Foreign market entry strategies
*A case study for a Chinese pump manufacturer*

*FU YU*

June, 2011

Bachelor’s Thesis in Industrial Management

**Supervisor:** Bo-Lennart Andersson

**Examiner:** Lars Löfqvist
Abstract

Economic globalization, regional economic cooperation and knowledge economy make a great impact on the development of the new century. The changes of international trade and investment reflect the variety of the world economy development; the world economic development, in turn, influences the international trade and investment in both quality and quantity (Feenstra, 1998). The international marketing has become an important trend in this modern society, global strategy has been put at the top of the agenda of many companies. And making development in the international market can also be a good solution for the companies to increase their competition (Mittelman, 1996). It is vital for those companies to deal with foreign market entry as a first step in accomplishing their global mission (Onkvisit & Shaw, 2004). How to enter a foreign market is very important in this case, so the purpose of this work is therefore to research important factors on entering a foreign market. The theories, including environmental assessment before entry and foreign market entry strategies, are summarized by literature review and in order to make the theories applicable, a case study on a company in China has been done in this work as well. The methods used in this work include collecting processed data from literature review, gathering primary data by telephone interviews and through e-mails. SWOT analysis is used to assess targeted market for the case company. The case company is Shandong Shuanglun Group which is a famous pump manufacturer in China; its targeted market that the company wants to enter is the Italian market. After SWOT analysis, the conclusion of this work indicated that opportunities of entry targeted market for the case company includes favorable tax policies and relevant laws, the threats in high context culture and terrorist activities should be paid attention to. The company has strengths in product but weaknesses in service, strategic alliance with one local pump manufacturer and exporting could be their market entry modes.

Key words: foreign market, entry strategies, environmental analysis, market entry modes, case study, China, pump manufacturer
Content

1. Introduction ................................................................. 1
   1.1 Background.......................................................... 1
   1.2 Purpose............................................................... 3
   1.3 Research Question................................................ 3
   1.4 The structure of this work........................................ 3

2. Methodology ................................................................... 5
   2.1 Data collection and analysis....................................... 5
       2.1.1 Collecting secondary data.................................... 5
       2.1.2 Collecting primary data....................................... 5
       2.1.3 Data analysis.................................................... 6
   2.2 Research method....................................................... 6
   2.3 Research strategy..................................................... 7
   2.4 Reliability and Validity.............................................. 7
   2.5 Delimitations............................................................ 7
   2.6 Selection of the company........................................... 8

3. Theoretical framework .................................................. 9
   3.1 Entry environment analysis.......................................... 9
       3.1.1 Political environment.......................................... 9
       3.1.2 Legal environment............................................. 13
       3.1.3 Cultural environment......................................... 15
   3.2 Foreign market entry modes......................................... 17
       3.2.1 Foreign direct investment.................................... 18
       3.2.2 Exporting.......................................................... 18
       3.2.3 Licensing.......................................................... 19
       3.2.4 Management contract.......................................... 20
       3.2.5 Joint venture...................................................... 20
       3.2.6 Manufacturing................................................... 21
       3.2.7 Assembly operations........................................... 21
       3.2.8 Turnkey operations............................................ 22
       3.2.9 Acquisition....................................................... 22
       3.2.10 Strategic alliance............................................... 22
3.3 Other aspects................................................................. 23

4. Findings from empirical case study ....................................... 25
   4.1 Company background.................................................. 25
   4.2 Organization structure............................................... 26
   4.3 Sales development.................................................... 28
   4.4 Italian market entry for Shandong Shuanglun Group......... 28
      4.4.1 Opportunities and Threats.................................... 29
      4.4.2 Strengths and Weaknesses................................... 31

5. Analysis and Discussion.................................................. 41
   5.1 Research question 1.................................................. 41
   5.2 Research question 2.................................................. 42
   5.3 Analysis and Discussion on empirical case study............. 43
   5.4 Delimitations afterwards.......................................... 45

6. Conclusion ................................................................. 47
   6.1 General conclusion on theory..................................... 47
   6.2 Conclusion of case study......................................... 48
   6.3 Further study........................................................ 48

References ............................................................................. 50
1. Introduction

This section provides an overview of the research problem and also a justification for a study about this particular subject. Overall context of this work including purpose and the structure of this work is showed in this section as well.

1.1 Background

Under the influence of economic globalization, organizations have paid more attention to international marketing in order to survive or achieve success among the fierce competition. International marketing is not a single word or a simple theory that a clear definition could be given to, rather, it is associated with many business processes (such as economic transactions, cultural and political interactions) and contains lots of theories. (Bradley, 1991) Compared to domestic marketing, international marketing is more complex since the marketer will face many sets of uncontrollable variables which are originated from different countries, challenges in different cultural, political systems together with fluctuation in foreign currency exchange rates and the things relevant will all influence the marketing strategies that the companies set (Bradley, 1991). Many observers seem to point out the negative impacts of international business such as intellectual property barriers. If everything, however, goes within the limits, there is no doubt that the positive impacts of international business are more than the negative ones. According to Onkvisit and Shaw (2004), the positive impacts of international business are as follows:

- Survival and growth

  It is indisputable that not all countries own enough resources, market size and other necessary elements for economic development by themselves. It is found that when foreign organizations entered domestic market of other country, the international expansion came to be necessary, that is to say, international business in foreign markets is vital to the companies to survive or grow in the world business.
• Sales and profits

Opening foreign markets is a good way for the companies to increase their business share all over the world. Especially in a domestic market situation, foreign markets free the organizations by helping them to increase international sales as well as large profit margins. Many business successes of famous international companies, such as Coca-cola, are usually based on attaching importance to their oversea markets.

• Diversification

Risks like sales fluctuations can not be avoided all the time because there are so many uncertain factors. Periodical factors economy recessions as well as seasonal factors such as climate change could all influence the demands of the products. Foreign markets could be considered to a good solution to distribute sales so as to diversify the risks for the companies. For example, Coca-cola as well, cold weather may send down the sales of beverages, when the USA enters winter, Australia, however, is in summer at the same time, beverage consumption in Australia provides outlet for Coca-cola to excess their production capacity.

• Inflation and price moderation

Some regions are opposed to import products or certain industries because they believe that imports will bring shocks to their local industry, regional protectionism comes to be serious in these regions. Whereas on the contrary, domestic firms could get benefits from importing. Importing brings incentive for local companies to moderate their prices. Consumers may pay more when they do not have imported products alternatives, in this case, inflation and excessive profits will be the result.

• Employment

In order to reduce the costs, the companies who enter a new market usually choose to use the local work force especially in those countries whose price of labor power is low. In this case, the surplus labor in these new market countries will be taken full advantage of, which will ease to pressure of unemployment and the local employment environment will be improved a lot.
Standards of living
Trade helps to maintain a healthy price mechanism for the market, so people do not need to pay more for the products they need, and with the help of the trade, industries could gain access to raw materials easier and at the same time they could also exports their products to other places, so we could say that trade provides higher standards of living for both countries and their citizens as well.

Understanding of marketing process
The marketing process is also a process of cultural exchange. Different senses of worth and behavioral patterns could be well understood during international marketing. One company could learn a new strategy from oversea markets and apply it to their domestic market.

Since international business is that important for the companies, entering foreign markets plays a very important role in achieving global mission for the companies. What kinds of preparation work do the companies need to be done before entry and which entry method and mode should the company choose? An exhaustive research deserves to be done here.

1.2 Purpose
The purpose of this study is to examine the factors affecting companies’ entry on foreign markets

1.3 Research Question
The research questions are as follows:
What factors need to be considered by companies before entering a foreign market?
What strategies should be selected by companies to enter foreign markets?

1.4 The structure of this work
The structure of this work mainly contains 5 sections. (See Figure 1)
The first section is a general introduction of the international business together with the purpose of this work.
The second section focuses on what kinds of methods that have been used inside this work. The third section is theoretical framework, relevant studies and theories on the theme are displayed so that readers will have a theoretical basis of this study. The forth section is an empirical case study of a Chinese pump manufacturer on how to enter the Italian market. The last section includes the conclusion drawn from the research result with suggestions for the case company on Italian market entry.

Figure 1 The structure of the thesis work
2. Methodology

This study mainly includes two parts, theoretical basis and case study. Different methods were used during the research so as to capturing data thoroughly, the concrete methods used in this project is discussed as follows.

According to Walliman (2005), there are three main perspectives in research methods: data collection and analysis, quantitative and qualitative research, and research strategies. All of these three perspectives were expressed in this work.

2.1 Data collection and analysis

Once a research problem has been formulated, the relevant data should be collected and analyzed in order to draw conclusions. Collecting data can be divided into two parts, collecting secondary data and collecting primary data (Walliman, 2005).

2.1.1 Collecting secondary data

The sources of secondary information contain the internet, the libraries and archives, museums, government departments and so forth (Walliman, 2005). Secondary data in this work is gathered from:

Internet, information provided by the case company on the homepage

Company brochures, product introductions of the case company and their competitors gained directly from the case company SSG (Shangdong Shuanglun Group)

2.1.2 Collecting primary data

Sampling, doing questionnaires, interviewing and observing, all of them contribute a lot to doing research. The primary data in this work is from the case study, and is base on the interview of the person in charge of the case company and marketing manager as well. Interviewing is particularly useful when qualitative data are required (Harrel & Bradley, 2009). Since the case company is located in China and the author is in Sweden, telephone
Interview was done in this case so as to avoid the necessity of traveling to the respondents. Because the case company is not listed on the stock market, some essential information could not be gained directly from the internet but only from the telephone interview, the aspects or the areas need to be learnt of the case company were prepared in advance and are as follows.

- The capacity of the company including the size and financial strength
- The targeted market that they want to enter
- Which kind of product that they want to promote in their targeted market
- Their main competitors in the targeted market
- The parameter figures of the product they want to promote

2.1.3 Data analysis

In order to measure, to make comparison and to explain, data analysis is necessary after the data collection (Walliman, 2005). Qualitative analysis often gives the analysts an edge since key factors that does not show up in quantitative analysis (Ihaka & Gentleman, 1996). Since there is no statistical analysis in this study, qualitative analysis is used only. Qualitative analysis is a kind of security analysis that uses subjective judgment based on no quantifiable information, such as management expertise, and qualitative analysis helps to increase the insight into the company (Ibid). SWOT analysis is used in this study; it is an extract of the findings of both external and internal audits that focuses on the critical strengths and weaknesses of the organizations as well as the opportunities and threats facing the company (Kotler et al., 2008).

2.2 Research method

Quantitative and qualitative methods are two different methods. Precise measurement like figure analysis belongs to quantitative method while there are some variables that can not easily be quantified; a qualitative research method is also needed (Walliman, 2005). In this study, data was collected both in the form of mathematical figures and in the form of words through interview. However, since there is only simple figure comparison that is done in this work rather than a statistical model application, so qualitative method is the main method that
was used in this work, and it is mentioned above that telephone interview is used in the case study, qualitative method is very suitable for this study because those variables that can not be quantified in the interview could be measured in a good way by using qualitative method.

2.3 Research strategy

Research strategy is not a simple theory that could be summarized step by step. It mainly depends on what kinds of research that is going to be done (Walliman, 2005). Data collection and analysis could be repeated many times. So is also the case in this work, data collection and analysis have been done 12 times. The information from just one time is not sufficient; telephone interview is not formed in one piece either. Case study is a very important research strategy in this thesis work, the case study aims to answer the research questions by collecting data, analyzing information and reporting the results; it helps readers to understand the theories better by applying these theories into a real case, the case study itself also refers to many research methods such as secondary data collection and information analysis (Ibid).

2.4 Reliability and Validity

Reliability is concerned with the question of the extent to which one’s findings will be found again (Sharan, 1995). In order to increase the reliability of this work, multiple methods of data collection, including literature review, Internet searching, telephone interview were used for data collection.

Validity includes external and internal validity (Sharan, 1995). The extent to which findings of the study can be applied to other situations refers to the question of external validity, while internal validity asks the question: How congruent are one’s findings with reality? (Ibid) in order to guarantee the validity of this work, the data was collected from different sources, such as company brochures, Internet, scientific articles and interviews.

2.5 Delimitations

There are some limitations in this work:
Firstly, the discussion on the research questions is based on the premise that the targeted market has already been decided.

Secondly, since the case company is in China, the interviewing modes is limited, e-mail and telephone interview were the only two ways to get in touch with its marketing department and general manager. Because the topic of this work is in relation to market development, so there are two persons of the case company involved during this work, one is the marketing manager of the case company, and the other one is their chief executive officer.

Finally, since pump manufacturing is a relatively unknown area for most people, there is little information about marketing research on pump manufacturing, so in this case, the source of the information of case study in this work is limited, besides company brochure and relevant website, the main access of the essential information is from the case company itself.

### 2.6 Selection of the company

Shandong Shuanglun Group is the case company in this work. Shandong Shuanglun Group is chosen as the case company is because:

Firstly, it is a company in the process of entering a new market for its products.

Secondly, I have already learnt something about this company since once I have done a simulation assignment about Shandong Shuanglun Group, so I am familiar with this company compared to others.

Thirdly, I have been keeping in touch with the person in charge of Shandong Shuanglun Group because of the last time contact for the simulation work, so in this case, it is convenient for me to get essential information from the company by telephone interview and email.
3. Theoretical framework

This section discusses the theory and analytical model that are used in this study for analysis.

3.1 Entry environment analysis

The market environmental analysis includes political, legal and cultural environmental analysis.

3.1.1 Political environment

The political environment that multinational corporations face is complex because they have to cope with the policies from more than one nation. Some one may say that politics and economics are two totally distinct components of a country, in fact, they are often closely intertwined and interacted (Onkvisit & Shaw, 2004). A political statement could be based on the economic sanctions, while in turn, the economic prospects of one country could be enhanced by a political action (Ibid). Companies would benefit a lot if the relationship between two countries gets better or when a new investment policy is adopted, but on the other hand, when political conditions deteriorate, some serious problems on business can occur. So before entry a foreign market, it is necessary for companies to learn well about its political environment (Goodnow & Hansz, 1972).

Political risks

There are a lot of political risks that marketers must cope with. The hazards are based on the actions of a host government include confiscation, expropriation, nationalization and domestication (Onkvisit & Shaw, 2004).

- Confiscation is the process of taking ownership of a property with no compensation.
- Expropriation is almost the same as confiscation except that there is some compensation. The property could be either domesticated or nationalized after it has been expropriated.
- Domestication means that foreign companies should pass on control and ownership to the nation either partially or completely, which will result in the operation of confiscated
and expropriated property by the private entities.

- Nationalization refers to the government ownership and it is the government that operates the business being taken over, this will have a deep impact on the whole industry rather than a simple company.

Root (1982) introduced another classification system of political risks which includes four sets of political risks that to be identified: general instability risk, control risk, operation risk and transfer risk. Table 1 below illustrates these four sets.

Table 1 Four sets of political risks identified by Root (1982)

<table>
<thead>
<tr>
<th>General instability risk</th>
<th>Refers to the uncertainty on the future viability of the political system of a host country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control risk</td>
<td>Refers to the possibility that the host government might take measures to limit the ownership of investor and control of a subsidiary in that host country</td>
</tr>
<tr>
<td>Operation risk</td>
<td>Refers to the uncertainty that the host government may constrain the business operations in all areas of the investors such as marketing, financing and producing</td>
</tr>
<tr>
<td>Transfer risk</td>
<td>Refers to future acts by the host government that may constrain the ability of the subsidiary to transfer profit and capital out of the host country back to the parent company</td>
</tr>
</tbody>
</table>

**Measures to minimize political risks**

In order to construct a relatively unrestricted political environment, companies need to take measures to minimize political risks. It is impossible for the companies to eliminate all the political risks, while there are several measures for the companies to implement so as to discourage the host government from controlling their assets (Onkvisit & Shaw, 2004).
Stimulation of the local economy

Linking the business activities with the national economic interests of the host countries is a good solution for the companies to defense their investments. The companies could stimulate the local economy in many different ways. Firstly, purchasing local products and raw materials for producing and operating is a good strategy for the companies. The companies could be provided valuable political contracts from local allies by assisting these local companies in this way. Local sourcing is sometimes compulsory that the local government may require the products to contain locally manufactured component, this not only saves a foreign exchange transaction but also stimulate the marketing demands for those domestic components. Secondly, investment in local production facilities will please the local government much, because the local production facilities as well as their competitions will be improved in this way. Finally, being export oriented in one important attempt for the companies to assist the host country because the local government will benefit from the exporting capital (Ibid). Stimulation of the local economy is a good opportunity that companies should seize for entering the foreign market smoothly (Herisz & Zelner, 2003).

Employment of nations

Many foreigners easy make simple mistake by assuming that the citizens from less developed countries are uneducated and unmotivated (Onkvisit & Shaw, 2004). Such kind of attitude may become a self-fulfilling prediction. Therefore, hiring of the local worker should go beyond the filling of labor position. It is important for the companies to know that automation may do not go down well in such cheap-labor and high-unemployment area, so it is better for them to use intermediate technology which is cheaper and promotes goodwill by increasing employment.

Sharing ownership

Sharing ownership with others, especially with local companies, is another good way to minimize political risks. Forming a joint venture is one common technique in sharing ownership, and sometimes, having co-owner from other countries can also work well, because it is hard for the host government to take over the business venture without offending nations at once, and it helps to reduce exposure. Moreover, since voluntary
domestication used to be a forced decision which is not a desirable course, the company should plan for domestication in advance rather than waiting until it is required, because the company may have lost lots of leverage and bargaining power by that time. It is a wise move to retain marketing or technical area of the business by the companies while allowing local ownership to take over the physical assets.

- **Being civic minded**

  Combining investment projects with civic projects should be considered since such civic projects can make a long term economic sense. A small amount of money could help for those less developed country, for example, subsidizing in building roads, schools and water supply systems is a good measure because these projects could not only benefit the host government in improving local facilities but also help the companies to gain valuable goodwill in a long run.

- **Political neutrality**

  In terms of gaining a long term interest, it is not wise for the companies to trap in political disputes in the host country; the companies should make a clear statement that its primary concerns are economic in nature rather than political trade.

- **Behind-the-scenes lobby**

  Political risks could be managed reasonably in certain ways. Companies are not always passive in political environment of a foreign market. Lobbying activities could be undertaken behind the scenes and the government behind the company’s own country could be requested to apply pressure against those foreign governments.

- **Observation of political mood and reduction of exposure**

  It is good for the marketers to be sensitive to the changes in political mood make an emergency plan in advance. Some defensive strategies such as transferring assets to foreign subsidiaries and flowing capital out are helpful in case of making it hard for the host government to nationalize the properties of the companies.

- **Other measures**

  There are a few more steps for the companies to minimize political risks. Firstly, since it is impossible to please all the people, it is good for a company to be relatively inconspicuous and keep a low profile. Secondly, the company could adopt a local
personality so as to blend into the local environment. What is more, anti-terrorist programs should be done both on security equipment and on training relevant persons. Finally, it is important to implement various defensive precautions under different circumstances.

The political environment that the companies face is rather complex, some foreign governments are not always receptive to the investment and capital from overseas because they suspect about the motives and commitments of those companies, so those companies who would like to enter foreign markets must make the host government trust them and make every endeavor to minimize political risks. The companies must be sensitive to the political concerns of the host government before their entry; some measures such as stimulating the local economy, employing nationals, sharing ownership and being civic minded should be taken in order to accommodate the national interest of those host countries. Moreover, maintaining political neutrality, being lobby quietly and such kinds of defensive activities should be kept in mind so as to protect their own economic interests.

3.1.2 Legal environment

Just like the political environment discussed before, the legal environment for the companies are complex as well. There is no international law that deals with business activities of companies in the international area, while its only national laws that vary from country to country, that is to say a concrete analysis should be made according to concrete situations (Durnev & Kim, 2005). So it is hard to draw a general conclusion on how to deal with legal environment when a company enters a foreign market, but there are some common aspects that should be discussed usually (Onkvisit & Shaw, 2004).

*Branch & Subsidiary*

Companies must make a legal decision on whether using subsidiaries or branches to carry out their plans and to manage their operations in a foreign country. A branch is considered to be an extension or base station of a company as another location which is not separated form its
parent legally. In contrast, a subsidiary is both legally and physically independent; it is regarded as a separate legal entity in spite of its ownership by another corporation (Onkvisit & Shaw, 2004).

Multinational companies usually prefer to choose subsidiaries rather than branches, the reasons are as follows. The first reason refers to the recruitment of management. There is no doubt that the top manager wants a prestigious title of president instead of a “branch manager”. Secondly, the companies could have access to the targeted market quickly by forming a subsidiary because they can acquire an existing company with this market and makes it work as a subsidiary. Thirdly, it is flexible for the companies to use subsidiaries because the parent company could advantage of the opportunity to circumvent some government requirements in this case. Furthermore, when a subsidiary is formed in a foreign country, it is regarded as a local company, which could enable it to receive tax benefits that granted to other national companies. Last but not least, in the case of forming a subsidiary, the liability of parent firm is limited to its investment in the foreign subsidiary, which means that the maximum loss can not be greater the assets invested in its subsidiary (Onkvisit & Shaw, 2004).

Every coin has two sides; there are some defects as well of forming a subsidiary. For example, the use of subsidiaries adds complexity to the corporate structure compared to the use of branches. And subsidiaries are relatively expensive, which requires substantial sales volumes to justify their expense. So the companies should balance the advantages of using subsidiaries and branches against the disadvantages before making decision (Ibid).

**Intellectual properties**

The conception of intellectual properties, which is defined by the World Intellectual Property Organization (WIPO), is “creations of the mind: inventions, literary and artistic works, and symbols, names, images, and design used in commerce.” (Ostergard, 2000).

It is free for the companies and individuals to own and control the rights to intellectual property. There are four categories of intellectual property (Onkvisit & Shaw, 2004).
• **Trademark:** A word, symbol or object that used to identify a product made or marketed by a particularly firm. A registered trademark is the mark which is accepted for registration by the Trademark Office.

• **Copyright:** Copyright office is in charge of the copyright which provides protection against copying by others to an author or artist for his or her literary, musical, dramatic works without permission. It protects the form of expression rather than the subject matter.

• **Patent:** A patent protects an invention of a scientific or technical nature in order to spur inventiveness. The Patent Office offers a statutory grant to an inventor exchange for public disclosure giving the patent holder exclusive right to the functional and design inventions patented and excluding others from using those inventions for a certain period of time.

• **Trade secret:** Trade secret refers to know-how that is kept secret within a particular business and this know-how offers this firm a competitive advantage.

Legal issues related to the international business are common and also complex. Because of the variety of legal mechanisms, it is hard to draw a general conclusion. But it is important to keep in mind that some aspects like the form in carrying out the plans and the intellectual property should be known well. Other aspects like legal forms of organization and issues on litigation are all differ from one country to another, it is quite necessary for the companies to learn well about the legal systems and relevant requirements before entry.

**3.1.3 Cultural environment**

Trade is conducted in a cultural environment and in turn, culture often has a civilizing influence on marketing operations as well. Culture prescribes acceptable beliefs, traditions, customs and values that are then socially shared. It impacts the behavior of people in diverse ways through logic, communication and consumption. Although some culture characters are universal, most of them are unique and vary from country to country. It is not wise for the
companies to ignore the cultural influence when entering a foreign market (Onkvisit & Shaw, 2004). Some of the influential aspects of the cultural environment are:

- **Influence of culture on consumption**
  Consumption patterns, lifestyle and the priority of needs are all directed by culture. Culture could prescribe the manner in which people satisfy their desires. For example, the eating habits, the Chinese eat such things like pig kidney and do not consume so much beef while Japanese eat uncooked seafood and their consumption of beef increases every year. In addition to the influence on what to be consumed, the culture affects what should not be purchased as well. A typical example is that Muslims do not eat pork, so any pork products will not be purchased at all in the living area of Muslims (Ibid).

- **Influence of culture on thinking process**
  There is a phenomenon called self-reference criterion which means that it is almost impossible for a person to observe foreign cultures without making reference, perhaps unconsciously, back to personal culture values. The people tend to be bound by their cultural assumptions because of the effect of self-reference criterion. Marketers must attempt to eliminate the self-reference criterion effect so as to investigate a phenomenon in another country (Onkvisit & Shaw, 2004). Lee (1966) points out a multi-step approach to remove the undue influence of the self-reference criterion. Firstly the problem should be defined in terms of the culture of the home country of the researcher. Secondly, the same problem should be defined again, except that it is defined in terms of the cultural norm of the host country. Thirdly, a comparison should be made between two cultural composites. Differences between the composites indicate an existence of the self-reference criterion, necessitating another look at the problem with the self-reference criterion removed. An awareness of the influence of the self-reference criterion is valuable because such awareness can help the manager to prevent a transfer of personal culture norms on a whole sale basis to an overseas market (Lee, 1996).
**Influence of culture on communication process**

A country may be classified as either a high-context culture or a low context culture in terms of in-depth background information (Hall, 1976). This kind of classification provides an understanding of various culture orientations and explains how communication is conveyed. German and Scandinavian countries are typical examples of low-context countries, in their societies, messages are explicit in the sense that actual words are used to convey the main part of information in communication; Japan, France and Italy, in contrast, are high-context countries, in such cultures, there are most indirect communication and the expressive manner in which the message is delivered becomes crucial (Ibid). Here is a case for why we need to pay attention to this kind of difference. Advertisers in US usually use an illustrated lecture method to present an advertisement. The product is discussed in absence of its natural setting in this kind of low-context method, while such advertisement is not easily understood in high-context cultures because of the omission of essential context details (Onkvisit & Shaw, 2004).

Culture is subjective and dynamic; it affects the behavior of people through logic, consumption and communication as well. Culture diversity is a common and long-lasting characteristic in human history. It may be easy to misunderstand different cultures which should be resisted. So getting a deep insight of the local culture and the relevant influence is important before entry a foreign market. The cultural influence on consumption almost desires whether your product could be easily marketed or not (Madison et al., 2010). Paying attention to the cultural influence on logic and communication could help the companies a lot in promoting their products in the targeted market so that they could increase the market share easier.

**3.2 Foreign market entry modes**

There are various foreign market entry modes for companies to choose from. The methods vary in terms of risk accepted and the degree of commitment to the foreign market. Since each method has its own strengths and weaknesses, companies should make a concrete
analysis of each method so as to choose a most suitable one. A combination among these modes is wise to be chosen rather than a single one by the companies (Goodnow & Hansz, 1972).

3.2.1 Foreign direct investment

A free flow of capital across national borders is usually advocated because it could result in a high rate of return. A global integration of capital markets spreads best practices in corporate governance, accounting rules and legal traditions. Especially when there are high sales potential and low political risks, foreign direct investment is very suitable. Foreign direct investment benefits developing host countries a lot because it could help those countries to improve their facilities and living environment of people. In order to attract foreign direct investment, those countries have relied on their natural resources and location advantages, even those countries who lack natural resources and location advantages could still attract foreign direct investment by adopting sound economic policies within an open political environment. By using this strategy, knowledge spillover is minimized, local market information is boosted and the companies could be viewed as insiders. But there is also a risk that free capital flows may be driven by speculative and short term consideration, and this strategy requires more resources and commitments (Onkvisit & Shaw, 2004).

3.2.2 Exporting

Exporting is a strategy when a company exports a product from its home base without any marketing or producing organization overseas. When the target market production cost and its political risks are high, exporting becomes a good strategy to implement. The ease in implementing the strategy is the main advantage of exporting. Since the company just simply exports its excess production capacity when it receives orders from abroad, the risk of exporting is low. But there is also a problem that exporting makes the marketing strategy of a company inflexible and unresponsive because exporting tries to keep the international activities simple, the product modification is scarce at the same time, and the transportation costs are high. Moreover, the exporting strategy works poorly when the home
country currency is strong, which will create prolonged difficulties for the exports of the company. Investing abroad is an alternative in this case in order to reduce the effects of the strong currency (Onkvisit & Shaw, 2004).

3.2.3 Licensing

Licensing is an agreement that permits foreign companies to use intellectual property (such as patents and trademarks), technical skills, engineering designs or the combination of those in a foreign market. Licensing could be a suitable strategy when the company is hesitant to invest directly abroad and also consider that exporting is ineffective, and the licensees lack certain abilities. In general, a licensing contract should include these basic elements: quality control, royalty rate, choice of currency and law, length of contract, product and territorial coverage, grant back and cross licensing (Onkvisit & Shaw, 2004).

There are several advantages of licensing. Firstly, licensing allows companies to spread out their development and research while helping them to receive incremental income with little expense. Secondly, granting a license protects the patent or the trade mark of the company against cancellation for nonuse. This protection is crucial for the company who decides to leave the market either temporarily or permanently after they invest in production and making facilities in a foreign country. Thirdly, when capital is scarce or when import restrictions discourage direct entry, licensing is a good method to be considered, because it allows a quick and easy way to enter the market especially when there are many trade barriers. Moreover, licensing works well when the transportation costs are high since the companies could come to a licensing agreement with local distributors. Finally, the trade mark owner can receive an intangible benefit of free advertising which reinforces the brand image and the brand is extended into new product categories in which the trade-mark owner has no expertise. (Ibid)

There are some negative aspects of licensing as well. Licensing may be the least profitable entry strategy of all. And the lax quality control of licenses will result in inconsistent product quality across countries which could injury the reputation of the product on a world wide basis. There is also a problem that licensee could become their competitors as well (Onkvisit & Shaw, 2004).
3.2.4 Management contract

To sign a management contract with the government or the new owner in the foreign market in order to manage the business for the new owner is a good way to generate revenue as well, especially under the circumstances that companies do not want to have any foreign direct investment and host government pressure forces the foreign companies either to relinquish control or to sell its domestic operations. Management contract could be used as a sound strategy for entering foreign markets with minimum investment as well as minimum political risks. But low profit and high administrative costs are two shortcomings of this strategy (Onkvisit & Shaw, 2004). We could also say that this is an ongoing relationship in which the entrant performs specified functions and in which the entrant has representation on the management committee overseas (Anderson & Gatignon, 1986).

3.2.5 Joint venture

A partnership at corporate level is called joint venture, which is another alternative of entering an oversea market. Enterprise formed by two or more investors shares ownership and control, it could be either domestic and or international and this should be based on a particular business purpose (Buckley & Casson, 1998). According to Brouthers (2002), firms tend to use joint ventures when the market they enter is characterized by high legal restriction or high levels of investment risks.

There are several benefits of using joint venture. Firstly, since each partner must contribute to the business, a joint venture could help the company to reduce the amount of resources both in money and personnel. Secondly, in some countries that have centrally planned economics, wholly owned activities are usually prohibited, joint venture is then a good way the companies to enter the markets. Finally, a joint venture could work to satisfy social, political and economic circumstances at the same time because these concerns are highly related; it can reduce political risks while increasing market opportunities and the companies easy enter foreign markets by using this strategy.
There are some shortcomings of joint venture as well. Firstly, a clear decision marking policy should be established, otherwise the decision making process may delay an important action especially when speed is vital. Secondly, it is bound to conflict because of disagreement over operation, cultural problems and unequal contributions by one or other partners. Although an agreement could be achieved at first, goals may still diverge over time, which needs negotiations so as to reach a new consensus. Thirdly, if one partner holds less than 50 percent ownership, this partner must follow the decision of the majority partner which will lead to dictatorship; if the board of directors has a 50-50 split, however, it is hard to make a final decision quickly, and that is to say the joint venture must deal with the matter of control. Finally, knowledge overspill may happen sometimes (Onkvisit & Shaw, 2004).

3.2.6 Manufacturing

The manufacturing involves all or some manufacturing in a foreign country. Job creation and additional resources are the reasons why the host countries welcome capital, and of course there are some advantages for those entry companies. Those companies can take advantage of their manufacturing and lower labor costs as well. What is more, manufacturing in a host country makes the product of the company more price competitive, because the company can minimize or even avoid high import taxes, and the cost of transportation will be reduced as well. But at the same time, the intercompany and product image should be considered by the company while manufacturing abroad (Onkvisit & Shaw, 2004).

3.2.7 Assembly operations

Assembly means the fitting or joining together fabricated components, the methods used to join or fit together solid components can be welding, sewing and so on. The companies could gain comparative advantage of each country by providing parts or components in various countries. The companies could shift all the labor intensive operations to less developed countries so as to gain cost reductions. Assembly operations allows the products of a company to enter many markets without being subject to tariffs, the extend of this freedom, however, is limited by local laws, as the percentage of required local content increases, the
freedom of the companies declines and the price advantage is also eroded (Onkvisit & Shaw, 2004).

3.2.8 Turnkey operations

A turnkey operation is an agreement offered by the seller to supply a buyer with a facility fully equipped and ready to be operated by the buyer’s personnel who will be trained by the seller. Large scale plants which require high-tech and large-scale construction process unavailable in local markets usually will choose this strategy, while the seller must make sure that the turnkey construction package is attractive to the buyers. The local plant built as well as local personal training should be paid attention to (Onkvisit & Shaw, 2004).

3.2.9 Acquisition

Acquisition is a suitable method when the company wants to have a rapid entry to the targeted market and wants to retain maximum control and direct investments. Companies could benefit a lot from acquisition such as product diversification and acquisition of expertise (technology, management and market share). But there is also a problem. The host country welcomes foreign investment that builds up a new enterprise because of the employment increment and tax benefits, the acquisition, however, fails to meet this, so there will be many legal hurdles for the companies to over come, moreover, determining a fair price, and dealing with the cultural differences and geographic distances. All of these make acquisition complex, risky and expensive (Very & Schweiger, 2001).

3.2.10 Strategic alliance

Besides licensing, joint venture and acquisition, there is another method to gain access to new markets and technologies called strategic alliance. There is no clear definition of strategic alliance; it could be a result from licensing, joint venture and acquisition. Joint venture could be regarded as naturally strategic alliances while not all strategic alliances are joint ventures. Strategic alliance does not require new legal entity necessarily but need contractual agreement
whereby the partners come to an agreement in sharing resources and expertise for penetrate a market. Benefit dispute may occur sometimes.

Risk and cost reduction and resource acquisition could be the benefits for the companies through strategic alliance. Shared distribution, licensed manufacturing and research development alliance are three basic types of strategic alliance (Johansson, 1995).

3.3 Other aspects

Besides foreign market entry modes, marketing is also an important element of foreign market entry strategies (Meyer, 2008). The marketing literature on foreign entry has focuses on standardization versus local adaptation (Tran & Meyer, 2006). Using the same product, brand and processes in all countries is called standardization strategy, it is very suitable especially when the industries are technology intensive and there is little variation in consumer preferences, economics of scale in product development, production and marketing are its advantages. In contrast, local adaptation strategy highlights localization of products to accommodate local preferences and needs, food and beverage industry usually use this strategy, which may include the creation of local brands for the mass market (Ibid).

The experience factor plays an important role in the foreign market entry behavior (Erramilli, 1991). Like manufacturing companies, less experienced companies prefer entering markets that are similar to their home countries, however, as their experience increases and becomes more diversified, these companies will increasingly seek out markets that are geographically and culturally distant (Agarwal & Ramaswami, 1992). The results strongly support models that depict a gradual outward spread of a firm’s international operations (Erramilli, 1991).

And a company’s superior managerial and organizational expertise can give it a competitive advantage, it is likely to choose an entry competitive characterized by a high level of control over marketing and operations (Brown et al., 2007).
SWOT analysis is used in this study’s empirical case; it is an extract of the findings of both external and internal audits that focuses on the critical strengths and weaknesses of the organizations as well as the opportunities and threats facing the company (Kotler et al., 2008). Marketers need to identify the main opportunities that their company faces because it is important to anticipate vital developments that can have an impact on the company and that the same time avoid potential threats that may retard the development of the company (Kotler, et al., 2008).

Edward and Berry (1995) has told something in how to decide the entry mode which is showed in figure 2.

![Market entry modes](image)

**Figure 2 Market entry modes (Edward & Berry, 1985)**

The foreign market entry mode differs according to different development in market and product. For example, we could see from figure two that when the target market is distant market and the products that the companies want to promote are existing products, then competitive alliance is suitable to use. While when the product is new and the market is also in distance, acquisition or foreign market entry is good instead.

Besides the decision on foreign market entry modes, the issue on motivation for companies to entry foreign market is important to discuss as well (Anoop, 1997).
4. Findings from empirical case study

This section provides the findings of the case company Shandong Shuanglun Group and their targeted market Italy. An overview of Shandong Shuanglun Group on history, organization structure and company development is shown at first so that the readers will have some basic facts about this company. What kinds of opportunities should be seized and what kinds of threats should be avoided in the Italian market according to Italian trade policy is an important market assessment before entry; moreover, compared to the local competitors, what is the competitive advantage of Shandong Shuanglun Group and which aspects needs to be improved before and appropriate entry method selection can be done.

4.1 Company background

Shandong Shuanglun Group, which was founded in 1952, is one of the leading pump manufacturers in China (Shandong Shuanglun Group, 2011). The company covers an area of 220, 000 square meters and boasts to have more than 1200 staff, among which there are 150 engineers and technicians. With over 50 years of experience, Shandong Shuanglun is able to produce a wide range of pumps which could be used for: HVAC (Heating Ventilation and Air Controlling), municipal, oil fields, petrochemical industry, power plant, agriculture irrigation, building services and other applications. Their annual output is up to over 50,000 units of pumps. And Shandong Shuanglun Group has rich experience in entering foreign markets in South Asia, South-east Asia and North Africa.

History of Shandong Shuanglun Group (Shandong Shuanglun Group, 2011):
1952: Jian nong Steel Cooperation was founded
1958: Weihai Agriculture Machinery Plant was completed
1959: First centrifugal pump was produced in June
1973: Weihai Pump Plant opened on 30th, Jan. Specializing in Agriculture Pump under the State Machinery Bureau.
1985: Started to produce LG, DL series multistage vertical pump for high buildings
1987: New pumps were developed for oil fields and aluminum plants

1992: Slurry pumps and Power plant pumps were developed

1996: Shandong Shuanglun Group was founded

1998: Shandong Shuanglun Group Co., Ltd, shareholding reform was completed

2009: Shandong Shuanglun Fluid Machinery Co., Ltd was founded (a wholly owned subsidiary of Shandong Shuanglun Group)


4.2 Organization structure

The structure of Shandong Shuanglun Group could be summarized as the following chart:

![Organization Chart](image)

*Figure 3 Shandong Shuanglun Group organization chart (Shandong Shuanglun Group, 2011) (DGM: Department General Manager)*

A good structure of a company is very important since the structure could have a deep influence on communication and motivation. There is a relationship between organizational size and the number of hierarchical levels described by Figure 3 below:
Figure 4 Relationship between organizational size and number of hierarchical levels (Gather, 2007)

If the point of the relationship is below the curve, it means that the company has few levels in its hierarchy relative to its size, the company owned this character is called flat organization; while if the point of relationship is above the blue curve, it means that the company in which the hierarchy has many levels relative to the size of the organization.

Shandong Shuanglun Group, which has 5 levels of hierarchy (showed in Figure 3) and own 1,200 staff, is neither flat or tall organization, that is to say, it has a good organizational structure. In this case, there are few problems for Shandong Shuanglun Group in internal communication and motivation, because in a tall organization, too many hierarchy levels may hinder communication, and as the number of levels in the hierarchy increases, the relative difference in the authority possessed by managers at each level decreases, as does their area of responsibility. Their bureaucratic cost will be in a proper interval compared to tall organizations.
4.3 Sales development

Since Shandong Shuanglun is not listed on the stock market, there is no official financial report to take part of, but their annual sales record is achieved from their marketing manager by telephone interview. The figures are showed in figure 4 below.

![Figure 5 Shandong Shuanglun Group annual sales (Million, USD)](image)

From the above figure we can see that the annual sale of Shandong Shuanglun Group raises continually, although there is no data on their net income, the good sales status could lay the first stone for their Italian market entry as well.

4.4 Italian market entry for Shandong Shuanglun Group

The knowledge of foreign markets is helpful in entering foreign market (Moini et al., 2008). So it is important to learn the trade environment of Italian market including political, legal and cultural environment before entering this market because only in this way could the company know exactly what opportunities should seize and what kinds of challenges will they meet in their future business. As the Chinese saying goes, “Know the enemy and yourself, and you can fight a hundred battles with no danger of defeat” (Sun Zi, unable to be queried), one should know both himself and his counterpart to win each battle and it is the
same in the international business, to be more aware of your competitors in the targeted market could help the company to hold initiative in the later competition. SWOT analysis is essential in this case.

4.4.1 Opportunities and Threats

The analysis of the opportunities and threats in this case study mainly focuses on the political, legal and cultural environment of Italian market.

**Political environment**

Italy is a republic with a democratic parliamentary system; sovereignty belongs to the people, who exercise it in accordance with the principles enshrined in the constitution that came into effect on 1st January 1948 (Embassy of Italy in Beijing, 2011). There are many preferential polities regarding to taxation system and some incentives of investments that foreign investors could benefit from them.

The corporate taxation system underwent a major reform whose main features are as follows (Italian taxation system, 2011):

- Reduction of corporate income tax rate up to 27.50% compared to the last version
- Partial exemption of the capital gains from the sale of equity investment of the companies can be registered either in Italy or abroad
- Introduction of a group taxation mechanism under which Italian and foreign companies belonging to the same group may compute a single taxation income for the parent company resident in Italy
- Abolition of tax credit system for dividends and introduction of partial tax exemption of dividends from equity investments in companies can be registered either in Italy or abroad

The incentives for investment are granted in the form of (Italian incentives, 2011):

- Grants for plant expenses, consultancy and leasing expenses
- Subsidized financing for a maximum of 8 years, in addition to a use and prepayment
period depending on the length of the program, at a rate of 20% of the chosen reference rate.

In spite of these opportunities, the companies must pay attention to some political threats. The local government often changeovers and different governments are supported by different political parties, so in this case the companies must keep political neutrality and make a clear statement that its primary concerns are economic in nature rather than political trade. Terrorist activities may occur in Italy, anti-terrorist programs need to be done in advance, and precautionary measures need to be prepared as well.

**Legal environment**

The legal environment of Italy is rather good for foreign investors. Foreign companies who invest in Italian market could rely on the same legal protection of Intellectual Property Rights that granted to local Italian companies, and covering all areas that those foreign companies are used to enjoying in their home countries (Intellectual property, 2011). Law181/89 establishes a support mechanism for reindustrializing and revitalizing industrial areas (Do business in Italy, 2011). It is also important for companies to notice that local laws differs in different areas of Italy, so it is important to pay attention to those local regulations like construction requirements especially when the company wants to build up a new company in certain regions in Italy.

**Cultural environment**

Italy is an ancient civilized country with a long history; their culture has a strong inclusiveness. Italy is a high-context culture that there are most indirect communication and the expression manner in which the message is delivered becomes critical (Hall, 1976). That is to say, it is important to provide enough detailed information when foreigners communicate with Italians, when the foreign company wants to place an advertisement or negotiate with Italian local companies, concrete context must be stated in advance in case of unnecessary misunderstanding.
Other aspects

Pump manufacture industry is technology intensive, and there is little variation in consumer preferences. So using standardization strategy (Meyer, 2008) is suitable for Shuanglun to enter Italian market. Shandong Shuanglun Group has rich experience in entering foreign markets in South Asia, South-east Asia and North Africa, which helps a lot for Shuanglun to seek out the markets that are geographically and culturally distant such as Italy. The good organizational structure discussed in 4.2 provides a basis for Shuanglun to control over its foreign market.

4.4.2 Strengths and Weaknesses

The marketers do not need to list all the features of their companies, but only those strengths and weaknesses that most critically affect the success of the organization, especially when compared to their main competitors, it is essential to show their advantages and shortcomings so that they could adjust their business plan.

Italian market is a relatively new market for Chinese pump manufacturers, the best seller pump in Italian market is Single Stage Pump, which is the product that Shandong Shuanglun wants to promote in Italian market as well, in terms of this kind of pump, there are two main competitors in Italian market, the first one is Finder Pompe, which has become one of the most dynamic companies onto the Italian market; the other one is Calpeda, it s a famous pump manufacturer with rich experience in Italy. The comparison on product, service and the degree of cognition among Finder, Calpeda and Shuanglun is essential.

Product

Finder and Shuanglun have been certificated by ISO 9001 that their products are in good quality. They are also certificated by ISO14001 that their design and production are compliance with environmental regulations, in case of quality and environmental friendliness. Shuanglun is good enough to compete with Finder and Calpeda. Besides quality, product
options are a vital element for customers to decide. In terms of Single Stage Pump, the product together with their properties of each company is discussed separately as follows.

It is important to know that the property of pumps differs according to different rotate speed which is decided by electric motors. The following property analysis is based on two different rotate speeds, one is 2900 rpm and the other one is 1450 rpm.

**Finder Pompe**

The Single Stage Pump in Finder Pompe is called ACD series. The parameter of the pumps on 2900 rpm is showed in the figure 6.

![Figure 6 Finder ACD series pump parameter on 2900 rpm (Finderpompe, 2011)](image)

Horizontal abscissa stands for flow capacity and vertical abscissa represents the pump head, it is easy to see that there are 16 kinds (16 blocks) of pumps with different flow capacity and pump head under 2900 rpm. The numbers labeled in the blocks have special meaning. For example, 32-160, 32 means the diameter of the outlet is 32 centimeters; 160 represents the diameter of impeller is 160 centimeters. When the diameter of outlet and impeller differ, there comes out different kinds of pumps with different flow capacity and pump head. The parameter of the pumps of Finder Pompe on 1450 rpm is showed in figure 7.
This chart shows that there are 17 kinds of pumps with different flow capacity and pump head on 1450 rotate speed for the customers to choose from. The diameter of outlet varies from 32 to 125 centimeters and the diameter of impeller could be up to 250 centimeters. In terms of Single Stage Pumps, Finder could provide 33 kinds of pumps with different properties which can meet diverse needs of customers.

Calpeda
N4 series from Calpeda stand for single stage pumps. The parameter under 2900 rpm is illustrated in figure 8.
Figure 8 N4 pump parameter of Calpada under 2900 rpm (Calpeda, 2011)

(Notice that there is a mistake in this figure, one block should be N80/160 rather than N80/16, this is the original mistake of the figure in Calpeda’s brochure, so it has not been corrected in this work.)

There are 21 kinds of pumps on 2900 rpm in N4 series of Calpeda. The figure in the blue blocks is the same meaning with Finders’. For example, N 32/125, N means N4 series, 32 stands for outlet diameter, and 125 represents the flow capacity of this type of pumps. The parameters on 1450 rpm pumps are showed in figure 9.
There are 30 kind of single stage pumps on 1450 rpm of Calpeda, so there are totally 51 kinds of different pumps under N4 series of Calpeda, which offers more options for the customers than Finder does and their range of outlet diameter is larger than Finder pompe as well.

**Shandong Shuanglun Group**

Single Stage Pumps are categorized as IS series pumps in Shuanglun, the property range figure on 2900 rpm is showed in figure 10.
There are 28 kinds of pumps under this category, the meaning of these figures is a little bit different from those in Finder and Calpeda. For example, 100-65-315, 100 stand for the diameter of inlet, 65 stand for the diameter of outlet, and 315 represent the diameter of impeller. The property range of single stage pumps on 1450 rpm is showed in figure 11.
Figure 11 Shandong Shuanglun IS series pump parameter on 1450 rpm

Shuanglun has 48 kinds of IS pumps on 1450 rpm, so totally there are 76 kinds of single stage pumps with different properties owned by Shandong Shuanglun, which is another advantage over their Italian competitors, and their ranges of outlet diameter and flow capacity are as big as Calpeda’s. Their multiple categories offer customers diverse options to choose from, which could meet their different need of product properties.

In addition to product varieties, it is important to consider the product performance as well. The product performance of single stage pumps depend heavily on the pump head, the higher the head, the better the pump, the flow capacity does not matter so much because the larger the flow capacity, the bigger the pumps, so in this case, the demand for the flow capacity is somehow relevant to the size of the pumps, which differs according to different demands of the customers. Five pumps are selected randomly from these three companies under 2900 rpm to make a comparison which is shown in table 2-4 below.
Generally speaking, for these five model pumps, Shuanglun has higher pump head than Finder while its flow capacity is lower than Finder’s. Compared to Calpeda, Shuanglun has almost the same pump head as Calpeda but the maximum flow capacity is lower than Calpeda. According to the measure of pump head, Shuanglun is good enough to compete with its competitors in Italy while it really depends on particular customer’s demand to decide which
one is suitable because there is no common standard on how large should the flow capacity be.

Price and delivery time are two basic elements to measure before customers buy the products. Contacts have been made by email and phone calls to these three companies, and finally, the quotations from Finder and Shuanglun are received by email, here is a comparison of price and delivery time of one product model between Finder and Shuanglun.

**Table 5 Price and delivery time comparison between Finder Pompe and Shandong Shuanglun Group**

<table>
<thead>
<tr>
<th>Owned company</th>
<th>Product model</th>
<th>Price (Euro)</th>
<th>Delivery time (weeks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finder Pompe</td>
<td>AC 100-200</td>
<td>1155.75</td>
<td>18</td>
</tr>
<tr>
<td>Shuanglun</td>
<td>IS 125-100-200</td>
<td>522</td>
<td>6</td>
</tr>
</tbody>
</table>

Since the products are in the same model and these two prices are when the products arrived at Italian ports, so the comparability is high. It is showed clearly in the figure that Shuanglun has lower price and shorter delivery time, because the price of materials and labor is low in China, and Shuanglun has its own foundry that they could control their manufacturing time, so the competitive strength in price and delivery time of Shuanglun is very great.

**Service**

Service is another important factor that will be considered by the customers before they decide their sellers. Services before sale and after sale are both vital that sellers should focus on.

It is important to provide different accesses for the customers to learn the products in detail. Homepage is one useful access in this case. Comparing the homepages of these three companies, all of them have real pictures of different products in diverse applications; contact ways in different regions are available as well. Finder and Shuanglun have two versions of
their homepages, one is in English and the other one is the official language of their home countries, while Calpeda provides 6 versions of their homepage in different languages (Dutch, French, English, Italian, Spanish and Russian), which is more convenient for the customers all over the world. Finder and Calpeda offer diameter figure of different products on their homepages, but it is unavailable in the homepage of Shuanglun, customers need to contact with Shuanglun to get those figures when they want to see the parameter figures of certain kinds of pumps, the figures from Shuanglun are not as fine as the other two companies’ as well.

After sale services are always considered by the customers especially when the products they buy are in high unit price such as pumps. All of these three companies have provided different channels for the customers to contact with their after sale service. In terms of the Italian market, however, since Shuanglun has not entered the market yet, so it will take longer time than the other two to solve the problems in Italian especially when some technical problems occur to the pumps.

**Other aspects**

When one wants to buy a bottle of cola, Coca-cola and Pepsi are two popular brands the customers usually choose. The cognition degree of a company or a brand is an important factor which will affect the customers’ choice. Shandong Shuanglun Group is such a new company for the Italian market and almost no one knows this company though the quality of their products. Building corporate familiarity with Italian market is crucial to Shuanglun, minority investment in advertising and cooperation with local companies are two alternatives for Shuanglun to choose. Reputation is vital as well, a good reputation is not formed in a day, joining in public activities is a good way to boost reputation.
5. Analysis and Discussion

In this section, research question on theories and research results will be discussed again; Criticism is done to illustrate some limitations of this work.

5.1 Research question 1

What factors need to be considered by companies before entering a foreign market?

This question should be answered from two different views. First is from a general view. Political, legal and cultural environment are three basic elements that need to be analyzed before entry a foreign market. Evading political risks, obeying legal requirements and adapting to a new cultural environment are essential to the companies to orient themselves to a new trading market smoothly. In terms of the case market Italy, keeping political neutrality is a wise measure to take since local government often changeovers and different governments are supported by different political parties. Because international marketing comes to be a trend, many countries including Italy publish many preferential policies and new laws which are beneficial to the foreign investors. In cultural environment, Italy as an ancient civilized country is inclusive to other cultures, so it is not difficult to blend in local cultures, but Italy is a typical high-context country that it is important to state concrete context during the communications (Onkvisit & Shaw, 2004). Marketing strategy on foreign entry (Tran&Meyer, 2006), rich experience in foreign market entry (Erramilli, 1991) and organizational expertise (Brown et al., 2007) play important roles in the strategy of entering foreign markets as well.

Secondly, comparisons between the company and its competitors are necessary. Product, service, recognition and reputation are important measures when making the comparisons. Quality, varieties and properties are important to consider when analyzing the products; service before sale is as important as after sale service; a good reputation and high recognition is not formed in a day, taking part in public activities could promote both of them (Abratt et al., 1992).
5.2 Research question 2

What strategies could be selected by companies to enter foreign markets?

In general, there are 10 strategies for entering foreign markets; they are foreign direct investment, exporting, licensing, management contract, joint venture, manufacturing, assembly operations, turnkey operations, acquisition and strategic alliance (Onkvisit & Shaw, 2004). A simple comparison among them is illustrated in table 6.

Table 6 Comparison of 10 foreign market entry strategies (Onkvisit & Shaw, 2004)

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Conditions to use</th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign direct investment</td>
<td>High sales potential; low political risks</td>
<td>Minimize knowledge overspill; can be viewed as an insider; greater knowledge of local market</td>
<td>Higher risks than other strategies; requires more resources and commitments</td>
</tr>
<tr>
<td>Exporting</td>
<td>High target market production cost; high political risks; low home country currency</td>
<td>Speed of entry; easy to implement; minimize risks and investments</td>
<td>Transport costs; inflexible and unresponsive</td>
</tr>
<tr>
<td>Licensing</td>
<td>Licensee lacks ability to become a competitor; low sales potential in targeted markets</td>
<td>Minimize investment; patent protection; speed entry’ low transport cost</td>
<td>Lack of control over use of assets; lower profit; licensee may become competitor</td>
</tr>
<tr>
<td>Management contract</td>
<td>No direct investment; liberal import policies</td>
<td>Minimize investment and political risks</td>
<td>Lower profit; high administrative costs</td>
</tr>
<tr>
<td>Joint venture</td>
<td>High sales potential; local company can</td>
<td>Reduce resource; easy entry; satisfy</td>
<td>Difficult to manage; dilution of control;</td>
</tr>
<tr>
<td>Strategy</td>
<td>Provide resources and skills</td>
<td>Multiple needs</td>
<td>Knowledge spillover</td>
</tr>
<tr>
<td>-------------------</td>
<td>-------------------------------</td>
<td>----------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Low labor price; rich resource; high transportation fee</td>
<td>Price competitive</td>
<td>Few product image</td>
</tr>
<tr>
<td>Assembly options</td>
<td>High trade freedom; high capacity</td>
<td>Gain comparative advantages from various countries</td>
<td>Easy to be affected by local requirements</td>
</tr>
<tr>
<td>Turnkey operation</td>
<td>High-tech and large-scale construction process unavailable; attractive turnkey package</td>
<td>Easy to implement</td>
<td>Knowledge spillover; person training problem</td>
</tr>
<tr>
<td>Acquisition</td>
<td>Direct investment; low political risk</td>
<td>Rapid entry, maximum control; product diversification</td>
<td>Complex, risky, expensive</td>
</tr>
<tr>
<td>Strategic alliance</td>
<td>Contractual agreements</td>
<td>No new entity is required; cost and risk reduction</td>
<td>Benefit dispute</td>
</tr>
</tbody>
</table>

Companies could choose strategies according to their own conditions; many companies usually prefer to use a combination of these strategies rather than a single one.

### 5.3 Analysis and discussion on empirical case study

After the findings of the case study we could see that using standardization strategy (Meyer, 2008) is suitable for Shuanglun to enter Italian market. Since Shandong Shuanglun Group has rich experience in entering foreign markets in South Asia, South-east Asia and North Africa,
this helps Shandong Shuanglun Group to seek out the markets that are geographically and culturally distant such as Italy. The good organizational structure provides a basis for Shuanglun to control over its foreign market. And Shandong Shuanglun is good enough to compete with Finder and Calpeda in product quality since Shandong Shuanglun Group has been certificated by ISO9001. In terms of varieties, properties, price and delivery time, we could know from the findings that Shandong Shuanglun Group holds absolute advantages compared to Finder and Calpeda.

Shandong Shuanglun Group wants to enter the European market so as to accomplish their global strategy by selecting Italy as their first step. SWOT analysis is used to do their entry assessment. Opportunities and threats mainly deal with the trade environments of Italy. In order to encourage investment, favorable tax policies are published by Italian government such as reducing corporate income tax rate up to 27.50%. Law181/89 also establishes a support mechanism for reindustrializing and revitalizing industrial areas, which is also an opportunity for Shuanglun to seize. But there are some threats. Keeping political neutrality is a wise measure to take since local government often changeovers and different governments are supported by different political parties. Anti-terrorist programs need to be done in advance. Suitable communication ways should be selected in terms of high-context country. Strengths and weaknesses are embodied from the comparison between Shuanglun and its competitors in Italy. There are two main competitors in the Italian market, one is Finder Pompe, and the other one is Calpeda. Comparing the Product performance parameters, Shuanglun has competitiveness in product varieties and some properties and their product quality is good enough since they were certificated by ISO 9001, their price is lower and delivery time is shorter compared to Finder Pompe, while it is weak in both before and after sale service, since they has not entered Italian market so far, their brand recognition is lower than local competitors. But their competitive advantages in price and delivery time are rather large compared to Finder Pompe because the material price is lower in Chinese market and Shuanglun owns its own foundry. The rich experience of foreign market entry in South Asia, North Africa, and its good organization structure are their strengths.

There are two issues of relevance in foreign market entry decisions (Anoop, 1997). The first one is motivation for firms to enter a foreign market, the motivation of Shandong Shuanglun
Group is to develop a new market in Italy so as to open the European market and accomplish their global strategy. The second issue is the means by which companies choose to participate in the particular product market (Anoop, 1997), the decision regarding the mode of entering Italian market for Shuanglun is discussed in figure 2. And from figure 2, it can be seen that a competitive alliance maybe an attractive proposition for a company seeking to enter distance markets with an existing sets of products. Italian market is a distance market for Shuanglun and single stage pumps are existing product in Italian market, so it is suitable for Shuanglun to choose strategic alliance as their Italian market entry strategy. They can choose Finder Pompe as their partner because Finder is a famous pump manufacturer in Italy with rich experience, and what is more important is that they are complementary in single stage pumps. Since a combination strategies is often used by many companies (Goodnow & Hansz, 1972), besides strategic alliance, Shuanglun could also choose exporting as another alternative, because Shuanglun is a small company, exporting could help them to minimize investment and risks, and at the same time achieving rapid entry with easy implementation.

5.4 Delimitations afterwards

The theories in this work are summarized from scientific literatures, research results are gained from valid sources, but there are still some shortcomings.

- There is no systematic analysis for all Italian legal requirements; only the typical and new one is summarized.
- In the product comparison part of case study, because there is on access to price quotation and delivery time statement of Calpeda through lack of data. Product appearance is also an important basis for estimation, but it is not realistic to go these three companies and the pictures online can not illustrate real situations.
- The contact with persons in the case company has been limited. There are only two persons that have been interviewed for the case study, one is the marketing manager of the case company, the other one is their chief executive officer.
- Since pump manufacturing is a relatively unknown area for most people, there is little research on marketing in pump manufacturing, so in this case, the source of the
information of the case study is limited, besides company brochure and relevant website, the main access of the essential information is from the case company itself.
6. Conclusion

This section is the conclusion directly related to the purpose of this study. A summary of both theories and case study is drawn here.

6.1 General conclusion on theory

Important factors on entering a foreign market are generally divided into two different parts. Firstly, the companies need to do a concrete analysis of the trade environments including political, legal and cultural environment of their targeted markets. Political environment is complex and there are some political risks such as confiscation, expropriation, domestication and nationalization that marketer must cope with. The measures including sharing ownership, employment of nations and being civic minded are very useful to evade political risks. Legal requirement is also complex and differs country to country; common aspects like intellectual properties should always be focused on, local requirements on businesses of different regions are important to learn for a company before they entry this market. Cultural influence should not be ignored when enter a foreign market. The cultural influence on consumption, thinking process and communication of people is a critical element to the business success as well, paying attention to the cultural influence on logic and communication could help the companies in promoting their products in the targeted market so that they could increase the market share easier.

Secondly, correct entry strategy is the other factor that the company should treat carefully. In general, there are 10 foreign market entry strategies that the companies could choose from, each of them has its own using conditions and advantages and disadvantages that the company must be familiar with them before they decide which to use. Foreign direct investment is useful when there are high sales potential and low political risks, it could minimize knowledge spillover and get more knowledge on local market while there are higher risks than other strategies. Exporting allows rapid entry and it is easy to implement, but the transpiration costs will be high especially there is distance market. Licensing could lower the
transportation costs and minimize investment but in turn, it has lower profit and is easy to lack of control over assets. Management contract can avoid direct investment but lower profit is also the problem of it. Joint venture is a good way to share resources with others, while dilution of control is its risk. When there are low labor price and high transportation fees, manufacturing is useful in the foreign market; price competitive is its advantage while few product images is its shortcoming. Assembly options require high trade freedom and it could help the companies to gain competitive advantages from various countries. Turnkey operation is easy to implement but knowledge spillover is really a problem. Acquisition is rapid and could maximize control, but it is also complex, risky and expensive. Strategic alliance reduces costs and risks but the benefit dispute is a problem sometimes.

6.2 Conclusion of case study

To sum up, the conclusions of the case study are:

- The opportunities that Shandong Shuanglun Group can seize in Italian market include favorable tax policies and Law 181/89
- The threats that Shuanglun needs to notice in the Italian market contains high context cultural environment and terrorist activities
- The strengths that Shuanglun own include rich experience of foreign market entry in South Asia and Africa, good organizational structure, competitiveness in product quality, varieties and some properties, comparative advantage in price and delivery time
- The weaknesses of Shuanglun are: weak in before sale service, longer time taken for after sale service in terms of Italian market, low recognition in Italian market compared to local competitors
- Italian entry modes for Shuanglun: strategic alliance with Finder Pompe combined with exporting to Italy

6.3 Further study

How to decide the target market is very important for companies to consider before foreign market entry, since the target market Italy has already been decided by the case company, so
there is no discussion on target market decision in the study, but it deserves to have a concrete analysis on this topic in later works.

Human resource and logistics are another two important elements that should be considered by the companies when they want to enter foreign market, so these two aspects could be discussed more in later works.
References


Embassy of Italy in Beijing, (2011), Basic introduction, [online], Available at: http://www.ambpechino.esteri.it/Ambasciata_Pechino/Menu/Informazioni_e_servizi/Fare_affari_in_Italia/ [Accessed on 2011-05-18]
Harrell C. Margaret and Bradley A. Melissa, (2009), Data collection methods, semi-structured interviews and focus groups, *National Defense Research Institute*, Vol. 5, No. 6, pp 148


