 2013). The other prominent players in the market are Selex and Esselunga, which in 2014 owned 9.4% and 8.7% of the market share respectively. (Conad, 2014: 60-61) Conad has experienced very stable growth in the last ten years despite the crisis that significantly affected household’s consumption and the overall Italian economy. The turnover increased from 11.5 billion Euros in 2013 to 11.66 billion Euros in 2014 (Conad, 2014:57).

2.2.1 CONAD'S PREVIOUS INTERNATIONAL ACTIVITIES

Conad has undertaken several international experiences. The most significant have been: strategic alliances with European partners, Greenfield operations in Malta, Albania and Kosovo and export-based entry modes in many European countries (the company has a premium private label namely Creazioni D'Italia which has been shipped throughout Europe since 2006) and lastly exports in Hong Kong. In 2006, Conad joined Coopernic (the largest European strategic alliance) which has changed its name several times in the last years due to the withdrawal or joining of members (Conad, 2016b; CDPSERVICE; Comma, 2015: 12).

The strategic alliance named "Coopernic" (Coopérative européenne de référencement et de négociation des indépendants commerçants) was agreed in November 2006 and only went into effect in February of the following year. Coopernic was the first major European agreement undertaken by Conad, which aimed at exploiting cooperation with potential European partners in order to boost transfer knowledge as well as promoting international trade amongst the members. Already in 2006, in the aftermath of its foundation, Coopernic became the largest European strategic alliance among retailers (10% of the whole EU market share), and the second most important global player after Wal-Mart (Comma, 2011: 14-16).

3. DEVELOPING THE THEORETICAL FRAMEWORK FOR RESEARCH

This section of the thesis deals with a literature review on (1) retailers internationalization (2) market analysis and (3) entry modes. Moreover, it includes a theoretical framework that will be used thereafter for data collection as well as analysis of the empirical data.

3.1 LITERATURE REVIEW

3.1.1 MARKET OPPORTUNITY ASSESSMENT

The selection of an economically attractive market is a very important feature inside international business literature and plays an important role prompting foreign market entry (Coe & Wrigley, 2007). Nevertheless, the selection of market entry is closely linked to the reasons for internationalization. Hence, as Williams (1992) pinpoints, there are five reasons for retailers' internationalization. The first reason is growth oriented i.e. pressure to continually seek growth opportunities in order to increase sales and profits. Secondly, due to limited domestic market growth opportunities, which stem from a stagnated and matured domestic market, and increased competition. The third reason is in relation to internationally appealing and innovative retail concepts, these motivations are due to the convergence of certain international market segments. The fourth is due to passive and subjective reasons, which for instance could be offers from foreign retailers, surplus resources, or imitating competitors' internationalization moves. The fifth reason for retailers' internationalization call other motivations and refer to transfer of retail "know-how" and techniques as well as senior management drive and economies of scale (Williams, 1992). The reasons behind Conad's internationalization is of relevance in order to assess the best possible entry strategy as it defines what Conad are looking for with their foreign expansion.

Limited domestic market growth opportunities in the grocery retailing in Italy are currently prompting several companies (including Conad) to internationalize. Large home markets in terms of population is shown to be a growing point for international retailers (i.e. the competitive environments supported by a large home market provide the base and stimulus toward international expansion). This further supports the notion that retailers expand out of competitive home markets, as a reaction to saturation and competitive pressures. In addition, the less developed markets are seen as the most prominent hosts for retailers' international operations. Although they have a lower level of retail spend per capita, the markets they favour possess large economies with a large gross domestic product. Furthermore, the markets are characterized by high retail business numbers and thus may be considered as less advanced or competitive. There is also a lag between economic size

and development and retail structures, where potential retail figures have yet to be reached (Rhodes & Myers, 2007). To understand how a country is attractive from a commercial point of view, Alexander & Doherty (2009) have highlighted the need to address the following factors for the purpose of a careful selection of the target market: (1) the public policy environment (2) the economic development (3) social conditions and (4) cultural assumptions.

The level of retail market development is associated with the overall level of economic country development. This implies that when internationalizing, retailers have to investigate the retailers' market characteristics and select potential markets in which there are growth prospects (Chan, Finnegan, & Sternquist, 2011). The literature concerning the retailers' potential target markets has changed due to the changing nature of international opportunities (e.g. the geopolitical reassessment of the late 1980s such as the collapse of communism and the Far-east development) (Alexander & Myers, 2000). Hence, market potentials have been identified as key drivers of internationalization. Authors such as Karande & Lombard, (2005), include high per capita income and high population as major pulling factors for retailers' internationalization. On the other hand (Marino, Lau & Yeh, 2002) identify large population countries as the true potential for growth independently from the per capita income. Examples of potential growth markets are China and India where income per capita is growing but still lags behind developed nations but the population is yet very large (Chan *et al.* 2011). The process of retailers' internationalization has a close link to the motives behind the internationalization. Thus, the reason for internationalization has an impact on which market to enter. The attractiveness of a country is by no means cut off from the company's reasoning to enter certain markets. It is therefore of great significance not only to assess the possible markets available for entry, but also why a selected market is of interest to Conad.

3.1.2 ENTRY STRATEGIES

The international expansion of retailers focuses on understanding the various entry strategies available. In the existing literature, great importance is attached to the first oversea's experience of retailers as it plays a vital role in understanding the future ability of the company and of any skills and attitudes. According to Chan *et al.* (2011) the first market entry shapes future performance. In International Business studies, the choice of different entry modes has been attributed to several factors been country-specific, firm-specific and industry-specific. Moreover, from a budgetary perspective, companies are called upon to choose which kind of entry mode they want to adopt among equity and non-equity modes. Equity modes have been classified as wholly owned

subsidiaries (WOS) and Equity Joint Ventures (EJVs). Differently, non-equity modes include contractual agreements and exports (Pan & Tse, 2000).

The choice of entry mode is not straightforward. There are many existing markets, which limit equity modes to EJVs hence impeding foreigners to set up WOS. The choice of which entry mode resulted in being the most suitable in a specific context required high attention in the literature. There are currently three different divergent visions in the literature aimed at pointing out the reasons behind selecting equity vis-à-vis non-equity modes of entry. The first school of thought namely “A model of knowledge development and increasing foreign commitments” views business operations as risky due to key differences in political, economic and cultural factors. Due to the aforementioned risks, companies should expand slowly by adopting a gradual involvement of resources in the foreign market. The starting point would imply a low level of resource commitment hence an export-based entry mode until reaching a higher level of resource commitment (e.g. WOS) [Chu & Anderson, 1992; Johanson & Vahlne, 1977]. The second school of thought namely “Transaction cost perspective” takes into account that companies will internationalize only those activities, which can be carried out abroad at a lower cost relative to the domestic market. The choice of what entry strategy to use when entering a new market is an integral part in order to successfully penetrate the market (Anderson & Gatignon, 1986). It is therefore of great importance for this thesis to have a clear understanding of the strategies available and the pros and cons with different alternatives in order to make a solid assessment of what strategy to adopt.

3.2 THE HIERARCHICAL ENTRY MODE MODEL

3.2.1 INTRODUCING THE HIERARCHICAL MODEL

The framework used in this thesis is based on “the hierarchical model” discussed and introduced by Kumar & Subramaniam (1997: 53-72) and then adopted by Pan & Tse (2000) in a research namely “The hierarchical model of market entry modes”. The framework will thereafter be expanded with the BCG (Boston Consulting Group) Portfolio analysis used by many authors such as Ghauri & Cateora (2010: 264-280) and finally with the MEMS Model (market entry mode selection model) introduced by Koch (2001). Additionally, theories from several other scholars have been used including Root (1994:5-20), Hollensen (1997), Cheng (2006), Chu & Anderson (1992), which are of major importance for this theoretical framework.

The hierarchical model introduced by Kumar & Subramaniam (1997, 53-72) differs from research patterns on entry strategies conducted up to that moment as it assumes that: “*Managers use a*

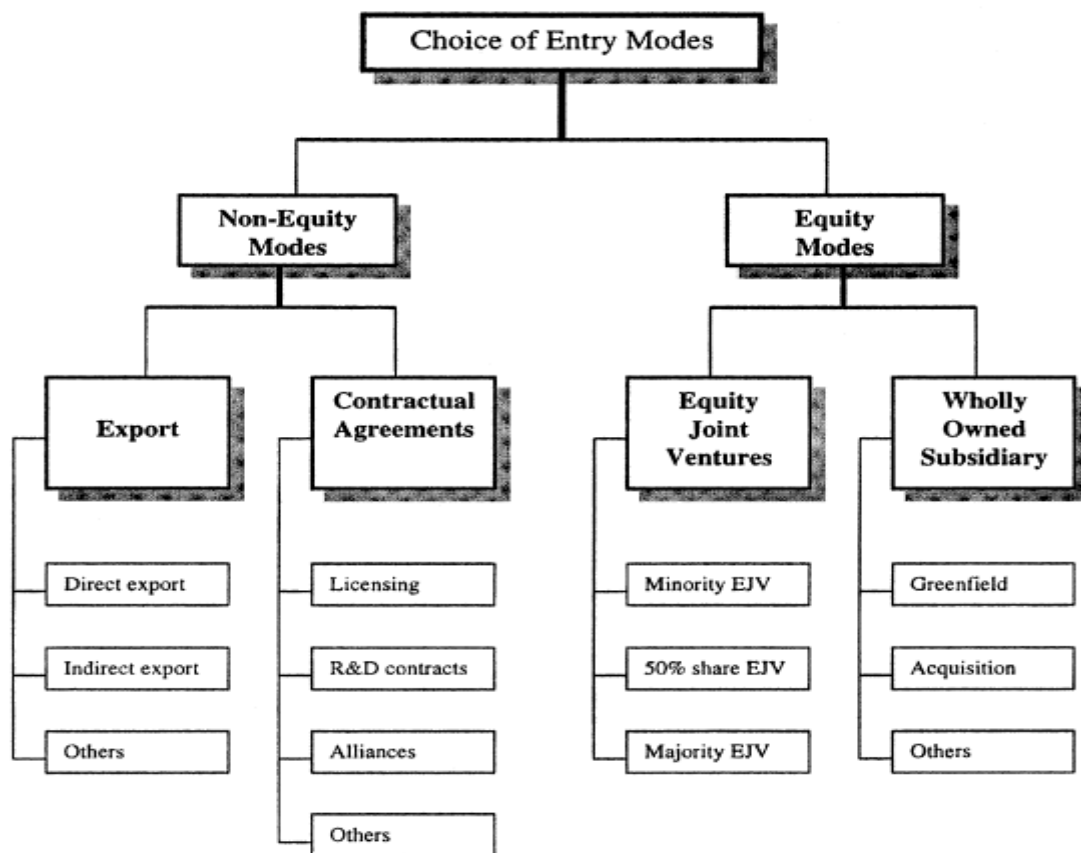
hierarchical process during the mode of entry decision task; managers consider only a few critical factors at each level of the hierarchy; managers consider different factors at different levels of the hierarchy" The decision of using the "MEMS Model" introduced by Koch (2001) and the BCG Portfolio analysis comes from the need to identify the "selective factors" that Kumar & Subramaniam (1997: 53-72) identified as "key factors" that influence the choices of managers at each level of the hierarchy. The factors used by Koch (2001) were previously used in several other researches (Kumar & Subramaniam, 1997: 53-72; Anderson & Gatignon, 1986; Kim & Hwang, 1992; Root, 1994:5-20). The choice of different entry modes is associated by Kumar & Subramaniam (1997: 53-72) to three major factors: (1) country-specific factors (2) industry-specific factors and (3) firm-specific factors; Koch (2001) uses the same model but renames these three factors to *internal* and *external* factors. He names internal factors what researchers previously referred to firm-specific factors while external- factors include country and industry specific elements. In his research, Koch (2001) attributed to some firm-specific factors the choice of equity versus non-equity modes.

This comprehensive framework will use a very clear and direct path. Firstly, it introduces the most important entry modes depicted in *Figure 4*. Secondly, it discusses the hierarchical model and the necessity to identify "critical factors" during the selection process of the most suitable entry mode. Finally, the last part overlaps findings from Ghauri & Cateora (2010: 264-280) and Koch (2001) with the purpose of integrating the concepts of "firm, country, industry specific factors" with the hierarchical model and therefore draws a list of criteria upon which managers shall reflect while selecting the most suitable entry mode for a company. The reason why this comprehensive framework suits Conad case is given by the fact that the company is not yet aware of country and industry specific factors. The missing knowledge does not allow the company to depict which firm-specific advantages it bears on this market. If differently, Conad would have been fully aware of the features of grocery retailing in China and country-specific factors, it would have been more appropriate to develop a framework based on industry-specific factors in order to highlight where Conad stands vis-à-vis its competitors in China.

The factors identified by Ghauri & Cateora (2010: 264-280) and Koch (2001) have been selected for this theoretical framework because they are: (1) extensive and explanatory (2) detailed (3) already used in previous researches concerning entry modes. The first part of this framework has been chosen in order to assess the best way for Conad to successfully set up business in China. Hence, the country, industry, and firm-specific factors contribute to the understanding of how to

choose the proper entry mode. First, it opens up identifying the most suitable entry mode for Conad, and second through the selection of key factors in order to, in a rational way, evaluate how an Italian retailer can get a share of the Chinese grocery market. This model is very useful for Conad's case because considering all the entry modes simultaneously implicitly points out that the decision maker does not have enough knowledge of the target market and therefore views all entry modes simultaneously at first glance.

Figure 4: The Hierarchical Model of Entry Modes



Source: Kumar & Subramaniam (1997: 53-72)

3.2.2 NON-EQUITY VS EQUITY MODE OF ENTRY

Root (1994:5) described the different entry modes as "an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management, or other resources into a foreign country".

Export: Exporting involves transferring goods from one country to another (Baker, 2013). The "export" entry mode can be distinguished in Indirect and Direct Export. Indirect export is definitely

a very low-risk entry mode since the products exported are managed by companies located abroad which have knowledge of their domestic market (Lambin, 2007). Five different intermediaries can assist indirect exporting according to Hollensen (2007), be it: Export buying agent, Broker, Export management company/Export house, trading companies, Piggyback (distributing products through the distribution network of a local company). Direct export instead implies that the company should be concerned directly about the sale of products in the foreign market (Lambin, 2007).

Strategic alliance: Strategic alliances are agreements established among two or more companies willing to cooperate in a business activity. Thanks to the settlement of a strategic alliance, all the members benefit from each other's strengths as well as cooperation and therefore acquire significant competitive advantages (Išoraitė, 2009).

Licensing: Licensing is a transaction among a licensor who provides proprietary assets and a foreign company, which in this case acts as a licensee in return for royalty fees (Kotabe & Helsen, 2010).

Franchising: A Franchise Agreement is a contract that allows a "franchisee" to receive the right to sell products and / or the right to use the trademark belonging to a "franchisor" that is a grantor. This form of agreement is very similar to licensing because the franchisor leases its name for a certain period and assists the franchisee in different steps of the business activity (Lafontaine, 1993; Erramilli, Agarwal & Dev Chekitan, 2002).

Management contracting: A contractor provides management expertise to a company, which supplies capital and handles all the operating functions in the value chain in selected foreign countries (Hollensen, 1997).

Equity Joint Ventures (EJV): Two or more users (companies) stipulate an agreement aimed at the creation of a separate and independent entity. The newly created entity allows members to share costs as well as risks. Kogut (1991) and Harrigan (1988) view EJV as a potential tool for risky and unexplored markets. The model shown in Figure 4 divides EJV based on the stake (minority if the stake is lower than 50%, majority if it is higher than 50%) that a partner has in the partnership (Pan & Tse, 2000). In addition, one of the major issues in a joint venture is the compatibility of the partners. The choice of a partner affects the mix of skills of the EJV and the resources available to be exploited in order to achieve strategic goals (Geringer, 1991; Madhok, 1995).

Wholly owned subsidiaries have been distinguished in: Greenfield operations, Acquisitions and others (Pan and Tse, 2000). Greenfield Operations: defined "ground-up" operations as they foresee the process of establishment of a new subsidiary in the selected country. The Greenfield operation is a type of investment in which the incoming company can select all the most convenient affordable dynamics without having to respond to requests of any partner (Cheng, 2006; Hollensen, 1997). Acquisitions: Are a direct "alternative" to Greenfield. An acquisition within a foreign market has been defined by Cheng (2006) as "the purchase of the stocks of an established firm in the host country by another firm HQ (headquarter) outside its domestic market, alone or with one or more partners". In order to be a defined acquisition, the company or group of companies' buyers have to buy more than 50% of the shares in order to gain control of the acquired company (Cheng, 2006).

Others: include all other forms of Equity mode (Pan & Tse, 2000). When entering a market, the issue of choosing between an equity or a non-equity mode of entry is of huge relevance. In the case of Conad and their entry into the Chinese retail market the choice of entry is closely linked to resource commitment, risks and how to successfully penetrate the market. Moreover, the structure of the market as well as the regulations play a significant role as of what entry mode is the most suitable. Thus, having a clear understanding of the pros and cons with different modes of entry enables a proper evaluation of how to enter the Chinese market.

3.2.3 THE HIERARCHICAL MODEL OF ENTRY MODES

The Hierarchical model, as previously stated, takes into account that managers evaluate different entry modes at the same time in a multi-level model in which a set of evaluation criteria helps managers to define which entry mode best suits their company needs (Kumar & Subramaniam, 1997: 53-72; Pan & Tse, 2000). However, Pan & Tse (2000) in their work several other methods of entry mode selection are introduced. The most relevant is the model of "resource commitment" which views market knowledge as the sole element of success in a foreign market. This implies that companies will have to foster first non-equity modes of entry, gain market insights and then increase the level of resource commitment

According to the hierarchical model, managers are called upon to select an Equity or non-Equity mode (Chu & Anderson, 1992). Thanks to this principle, managers are able to verify the utility of all the equity entry modes and all the non-equity modes together, thanks to several "evaluation" factors (Pan & Tse, 2000). The choice has been attributed to a sequential process in which, while selecting the most suitable entry mode, managers make decisions rationally and analytically. After

choosing whether to enter the market through an Equity or Non-Equity mode, it is very important at this stage to understand that the hierarchical model considers all the factors (firm specific, country-specific and industry-specific) at the same point in time. Lastly, Pan & Tse (2000) emphasize the role of the hierarchical model for decision making because they highlight that since the entry modes differ drastically from one another, a simultaneous and comprehensive evaluation would indeed be more efficient than the “one-by-one approach”.

3.2.4 KEY CRITICAL FACTORS

Following Pan & Tse (2000), this section will consider firm-specific factors based on Koch (2001), Benito & Welch (1994) for the selection of Equity vs. non-equity modes followed by industry, country and firm specific factors for the evaluation of the most suitable entry mode (Koch, 2000, Ghauri & Cateora 2010: 264-280).

Firm-specific factors as mentioned by Pan & Tse (2000) play a major role for the first screening process in which the company will select either an Equity or Non-Equity mode of entry. When analyzing firm-specific factors for a company such as Conad, one should consider that Conad is a Multinational Corporation with a turnover of 11.6 billion USD in 2014 (Conad, 2014: 57) and therefore its resources availability is much higher than SMEs. However, since the hierarchical model assumes that managers are always rational, it is interesting to consider that independently from the availability of resources, the international office of Conad has to evaluate Equity vis-à-vis non-Equity modes simultaneously in order to select the most suitable mode for company needs. Differently, SMEs might feel forced to enter the market through non-equity modes due to budgetary constraints and therefore the hierarchical model might not suit their needs because the first screening process (Equity/Non-equity mode) is driven by monetary factors.

When companies decide to go international, their economic availability plays a standpoint for the selection of suitable entry modes (Koch, 2000). Small businesses often have a small budget, and therefore will have to think about the degree of resource commitment that they want to invest in the foreign market (Benito & Welch, 1994). Another key element to consider when selecting equity vs. non-equity modes is the "management potentials". Very often the larger the company the greater the management skills that could allow managers to invest significantly on foreign territory. Small companies rather do not have this potential and thus are obliged to start their expansion through non-equity investments (Koch, 2000). Finally, another prominent firm-specific factor or "internal factor" as defined by Koch (2000), is the risk management attitude. The higher the risk attitude, the

more the companies will be prompted to invest through equity modes, which involves high resource commitment. In conclusion, this theoretical framework has selected factors such as resource availability and resource commitment, management skills and lastly management risk attitude for the selection of equity vis-à-vis non-equity entry modes in a foreign market.

Once an assessment has been made as to whether the company is most likely to invest through equity or non-equity modes of entry, it is important to understand which factors according to the theories of Ghauri & Cateora (2010: 264-280) and Koch (2000) companies should consider (simultaneously as specified in the hierarchical model) in order to select the most suitable entry mode for their needs. To do so, this theoretical framework uses Ghauri & Cateora (2010: 264-280) as a frame (*see fig. 5*) and introduces concepts from Koch (2000).

Figure 5: Dimensions of Country Attractiveness and Competitive Strength (BCG)

Country attractiveness	Competitive strength of the company
● Market size (total and segments)	● Market share
● Market growth (total and segments)	● Marketing ability and capacity
● Competitive conditions	● Product and positioning fit
● Market uncontrollables (cultural, legal and political environments)	● Quality of distribution services

Source: Ghauri & Cateora (2010: 264-280)

According to Koch (2000), information regarding industry and country-specific factors (country attractiveness in the BCG model) might not always be available.

3.2.5 COUNTRY AND INDUSTRY SPECIFIC FACTORS

Market data (size and growth) has a significant importance for entry mode selection. The most relevant element to consider when evaluating markets is the sustainability of market growth. Short-term sustainable growth does not imply that the company should not invest but differently, affects the time lapse in which the investment is placed (Koch, 2000). The competitive conditions are framed by Koch (2000) in: the features of the oversea country business environment, popularity of the market entry modes in the hosting country, industry “feasibility” of a selected market entry mode. The market uncontrollables have been classified as legal, cultural and political in the BCG portfolio analysis. Moreover, Wood and Goolsby (1987:34-52) identify market potential barriers as:

“tariffs, governmental regulations, distribution access, natural barriers, and exit barriers”. The barriers to the market are in the case of Conad one of the most important areas, as they set the rules for the market entry.

3.2.6 FIRM-SPECIFIC FACTORS

On the other hand, the selection process shall be constructed upon elements belonging to firm-specific factors as well. Market Share is a prominent factor to consider because companies will adopt entry modes aimed at market share maximization. To achieve proper results, the company shall set a time lapse and profit targets (Koch, 2000). Another two prominent firm-specific factors are marketing ability and capacity, which respectively indicate the ability to commercialize its products and the resource availability to initiate the commercialization. Thirdly, the company shall reflect upon how to position its product on the target market. Lastly, how well the company serves customers in the target market can definitely be an important element to consider before undertaking any kind of investment (Ghauri & Cateora 2010: 264-280).

3.2.7 PREVIOUS EXPERIENCES

There are different opinions on the relationship between firm experience and selection of entry mode. For instance, according to the transaction cost theory, a firm seeks to exploit its superior organizational and technical expertise and thus prefers the Greenfield entry in order to enjoy greater R&D intensity. Nevertheless, when a firm enters a foreign market, JV's (Joint Ventures) or acquisitions are usually the fastest path utilized to acquire key resources if the company aims at gaining product specific knowledge of local firms. Cultural and national factors are also said to play an important part; for instance, the level of economic development may affect the entry mode, as companies usually want to avoid wholly owned subsidiaries in high-risk countries (Chang & Rosenzweig, 2001).

The degree of control, in terms of ownership, is often perceived as an important aspect of entry mode selection and is often investigated in the literature [Stopford & Wells 1972; Anderson & Gatignon 1986; Gatignon & Anderson, 1988]. Hence, in terms of entry mode selection, is there any relation between, international experience and the degree of control? The literature on this matter is indistinct, while some explanations see a positive relationship [Davidson, 1982; Johanson & Vahlne, 1977] other literature claims that international experience has no effect on the degree of control [Kogut & Singh, 1988]. In addition, some scholars even suggest a negative relationship. For instance, Daniels et al. (1976) found that companies began with complete control of ownership and

then, as operations were established, they implemented shared control. Hence, to conclude, there is evidence that international experience has positive, negative and no impact on the degree of control, thus making the relationship inconclusive and divergent (Erramilli, 1991). Helfat & Lieberman (2002) found that companies are prone to use the same entry mode as they have previously used, all else being equal, as they have gained experience using a particular entry mode. In addition, Helfat & Lieberman (2002) found that a firm's pre-entry resources and capabilities have a strong influence on the selection of market, as well as the mode, timing and success of entry. Moreover, there is little evidence that firms use a specific systematic approach when selecting a market to enter into instead a nonsystematic approach of market similarity is often seen in practice. Hence, the market similarity (measured in terms of psychic, cultural and geographic distance) either to the company's home market, or to markets it is currently serving is the main tool in selection of foreign market entry (Erramilli, 1991).

3.3 SUMMARY

The theories and models presented in this chapter have been focusing on the internationalization process and selection of entry mode of the firm. In order to suggest the most suitable entry mode to Conad, this theoretical framework discusses the differences between entry modes and introduces the hierarchical model of entry modes. The hierarchical model of entry modes introduced by Kumar & Subramaniam (1997: 53-72) and then discussed by Pan & Tse (2000), has been largely used throughout this theoretical framework. This model is of key importance for Conad case because managers are considered rational individuals hence bearing a primary role in the evaluation of entry modes alternatives. Moreover, different entry modes (including Equity and non-Equity modes) need to be taken into account simultaneously. Lastly, Pan & Tse (2000) identify the necessity of choosing a set of critical factors upon which the evaluation of the most suitable entry mode is carried. The set of critical factors used in this theoretical framework includes (1) firm-specific factors (2) industry-specific factors and (3) country-specific factors. Lastly, the last paragraph is dedicated to "previous experience" as a mean of company expansion (e.g. the importance of a company's previous experiences in the selection of the most suitable entry mode).

Figure 6: Factors Influencing the Choice of Entry Mode

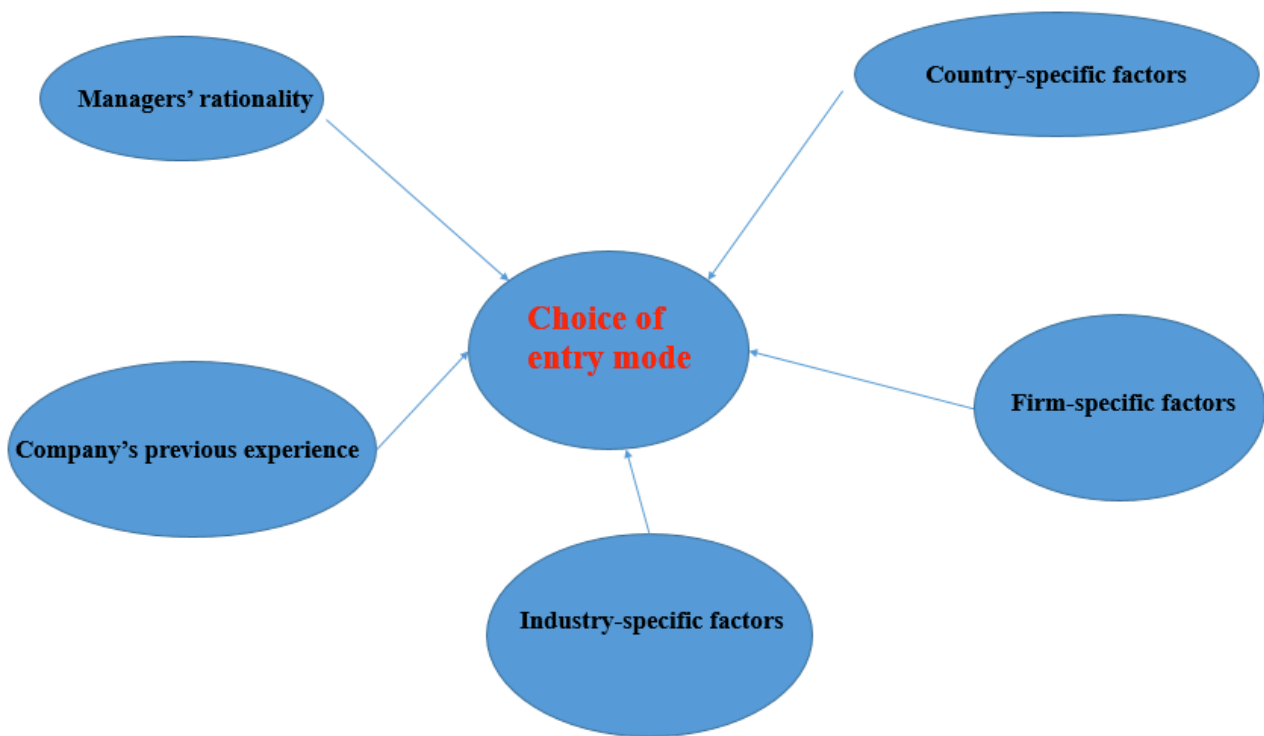


Figure conducted by authors

4. METHODOLOGY

This section of the master thesis deals with the methodological approach undertaken throughout this research with the aim of presenting an overview of how this study has been developed. It includes: research strategy, literature review, research design, research method and lastly the reliability and validity of the thesis.

4.1 RESEARCH STRATEGY

This thesis adopted the qualitative research method that, as noted by Bryman & Burgess (1999), had its "boom" in the 70's. This short paragraph points out why this thesis has been written according to a qualitative rather than quantitative strategy. The qualitative research has been preferred for several reasons. Firstly, the theory required a high degree of explanation because when dealing with entry modes, the accountable variables (country-specific factors, industry-specific factors, company-specific factors) change case by case and therefore a numerical hang out would have been misleading. Secondly, studying a social phenomenon such as the internationalization process requires a contextualization, which is a milestone in qualitative research.

The two methods differ from each other as they adopt different approaches in conducting business research. According to Bryman & Bell (2011), the structural differences between those two methods can be framed in three key areas: (1) the principal orientation to the role of theory in relation to research (2) epistemological Orientation and (3) ontological orientation.

First, this qualitative research is based on the abductive approach, which foresees that the theory should be generated through the collection and analysis of data with the final aim of generating "novel data" hence contributing to research with additional insights. More specifically, the abductive approach can be defined as a mixture between inductive and deductive method as no hypothesis are tested and the final purpose is to stress the concept of theory development rather than putting effort in generating new models or newly constructed researches. Differently, according to the inductive method, the relationship between theory and research is built upon the generation of theories. Although the primary purpose of qualitative research is to generate new theories, it is also used to test theories (Hochschild, 1983). In the case of Conad, the authors of this master thesis have therefore followed the abductive approach discussed by Bryman & Bell (2011). It encompasses theories from both deductive as well as inductive methods. According to the "inductive approach", the authors should begin their research with open mind, hence without preconceived ideas. When the Conad case study started, there was no deep knowledge about the two pillars of research (internationalization and entry modes) hence no preconceived ideas of potential outcomes of the

research process. Similarly, this master thesis emphasizes theories from deductive approach because a “top-down” approach is followed meaning that the authors investigate broad topics and try to narrow them down to a very specific conclusion Bryman & Bell (2011). The authors investigated general concepts on entry modes derived from literature and construct a comprehensive framework, which thereafter is discussed in the analysis and allows narrowing down from broad concepts to specific conclusions. Hence, the abductive approach has allowed authors to investigate topics from the existing literature with the aim of contributing with new theories and very specific conclusions. Secondly, qualitative research puts emphasis on the theory of interpretivism as an epistemological method. Interpretivism foresees that, differently from the quantitative research, the researchers follow a scientific pattern of research in which they interpret the social world and the actions of its participants. Interpretivist approach is very suitable to Conad’s case because managers play a major role in the decision process hence interpret the social world in order to foresee future market contingencies. Differently, if this thesis would have followed a quantitative research strategy, it should have used the natural science approach, which views the social world as a place in which everything follows a natural order. The case of Conad differently takes into account managerial interpretation (introduced in the Hierarchical model of entry modes) as a key element for decision-making; it analyzes China from aspects which cannot be grouped in a numerical pattern but differently change if the dependent variables change. Lastly, the ontological approach of qualitative research follows the “constructionist vision” which views social properties based on interactions among individuals. Hence, the constructionist vision put emphasis on theories generated through the research process (Bryman & Bell, 2011). The Hierarchical model used in combination with the BCG portfolio analysis and the theories from Koch (2001) prove that the theories used for this master thesis are the outcome of an extensive research process.

Differently, the relationship between theory and research in quantitative research is oriented towards a *deductive approach* (e.g. narrowing down from a general to a specific field of research through a “top-down” approach). Second, as mentioned above, the epistemological orientation of quantitative research is based on the “natural science approach” (positivism particularly). Lastly, quantitative research is more focused on the pattern of “objectivism” in which social reality is viewed as objective and external hence not affected by the social phenomenon (Bryman & Bell, 2011). On the other hand, it is appropriate to consider that qualitative research is somehow bonded because of its strong degree of subjectivity. Indeed, the research can hardly be replicated and the findings cannot be easily generalized (Bryman & Bell, 2011).

4.2 LITERATURE REVIEW

One of the most prominent sections of a dissertation is the literature review; it allows the authors to justify a research question and build up the path upon which the research design is constructed. A fundamental role of the authors is judging which sources should be included and which should be excluded, given that during the conceptualization of the literature review, authors encounter many articles, books and researches of several authors (Bryman & Bell, 2011).

Moreover, a literature review allows combining earlier studies with the aim of contextualizing the latter rather than “*reinventing the wheel*”. To do so, authors should not replicate previous studies but interpret differently what scholars have written and integrate their studies in order to support the literature review (Bryman & Bell, 2011). According to Bryman & Bell (2011), the scope of the literature review is answering the following six questions: (1) what is already known about this area? (2) what concepts and theories are relevant to this area? (3) what research methods and research strategies have been employed while studying this field? (4) are there any significant controversies? (5) are there any inconsistencies in the findings relative to this area? (6) are there any unanswered research questions in this area?

The literature review used for this thesis follows a framework known as “systematic review”.

Tranfield, Denyer & Smart (2003) describes this systematic review as a replicable, scientific and transparent process aimed at minimizing the bias through published and unpublished studies. It follows a development based on well-defined processes: (1) specify the question and plan review (2) conduct the review (3) report and disseminate. This model presents a major limitation for our business-related thesis in that it has been developed in medical fields (Bryman & Bell, 2011).

Since this master thesis focuses on entry strategies, which is a very broad concept, and previous scholars have largely addressed their researches to this topic, it has been chosen to construct a pattern of research in the literature review. Based upon this “starting point”, a stream of research has followed. This “methodological approach” allowed the screening out of several academic researches while including others of major relevance for the chosen pattern being “the hierarchical model of entry strategies” written by Kumar & Subramaniam (1997: 53-72) and then adopted by Pan & Tse (2000) in their research. Relevant data has been selected through researching keywords and reading the abstracts of academic papers. To obtain data, search engines such as Google and Databases available through the University of Gothenburg have been used.

Lastly, reflecting upon Conad's case study, it has been clear from the very beginning that despite the academic relevance of this thesis for international grocery retailers seeking global opportunities, the result of permanent cooperation with Conad has steered the authors of this master thesis to search relevant literature that suits the needs of Conad. In other words, throughout the literature review, Conad has been mentioned several times in order to allow the readers to frame the connections to the case study embedded into an academic environment. A mere example of this structure has been followed in the Hierarchical model of entry modes. This chapter contains both: significant academic relevance as well as important features for Conad case study specifically.

4.3 RESEARCH DESIGN

This section discusses the concept of research design and describes in depth the case study. The research design is a framework for the collection and analysis of data. The design template of this thesis is a "case study design" which follows theories of Bryman & Bell (2011), Gustavsson (2007) & Gummesson (2004).

Bryman & Bell (2011) distinguish five different research designs: (1) experimental design and its variants (2) cross-sectional or social survey design (3) longitudinal design (4) case study design and (5) comparative design. Case studies has been defined by Gustavsson (2007:87-100) as: *"one or several cases from real life used as empirical data for research, especially when the knowledge in a specific field is missing and/or the phenomenon studied is complex"*. Cases can be either qualitative or quantitative; most of them are qualitative because complex cases can hardly be narrowed down to equations and numbers. Because of the complexity, case studies should be evaluated as stand-alone because each has its own merits and therefore comparability becomes very difficult (Gustavsson, 2007: 87-100). The complexity of international differences makes the Conad case an idiosyncratic research, very hard to replicate and generalize.

The action research, introduced by Kurt Lewin and thereafter discussed by Gummesson (2004), is a methodological approach to case studies. This thesis has been based upon a singular research design namely "traditional action research" which is applicable in certain studies. This research design views the researchers or a group of researchers as actors engaging in recurring actions of: "planning, acting, observing and reflecting" upon something, which has occurred and raised their interest. Secondly, researchers implement workgroups processes of action in order to solve complex problems. Lastly, researchers produce a report about the investigated topic. The action research literature always considers at least two groups of users: one or more researchers and one or more

clients (Gummesson (2004). The authors of this thesis have decided to use action research (which belongs to the category of case studies) because since the very beginning of the research, Conad has cooperated with the latter in order to contribute to the research process.

The clients have experience-based knowledge while researchers have theory-based knowledge. The researcher's knowledge along with the client's knowledge allows them both to cooperate towards a common goal: help the client to undertake certain actions. Gummesson (2004) has classified the cooperation in three different stages: (1) The technical level (2) the practical level and (3) the emancipatory level. In the technical level, the researchers are technical experts consulting the client upon what to do. In the technical level, researchers study the drivers of internationalization being push and pull factors and after evaluating potential prospects of oversea internationalizing, a consultancy process with Conad was then initiated. The practical level is a "*process consultant*" action in which client and researchers cooperate; the researcher helps the client to figure out whether the company fits into the system. At this stage, the company cooperated with the researchers explaining that, if internationalization were to occur, the company would be projected towards China because they would be aware of the market potentials, which could have been exploited. Lastly, in the emancipatory level, the researcher becomes a co-researcher with other people and shares the responsibility of the project. The emancipatory level has not yet occurred in this specific instance. It will commence after the termination of the final report because the company will read through and compare their experience-related expertise with theory-based expertise. Once this assessment has been done, the company may show interest in contacting the researchers and cooperate with the latter in order to exploit the fruits of the research process.

4.4 RESEARCH METHOD

The research method defines how data is collected in order to conduct the research design. During this thesis, the authors have undertaken qualitative interviews. As described by Bryman & Bell (2011), in quantitative research, interviews are more structured in order to maximize validity and reliability of the latter. While in quantitative interviews, the interviewee answers are needed to respond to interviewer's concerns, in qualitative interviews, the interviewee has much more freedom and the concepts expressed and developed are of major interest for researchers.

The terminology "qualitative interview" has a dual meaning, the first stands for an unstructured interview while the second for a semi-structured interview. The key difference between those two lays in the interviewer's behaviour. In the unstructured interviews, interviewers give only few initial

prompts and a limited number of questions to the interviewees in order to give the latter a high degree of freedom, which leads both to literally initiate a conversation. On the other hand, semi-structured interviews are characterized by several initial prompts and more questions. Bryman & Bell (2011) emphasize the need to construct semi-structured interviews in qualitative researches because, similarly to unstructured interviews, they open space for a high degree of flexibility. Moreover, they allow the interviewee to feel at his/her own ease, share his/her point of view with the interviewers and lastly they come with an initial set of prompts (usually time constraint and topic-related answers). This master thesis uses *semi-structured phone interviews* because entry modes and the internationalization process in general are broad topics and consequently using unstructured interviews would have been dispersive. The semi-structured interview has in contrast been extremely satisfactory because it allowed researchers to gather only relevant information and remain focused on the main thesis topic.

During the research process, two interviews were conducted with one of the key management figures inside Conad. Both interviews were conducted in English through Skype and both the authors were present. As mentioned above, semi-structured interviews were conducted. The aim of both interviews has been (1) retrieving important insights on Conad's competitive advantages (2) Expert's insights regarding Chinese market features. The first interview lasted for approximately 60 minutes while the second was shorter (approximately 40 minutes).

Moreover, only one interviewee has been selected for this master thesis for the following reasons: (1) the interviewee is one of the most influential figures inside Conad and has decision power (2) the latter is the only one in the company with deep knowledge on China as well as market entry modes (3) the interviewee has been involved directly in all the foreign investments undertaken by Conad and has been working for Conad for 10 years. Both interviews were recorded and transcribed, and can be found in the Appendices section.

The reason why interviews were not conducted face to face is related to the fact that the manager was very busy and travelling for work purposes. As described by Bryman & Bell (2011), semi-structured phone interviews come with benefits as well as drawbacks. Following Bryman and Bell (2011) literature, the major advantages of performing semi-structured phone interviews are given by the possibility to interview people who are geographically dispersed and the easiness as well as quickness to administer the interviews. On the other hand, semi-structured phone interviews are not able to identify how respondents react when the interviewers place questions. Another major

limitation can be identified in the difficulty to carry out long interviews via the phone Bryman and Bell (2011).

Understanding the context has been a primary concern for the researchers; semi-structured interviews allow the interviewee to deviate from the question hence providing useful insights for the purpose of research. On the other hand, a structured interview would have failed, as it would not have been able to point out details. Data used for this thesis has been secondary data rather than primary because given the huge availability of sources discussing the Chinese grocery market and entry modes, the usage of primary data has resulted to be redundant.

4.5 DATA ANALYSIS

Miles (1979) stated that qualitative data, differently from quantitative, opens a wider availability of data to researchers and therefore implies difficulty in analyzing such abundance. This concept has been redefined by Lofland (1971) as the “analytic interruptus”. He identified the abundance of data as an enemy for qualitative researchers.

Given the above-mentioned problematics, there are only a few known methods of analyzing the latter. According to Bryman and Bell (2011), analytic induction and grounded theory are the most used analysis approaches in qualitative research. However, they mention other approaches such as thematic analysis, deductive and inductive approaches for data analysis. Throchim (2006) defines Deductive data analysis approach as a process, which allows the author to begin with universal data and narrow it down to a specific conclusion. Creswell and Plano Clark (2007) similarly define this process as a “top-down approach”. In this master thesis, the authors have followed a deductive data analysis approach as they first select a field of research, study entry modes and then proceed with more and more specificity in order to narrow down the topic of retailer’s internationalization and entry modes to a very specific conclusion. Differently, in contrast to deductive data analysis, Creswell and Plano Clark (2007) define inductive research as a “bottom-up” approach, which starts from very specific topics and tries to generate universal models.

Since the Topic of Entry modes is a very broad topic, the authors of this master thesis have therefore decided to investigate broadly the hierarchical model of entry modes and understand the key drivers for mode selection. Similarly, chapter 2 deals with China and China grocery retailer’s outlook without digging in details. Differently, the analysis and conclusion thanks to the findings chapter, comes with a very detailed conclusion hence suiting in the process of deductive data analysis.

Moreover, the authors included in the analytical process some aspects of thematic analysis discussed by Bryman and Bell (2011) as an “analytical structuring” in which the researchers group different thematic dealt in the findings and discuss them individually. The different sections such as push/pull factors, e-commerce etc have been classified in groups and discussed individually. This allowed narrowing down broad groups to very specific conclusions hence keeping in mind deductive analysis.

4.6 RELIABILITY AND VALIDITY

Reliability in business research is an important requirement to meet. Bryman & Bell (2011) have defined reliability as the extent by which one study is replicable. Moreover, they have distinguished two major subdivisions: external and internal reliability. External reliability identifies the degree of replicability of a research by other researchers while internal reliability is met when researchers have a mutual vision of a research, hence do not have internal disagreements (Bryman & Bell, 2011). Another prominent requirement of research is validity of its conclusions. In their book, Bryman & Bell (2011) divide validity in internal and external. External validity refers to the extent by which the conclusions of a research can be generalized (Bryman & Bell, 2011). This research can hardly be generalized because entry modes are a very broad topic. Hence, since this research is retailer specific, it would be very hard generalizing those findings in any other industry. By contrast, internal validity refers to the causality between two or more variables. In other words, it defines whether there is a match between the observations conducted by the researchers and the theoretical ideas developed in the research process (Bryman & Bell, 2011).

This thesis is reliable both externally and internally. External reliability is given by the high possibility to withdraw significant understandings on international retailers and their entry modes in China. Moreover, since the structure follows a very logical and cognitive approach for the identification of the most suitable entry mode for an Italian grocery retailer, other researchers could rely on the expressed pattern of research in order to identify suitable entry modes for other European retailers. Similarly, internal reliability has been met because both the authors have had a convergent understanding and vision of the research approach. Similarly, internal validity is very high in this master thesis. The authors have indeed gathered a significant amount of data in order to provide final recommendations to Conad regarding the most suitable entry mode.

5. FINDINGS

The following chapter will include findings from the research and will have its focal point on the data gathered from interviews held by the authors. In addition, the interview data will be complemented with secondary data related to the case study.

5.1 CONAD'S PREVIOUS INTERNATIONAL ACTIVITIES

Conad's previous international experience is quite limited. The Italian grocery retailer has indeed entered several Strategic Alliances with European retailers in the last 10 years and established wholly owned subsidiaries in Malta, Kosovo and Albania. However, when one looks at Conad's projects outside the EU, the result is very poor. Conad has shipped its "Sapori&Dintorni" private label for some weeks to Hong Kong, which were sold to a local retailer (Park&Shop); however, nothing more serious has ever occurred. The Italian Manager stated during the second interview: *"They always behave in a dodgy way and the way they are used to working, with bribery"* (A2) when referring to the Chinese business partners.

The European partnership between Conad and its European partners has been a great chance for the retailer to acquire unique capabilities and improve its expertise in international markets. It was due to the formation of a European strategic alliance that Conad decided to create an internationally recognized private label namely Creazioni D'Italia, which could have been sold within to the alliance members [Comma, 2010: 9; Comma, 2011: 14-16].

According to the Italian manager: "Previous experience of the company are mainly located in Europe, continental Europe. Basically, Conad since 2005/2006 had a partnership at the time with Leclerc the French retailer for a JV development of the hypermarkets in Italy, and thanks to JV and let's say inexperience of Leclerc on the Italian food, we started a fruitful collaboration with them concerning the sales of Italian products, to Leclerc, for the French market. We started the sales of this brand, Creazioni D'Italia, which is a premium private label similar mainly to Sapori&Dintorni products, we started the sales in 2007/2008 and we went on with this collaboration until two years ago" (A1).

When Coopernic was established in 2007, Conad launched its "international" private label namely "Creazioni D'Italia" which includes typical Italian fine food products. Creazioni D'Italia is a brand, which includes only Italian products of high quality and high authenticity. This brand is fully outsourced from small-medium size Italian food producers (Comma, 2010: 9). Creazioni D'Italia is very similar to Sapori&Dintorni; it has the same packaging, common producers and similar way of marketing the products on the foreign markets (Conad, 2015).

When Creazioni D'Italia was launched, it included only 20 products, which were sold only within retailers of the strategic alliance. The sales of this brand rose so quickly that Conad launched 21 new products in the following months. The opportunity of Conad to internationalize through a private label soon became a success story. Indeed, through the supply chain of E.Leclerc, Creazioni D'Italia was also exported outside the strategic alliance borders and reached markets such as Estonia and Latvia through the retailer chains Palink and Iki (which were partly acquired by Coopernic members soon after in late 2007) and Spain where E.Leclerc was already a significant player in the market (Comma, 2011: 14-16).

The success of Creazioni D'Italia explains Riccardo Breveglieri (Manager of the international activities inside Conad), it is amenable to the strong focus on products' quality and elegant packaging which highlights the Italian origins of the product (Comma, 2011: 14-16).

Entering foreign markets towards "exporting" is one the most prominent ongoing plans for Conad and explains at least partially the reason why the Italian retailer chose to join Coopernic. Exporting allows promoting Italian products abroad and consequently strengthening the Italian sector of local producers. The challenge of succeeding in this ambitious goal is customizing products to each partner's necessities, hence understanding local tastes, habits etc. (Comma, 2011: 14-16).

5.2 MARKET INHIBITORS FOR FOREIGN RETAILERS

The Chinese grocery market has been growing at a double-digit rate in the last decade. The motives of growth can mainly be found in the ever-increasing urban household income, which prompted Chinese inhabitants to seek better living standards hence pursuing a higher quality of life (USDA, 2014; China Business Review, 2010). However, despite everything looking so bright and obvious, the market has many barriers to overcome, which inhibit foreign players to invest significant capital and consequently exploit market potentials. As the Italian manager stated during the interview: *"It's a very complicated country. Everything is always done in a grey area; it is not clear how you have to do things. There is always someone who pretends to help you, in let's say dodgy ways, or risky ways, to facilitate, I do not know, in the registration of a product, or the registration of your brand. It is, very difficult for a company that is used to work according to legislation according to clear system a law, to follow the rules in China, at the moment"* (A2).

Foreign investors in 2010 accounted for roughly 12% of total grocery sales. Since 2004 many regulations inhibiting foreign investors have been abolished in China. However according to China Business Review (2010), many limitations still exist for foreign players. One of the main market

barriers is the difficulty faced by foreign players to obtain licenses for their businesses due to the internal differences among provinces that raise uncertainties. When foreign investors enter China, the latter need to pursue a business license through the Mofcom (Ministry of Commerce, People's Republic of China) and a "registration approval" from the State Administration for Industry and Commerce (SAIC) (China Business Review, 2010).

Another major inhibitor for foreign retailers is the strong regulatory frame of food safety for products coming from abroad. Indeed, many products cannot reach China unless they receive a "special hygiene certificate" which is usually assigned by the local government where the product will thereafter be sold (USDA, 2014). Lastly, another key element to take in consideration when entering the Chinese market is that the market is extremely fragmented. Key differences among the provinces exist about business practices, customs, tastes and regulations (including product registration, labeling and product expiry dates) are a major limitation and highlight a strong fragmentation (USDA, 2014). During the interview, the Italian manager stated that "*one of the benefits with the European Union is the facility in which it can sell products, within the European union countries, so the easiest way to sell products is to sell them directly*" (A1). This statement highlights how the European Union thanks to clear regulations allowed Conad to gain significant expansion and prompt businesses to expand throughout the European States.

5.3 A GROWING TREND: E-COMMERCE

Electronic Commerce, commonly known as E-commerce is defined by OECD (1998) as: "*All business occurring over networks using the Transmission Control Protocol/Internet Protocol (TCP/IP)*" allows businesses and consumers to interact (OECD, 1998). In other words, E-commerce refers to the distribution, buying, selling, marketing, and servicing of products or services over electronic systems such as the Internet and other computer networks (Shaji & Prince, 2015).

A recent trend is the market penetration through e-commerce. This "export-based" entry strategy is less risky than conventional equity and non-equity modes and at the same time discloses the opportunity of exploiting international market potentials faster. The reasons why e-commerce can be viewed as a strong potential for companies who want to expand abroad are: (1) A surge in web-based and mobile-based online purchases, particularly in Asia-Pacific, (2) lower costs of shipping and a higher degree of flexibility and (3) Ongoing shift from brick-and-mortar to online retailing (Deloitte, 2014). In this regards, the Italian manager stated "*When we started to look at the Chinese market, we were not looking to open joint ventures or retail outlets. We were more interested in the e-commerce side because it is still a growing trend in China, and probably will represent the future*

not only for China but also for Europe. I mean, we are seeing that Amazon are investing a lot in Europe for e-commerce, we know that in Italy there is only Esselunga with e-commerce and home delivery, so the future will definitely be that one. It's just a matter of time, that's why the idea of looking at China, is also a way to develop our own knowledge on how to run an e-commerce business" (A1).

One of the main factors prompting foreign retailers to enter China through E-commerce is that online platform, differently from brick and mortar stores, need not conform to the Chinese regulations concerning product labelling, standards, certification, and registration (USDA, 2014).

In recent years the Chinese E-commerce market has exploded, and growth is not expected to flatten out in the next decade (Forbes, 2010). In 2000, China had approximately 2 million internet users (KPMG, 2014). By 2009 the number of Internet users in China had reached 384 million people, put in perspective this exceeds the number of people living in the US (Forbes, 2010). In 2012, China became the second largest e-commerce market with revenues estimated at \$210 billion. The vast majority of the Chinese electronic retailing, e-tailing, is conducted through virtual marketplaces. The most prominent ones, together with E-bay and Amazon, are PaiPai, Taobao, and Tmall, which are all owned by larger e-commerce groups (McKinsey Global Institute, 2013).

In 2013, the amount of users rose to approximately 600 million users hence forming a significant share of the Chinese population (KPMG, 2014). Online shopping in China in 2009 accounted for \$36.6 billion, this growth was primarily driven by younger buyers, between the ages of 13 and 28, who spent a lot of time on the Internet. Moreover, one of the reasons behind the tremendous growth was said to be the secure and more trustworthy payment methods. For instance, Alipay, a payment application owned by Alibaba equivalent to PayPal, with the difference that the money is not withdrawn from the account until the product has arrived to the buyer, has become China's largest online payment company (Forbes, 2010).

5.4 FOREIGN GROCERY RETAILER'S OPPORTUNITIES IN CHINA

The Chinese market is changing very rapidly. Despite Chinese inhabitants being most likely to preserve their habits (including their culinary culture), western products are perceived to be elegant, refined and qualitative. For this reason, they are most likely to spend much more when selecting foreign products vis-à-vis local products (Cheok, 2015). As the Italian manager stated in the first interview: *China is a market that is hungry, literally. Hungry for food, good and quality food and*

beverages, because they have polluted their country, problems with milk, water, tap water is undrinkable in big cities like Shanghai, also hungry about novelties a growing percentage of the population that can start to afford certain products like imported products, real imported products not the fakes. So these people are getting wealthier, they are eager to buy foreign products, because they, what we've noticed, the state has a huge meaning, so having a Louis Vuitton bag or nice European car, or sending your children to foreign school, like the American schools is a sign of wealth and richness. So whatever they can afford to buy from outside the country, they want to buy it does not matter what (A1).

Imported qualitative food is a recent phenomenon in China). The motives behind the surge of this phenomenon can be found in the improved wealth of Chinese households, which has consequently lead the citizens to seek safe and qualitative products. Imported food is usually considered very safe because the General Administration of Quality Supervision, Inspection and Quarantine of China (AQSIQ) which is the committee in charge with safety controls is very strict. European products are considered to be of high quality from Chinese consumers; this proves why Europe in 2015 was the largest source of imported food overtaking the conglomerate of ASEAN partners (CIRS, 2015).

5.5 COMPETITION IN THE MARKET

Competition in the grocery retailing in China has significantly changed in the years. Once China joined WTO, several American and European distributors entered the market and gained a significant market share vis-à-vis local retailers. However, the growing trend of E-commerce after 2008 once again twisted the rules of competition in the country. Several E-commerce websites above mentioned started to gain a significant market share particularly in Tier 1 and Tier 2 cities. Looking at brick and mortar stores, figure 3 illustrated in chapter 2.1.6 highlights the most important players in the market (USDA, 2014). Conad is yet unaware of the existing competition. As the Italian manager stated when the interviewers asked, whether or not Conad had any market knowledge: *“Not really, because, Conad the interest of Conad is on the E-commerce and not on the retailing” (A1).*

Although Conad's seems to be highly focused on e-commerce it is appropriate to investigate existing competition from several perspectives (1) Brick and Mortar retailers (2) E-commerce.

The largest Retailer in China is CR Vanguard (CRV), which is a state owned enterprise with 16,405 million Dollars in sales in 2013 and 4637 stores in total. The second largest retailers in China in 2013 were Lianhua Group (Chinese SOE) and RT-Mart (Taiwanese Mnc) with 13,902 million USD in sales. After those three market leaders there are two foreign retailers being Wal-Mart and

Carrefour (*See fig 3*). Interestingly, all those market leaders are keen on investing in supermarkets/hypermarkets and convenience stores.

However, nowadays, Tmall, the B2C online store belonging to Alibaba Group occupies the largest sales share in China (50.1% in 2013) (USDA, 2014). Tmall allows private brands as well as stores to open their own space on their e-commerce platform (Bluecom, 2016). Moreover, the reason why Tmall has been successful is that it allows customers to purchase at lower prices, exploiting the door-to-door service and makes it easier to do online shopping. On the other hand, online retailers benefit from E-Commerce because they improve their acknowledgement of consumers and increase their burden of sales thanks to China's fast advancing distribution system (USDA, 2014).

Due to the e-commerce trend, Brick and Mortar stores are facing significant reduction of sales but retain their market positions thanks to business differentiations including the settlement of online (own) websites or joining market leaders' e-commerce websites such as T-mall or JD (USDA, 2014). On these matters, the Italian manager stated: *"We were more interested in the e-commerce because it is still a growing trend in China, and probably will represent the future not only in China but also in Europe. I mean, we are seeing that Amazon are investing a lot in Europe for the e-commerce, we know that in Italy there is only Esselunga with e-commerce and home delivery, so the future will be definitely that one. It's just a matter of time, that's why the idea of looking at China, also a way to develop our own knowledge on how to run an e-commerce business"* (A1).

5.6 CHINESE CONSUMERS TOWARDS FOREIGN HIGH-END STORES

In the aftermath of many domestic food scandals, the Chinese middle class is willing to spend two to three times more in order to buy healthy and safe foreign products. To frame this trend, it is worth briefly mentioning the case of "Olé Supermarkets". Owned by China Resources Vanguard, Olé is a high-end supermarket chain, which sells mainly foreign products (approximately 70% of its whole product range). Set up in 2012 as a small retailing chain, Olé is expected to encompass up to 50 stores by the end of this year. Due to higher disposable incomes, consumers living in Guangzhou and Shenzhen are willing to pay premium prices for imported qualitative and safe products. Ole, BLT (Better Life Together) and Sam's Club (owned by Wal-Mart) are the three high-end supermarket chains trying to exploit this customer segment (USDA, 2014; Wright, 2015)

The Italian manager stated, *"the strengths are the know-how of the Italian market and suppliers and the variety of products that we can supply. There is no supplier that currently can supply a range modern 4000 products in private labels. We cover all the needs from food, to water, to house detergents, to cheeses to toilet paper, we cover all the needs the consumers might have in terms of*

food and other stuff that can be found in a supermarket, and there is no one that can do that. Usually, you have, I do not know, Granarolo and Granarolo can supply you only two categories, like cheeses and milk. You have Barilla; barilla can supply you with pasta and biscuits and sweets, or other snacks. So Conad is capable of offering you, both milk, cheeses, pasta, cakes, sweets, snacks, whatever you think of, Conad is there and can supply to you without any problem, at competitive prices” (A1).

During one of the first phone conversations between a Conad Manager and the authors of this master thesis, the Italian manager said that Conad has recently launched the “Sapori&Dintorni” stores which can be considered as high-end grocery stores in which consumers can find high quality, healthy and safe Italian products.

In 2010, Conad opened its first Sapori&Dintorni store. By 2014, there were already 6 stores open and many new openings are planned in the next few years. Those stores are usually small or medium sized and sell only Italian fine quality food with a high product differentiation imported from each Italian region (Conad, 2014:68). Similarly, to Olè, Blt and Sam’s Club, the stores opened by Conad target medium-high class consumers with significantly high disposable income due to the relatively high prices (Conad, 2014: 68).

5.7 FOREIGN RETAILER’S EXPERIENCES IN CHINA AND CONAD FORMER EXPERIENCES

Due to the above-mentioned institutional as well as economic differences among Chinese provinces, foreign investors face high uncertainty when approaching the market. An example is Carrefour, which, despite its impressive sales and high market share, has not been able to penetrate all the Chinese provinces equally. Hypermarkets are very popular in the northern regions and Carrefour has become market leader due to its strong positioning in the hypermarket sector. However, there are some internal regions where Carrefour was not able to set up any stores. An example is the city of Shijiazhuang, Hebei Province. Carrefour only penetrated this region in 2010 with six stores through a partnership with a local retailer (USDA, 2014). According to the Italian manager, when approaching the Chinese market, one should not focus only on institutionally attractive provinces but also those that are by contrast economically attractive. He explains that *“The future is in the 2 and 3 tier cities; the mega cities are already covered. Scared about pollution in their country, the main thing they are buying from Europe is water, milk, breakfast food. Tap water is not drinkable so they all want to buy European water. The physical is not what the future*

for China is. Carrefour have closed stores, Tesco has problem, only Wal-Mart is keeping their presence, probably due to their budget, but they still only cover 7 provinces” (A2).

During the second interview on the other hand, the authors asked whether or not Conad has approached the Chinese market in order to figure out whether the Italian manager had any personal experience in the Chinese market which could have been exploited as a value added for any potential future entry. On this matter, the Italian manager stated: *“First contact two years ago, a project for selling Conad products in vending machines, because apparently there are vending machines everywhere because it is impossible to have shops everywhere. So we started to look at the customs and regulations and it was a complete nightmare and the cultural difference was huge as well. They always behave in a dodgy way and the way they are used to work, with bribery. For a company with our size and name, we do not want to risk of being part of this, scandals, or whatever” (A2).*

5.8 SPECIAL ECONOMIC ZONE AND THE BIRTH OF FREE TRADE ZONES

The creation of Free Trade Zones is not a recent phenomenon in China. Back in 1978, in the aftermath of several economic reforms aimed at boosting economic growth, the Chinese government launched the first free trade zones. Within those zones, concessional agreements with foreign partners exist. The aim of the Chinese government was to foster investment inflows towards investment areas of particular relevance for the economic wealth of the country. The concessions granted to foreign investors were aimed at relaxing custom duties, taxes and decrease the high bureaucratic burden for foreign investors (Musso *et al.*, 2005:214). On the other hand, on September 29th 2013, China has launched its first “Pilot” Free trade zone in Shanghai known as “SH PFTZ”. By mid-October of the same year, the FTZ already accounted for 36 registered companies. Similarly, to the special economic zones, SH PFTZ offers an investor-friendly regulatory environment, which helps foreign business to exploit market potential easily. The creation of Shanghai Free trade zone comes with the creation of new reforms (existing within the bonded zone). The first reform concerns financial “de-regulation” for foreign banks. Foreign banks can settle their own subsidiaries in SH PFTZ for a short time period. This allows the latter to avoid lengthy approval processes, which is one of the major issues in Mainland China. The second reform namely “upgrading of customs supervision framework” allows overseas shipments entering the Chinese port of Shanghai not to obtain custom clearance until a later stage (PWC, 2013). During the second interview with the Italian manager, he was aware of the reform concerning foreign ships entering Chinese ports. With regards to this topic, he stated *“Actually with the e-commerce and the*

free trade zones that they have developed. There are several free trade areas in the main Chinese cities and basically these are custom free areas where you can deposit your goods. You do not pay duties until the products go out from the free trade area. So that allows you to bring the products there and to sell it when you have the opportunity to sell it, when you have the clients” (A2).

The third reform concerns the simplification of the administrative system, which allows foreign businesses to benefit from a simplified administrative regulatory framework when entering the market. During the second interview with the Italian manager, he stated that one of the key simplifications of the administrative regulatory framework is the opportunity to bring packages with the original Italian label hence not requiring Chinese labelling. He stated that: *“Goods in free trade zones in China, and by selling through e-commerce, they have the health requirements needed; everything must be on the web, all information. Hence the packaging can be in Italian. They let you taste a piece of the cake and then they change. So you follow. You are addicted. These are easy sells” (A2.* Lastly, the fourth reform foresees a new tax policy incentive for new businesses of major interest for mainland Chinese provinces (PWC, 2013).

5.9 MARKET PROSPECTS

Chinese grocery retailing sales are expected to rise in the coming years. As highlighted in chapter 2, grocery sales are expected to increase even further in the years to come. Moreover, the growing population might not drive a sales increase because, as the United Nations (2015) forecasted, the rise in population is expected to flatten out in 2030 (to approximately 1.4 billion inhabitants) and therefore, it would be wrong to link growing population with food sales surge. During the second interview with the Italian manager, the latter stated: *“ The income is in the 2-3 tier cities, and there is no presence there either, and ecommerce is the only way they can get the products. The future is the ecommerce but the logistics is not developed for the fresh products, the one with short shelf-time” (A2).*

6. ANALYSIS AND DISCUSSION

This chapter will provide a discussion about the findings of this thesis. The discussion will be conducted with help from the theoretical framework developed earlier to enhance the understanding and to properly analyze various aspects. The discussion will then end up with suggestions for what mode of entry Conad should use to be successful in China. The discussion will start with an assessment of the market and end up with the choice of entry mode.

6.1 ASSESSMENT OF MARKET

6.1.1 MOTIVES FOR INTERNATIONALIZATION

The motives for retailers to go abroad as described by Williams (1992) can be derived from five factors; growth, stagnated domestic market, convergence of certain international market segments, passive or subjective motives, and transfer of retail “know-how” as well as senior management drive and economies of scale. As stated by the Italian manager the reasons for Conad to go into the Chinese market are multiple. To start with both the Italian and the European market have stagnated during the last few years, which has pulled Conad towards exploring their international opportunities. As Conad is already the second largest grocery retailer on the Italian market, there is little room for further growth. Hence as stated by Rhodes & Myers (2007) the most attractive markets for internationalization are found in the developing countries, where there is a lag between economic size and development and retail structures. The Italian manager moreover states that the Chinese market is literally hungry, in particular, for European quality products, which further emphasizes the opportunities on the Chinese market. Nevertheless, although there are huge opportunities on the Chinese market, with a population of over 1.4 billion and a GDP of 10.35 billion USD in 2014, China is the second largest global economy, only the US have a larger GDP which totals 17.42 billion USD in 2014. The Italian manager further explains that the main reason is not only to enhance the sales and to seek growth opportunities as suggested by Williams (1992) and Makino et al, (2002) but rather to give all consumers the opportunity to buy real quality Italian products, those already accessible to the Italian people. Last but not least, the Italian manager emphasizes the growing e-commerce trend in the industry around Europe, and particularly in China, hence, attaining knowledge about e-commerce is of interest. Thus, such reasons would fall under Williams (1992) “know-how” and subjective motives for internationalization.

Alexander & Doherty (2009) address four areas for a careful selection of target market, public policy environment, economic development, social conditions, and cultural assumptions. In the case of Conad one of the biggest concerns regarding the entry into the Chinese market is the public

policy environment. Although there have been changes in the retailer industry, for instance the 2004 Act which eased up the restriction to enter the market only through JVs, the policy environment continues to change. Nevertheless, as stated by Chan et al. (2011) the retailers must investigate the market characteristics with positive growth aspects when choosing what market to enter. The Chinese market is characterized by a strong presence of SOEs, which to some degree still restrict the possibility to enter the market through FDI. Moreover, China has a high degree of corruption which further implicates the ease of doing business. The lack of transparency is also highlighted by the Italian manager who states that this is one of the largest hindrances to enter the Chinese market. In combination with the cultural aspects, for instance guanxi, as well as the language barrier constitute the largest obstacles to successfully enter the Chinese market. As the Italian manager mentions there are a lot of people that want to make easy money by luring you into investing without providing anything in return. Moreover, there are large differences between the different provinces within China in regards to legal bureaucracy and administrative systems, which also work as an obstacle to enter the market through equity JVs.

6.1.2 COUNTRY ATTRACTIVENESS (PUSH AND PULL FACTORS)

The push and pull factors refers to the host countries attractiveness to investors, i.e. pull, and the lack of growth prospects in the home country i.e. push, that gives the companies incentives to expand operations to new markets. The recent literature on pull factors for retailer's internationalization is very fragmented. Authors such as Karande & Lombard, (2005) define disposable income and high population in the host country as key pulling factors for internationalization. On the other hand, Makino et al. (2002) group large population countries as the sole accountable for potential expansion. Chan *et al.* (2011) identify China and India as potential markets due to increasing income per capita and large populations.

The pull factors of China can be identified as the huge market, which has the second largest GDP in the world and the world's largest population. Despite growth having slowed down after almost 25 years (6.9% growth in 2015), China remains an attractive market for several reasons (KMPG, 2015, CNBC, 2016). Firstly, urban households are experiencing increasing disposable incomes (particularly in the provinces of Guangzhou and Shenzhen) and therefore capable of paying a premium price for food (\$1035 USD spent for food in 2013 by average urban citizens vis-à-vis \$409 USD by rural households) (USDA, 2014). Secondly, there have been several food scandals in China due to polluted food been sold by retailers hence, consumers with relatively higher disposable income are willing to pay two to three times more for healthier and safer foreign products (Wright, 2015). Recently in order to fulfil customer needs, three large retailer chains have

launched stores named “High-end stores” in which customers can find imported safe and qualitative products (USDA, 2014). The most successful high-end store is Olè which is owned by the largest SOE retailer in China namely CRV (16.4 billion USD in sales in 2013). Born in 2012 with one single store, Olè already has approximately 50 stores in several Chinese regions (USDA, 2014). During the second interview with the Italian manager, he stated, “*Scared about pollution in their country so they want to give their children clean products from Europe, the main thing they are buying is water, milk, breakfast food. Tap water is not drinkable so they all want to buy European water*” (A2). Conad has the opportunity of positioning itself in the market through similar stores. During an introductory meeting between the Italian manager and the authors of this master thesis, the former mentioned the existence of Saponi&Dintorni stores. Those stores mirror perfectly the high-end stores in China but are yet located only on the Italian national territory. Customers can find high quality along with high safety of the products (Conad, 2014: 68). Another pulling factor that foreign retailers should consider when expanding towards China is the existence of huge economic disparities within the country. Despite provinces, facing different economic conditions, since 2007 several poor inner cities and regions have started to experience unexpectedly high growth rates. The most growing inner regions are: Changsha, Chengdu, Chongqing and Wuhan. Urbanization is considered the milestone of economic prosperity experienced by those regions (The Economist, 2015; Sovereign, 2015). The more these cities will keep on growing; the more Conad will have the chance to exploit an important ongoing phenomenon taking place in China, which is the increasing effort of the Chinese government to equalize the bureaucratic as well as regulatory framework among provinces. This would be a unique opportunity to invest because the aim of synchronizing legal and bureaucratic systems is connected to the potentials of attracting high FDIs in poorer regions.

6.1.3 CULTURAL AND POLITICAL ASSESSMENT

Investing in China through either an equity or non-equity mode requires high market knowledge. First, foreign investors need to take into account the concept of “guanxi” which refers to the relationship building and networking when doing business in China (Doing business, 2016). This relationship building, which Chinese business people commonly undertake, could be a major limitation for European companies because engaging in business relationships might unexpectedly be time consuming and therefore might end up discouraging the investors. For this reason, if Conad were to consider entering the market through equity investments, it is most likely to face time-related issues. Establish networking with potential intermediaries as well as business partners might be time consuming. Another prominent factor to consider when entering China as mentioned in

Chapter 2 is due to regional differences. Differences exist in different fields been economic, social, cultural, administrative and legal system (USDA, 2014). Both interviews allowed the authors to disclose that Conad is afraid of investing in China due to several differences existing among Chinese provinces, which create high uncertainty.

Moreover, political risk is another prominent factor to consider when entering China because (1) high internal tensions might start strikes and popular riots and consequently create serious problems for ongoing businesses and (2) a high degree of corruption might impair FDIs.

The Chinese market characterized by the “nomenklatura” system in which the government has several “trusted” appointees spread all over the nation has created several uncertainties during the years. As the authors have pointed out in chapter 2, the nomenklatura system has generated several differences inside the country because appointees make decisions only for their own appointed province (Yongnian, 2009). Due to this, companies such as Conad might need to investigate which province is more suitable for their businesses. Moreover, decentralizing decision power has created a high degree of corruption in the country and therefore settling businesses might not be easy if companies do not have the right contacts. Lastly, another source of corruption comes from the presence of SOEs, which receive government financing and enjoy market leadership in several sectors including grocery retailing (The Economist, 2012). Due to high corruption, Conad might not be able to engage competition with SOEs. Those companies might force the prices of certain products down creating unfair competition and discouraging companies to join the market.

Moreover, due to spread corruption, China has recently faced popular strikes such as the “umbrella revolution”. This country fact bears high risk because strikes are always becoming more and more popular and the future does not look so brilliant.

6.2 PREVIOUS EXPERIENCE

One of the main deciders of how to enter a market can be drawn by companies’ previous experience of entry modes. The main experience of Conad, in regards to entry modes, has been through different alliances in Europe. The alliances have been with different grocery retailers around Europe to sell premium Italian products provided by Conad in terms of Creazioni d’Italia in the stores of their alliance partners. The alliance, called Coopernic, was established in 2007 and continued for two years. Creazioni D’Italia was a great success and the initial 20 products was quickly doubled to include 41 products. When asked about the choice of alliances as an entry to the European Markets, the Italian manager explained that one of the reasons was the well-developed distribution network in Europe and the ease of doing business within the European Union. The alliance was the perfect

way of getting the products out onto the market, and additionally it strengthens the local Italian producers and spreads real Italian quality products abroad.

The Italian manager further emphasized the fast transportation and good storage facilities within Europe, which makes export the best coverage and most beneficial entry to the markets, hence, as explained by the Italian manager there is no need to set up expensive shops. Drawing on the literature of previous international experience and degree of control of various entry modes, there are different opinions. Helfat & Liberman (2002) state that, all else being equal, companies chose the same entry mode as previously as they had gained experience using a particular mode of entry. Moreover, the pre-entry resources and capabilities of the firm have a strong impact on the choice of market, entry mode as well as timing and success of said entry. Hence, this would suggest that in the case of Conad, the choice of entry would lean towards a partner up with a competitor on the Chinese market in order to reach new customers. However, other scholars like Johansson and Valhne, (1977) have found that the entry mode and degree of control has a positive relationship. Thus, implying that Conad's experience of entering new markets would evolve from an export based approach and then as the company gains experience they should set up a distributor and then their own retail store. Hence, through Conad's previous international experience, although not on the Chinese, a more equity based could be applied. Nonetheless, the scholars are not united on the topic as for instance, Kogut and Singh (1988) found that companies begin with a complete control of their operations and as the operations were established, they implemented a shared control.

As discussed by Chang & Rosenzweig (2001) the transaction cost theory suggests that firms enter new markets through a Greenfield investment when they try to exploit superior organizational and technical expertise, and through acquisition or JV when the firm wants to acquire local market knowledge or product specific knowledge of local firms. Thus, considering the case of Conad and the entry into the Chinese market one of the main obstacles put forth by the Italian manager was regarding the dodgy way of doing business in China. Their previous experience when trying to enter the market was the lack of structure in the legal system making it difficult for a company like Conad, which is used to clear legal systems and laws, to follow the rules in China. In addition, it is difficult for foreign players to obtain licenses for their business especially as they differ between the different provinces in China. Moreover, looking at the previous entry from one of the larger players on the Chinese grocery market, there was Carrefour, who initially were very successful when they established themselves on the Chinese market. Carrefour entered China through joint ventures with local retailers, in contrary to Wal-Mart, hence allowing them to gain local market knowledge. As Conad also lack the local knowledge of the Chinese retailer market, entering China through joint

ventures with local partners or an acquisition, in accordance with the theory of Chang & Rosenzweig (2002), would see them able to obtain specific knowledge necessary to properly penetrate the Chinese market. However, the lack of control synonymous with JV as well as the cost of entering the market through an acquisition can be perceived as a deterrent by Conad.

6.3 MODE OF ENTRY HIERARCHICAL MODEL

The hierarchical model of entry modes developed by Kumar & Subramaniam (1997: 53-72) follows a simple idea, which is that managers are always rational and therefore play a major role in an entry mode selection in a foreign market. The assumption of a manager's rationality is very important as Kumar & Subramaniam (1997: 53-72) assume that all entry modes are evaluated simultaneously. The stream of thought of the Hierarchical model developed in 1997 and then discussed in other papers is definitely a novelty in the literature concerning entry strategies. Up to the creation of the latter, authors assumed that managers would have taken a decision upon which mode would have fitted their needs best as well as market requirements on the basis of the level of resource commitment and the firms' available know-how.

The model compares the different entry modes one against the other to assess which entry mode is the most suitable for the company in question. Moreover, the evaluation of entry modes has to be at the same time in a multi-level model. According to Pan & Tse (2000) in order to assess whether to enter China through an equity mode or a NEM Conad should consider the most suitable mode, independent of resource commitment, due to the size of the company. Hence as Conad is not considered a SME, the budgetary constraints should not be an issue. Nevertheless, as stated by the Italian manager, when Conad first showed interest in the Chinese market, they were not very interested in setting up a joint venture or retail outlets but rather to gain knowledge about the e-commerce business. Furthermore, a key factor for Conad is their management skills, hence, as stated by Koch (2000) without proper management skills companies are obliged to start their expansion through a NEM investment. In addition, the hierarchical model assumes that managers are always rational and will choose the most beneficial entry mode. Thus, drawing from the second interview with the Italian manager and Conad's previous experience, they were contacted by a Chinese vending machine company that wanted Conad's products to be sold in their vending machines. However, in the end, the investment fell through due to cultural differences, and the company's dodgy way of doing business. Thus, with Conad's previous bad experience with Chinese partners it can be assumed that there is little interest for Conad to enter the market through a JV or an alliance.

It can therefore be stated that Conad is not likely to enter the market through a Joint Venture because of bad experiences faced in mainland China. Due to this, applying the hierarchical model to Conad's case, the company has to assess industry, firm and country specific factors in order to assess which entry mode (other than Joint Venture) fits the company's expectations best.

6.4 E-COMMERCE IN CHINA

The term E-commerce identifies the distribution, buying, selling, marketing, and servicing of products or services over the Internet (OECD, 1998). E-commerce (particularly in the B2C market) is experiencing significant growth rates in China. Thanks to the simplicity offered by many Chinese e-commerce websites (B2C and B2B) as well as safety and trustworthiness offered by recent payment methods, e-commerce in China has become a flourishing business activity with \$36.6 billion sales in 2009 and 600 million consumers (mainly younger buyers) (KPMG, 2014; Forbes, 2010). There are various reasons why foreign companies are encouraged to invest in China's e-commerce.

Thanks to the creation of the new Shanghai Free Trade Area, Conad as well as other grocery retailers could enjoy numerous advantages when shipping products to China. The SH PTZ, as described by the Italian manager, allows foreign companies to deposit their products until the sale occurs. As described by Baker (2013): *“exporting involves transferring goods from one country to another”*. The products entering the Shanghai Free Trade Area enjoy several other allowances other than the “storing” concession. The creation of this free trade area comes along with several reforms. The reforms implemented by the Chinese government, which are valid within the free trade area, help foreign companies in several ways. Firstly, the goods entering the Free Trade Area of Shanghai should not pay custom duties; the latter will then be paid when products are sold. Secondly, the administrative and bureaucratic procedures on entry of foreign products in China are significantly reduced. Thirdly, there are tax deductions for businesses of major interest for mainland China. Since the high level of pollution is a major concern for mainland China, imported qualitative and safe products might easily fall in the category of “major interest” and benefit lower taxation. (PWC, 2013). The issuance of those reforms, which have validity within the SH PFTZ, allows foreign business to feel more confident when investing in China. This is because as the Italian manager explained, *it is a very complicated country. Everything is always done in a grey area; it's not clear how you have to do things”* (A1). Nowadays, one of the most relevant inhibitors for foreign companies entering China is attached to the differences existing between the provinces on matters such as business practices, customs, tastes and regulations (USDA, 2014). Because of this, foreign companies face high uncertainty as the Italian manager also pointed out. During the second

interview with the Italian manager, he mentioned the difficulties faced by Conad when the company tried to enter the Chinese market through Joint Ventures with local partners. Van Wood & Goolsby (1987:34-52) identify market potential barriers in “*tariffs, governmental regulations, distribution access, natural barriers, and exit barriers*.” The Italian manager remarked the difficulties faced by Conad due to the complex legislative system and bureaucratic related hitches in China, which create high uncertainty and push businesses backwards.

Moreover, during both interviews, the Italian manager put forward the benefits associated to e-commerce and underlined how the SH PFTZ simplifies the resale process for companies willing to sell through e-commerce. The Free Trade Area of Shanghai would allow Conad to enter the Chinese market through direct exports, hence without the necessity to undertake exportation through Chinese intermediaries. In addition, the sale through e-commerce would enable Conad to not have to change the product labeling nor product packaging which in contrast is required if products are sold in brick and mortar stores. During both conversations with the Italian manager, the latter was aware of the benefits of the SH PFTZ and explained how important it was for foreign businesses to be granted, thanks to the formation of free trade areas, similar treatment to that received by Chinese companies. The market barriers highlighted by Van Wood & Goolsby are significantly relaxed thanks to the SH PFTZ. Foreign companies can finally approach the Chinese market without hitting significant market barriers and at the same time can benefit on market potentials similarly to local companies. Exit barriers are no longer a major concern because shipping the products to China towards the SH PFTZ does not oblige foreign companies to have a physical location in China, which enables foreign companies to face low liability when deciding to exit the market.

The food scandals discussed in previous sections are prompting Chinese consumers to purchase foreign products due to their safety and quality. On this matter, the Italian manager underlined that Conad could have an important position on the Chinese e-commerce websites because differently from many other companies, Conad is able to offer an array of products which range from cheese to pasta, from snacks to oil, from wine to fruit. Hence, the availability of distributing all at once could allow Conad to target several consumers and to differentiate its product portfolio significantly. Moreover, the possibility to enter China through e-commerce is enhanced by the existence of T-mall. This website, which belongs to the Chinese group “Alibaba”, allows businesses to create their own “platform” on this website meaning that consumers interested in Italian products could simply use Conad’s platform and have a vast product selection in front of their eyes.

Chinese grocery sales are currently the largest in the world (\$1,119 billion USD in 2015 vis-à-vis \$1,078 billion USD in the United States) and the e-commerce sales are ever increasing in the last

decade (IGD, 2016). With such overpopulation along with e-commerce ever increasing consumption and existing food scandals concerning the safety of Chinese products, Conad could successfully enter China through e-commerce. Shipping the products to the Shanghai Free Trade Area would allow the Italian retailer to deposit food until it is sold on the online websites. Furthermore, accessing the market through the SH PFTZ would allow Conad to obtain several additional advantages such as (1) paying custom duties only when the products are effectively sold and (2) benefiting from special treatment and therefore avoid the vastness of the Chinese bureaucracy as well as the legislative system. On the other hand, shipping products to China, which is a far distant market, has major limitations. The biggest limitation that Conad will face is the expiration date of products. Several fresh products such as cheese, milk, fresh fruit have short due dates and therefore cannot be shipped through ships but require faster routes such as airplanes. Moreover, another limitation is evidenced by the tastes of Chinese consumers, which might impair Conad's success.

6.5 FIRM-SPECIFIC FACTORS

When it comes to firm-specific factors, (Ghauri & Cateora 2010: 264-280) distinguished the following elements for an accurate assessment of a suitable entry mode: resource availability and resource commitment, management skills and lastly management risk attitude. As the Italian manager stated during the second interview: *"I believe that if we want to succeed on the market, a conspicuous investment is required"* (A2). Resource commitment is a minor problem for Conad if they want to enter the market through E-commerce. The reason why there is low resource requirement is given by the fact that the SH PFTZ allows foreign companies to import products with their own labelling as well as packaging. Converting both of them according to Chinese regulations would differently affect company costs significantly. However, if Conad decided to penetrate the market through an Equity investment, hence settling Saporì&Dintorni stores, the costs would be significantly higher.

Concerning management skills, the company lacks e-commerce knowledge and therefore several problems might arise. The Italian manager during the first interview stated *"We were more interested in the e-commerce because it is still a growing trend in China, and probably will represent the future not only in China but also in Europe. I mean, we are seeing that Amazon are investing a lot in Europe for the e-commerce, we know that in Italy there is only Esselunga with e-commerce and home delivery, so the future will be definitely that one. It's just a matter of time, that's why the idea of looking at China, also a way to develop our own knowledge on how to run an e-commerce business"* (A1).

Since Conad has missing knowledge on e-commerce, there might be several managerial-related difficulties. In order to overcome this problematic, the company should use “Tmall” as a main stream of sales for the first period. Using Tmall, the company would track customer sales and have KPI (key performance indicators). Lastly, risk attitude plays a major role for equity investments. Thanks to the SH PFTZ, non-equity investment bears little risk because the company does not sign any agreements with Chinese partners and does not incur country-specific problematics.

6.6 THE FUTURE OF GROCERY RETAILING IN CHINA

According to IGD (2016), food sales are expected to keep growing and reach \$1,491 billion USD by 2020. As the Italian manager stated during the second interview, China is counting on the growth of Tier 2 and 3 cities. An article published on The Economist (2015), highlights that Tier 2 and Tier 3 cities are experiencing high growth rates particularly in the regions of Changsha, Chengdu, Chongqing and Wuhan mainly due to the urbanization. Moreover, according to USDA (2014), urban areas offer higher salaries and consequently studies have shown that urban households spend much more compared to rural families. Moreover, the Chinese middle class scared by pollution, which contaminates food and impairs its safety, are increasing their monthly budget for food products, welcoming imported quality fine food.

This small analytic assessment of how the Chinese market looks like at present allows imagining how the Chinese food business will look like in the years to come. Chinese consumers are becoming more and more aware of risks associated with food contamination and at the same time they are spending more on food due to higher disposable incomes (especially in urban areas). In the years to come Tier 2 and Tier 3 cities might become the future of grocery retailing and Conad should be ready to target those two categories for its business. The limitation of targeting Tier 2 and Tier 3 cities is that they are mainly located at a far distant from coastal cities and therefore logistic problems (due to under-development as the Italian manager underlined) might inhibit Conad from succeeding. However, it can generally be said that higher disposable income along with strong development will probably enable foreign companies to target Tier 2 and Tier 3 cities as potential markets for their businesses in the grocery industry.

7. CONCLUSION

This very last chapter provides, based on the findings chapter, general conclusions for this master thesis. Lastly, implications and suggestions for future research are also provided.

7.1 CONCLUDING REMARKS

This master thesis has been developed in cooperation with Conad (an Italian leading grocery retailer) with the aim of answering to the following research question: *Which would be the most suitable entry mode for a European retailer willing to internationalize towards China?*

Previous research has addressed the selection of entry modes to several key features, which provide managers with information needed for the selection of the right entry mode among an equity and a non-equity mode (Pan & Tse, 2000). During this master thesis, the selection of the most suitable entry mode for Conad has been constructed upon industry, country and firm-specific factors following a model namely “the hierarchical model of entry mode” introduced by Kumar & Subramaniam (1997: 53-72) and then discussed by Pan & Tse (2000). This model assumes that managers evaluate all entry modes simultaneously (Kumar & Subramaniam, 1997: 53-72). However, before the assessment of different entry modes, an assessment of the market was applied. The motives behind retailers' internationalization underlined the possible reasons for Conad to focus on the Asian and Chinese market. Hence, highlighting why Conad should go abroad in the first place. In addition, the push and pull factors further emphasize the reasoning of Conad's managers in their attempt to internationalize. Conad, an Italian grocery retailer is facing a strong crisis in Italian households, which is impairing the amount of sales in Italy (Istat, 2016; Istat 2015). Due to this, Conad has recently targeted China as a potential market for internationalizing. However, due to several differences existing between Italy and China, the company has not yet figured out the most suitable entry mode. The authors of this master thesis have decided to conduct a study in cooperation with one of the company's key managerial figures in order to point out a potential strategy that Conad should develop to penetrate the Chinese market.

Conad has been very active on the European grocery-retailing scenario since 2006, the year in which the company joined the largest European Strategic alliance of grocery retailers namely Coopernic. Thanks to this alliance, Conad has shipped its international private label namely “Creazioni D'Italia” to several European partners and, as the Italian manager stated, developed new agreements with foreign resellers. Lastly, Conad has established its own stores in Malta, Kosovo and Albania and shipped Creazioni D'Italia to Hong Kong in a relatively short period. The high

stagnation of European food consumption and the willingness to experience new markets has led Conad to target China as a potential market. Thanks to two interviews conducted with one of the company's key figure and the data gained in chapter 2, the authors have been able to evaluate a potential successful entry mode for Conad.

The previous international experience of Conad, has shown that they ought to choose a previously successful and used entry mode i.e. an alliance. Nevertheless, their previous experience, and their aim with entering the market has also made them anxious about trust towards Chinese partners and would suggest an entry without a Chinese partner. Furthermore, judging from the hierarchical model of entry modes, and the rationality of managers, Conad are not particularly interested in a heavy investment such as a WOS or a JV. The time-consuming process to set up a business due to cultural reasons, *guanxi*, political bureaucracy which differ between provinces, and the lack of transparency as well as mistrust towards potential partners are further areas that, according to the Italian manager, are discouraging a huge investment from Conad.

Due to several benefits associated with the creation of the Shanghai Free Trade Area mentioned in the findings chapter and thanks to the growing trend of e-commerce, Conad should enter the Chinese market through direct exports. Exporting its international private label namely "Creazioni D'Italia" would allow Conad to gain a significant customer base quickly. Depositing the food in the SH PFTZ and then reselling autonomously on the various Chinese websites where food sales occur, would allow Conad to enjoy several benefits. The most significant advantages for Conad would be in order: (1) saving costs associated to engaging market intermediaries which locate products on the market (2) retrieve market insights for each product sold on the e-commerce network (3) save costs associated to repacking and relabeling products (4) have access to almost 600 million users and (5) avoid bureaucratic and administrative complex procedures.

E-commerce as the Italian manager stated several times would allow Conad to gain expertise in this field, which could also be exploited after, in other markets. Moreover, the Chinese middle class is willing to spend a premium price for imported food due to higher quality and food safety (Cheok, 2015). Due to several food scandals relating to pollution contamination of several products (PWC, 2013), Conad could immediately gain a high level of trust of Chinese consumers thanks to its high quality and highly certified food products. Moreover, despite exporting Creazioni D'Italia seems to be the most suitable entry mode for Conad, there could also be potentials for Conad to set up a wholly owned subsidiary and open high-end stores in China. Recent trends on imported fine food

have prompted several local as well as international retailers to settle high-end stores for customers willing to spend a premium price for safety and quality of products (USDA, 2015). The most successful have been BLT, Olè and Sam's Club (USDA,2015). During a phone conversation with the Italian manager, the authors have acknowledged that Conad has recently launched a concept namely "Sapori&Dintorni Stores". Those small high-end stores have experienced a huge success in Italy with six stores in 2014 located in central locations (Conad, 2014:68). Since those stores only sell high quality, safe and healthy Italian products, they could exploit a certain target of consumers in China willing to pay premium prices for those products.

Concluding, direct exports fit the needs of Conad better because the company could penetrate the Chinese market through e-commerce. This would allow the company to ship its food products to the SH PFTZ and avoid bureaucracy as well as administrative procedures, however, it also means that the tier 2 and 3 cities will not be covered. On the other hand, the high-end stores can be considered a huge potential and a concrete opportunity for the company but would not allow the company to avoid "shipping in a grey area" as the Italian manager stated. The complexity of Chinese regulations is viewed as a major risk for the Italian manager and therefore, since the high-end stores would definitely imply a higher degree of involvement they might not be considered by Conad as a concrete potential.

7.2 IMPLICATIONS TOWARDS INDUSTRY PRACTICE AND CONTRIBUTIONS

The findings of this research has resulted in suggesting the most suitable entry mode for Conad in regards to the Chinese market. The results of this research can however be developed further. One of Conad's objectives for entering into the Chinese market is to gain knowledge of how to carry out the e-commerce business. Thus, should Conad deem an investment towards China as too risky and rather focus their resources on the domestic market, there are other paths to follow in order to gain experience in the e-commerce or e-tailing business. Moreover, the recommendations provided in this research are built on the basis of Conad's strategic interests. Hence, there are no financial analysis of the prospects of the recommendations more than the financial indicators in terms of e.g. market size that have been used.

Furthermore, during the composition of the literature, the authors have generated a new combination of theoretical concepts, which provide an advancing theory to the field of international business. The authors have selected key factors, which have been used throughout the hierarchical model. However, following this approach, international business scholars could "re-formulate" the

key factors and therefore re-interpret the hierarchical model for companies belonging to different industries or simply having different needs compared to the case company of this master thesis.

This master thesis contributes to the literature on internationalization of grocery retailers on overseas markets. Thanks to the findings, grocery retailers can benefit from this thesis, as they could understand which competitors have previously adopted entry modes and which of the latter are the most successful.

7.3 FUTURE RESEARCH

Future research on grocery retailer's entry modes in China should focus on understanding the infrastructural development of Tier 2 and Tier 3 cities in order to figure out how foreign businesses could undertake affairs there. Moreover, this thesis has primarily focused on entry modes but left out studying commercialization strategies. Since in conclusion, e-commerce as well as high-end stores seem to be the most convenient for a European grocery retailer who approaches China, future research should focus on how to commercialize products on e-commerce or how to settle high-end stores. However, commercialization strategies might fall in the research field of international marketing.

Moreover, throughout this thesis, the authors have addressed the pollution-related issues several times and highlighted the importance of imported quality and safe food in the Chinese market. However, this thesis does not study the Chinese culinary culture and therefore future research should focus on understanding, which foreign products are preferred by Chinese consumers and how much are they willing to pay for the latter (independently from the quality and safety).

7.4 LIMITATIONS

The research conducted in this thesis has a very firm-specific and country-specific orientation. Hence, the larger part of the findings in this paper cannot be generalized. Moreover, the research focuses on grocery retailing and may therefore be difficult to apply to other types of retailers or industries. In addition, the research has been conducted in such a manner that it seeks to contribute to help the internationalization process and entry mode selection of Conad towards the Chinese market, rather than to further contribute to the research field of entry modes. The case may however be of relevance for other European grocery retailers, who face the same stagnation of consumption in their home markets and lack knowledge about the Chinese market. Nevertheless, due to the specificity of the case of Conad, the research has little external validity.

Another key limitation of this master thesis is given by the choice of interviewing only one key figure of the company. Interviewing only one person has benefits as well as shortcomings. The benefits, as mentioned previously in the methodological approach, are given by the fact that the interviewee is an expert in the field of entry modes in foreign markets, has been working for the company for 10 years and has very influential decision power when it comes to selecting foreign markets. However, this choice comes with a major shortcoming, which can be framed in a missing opportunity to hear different opinions from several company users.

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8 Appendices

8.1 APPENDIX 1: FIRST INTERVIEW WITH CONAD

Both interviews were conducted with one of the top management figures inside Conad. M1: Refers to Manager 1, who is the interviewee for both interviews. Moreover, the answers to interview number one will be referred as **A1** in the text while the answers to interview number two as **A2**.

Q: In short, what is Conad, and what is your role within the company?

M1. *Okay, so Conad is the second largest retailer in Italy, it's a co-op, basically the entrepreneurs the retailers, the owners of the retailer outlets are the owners of the cooperative. So the equity goes from the bottom to the top and not vice versa so it's not like a one-person-company, like for instance esselunga, where you have an owner Bernardo Pecrotti, here you have the base, the co-op and they are also the owner of the retailer outlets, so while Coop Italy is also a cooperative but a cooperative of consumers, Conad is a cooperative of entrepreneurs. My role in the company is that, of Export Manager of the company*

Q: What is your (Conad's) previous international experience within the company?

M1. *Previous experience of the company is mainly located in Europe, continental Europe. Basically, Conad since 2006/2005 had a partnership at the time with Leclerc the French retailer for a JV development of the hypermarkets in Italy, and thanks to the and let's say inexperience of Leclerc on the Italian food, we started a fruitful collaboration with them concerning the sales of Italian products, to Leclerc, for the French market. Basically we started initially with some promos some spot sales, in and out with Conad brands, industry brands, brands belonging to the industry. And the after a few years after promos and spots in and out, we decided together to develop a brand dedicated to the export, so with the text both in Italian and French language, so because obviously the pack must be fine for sales in the countries, so the pack should respect always the legislation of the countries in terms of text, legal text on the pack. So we developed this pack, we started the sales of this brand, Creazioni d'Italia, which is a ??? to Saporni&Ditorni products mainly, we started the sales in 2007/2008 and we went on with this collaboration until two years ago when we let say finished our collaboration with Leclerc so we decided obviously as a consequence to quit the sales of the product to Leclerc. In the meantime, we also had some other experiences with Colryut in*

Belgium, with Coop in Switzerland (which has nothing to do with coop Italy) and with Rewe Austria. Always talking about sales of Italian products to them, or procurement of Italian products.

Q: What is Conad's experience in terms of entry modes and internationalization?

M1. Basically if I have to say, one of the benefits with the European union is the facility in which can sell products, within the European union countries, so the easiest way to sell products is to sell them directly. From Italy to France, from Italy to Austria, from Italy to Belgium or from Italy to Switzerland, so direct sales. There was no need at the time or now either to have physical presence in the country like a subsidiary or a something like that because nowadays you can reach all the main capitals of Europe within a few of hours of flight. And its very easy also with the tools like skype, or email or phone, to get in touch with your clients without specific need. Moreover, we in the distribution, generally speaking we are always full of appointments and meetings, and its very very difficult to get a physical meeting with all the people necessary around the table. That's why I'm saying the easiest way is just to, okay, you first schedule a couple of meetings, and you see if products are good they like it price is okay, positioning is fine and then you start selling directly to the company. The distribution in Europe is well developed we all have several warehouses logistically that are very well developed logistic companies that can take care of door to door service without any problems, so you don't need anymore, like in the past, when the boarders, a physical presence, that is my opinion of course. You needed presence when, from an industry point of view, you want to do some lobbying, business relationship which could help the sales, but for a retailer, which is a completely different business model from a company, u don't need to have a physical presence.

Q: Can you please describe the Conad private labels, in terms of e.g. the international private labels and what the goal is with these products when they go abroad?

M1. Okay, well first of all Conad, the reason for why conad is exporting and selling outside the conad system is not because we are looking for added sales because that is not really necessary for us since we are our system in Italy very well developed and our main focus and our company mission is to sell our products to our cooperatives. So what we are currently doing is not really within the terms of our mission. If you pass me the terms. Conad is not looking for sales per se it is looking for sales of real Italian products, premium products, which ensure us that the client, or the customers of our clients, will buy is the very same products that an Italian family can find and buy in our shops. We hear a lot about counterface? About parmesan instead of parmeggiano, or about

Parma ham which is not Parma ham. So the idea of conad is to make available to foreign consumers the real Italian products. With a focus on the premium quality of the products. We are not there to export and to compete against our same suppliers on products that they can sell at a cheap price, we want to be the, let's say the binding department for other retailers in Italy in knowing that we have a huge know-how on the suppliers and the products, and we have in place the systems and controls that can guarantee the quality of the product and we can really be someone they can trust in, because we are there with our brand everyday on the market with the products. So that is the idea, to give the foreign customers the same quality and products that the Italians can buy every day.

Q: What are the challenges/risks you are expecting on China?

M1. One of the main challenges would be knowing about the country, about the environment, in terms of legislation in terms of relationships, it's a very complicated country. Everything is always done in a grey area, its not clear how you have to do things. There is always someone who pretends to help you, in let's say dodgy ways, or risky ways, to facilitate, I don't know, in registration of a product, or the registration of your brand. It is, very difficult for a company that is used to work according to the legislation according to clear system a law, to follow the rules in China, atm. So this is one of the main challenges. As well as finding the information, the relevant information, for understanding how the system works, and what you need to do in order to comply with the system. Probably the language is not helping. In several meetings we found out huge problems with understanding each other with Chinese people, and they always tend to not tell you the whole truth, about the situation, their abilities and capacities. You have always problem to measure the size of the capabilities of your opponents.

Q: What are the company competitive strengths/pitfalls?

M1. Well the strengths are the know-how of the Italian market and suppliers and the variety of products that we can supply. There is no supplier that currently can supply a range modern 4000 products in private labels. We cover all the needs from food, to water, to house detergents, to cheeses to toilet paper, we cover all the needs the consumers might have in terms of food and other stuff that can be found in a supermarket, and there is no one that can do that. Usually, you have, I don't know, grandarolo and grandarolo can supply you only two categories, like cheeses and milk. You have barilla, barilla can supply you with pasta and biscuits and sweets, or other snacks. So Conad is capable of offering you, both milk, cheeses, pasta, cakes, sweets, snacks, whatever you think of, conad is there and can supply to you without any problem, at competitive prices. Because

without saying that the private label usually cost 20-30% less than the main brands, so this is definitely one of the most important points for our retailers for going for let's say export. Because it's one physical presence for everything. Apart from that you have also of course the know-how and the logistics, you have the know-how on the market, on how to run a shop and so on, which usually are always the type of information and know how that people want to share/have.

Q: Do you at present have any knowledge about the Chinese retailer market?

M1. *Not really, because, conad the interest of conad is on the e-commerce, and not on the retailing. Being a cooperative, it's a strength but it is also a limitation. Our mission, as I said, is to focus on our cooperators, therefore we cannot invest in retail outlets outside Italy unless we find entrepreneurs that in the Italian model that we developed that are interested in associate themselves with Conad, therefore they will take the conad brand and conad logo and open retail outlets, but that will imply an investment from their side, on the structure on the supermarket the physical super markets, therefore we were not looking, when we started to look, in the Chinese market, we were not looking to open joint ventures or retail outlets. We were more interested in the e-commerce because it is still a growing trend in china, and probably will represent the future not only in china but also in Europe. I mean, we are seeing that amazon are investing a lot in Europe for the e-commerce, we know that in Italy there is only esselunga with e-commerce and home delivery, so the future will be definitely that one. It's just a matter of time, that's why the idea of looking at china, also a way to develop our own knowledge on how to run an e-commerce business.*

Q: Why is the Chinese market of interest for the company?

M1. *Definitely for the big numbers, it is a market that is hungry, literally. Hungry for food, good and quality food and beverages, because they have polluted their country, problems with milk, water, tap water is undrinkable in big cities like shanghai, also hungry about novelties a growing percentage of the population that can start to afford certain products like imported products, real imported products not the fakes. So this people are getting wealthier, they are eager to buy foreign products, because they, what we've noticed, the state has a huge meaning, so having a Lois Viton bag or nice European car, or sending your children to foreign school, like the American schools is*

a sign of wealth and richness. So whatever they can afford to buy from outside the country, they want to buy it doesn't matter what.

Q: Do you have any specific features that you look at when selecting a market for international expansion?

M1. *Not really, because our experience is mainly based on the European market. Ten years ago when we started the export business, we found that the European market was quite behind in terms of knowledge about real Italian products and suppliers and food products, that's why conad started that business. Now we see that in the European market is much more competitive and the knowledge that the retailers that they've built in the last few years is very good, and there is no more space to do what we did we Leclerc. Because in the past, ten years ago, or maybe only few of the European retailers were able to go to Italy to develop products. I have a scheduled meeting within two weeks, Edeka our new partner within the European union and they have a line called Edeka Italia, with Italian made products, not the fake ones so the real Italian products, they state clearly who is the supplier they have PVO and PVI products as well. They are all starting to develop, if they haven't yet, their own private label, high quality premium Italian label, because its very important to build the loyalty of consumers and differentiate from the other retailers and we know that the Italian is among the top 10 consumed ethnic food in the world. So there is always a request for good Italian products outside and they are doing it by themselves. Foreign markets, I don't know, far east or maybe Australia, something like that probably, they are still behind and there is still the opportunity to do something that we did in the past with Leclerc.*

8.2 APPENDIX 1: SECOND INTERVIEW WITH CONAD

Both interviews have been conducted with one of the top management figure inside Conad. M1: Refers to Manager 1, which is the interviewee for both interviews

Q: Does Conad have any previous experiences in China? If so, were those positive or negative?

M1. *Chinese people contacting Conad, we have this beautiful idea. Everybody had a story, and tell you whatever to do business. First contact two years ago, a project for selling Conad products in*

vending machines, because apparently there are vending machines everywhere because it is impossible to have shops everywhere. "I have a business with vending machines and I want to have Conad products" So we started to look at the customs and regulations and it was a complete nightmare, and the cultural difference was huge as well. They always behave in a dodgy way and the way they are used to work, with bribery. For a company with our size and name, we do not want to risk of being part of this, scandals, or whatever.

Q: During the previous interview, you mentioned E-commerce quite often. Could you please give us more insights?

M1. *Actually with the e-commerce and the free trade zones that they have developed. There are several free trade areas in the main Chinese cities, and basically these are custom free areas where you can deposit your goods. You don't pay duties until the products go out from the free trade area. So that allows you to bring the products there, and to sell it when you have the opportunity to sell it, when you have the clients. Let's say, when you do the picking and you send it and you have reduced the duties. Moreover, if you sell it online you have further benefits, that's why the e-commerce is growing. In order to increase the consumption, and economic growth not only in regards buildings and ghost cities. You can have the products shipped from the free trade areas to the customers to mainland china with further benefits such as fiscal benefits, reduced duties, and so on.*

Q: What are the benefits attached to the e-commerce in your opinion?

M1. *Goods in free trade zones in china, and by selling through e-commerce, they have the health requirements needed, everything must be on the web, all information. Hence the packaging can be in Italian. They let you taste a piece of the cake and then they change. So you follow. You are addicted. These are easy sells. Now they are changing the legislation, which will probably go through later this year, which says that it is no longer possible to sell the products with the original packages. Everybody needs to change the packages. The product must always be Italian. Chinese people do not want products made in china. So the packages must be in Chinese but be produced in Italy. They would not accept any stickers, they want the packages directly in Chinese, so far it was possible with the original packages and use stickers. They want to bring the producers in, barilla was shipping products to the US, when the sales were big enough, they sat up quotas on the import, so the only way to go around this was to open facilities in the US to employ people in the US.*

Q: On the other hand, what are in your opinions the drawbacks of e-commerce?

M1. *This would affect Conad when we don't have any sales, so we would go in without knowing if we would have any customers, 5-7 thousand euros to get the Chinese packages. For instance, the "European organic" is not approved by Chinese health authorities, so you cannot market the products as organic and has to cover the organic logo. So "Conad biologica" could not be sold for instance. They are slowly turning things to make it more difficult for companies to sell from outside, to bring knowledge and employment. We have some suppliers that have factories in china for producing salami Prosciutto. We can provide Conad products made in china, but they didn't want that.*

Q: How do you think the Chinese grocery market will evolve in the next five years?

M1. *Scared about pollution in their country so they want to give their children clean products from Europe, the main thing they are buying is water, milk, breakfast food. Tap water is not drinkable so they all want to buy European water. Lawyer that was representing JD, after last year we shifted to the online business, that's the best way for us to go into the market and it is the growing. The physical is not what is the future for China. Carrefour have closed stores, Tesco has problem, only Wal-Mart is keeping their presence, probably due to their budget, but they still only cover 7 provinces. The future is in the 2 and 3 tier cities; the mega cities are already covered. The income is in the 2-3 tier cities, and there is no presence there either, and ecommerce is the only way they can get the products. The future is the ecommerce but the logistics is not developed for the fresh products, the one with short shelf-time.*

Q: What is the company's budget for the operations in China?

M1. *We haven't yet thought about a number. However, we are planning to invest as much as needed for the startup period.*