

iscte

INSTITUTO
UNIVERSITÁRIO
DE LISBOA

Internationalization Strategies to enter the Chinese market in the Food & Beverage Sector

Anaïs Barroso dos Santos

Master in Business Administration

Supervisor:

PhD, Nelson José dos Santos António, Full Professor

ISCTE- IUL

January, 2021



BUSINESS
SCHOOL

Marketing, Operations and General Management Department

Internationalization Strategies to enter the Chinese market in the Food & Beverage Sector

Anaïs Barroso dos Santos

Master in Business Administration

Supervisor:

PhD, Nelson José dos Santos António, Full Professor

ISCTE- IUL

January, 2021

“The greatest enemy of knowledge is not ignorance,
it is the illusion of knowledge”

Stephen Hawking

Acknowledgments

I thank my family for all the unconditional support, not only during my dissertation, or my master, but during all my life. No matter where my path leads me, they will always be there. A special thanks to my sister, who heard me talk about my dissertation endless times.

I thank my friends, colleagues, and previous company for all the support, for always believing in me, and making possible to work and study at the same time.

I thank all my professors in ISCTE and KEDGE, who gave me the necessary knowledge to accomplish this dissertation. I would like to give a special thanks to Professor Fernanda Ilhéu, Professor Filipe Sampaio and Professor Marjan Jalali, for all their precious time and wise advice. Also, would like to thank my Supervisor, Full Professor Nelson António for accepting this challenge.

Abstract

The purpose of this study is to understand what are the key strategies that the Portuguese companies in the Food and Beverage sector should take to enter, successfully, the Chinese market.

In the literature review are introduced the main knowledge that Portuguese companies need to acquire before initiate the internationalization process, including Chinese management, Chinese negotiation, Chinese consumer, and the Chinese market data. Once acquired this knowledge, the companies will be able to take strategic and knowledgeable decisions when entering the Chinese market, such as, decide for adaptation or not, establish a partnership or not, and understand how to achieve competitive advantage.

Portuguese companies recognize China as a market with growth opportunities, although the activity of these companies is still insignificant in the market. Many companies fail in their attempt to enter the Chinese market. Why are these companies failing and others are successful?

For a better understanding of the real situation of the Portuguese companies from the Food and Beverage sector in the Chinese market, we used questionnaires in our methodology. The answers of the enquired companies verify most of the findings and considerations presented at the literature review. The companies took different strategies when entered the market a few years ago, now admit that would do it differently. The acquired experience in the Chinese market, let them understand the best approaches to the market and the key differentiator factors that will lead to a better performance.

Key Words: Internationalization – Strategy – Chinese market – Food and Beverage sector – Portuguese companies

JEL Classification System:

M16 – International Business Administration

M31 – Marketing

Resumo

O objetivo desta dissertação é compreender quais são as principais estratégias que as empresas portuguesas do setor Alimentar e de Bebidas devem ter para entrar, com sucesso, no mercado chinês.

Na revisão da literatura são introduzidos os principais conhecimentos que as empresas portuguesas precisam de adquirir antes de iniciarem o processo de internacionalização, incluindo gestão chinesa, negociação chinesa, consumidor chinês e dados sobre o mercado chinês. Adquiridos estes conhecimentos, as empresas poderão tomar decisões estratégicas e fundamentadas para a entrada no mercado chinês, como decidir adaptar ou não ao mercado local, estabelecer uma parceria ou não, e conseguirá entender melhor como obter uma vantagem competitiva.

As empresas portuguesas reconhecem a China como um mercado com oportunidades de crescimento, embora a atividade destas empresas ainda seja pouco significativa no mercado chinês. Muitas empresas fracassam na sua tentativa de entrada na China. Qual é a razão para algumas empresas não conseguirem entrar no mercado e outras serem bem sucedidas?

Para uma melhor compreensão da real situação das empresas portuguesas do setor Alimentar e Bebidas no mercado chinês, utilizámos questionários na nossa metodologia. As respostas das empresas inquiridas confirmam grande parte das considerações apresentadas na revisão de literatura. As empresas adotaram estratégias diferentes quando entraram no mercado há alguns anos, agora admitem que o fariam de forma diferente. A experiência adquirida no mercado chinês, permitiu-lhes compreender as melhores abordagens ao mercado e os principais fatores diferenciadores que os conduzirão a um melhor desempenho.

Palavras-chave: Internacionalização - Estratégia - Mercado chinês - Setor Alimentar e Bebidas - Empresas portuguesas

Sistema de Classificação JEL:

M16 – International Business Administration

M31 – Marketing

Contents

Acknowledgments	iii
Abstract	v
Resumo	vii
Chapter 1 - Introduction.....	1
Chapter 2 - Literature Review	7
2.1. Strategy	7
2.1.1 Internationalization Strategy.....	9
2.1.2. Internationalization Process.....	10
2.2. Entry Mode	11
2.2.1 A local partner	12
2.2.2. Adaptation or standardization of marketing strategies	14
2.3. Chinese Business Environment	15
2.3.1. Chinese Management	16
2.3.2. Chinese Negotiation	18
2.3.3 Chinese Consumer.....	21
Chapter 3 - Contextualization of the Study	25
3.1. Chinese market potential	25
3.2. Business relations between Portugal and China	26
Chapter 4 - Methodology	29
4.1. Data Collection	29
4.2. Analysis and Discussion of results	32
Chapter 5 – Conclusion.....	49
5.1. Limitations of the Study	51
Bibliography.....	53
Annex.....	58
Annex I- Questionnaire.....	58
Annex II - Summary of main results	67

List of Figures

Figure 1-Years of experience in International markets.....	32
Figure 2 - Years of experience in the Chinese market.....	32
Figure 3- Company's entry mode into the Chinese market	34
Figure 4- Did you enter the Chinese market through any previous contact?	34
Figure 5- If yes, through what type of contact?	34
Figure 6- Do you have or had a Chinese partner who helps or helped you to develop the business?.	35
Figure 7- Who is your main customer in the Chinese market?.....	36
Figure 8- Did you use any Chinese intermediaries in the negotiation?	36
Figure 9- Did the company select a specific city in China as its first entry market?	37
Figure 10- Did the company or person responsible for the expansion into the Chinese market had knowledge about the market at the time of the entry decision?	38
Figure 11- Does your company consider that knows the Chinese market?.....	38
Figure 12- Did the company do any type of preparation or market research before moving ahead with expansion to China?	39
Figure 13 - If yes, at what level?.....	39
Figure 14 - What were the biggest obstacles your company had to overcome when entering the Chinese market?.....	40
Figure 15 - Has your company done a study about the Chinese consumer?.....	40
Figure 16 - If yes, what kind of adaptations have been made?	40
Figure 17 - Has your company adapted the product to the Chinese consumer?	40
Figure 18 - Did your company use marketing tools to make your product known in China?.....	42
Figure 19 - If yes, what type of marketing tools were used.....	42
Figure 20 - Do you think your product has a competitive advantage in China?	42
Figure 21 - If yes, what are the competitive advantages of your product?	43
Figure 22 - When do you expect to see the results of the investment you made for the Chinese market?	44
Figure 23 - Has the company achieved or is it on track to successfully achieve the results established for the Chinese market?.....	44
Figure 24 - Do you consider that if you had more support from Portuguese governmental institutions, your entry into the Chinese market could have been facilitated?.....	45
Figure 25 - Do you consider important to have a Chinese partner for the development of your business in China?	46
Figure 26 - What do you consider to be the differentiating factor for success in China?	47

Chapter 1 - Introduction

Nowadays, China is in the center of the world. Chinese considered themselves at the center of the world already many years ago. China in mandarin means “Central Kingdom”. The true is, although all the turbulent times China has crossed, like poverty, constant invasions, economic stagnation, dictatorship, a violent cultural revolution, they managed to be in a central position again. No matter if we are talking about politics, economic, business, population, innovation, and now even health, we will always mention China. Overseas Chinese are known and admired because of their good skills for business. Nine out of every ten billionaires in Southeast Asia are ethnic Chinese (Chen, 1995).

These skills started long time ago. The emperor Qin Shi Huang was considered as one of the earliest known organizer-managers on earth and one of the greatest leaders of all time. Voltaire recognized that Chinese administrative system as one of the most advanced in the world. “Ancient Chinese were masters of coordination and control, the two essential prerequisites of successful management” (Schelevogt, 2002).

China’s economy has risen as fast as not seen before. China has increased their GDP by 200% approximately¹ over the past ten years. The statistics point out that by 2030 the middle class will represent 30% of its population, which in numbers represents more than 400 million people² that will turn into potential customers to western products. This type of customer is eager to try new products, buy luxury brands, set up a high lifestyle, and is willing to pay a premium price for quality and status.

“For Western companies, with mature markets at home, China is one of the few perceived remaining opportunities to grow dramatically using existing products” (Schelevogt, 2002).

The saturation of markets in the developed world forced companies who want to grow to look at opportunities in emerging markets (Ilhéu, 2006).

By 2025, the emerging economies will represent more than 50% of the world total. This growth is also giving rise to a new middle class with significant purchasing power. Two thirds of the global middle class will reside in the Asia Pacific by 2030. Understanding and managing these markets will become more important than ever.

¹ Information retrieved from Trading Economics website (<https://tradingeconomics.com/china/gdp>) accessed on January 10th, 2021.

² Information retrieved from Mckinsey website (<http://www.mckinsey.com/industries/retail/our-insights/mapping-chinas-middle-class>) accessed on January 10th, 2021.

Internationalization is a reality and inevitable. Economies are globalized and inter-dependent. For some company's internationalization is seen as an opportunity to diversify the markets, reduce dependency on domestic markets and grow, for others is seen as a survival strategy to continue the business. It has been a strategic goal for Portugal, long pursued by the Minister for Foreign Affairs and conceptualized approximately two decades ago in the term Economic Diplomacy. The Portuguese economy has become increasingly international over recent decades, with a sharp acceleration of this process in recent years³.

Despite the importance and potential that Portuguese companies recognize in the Chinese market, the volume of exportations from Portuguese companies to China is still very low and insignificant in the world panorama (Ilhéu, 2006). There are companies able to establish nationwide distribution networks and record impressive sales growth, but others cannot succeed in China.

“Many companies and many media ask: (...) which products and sectors are opportunities for Portuguese companies? Although the problem that must be addressed is not which products or sectors are opportunities, but what is the approach that makes it possible to obtain competitiveness gains and obtain positive results for companies not only in China but also in other markets” (Ilhéu, 2006).

The Portuguese companies that are trying to approach the Chinese market are not using the best strategies. The first challenge they need to overcome is the unknowledge about the Chinese market and Chinese business practices; the second challenge is the unknowledge about their own competitive advantages and the value they can bring to the Chinese consumer.

Portuguese companies try to export honey, but China is one of the biggest producers of honey in the world; try to export fruit, but China is also one of the biggest producers of fruit in the world. There are opportunities for Portuguese honey and fruit in China, but the strategies to promote need to change. Portuguese businessmen are trying to sell the functionalities of the product, but people do not buy because of the functional attributes, people buy because of what it can transmit, well-being, lifestyle, power. Portuguese companies should question what they can to offer to China. Chinese need brands, know-how, technology, expertise. Just selling commodities are not competitive enough.

³ Information retrieved from Portal Diplomático website (<https://www.portaldiplomatico.mne.gov.pt/en/foreign-policy/internationalization-of-the-economy>) accessed on January 10th, 2021.

Every market has its own characteristics, but China is especially complex. China cannot be considered as one single market, due to its regional disparities in social, cultural, economic, political, linguistic dimensions. The country has very visible contrasts, big cities, and poor towns; millionaires and people living under poverty; group orientation and individualism; tradition and openness to the world; entrepreneurs and lack of expertise.

Many companies fail in the Chinese market due to lack of knowledge, culture misunderstandings or use of wrong strategy (Rheem, 1996). "The imbalance between market potential and realized gains might result from executives not clearly understanding the key success factors in the country and failing to develop the required core competencies and other resources. It is therefore important to study the underlying drivers of high performance in China" (Schelevogt, 2002).

Knowledge is power. And in China, without knowledge is impossible to succeed. The companies that decide to internationalize to this country, cannot simply make their bags and spend a few days in the country, participating in fairs and exhibitions, expecting to close a deal. This complex market require that businessman do "the homework" before approach the Chinese market. Companies should understand the way Chinese think, manage, negotiate, implement, work; should know the importance locals place on values, tradition, and culture. This knowledge is personal, comes from each company's experience, although the basic can be acquired from previous research, studies, surveys.

The main objectives of this dissertation are:

- 1- Identify the main factors that influence the activity of the Portuguese companies in the Chinese market.
- 2- Introduce the main knowledge that companies should acquire and understand to internationalize to China, according to previous studies. This includes specific knowledge about China, namely, Chinese market, Chinese management, Chinese negotiation, and Chinese consumer.
- 3- Identify key success factors to enter the Chinese market.

Trying to reach these objectives, we developed this dissertation based on the analysis of theories and classical models about internationalization, strategy, competitive advantage, international business, and international marketing. About China, we have based our literature review on a few authors and studies about the topic.

After the presentation of this knowledge, our dissertation develops an investigation to understand the previous knowledge, experience and consequent strategies taken by Portuguese companies from the Food and Beverage sector in the Chinese market.

Does not exist many studies about the activity of Portuguese companies in the Chinese market, we are developing this dissertation a bit as an Exploratory Research.

Although we have not found any previous study focused on the Portuguese companies from the Food and Beverage sector, we decided to focus on this sector because, food and beverage not only is an important part of the Chinese social and familiar environments, but also because is a sensitive sector, very connected with culture and habits. Chinese people's life moves around food, all the meetings with friends, with family, with clients, with business partners, bring food to the table.

Portuguese companies are trying to sell Portuguese food and beverage, so linked with our culture and taste, to a completely different market. Food and beverage are directly related with culture, with habits, with the importance people place on quality, and on their purchasing power. This contrast of conditions makes this sector very interesting to study. Different consumer habits will immediately generate a question at companies' head: should or should not adapt the product to the local market? And when we talk about adaptation of the product does not only mean changes in the taste, but also in the package, the price, the communication, the strategy.

The research question of this dissertation is: what are the key strategies that the Portuguese companies in the Food and Beverage sector should take to enter, successfully, the Chinese market?

And we divide it into more detailed questions for a better comprehension and deeper research:

- What is the necessary knowledge to acquire?
- Why is business failing in the negotiation phase?
- What are the relations that the company need to establish?
- How can the company match their products with the consumer needs?
- What is the impact of cultural differences on the completion of business between Portugal and China?
- What the companies' managers should change on their business view to match the Chinese business view?
- What are the main obstacles for Portuguese companies to enter the Chinese market?
- How can the company achieve competitive advantage?

Our literature review was developed trying to answer each of the divided research question, aiming to answer the main research question. The dissertation is divided into five sections: introduction, literature review, contextualization of the study, methodology (including analysis and discussion of results) and conclusion.

The literature review starts exploring strategy and internationalization as a strategy; after describes the entry modes, develop the revised theory of networks from Uppsala Theory, explores the advantages and possibilities of finding a local partner, as well as the decision to adapt or standardize the product to the local market.

After this broader literature review, this dissertation focusses on the Chinese Business environment and the crucial knowledge that every company should study, acquire, remember, and learn about it, when preparing the strategies to enter China namely, Chinese management, Chinese negotiation, and Chinese consumer.

At the third section, we present the contextualization of the study, with a brief description of the Chinese market and the economic relations between Portugal and China.

At the fourth section, we present this dissertation' methodology, with the explanation of the data collection process, description of the sample, the analyses and discussion of results. To develop our investigation, we sent out questionnaires to several Portuguese companies from the Food and Beverage sector with business activity in the Chinese market, and we also interviewed two of the respondents from the questionnaires to have a better insight of the answers. In this section we also discuss the results in the light of the literature review presented in the previous chapters and do a summarize of the main factors for a success model in the Chinese market.

At the fifth section we make a conclusion of all the work we have developed along the dissertation.

This dissertation was elaborated not only caring about the scientific knowledge required to elaborate a master dissertation, but also trying to be practical and useful for business purposes. We consider that this dissertation can contribute to the knowledge and the perception of the Portuguese companies about the Chinese market, allowing the companies to prepare a better approach to the market, avoiding disappointment and failure. Companies must adopt strategies that ensure their competitive advantages in the Chinese market, gains in the product value chain, and leverages their long-term sustainability. This dissertation has managerial implications for all the stakeholders involved, including the owners, shareholders, managers, employees, partners, customers. Even chamber of commerce, business associations, Portuguese business entities can use this study to provide better support to the internationalization of Portuguese companies to China.

Chapter 2 - Literature Review

The first topic relates to strategy and internationalization as a strategy for the improvement or sometimes even survival of the companies. The second topic is literature about the entry mode and the Theories of network from the Uppsala Theory. The third topic to be reviewed is Chinese management style, Chinese negotiation style and Chinese consumer - information and knowledge crucial for a better performance in the Chinese market.

2.1. Strategy

Strategy is a complex and not concretely defined concept. In almost seventy years there is no agreement about the definition of Strategy. A strategic decision can change the course of the company and its purpose, due to the change on the scale or scope of the business (Duhaime, Stimpert, & Chesley, 2012). A good strategy can make a company successful; a bad strategy can destroy a company.

Peter Drucker (1954) was among the first to address the strategy topic, with a simple approach. An organization's strategy is the answer to two questions: What is our business? And what should it be? From one point to another, we should draw a line, a guide, a strategy.

Chandler (1962) and Porter (1980) are two of the leading theorists about strategy, with their own definitions. Chandler (1962) says that strategy is "the determination of the basic long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals". His arguments follow a logical flow, firstly is important to understand the position of the company, secondly make the strategic choices, and thirdly put the strategy into action.

Porter (1980) argues that companies follow one of the three generic strategies: cost leadership, differentiation, or focus, aiming to get competitive advantage. A company that follows a differentiation strategy will bring to the market new and differentiated products, with different features, or a better service associated. These products are positioned as premium and is charger higher prices than the industry average. However, the success of this strategy depends on customers, they need to perceive the product or the service as unique.

In contrast, if a company decide to follow a cost leader strategy, means the products will be sold at a very low price, sacrificing profitability to gain market share. When the company take a focus strategy, means that they target niche markets, with the same idea as a differentiator or a cost leader.

According to Porter (1985), the three strategies are all valuable and can bring advantages to the company. The manager should select the most appropriate strategy according to the industry is working in, the capabilities of the company and their objectives. This selection needs to be very well measured because each generic business strategy requires different resources, strengths, organizational arrangements, and managerial style, and is not possible to transfer from one strategy to another.

Porter (1985) also adds that the content of the strategy itself does not give competitive advantages to the company, but the way that managers decide to implement the strategy and the capabilities and resources acquired by the company to execute that business strategy in an exceptional way. Managers must consider how the dimensions of the company's industry will change over time, how they can be more creative, develop capabilities, make consumer interested in new products or services.

In more recent studies, Johnson, Whittington, Scholes, Angwin, and Regn r (2013) admit that sometimes a proper understanding of the strategic position can only be built from the experience of trying a strategy out in action. A strategy is typically measured over years and indicates the long-term direction of a company. It involves change from the current core activities, into finding new activities to provide new sources of profit and generate more profit few years later. The objectives of each company are different, could be maximizing profits to shareholders, family objectives, gain market share. It is important to have a clear and organized strategy because it involves many stakeholders, both internal and external.

Although, strategic management should not only be based on economic and structural explanations, but also managerial. The way that managers think influences decision making, strategies and company's performance. Strategic management is fundamentally a human process (Duhaime, Stimpert, & Chesley, 2012). The manager's decisions are based on their cultural, social, and economic environment. Their assumptions, beliefs, and understandings shape their mental models, which are connections of understandings that tell them what is important, what require action and what does not. These mental models guide and influence strategic decision making, strategy formulation and implementation processes. This means that the decisions they take are influenced by their own interpretations (Duhaime, Stimpert, & Chesley, 2012).

For this reason, managers must become knowledgeable, be competent and experts in their industry, to avoid making mistakes and make their companies competitive and successful (Duhaime, Stimpert, & Chesley, 2012). It will be hard for managers to make effective decisions if they lack some level of basic knowledge about their firms, or their industry environments. Managers must be very clear about their business, resources, and capabilities, to select the most appropriated strategy.

According to Duhaime, Stimpert and Chesley (2012), the business strategy is effective if the company can change the shape of the demand curve for its products or services, either following a differentiation strategy or a cost leadership strategy. Customers should want to buy the product either for the differentiative and attractive factors, or because of the low prices.

The managerial thinking, decision making, and business environment will lead to different performance between companies and will create different competitive advantage.

2.1.1 Internationalization Strategy

Internationalization is a strategy that contribute to the development or even survival of some companies. It was the answer that companies found to grow their business in such dynamic markets in globalized world (Sapienza, Autio, George, & Zahra, 2006).

According to Goulart, Arruda and Brasil (1996), internationalization is the increasing and continuous process of the participation of a company in commercial and productive operations in other countries. Anderson (2004) also agrees that the internationalization is a gradual evolution process with well-defined steps, where the organizations acquire the resources and learn how to operate in the international markets. Johanson and Wiedershein-Paul (1975) follow the same idea, considering that internationalization is a long, complex, and dynamic process, due to the physical and psychological distance between the buyer and the seller.

According to Czinkota, Ronakainen and Ortiz (2004) there are reactive and proactive motivations for the companies to go international. Some examples of reactive motivations are overproduction, declining domestic sales, excess capacity, saturated domestic markets, proximity to customers and ports. Some examples of proactive motivations are profit advantage, unique products, technological advantage, tax benefit, economies of scale, exclusive information, knowledge of international markets, international orientation of managers. Government incentives can also be a reason for international expansion, and this encouragement leads to more successful results in the market (Garcia, 2000) & Porter (1990).

Barney and Hesterly (2015) consider that companies need to exploit the VRI (Value, Rare and Inimitable) resources and capabilities and be organized to realize their full competitive potential.

Portuguese companies must have a well-defined strategy when decide to explore an emerging market like China. To formulate a good strategy is necessary to have a good knowledge about the market, the culture, the consumer, the business practices, the possible barriers to enter. Knowledge about the foreign market is crucial for the international expansion, and the related costs are not considered as barriers (Johanson & Vahlne, 1977).

This knowledge will allow the company to make clear decisions about the entry mode, a possible partnership with a local Chinese or adaptation to the local market. All these decisions need to be carefully measured, because will have an impact on the performance of the company abroad.

Experience, defined by the number of years in the host country and the range of business developed in that country, leads to specific knowledge of the market, and improves the performance of operations especially if is found in a dynamic and complex market as the Chinese (Ilhéu, 2006).

2.1.2. Internationalization Process

In 1975, Johanson and Wiedersheim created the Uppsala Theory, where explains how the companies gradually intensify their activity in the foreigner markets. The empirical observations for the original Uppsala model showed that companies first gain experience in the domestic market, later start their internationalization process at countries that are geographically and culturally closer to the domestic market, or with similar business practices, to avoid risks and additional costs in countries that the company does not have knowledge about. In a next phase companies will expand their business to distant markets, achieving a higher degree of internationalization.

On the other hand, Dunning (1995) consider that the market distance loses relevance in the globalization process, and that the world has become smaller because of the liberalization of the commerce, the internet diffusion, and the English language as a common business language.

The globalization makes the markets more homogeneous, and the problem of distance is only a mental attitude that will depend on the knowledge of the managers and entrepreneurs about the world (Ilhéu, 2006).

Although in 2009, Johanson and Vahlne, in their revision of the original Uppsala Theory, called Theory of networks, admit that the importance of psychic distance to the selection of the first country to enter, has weakened. As companies acquire more knowledge about foreigner markets, gain more confidence to deal with the constraint of the psychic distance. But they still believe that the psychic distance has impact on the relationship building and trusting.

Johanson and Vahlne (2009), introduced the concept of liability of foreignness, meaning that “the larger the psychic distance, other things being equal, the more difficult it is to build new relationships”. The existing business relationships that a company has, will impact the selection of a geographical market to enter, and the entry mode (Johanson & Vahlne, 2009) .

On the theory of networks, Johanson and Vahlne (2009) give emphasis to the concepts of “recognition of opportunities”, “network position”, “relationship” and “experiential learning”, considered important elements of the internationalization process.

Before entering an international market, is important that the company finds an opportunity. A firm should not internationalize to a country just because the competitors are going there, or because it seems a good market. Johanson and Vahlne (2009), considered that the interaction between partners who are committed, trust each other, and share privileged information, will make the opportunities arise. This means that opportunities will come with the ongoing business activities, and that entrepreneurs need to be alert and prepared for surprises (Johanson & Vahlne, 2009).

The network theory says that to achieve a specific position in the foreigner market, the company need to be an “insider”, and this is possible through international experience, experiential knowledge, and good relations with others. Part of the necessary knowledge is acquired through the network relationships. According to Madhok (2006) ““trust building” is a costly and time-consuming process” but is crucial for a successful internationalization, because trust will make people share information about each other’s resources, needs, capabilities, strategies, and the target country in general (Johanson & Vahlne, 2009). This acquired knowledge will allow to achieve more opportunities, and even if the company lacks knowledge about the foreigner market, a trusted middleman can help to develop the business (Arenius, 2005). Trust will create commitment from both parts, showing the desire to continue the relationship, able to produce more effective outcomes (Morgan & Hunt, 1994). As soon as a company enter the foreigner market should use the established network to enter new organizations in other countries, to be fully integrated internationally.

2.2. Entry Mode

The entry mode is a central part of an international strategy, is when the future presence and expansion of the company in the market is determined. If the company takes a wrong strategy, will be

difficult and costly to change it, being highly recommended that the company analyzes the internal and external factors, such as, financial resources, management skills, capacity, capabilities, the market potential, the existing competition, the risk in the operation (Ilhéu, 2006).

According to Bradley (2002), the entry modes are divided into three groups: export (indirect, direct), strategic alliances (licensing, franchising, joint ventures) and foreign direct investment (new companies, acquisitions). Each entry mode represents a different degree of commitment in the international market. It is common that a company starts with indirect export (the lower degree of commitment) and scale up, achieving a higher level of commitment.

Ilhéu (2006) refers that, in 1978, when China opened to the world, the possible entry mode was via Foreign Direct Investment (FDI), and that even after the integration of China in the WTO, for some sectors of activity, is still the only possible entry mode. Besides this legal constraint applied to some sectors, Ilhéu (2006) believes that, due to the complexity of the Chinese business environment, Foreign Direct Investment (FDI) is generally “the best way to enter China to take full advantage of the opportunities that China offers and a necessary step for companies to gain competitiveness, not only in the Chinese market, but also in their domestic and international markets”.

When the company intend to reach a high potential market but difficult to explore, is recommended to explore first an “entry market”, meaning a similar and geographically closer market to the one that the company aim to enter. The “entry market” has lower risk and allow the company to learn and acquire experimental knowledge, useful for the target market. To reach the mainland Chinese market is suggested to enter first Macau, Hongkong or Taiwan (Ilhéu, 2006). In the study conducted by Ilhéu (2006), the interviewed Portuguese companies consider both Macau and Hongkong as important entry markets to the Mainland China, giving more importance to Hongkong, despite the cultural, linguistic, and historical relation that Macau has with Portugal.

2.2.1 A local partner

There is a limited knowledge about the process to select and justify the partnerships as a strategy to enter the international markets (Varis, Kuivalainen, & Saarenketo, 2005).

According to Ling, Ibbs and Cuervo (2005), the motivations for the foreign companies to establish local partnerships include: reduction of costs and risks; access to new technologies; use the knowledge of the local partner about the competition, the culture, the language, the political and business system in the target country; reduction of the possibility to have the intervention of the local government. Taylor (2014) also consider that a partnership could be advantageous to build the reputation and a good image of the company’s brand, with the good image of the partners’ brand.

A local partner will basically reduce the psychological distance between the two countries.

Calantone and Zhao (2001) argue that foreigner entrepreneurs believe they need to find a local Chinese partner because of two reasons: to reduce the associated risks to the internationalization due to the complexity of the Chinese market, the political unpredictability, the lack of transparency in the legal system, the power of the Government and the need to make them favors; and also to enjoy the advantages of having access to local resources, better results in negotiations with local governments and lower costs (Ilhéu, 2006).

A local partner performs inside a network, increasing the possibility to know new buyers, new distribution channels, build more networks, generating more information flows and knowledge that help to accelerate the company's international learning curve (Peng, 2001).

The success of a foreign company in China will depend on the network that the company is in, although companies need to know that the connection is not established immediately, is a long-term process, and is required perseverance and social interaction until both partners trust each other (Ilhéu, 2006).

Establish partnerships has been proved to be an effective strategy to enter new markets and represent an important source of knowledge of the host country, although, before selecting a partner, the company should identify the criteria that values most: trust, network access, knowledge about the market, reputation, or any other. The partnership only works when two parties have complementary strength and choose to cooperate for their mutual benefit (Mahoney, Trigg, Griffin, & Pustay, 2001). The objectives of both partners should be aligned and should exist a clear division of each partners' control and risk, to avoid potential conflicts and facilitate the management.

If the foreigner company pick a non-suitable partner, it can incur in disagreements about many topics, such as distribution, promotion, sales, price strategies and even worse, with all the information shared, can turn the partner into a new competitor (Mahoney, Trigg, Griffin, & Pustay, 2001).

For this reason, is advisable that all the companies limit the transparency of its own operations to protect from a non-intentional transfer of information (Hamel, Doz, & Prahalad, 1989). The company also should keep a certain level of dependency from its partner, especially when the partner is not easily substituted for other companies.

Some studies refer that has been proved that joint ventures are not the best solution for the Portuguese companies, mainly due to lack of knowledge of the foreign partner, culture, and the Chinese market, as well as different commitments, objectives, business ethics and difficulties in control (Ilhéu, 2006). For this reason, Wholly Foreign-Owned Enterprise (WFOEs) were recommended as an advantageous entry mode. In WFOEs, entrepreneurs have higher flexibility and control (within the limitations of the Chinese system), have the possibility to expand as they wish, and can establish their own processes and procedures.

Companies can also obtain information about the target market through intermediators abroad, such as agents, distributors, representatives (Ilhéu, 2006) or also identify people who can help them with this information and possibly can hire those people or entities as advisers and intermediaries.

2.2.2. Adaptation or standardization of marketing strategies

One of the most important strategic decisions in international marketing is whether the company should pursue a standardized marketing strategy or adapted to the conditions of local markets, knowing that a standardized strategy may not satisfy groups of consumers and an adapted strategy may have higher costs (Ilhéu, 2006).

Cavusgil, Zou and Naidu (1993) consider that the decision to adapt or standardize the product and communication should have in consideration the characteristics of the market, the situation of the company and the type of product and industry. Bradley (2002) argues that products closely linked to culture, such as food products and clothing, will tend to use an adaptation strategy, while electronic products or music, are likely to use a standardization strategy. Sometimes companies decide to not adapt to the local conditions, because of the high cost related.

Zander and Kogut (1995) consider that when the international business environment is stable, the company can replicate the routines, norms, procedures, and use the same portfolio of products and technologies, leading to competitive advantages (Ferreira, Miranda, Reis, Pinto, & Serra, 2013).

Jaffe, Nebenzahl and Schorr (2005) also add that if the company has some specific advantages, can try to use it in the new market, replicating patterns, relying on its competences, and not developing new ones. This means the company will follow an exploitation strategy.

Some authors defend the opposite. Despite the tendency to globalization, different countries present significant variations in consumer needs, purchasing power, culture, traditions, available commercial infrastructure, economic development and laws and regulations. And these differences require an adaptation strategy to each market (Theodosiou & Leonidou, 2003). According to Ilhéu (2006), if companies do not think locally, it could represent a barrier to internationalization.

To Ferreira, Miranda, Reis, Pinto and Serra (2010) adaptation is considered as an active and planned strategy, and sometimes even considered as a basic survival strategy. Guisinger (2000) even consider that the capacity to adapt to different business environments represent a competitive advantage of the company. The companies should have the necessary skills, capabilities, and resources to understand which element has more influence in the activity of the firm abroad and should adapt it, discover continuously new opportunities, innovate, and build new capabilities, otherwise will not be able to overcome the liability of foreignness. This ability to adapt is learned through trial-and-error experiences, is part of the complex routines of each company, is difficult to imitate. This is called exploration. This learning process may require investment from the company in assets and cross-boundary relationships, and for that reason the adaptation should stop when the marginal costs supersede the additional benefits derived from it (Ferreira, Miranda, Reis, Pinto, & Serra, 2013).

For Small and Medium Enterprises, less bureaucratic and less hierarchical than multinationals, is easier and faster to adapt to the requirements of clients. This adaptation can be in terms of the management techniques, the strategy, the marketing plan, the features of the product (Ilhéu, 2006), the price, the distribution system, the promotions.

Leonidou, Katsikeas and Samiee (2002) showed companies that adapt the prices to the local market are more likely to have success. Ilhéu (2006) consider that the price should be fixed according to the demand and local competitive practices.

Levinthal and March (1993) consider that the combination between exploitation and exploration ensures long term survival of the company, adding that exploitation in the right proportion will ensure the company's current viability and exploration in the right proportion will ensure the company's future viability. Although companies need to understand that returns from exploration strategies take long to appear and sometimes do not come, a long-term orientation of the company is necessary. Ilhéu (2006) add that to take the right strategic decision, the company must have accurate information about the local market.

In China, with big regional differences, that lead to variations in consumer needs, taste, habits, and lifestyle, requires a regional adaptation, instead of a country adaptation. Meaning that the company should take different promotional, distribution and advertising strategies (Cui & Liu, 2000) for each regional area.

2.3. Chinese Business Environment

Porter (1986) considers that when a company internationalize the first concern should be knowledge about the country's environment where the company will operate. The Resource-Based View (VBR) theoretical framework consider that the manager's knowledge about foreign markets is one of the most valuable resources, because enables the company to design and implement strategies to improve

its efficiency in the international market (Ilhéu, 2006). The lack of this knowledge represents an obstacle to the development of foreign markets because companies will not commit many resources in these markets. This is a sequential evolution, knowledge make companies commit, and commitment generate more knowledge, that leads to a better performance (Ilhéu, 2006).

In China, with a highly complex environment, the experimental knowledge assumes a bigger importance. Ilhéu (2006) considers that the knowledge about the Chinese market is only achieved from experience with local operations. The entrepreneur, being in the target country, will learn how to enter a local market, how to negotiate with local authorities and how to deal with local business community. Experimental knowledge is an individual process, is not possible to get this information through other companies, and it cannot be bought or imitated (Luo & Peng, 1999).

Experimental knowledge is also a mirror of each companies' resources and therefore source of competitive advantage. Dunning (1988) concluded that exist a positive correlation between experimental knowledge and international success (Ilhéu, 2006).

There are only a few studies about the critical factors to know when doing business in China, or what are the key leverage points when dealing with Chinese companies. Schelevogt (2002) considers important to know the Chinese market, management practices and organizational structure of Chinese companies. According to Schelevogt (2002), to be successful in China, is important that companies understand the country's regional disparities and take advantages from this, to select a specific market inside China, improve marketing effectiveness, and prepare for expansion.

Following the recommendations stated above, we introduce below knowledge about the Chinese management practices (including organizational structure of Chinese companies), Chinese negotiation, and Chinese consumer.

2.3.1. Chinese Management

Schlevogt (2002) is one of the few to study the Chinese management style and understand why private Chinese companies are enjoying so much success. Schlevogt (2002) calls it "Web based Chinese Management" (WCM) model and argues that is characterized by the importance that Chinese private enterprises place on traditional Chinese cultural values.

Two important characteristics of the Chinese private companies are: family-owned and desire to remain small. The most important and effective strategy of a Chinese businessman is to keep their relations among family (Schelevogt, 2002). Chinese private enterprises lack trust toward “outsiders” of the “family” circle. “Family” means the people who have something personal in common, friends, schoolmates, close people (Schelevogt, 2002). Personal connections automatically create new business opportunities. Make the comparison with other family companies in the world, Cai (1997) and NS Whyte (1995) believe that the family ties in China are unusually strong and durable (Schelevogt, 2002).

These companies do not want to grow the focal company in size, because prefer to keep the business in the family and proliferate into networks (Schelevogt, 2002). Small family business and centralized leadership can make decisions flexible and fast (Montagu-Pollock, 1991). The decision to remain small is a distinctive element of Chinese management. Ilhéu (2006) argues this “controlled style of doing business” is the result of the uncertain and risky life of Chinese (Diaspora) living as emigrants.

Although Schlevogt (2002) adds that the most important is not the traditional culture itself, but the emphasis that the entrepreneur places on traditional Chinese values, which differ from person to person and consequently from company to company.

The “Web based Chinese Management” (WCM) model is also characterized by **high centralization, low degree of bureaucracy, strong entrepreneurship, and enterprise webs** (Schelevogt, 2002).

High centralization means that the owner- manager makes all important decisions, and usually has a forceful and charismatic personality.

Low degree of bureaucracy means that, not only the structure is simple with only two levels: the boss and the employees, characterized by a high “power distance” (Hofstede, 1980), but also the structure has few standardized procedures and specialization roles. Private Chinese companies’ employees are multitasked and versatile, only a few are highly trained, and the lack of written materials does not help to disseminate knowledge among employees. Much of the knowledge is obtained through the owner and its personal contacts, making a highly skilled and experienced CEO a very valuable resource in China.

Chinese businessmen have a **strong sense of entrepreneurship**, with years of industry experience, well informed and use intuition to solve problems. This makes Chinese entrepreneurs to take more aggressive, proactive, risky, and long-term strategies. They adopt a flexible leadership style that allow them to change and adapt in any circumstance without too much concern for past practices. They always look for new opportunities and take risks (Schelevogt, 2002). The Chinese rank very low in the dimension of uncertainty avoidance (Hofstede, 1980), meaning that they do not afraid uncertain situations or risk.

Chinese private enterprises depend on informal relationships. Chinese entrepreneurs build good networks, through personal connections and family ties. This **web of relations**, also called *guanxi*, is considered a social investment. It takes time to build, but it brings more opportunities and knowledge to the business. If the company lacks resources, or do not perform any service, can easily subcontract inside the web, ask for a favor, or try to acquire the necessary knowledge inside its web of relations. Older companies, with a wider and stronger *guanxi* networks will be more favorable in the business, not only because of the information they were able to gather along the years, but also the better government treatment they receive (Schelevogt, 2002).

Family-based companies in China showed better results than other companies, in terms of growth, profitability, financial strength, morale, and public image. This makes Schlevogt (2002) believe that Chinese management is an art.

Ilhéu (2006) concluded that the success of the Chinese is due to its ability to work (speed to take decisions, to complete tasks), its relationships and its ability to keep costs low. This speed is the result of working in organized networks, which makes things easier and practical (Ilhéu, 2006). “They are pragmatic, patient, have management control and a long-term orientation of their investments. And the explanation for this behavior is found in the teachings of Confucius that exalts the values of family, of work, education, and solidarity of the clan” (Ilhéu, 2006, p. 74).

2.3.2. Chinese Negotiation

Negotiation is a central part of the business process and is a powerful tool when well applied. The Chinese and the Westerners’ approaches to negotiation are different, due to cultural differences. Chinese see westerns as impersonal, too direct, and sometimes aggressive, while westerns see Chinese as inefficient, indirect, and even dishonest. These misunderstandings result in constant business fails between westerns and Chinese. Understanding these cultural differences can facilitate the negotiation process, avoid mistakes, avoid early concessions, or even miss the change to close a deal (Graham & Lam, 2003).

Living so many years under authoritarian regimes, made Chinese to understand that the best way to live and work is to avoid problems, to not stand out, be modest, do not impose their own opinions and negotiate. Negotiation is part of their daily routine, Chinese developed exquisite negotiation skills (Ilhéu, 2006).

According to Graham and Lam (2003), there are eight elements that characterize the Chinese negotiation, namely: **guanxi, interpersonal harmony, the intermediary, social status, “face”, thrift, holistic thinking, and endurance**. These elements result from Chinese cultural characteristics that influence the way Chinese see the business and the negotiation process, making it harder for the westerners to understand (Graham & Lam, 2003). The eight elements are described below.

The most well-known element among westerners, and already mentioned above, is **guanxi**, the personal connections. A business that comes from someone inside the web is more welcome than a business from an outsider. Chinese will be reluctant to accept a business from someone they do not know or have any connection. This emphasis on relations, cooperation, live in community, being loyal to each other and obey the family hierarchy, comes from the cultural characteristic called agrarianism. Agrarianism means that, despite the rapid development of China in the last years, more than half of the Chinese still live-in rural areas (Graham & Lam, 2003).

Interpersonal harmony is the second element. Harmony is what keeps a relation together. “For the Chinese, any attempt to do business without having established connections is rude” (Graham & Lam, 2003). Is positive to find personal links and create bonds between the two negotiators (like hometown, school, tastes, or other). This will facilitate the negotiation. Chinese are more concerned about the course of the negotiation, the relation established with the potential partner, instead of the moment of closing the deal. But western companies who want to negotiate with Chinese entrepreneurs cannot forget that they are long-term oriented, this process can last for months, trust is not built in one day. In most of the cases, the deal is not closed, because the western companies give up too soon. Once you are inside the web, the relation can last for many years. Chinese have a strict system of reciprocity that says people should return the favor, no matter when, but must do it, and for this reason, they establish long-lasting relationships (Graham & Lam, 2003).

The third element is the **intermediary**. A Chinese intermediary can understand what a westerner cannot. For Chinese is hard to say “no”, but they transmit the real message through body language, intonation, facial expressions, changing the subject, turning silent, asking another question, or responding something positive but not related with the subject. An intermediary will not only help on the communication and understanding of the underlined message, but also will give a great support to avoid cultural misunderstandings (Graham & Lam, 2003).

Due to historical reasons and constant attacks and invasions, Chinese learned to be suspicious about foreigners, generating wariness of foreigners (Ilhéu, 2006), and an intermediary that knows the culture can smooth this feeling.

The fourth element, **holistic thinking**, comes from the Chinese pictographic language. The use of characters instead of letters, make Chinese to be better at seeing the “big picture”, instead of focusing on the details. Westerns separate the negotiations by topics, price, payment conditions, delivery, after sale support, although Chinese prefer to see it as a full picture and discuss the topics in different order. For them, “nothing is settled until everything is” (Graham & Lam, 2003). These different ways of conducting the negotiation creates tension and misunderstandings.

The fifth element is **social status**. Chinese emphasize the importance of status, and do not like to discuss issues with someone in a lower level. A CEO like to discuss with a CEO, is not polite to send an assistant or a salesperson to do the negotiation with a Chinese CEO (Graham & Lam, 2003).

“**Face**” is the sixth element and is a term used to define the position of someone in the social network and its reputation. “Face” can be earned or lost, like the money. Gaining “face” can come from wealth, intelligence, attractiveness, skills, position, or a good guanxi (Graham & Lam, 2003). If the Chinese lose the “face” means that they lose their reputation, and this could really harm the future of the person in question. If some western make the Chinese negotiator to lose the face, is the end of any possibility to establish a business.

The seventh element is **thrift**. Mainland Chinese were taught to save money, due to the difficult economic and political times they lived in. Mainland Chinese have a high rate of savings, and it is very hard for them to make concessions on price. They do accept changes on price but only after a long negotiation. Graham and Lam (2003) advice westerns to always ask explanations about the price the Chinese entrepreneurs propose, to understand if there is a solid reason to ask that price. Chinese use silence as a negotiating tactic, westerns should not give up too fast.

The eighth element is **endurance, relentlessness, and patience**. Chinese are hard workers and patient; they work even in the worst conditions. This attitude makes difference in the negotiation. Chinese will be more prepared for the negotiations than the westerners and they will be more resistant and patient in the bargaining. Chinese tend to delay the decision for the next meeting or discuss among the group during the meeting, because they like to consult the group (Graham & Lam, 2003).

They do not worry about how long a negotiation can last (Ilhéu, 2006). If the Chinese start to ask for more meetings, or additional services, is a good sign.

Graham and Lam (2003) leave a message for westerns who want to do business in China, “Move now, and learn the rules of the game by developing the *guanxi* needed to grow your business there. Do not expect immediate results. Old friendships work their magic through time; every year invested in China now, will pay off in the future – because in a world of millennia-old memories, relationships of the moment need long and patient nurturing” (Graham & Lam, 2003)

2.3.3 Chinese Consumer

The big numbers of Chinese population, the numbers of the growing Chinese middle class, and consequently the numbers of potential consumers, make China one of the most interesting markets in the world. The Chinese society, organized in a pyramid shape, with a big button of low incomes, a small segment of middle class and an even smaller segment of upper class on the top, has a population constituted with around 65 to 117 million people with high purchasing power (10% of the total population) (Cui & Liu, 2000).

Despite this interesting numbers, is important that the company understands the real potential of the market to its product. The company need to know the consumer, acquire knowledge about their purchasing power, understand their attitudes and feelings related with western products (Batra, 1997). In emerging markets, like China, this necessity to learn about the local consumer is even bigger. The consumers from these countries are completely different from the ones in the west. Even inside China, due to the significant regional differences in the country, is possible to identify heterogeneous consumers (Cui & Liu, 2000).

The consumers with higher purchasing power, similar with the rich people that live in developed countries (A.T.Kearney, 2003), are mostly located in the South and East China, with special focus on Beijing, Shanghai, Guangzhou, and Shenzhen. This type of consumer buys foreigner product, follow brands, is well informed, is more sophisticated, is constantly looking for new products and have low loyalty to brands (Ilhéu, 2006). Although make the market more competitive, it gives space for new brands and new products to enter the market.

In the South of China, consumers purchase more luxury goods and brands; in East China consumers establish the trends of “lifestyle”. In these two markets is very important to have constantly new and differentiated products and use communication with strong advertising and promotions.

In the North, Central and Southwest China, consumers are more conservative, less consumerists, purchase less luxury goods, and are usually satisfied with their lives. Although in some categories rank higher in consumption of certain products, such as liquor and beer.

The consumer of the Northeast and Northwest of China, has lower incomes, but have a strong desire to improve their lives and show a strong interest in foreign goods (Taylor, 2015). In these areas, companies should improve the distribution, due to the large geographic areas. The price, the promotions on site and the packaging will also bring positive results (A.T.Kearney, 2003).

In 2017, post-90 generation was identified as the main consumer of the foreigner products, representing 16% of the Chinese population and is expected to surpass 20% before 2030. This segment of the population grew up rich, exposed to western culture and with access to new technologies (Baan, Zipser, Poh, & Luan, 2017). For this young consumer group, the company should put emphasis on the emotional experience, and appeal the consumer to try new things, with innovative promotional messages (Wang, Chen, Chan, & Zheng, 2000).

All the products are analyzed by the costumers under the bias of the country-of-origin (COO)⁴. Sometimes this bias can help to sell the product, for example, giving emphasis to the origin of a French wine or a Swiss chocolate. The product will sell for itself due to the positive link that customer does with the country and the quality of this product (Brooks, 2003).

In general, consumers in developing countries associate foreigner products to quality and social symbolic values, meaning that an emphasis on the COO of western countries will be positive for business. Although, when marketers play with this bias, need to be careful about political, religious, and cultural issues. If there are diplomatic concerns between the country of origin and the target country, is not good to emphasize the origin.

Only a few studies were conducted to understand the relation between Chinese consumers and the COO, because the international brands entered recently in China, comparing with other markets. But the existent studies show a mixture of feelings, some people prefer foreign brands, others prefer local brands.

In a survey conducted by Mckinsey & Company in 2017, is possible to conclude that brand origin, for Chinese, matter less than before. Chinese consumers, perceive value first, followed by quality and thirdly, aftersales service, no matter if is a local or a foreigner brand.

Although, some categories still win the preference of the Chinese customers to foreigner brands, such as cosmetics, wine, and infant milk powder. Nowadays, is visible a “premier-ization” phenomenon, this means that consumers are looking for premium brands (Zipser & Gong, 2016).

⁴ Country of Origin (COO) is a psychological effect describing how consumers' attitudes, perceptions and purchasing decisions are influenced by products' country of origin labeling, which may refer to where: a brand is based, a product is designed or manufactured, or other forms of value-creation aligned to a country. (retrieved from https://en.wikipedia.org/wiki/Country-of-origin_effect)

Chinese consumers show a bigger concern about quality and safety. Companies need to be very careful with these two attributes. If for chance something does not match the expected quality and safety requirements, it can damage the brand image for long time. Taking as example the milk powder scandal, when founded that additives were added to the milk (Lu and Wang, 2011). The China's food safety laws are more rigid and restricted than before.

In other surveys and studies conducted by Mckinsey & Company in 2017, shows that the habits of Chinese consumers are slightly changing. Is possible to see a higher concern about health, with an increase in the consumption of products related to sport (Baan, Zipser, Poh, & Luan, 2017). Due to the high number of obese in the country, the Chinese government launched, in 2016, the "Healthy China 2030 plan", promoting a better lifestyle, diet and more exercise. This can be an opportunity for the companies that work in healthy food and beverage segment.

In the last years is possible to see a shift from products to services, where a consumer's no longer increasing how much is eating or drinking, but instead the Chinese consumer is spending more on entertainment. Companies who are selling products rather than services or entertainment, should also keep up with this trend, showing the product in a more interactive way or providing a better shopping experience to the consumer.

Is also possible to see a shift from buying in big retail markers to convenience stores, which grew by 14% per year between 2013 and 2016. And "using Japan's five largest cities as a benchmark for number of stores per thousand people, the number of convenience stores in China's top ten cities could almost triple, the market is far from saturated" (Poh, Wintels, & Brown, 2017).

Online business could be a good solution for the companies to obtain more information about the customers, without spending too much. The information that flows between retailers and customers on the internet allows the companies to access more detailed information about the customer's tastes, purchasing behaviors, and timing. For a new and complex market as the Chinese is to the Portuguese entrepreneurs, this could work as a great advantage. Also, to participate in a huge market, as the online business in China. China is the world's largest e-commerce market—generating revenues around the same as Europe and the United States combined. Although, the facility that customers have to compare prices on the online business can intensify the rivalry among companies (Merrilees, 2001).

Chapter 3 - Contextualization of the Study

3.1. Chinese market potential

In 2019, China GDP reached USD 14342.90 billion⁵, with an annual GDP growth rate of 6.0 %⁵, and an average annual income of 93383 RMB⁵ (USD 14467,40). But the grow is not homogeneous. Incomes vary from rural areas to cities, from coastal to inland cities, from one province to another, from city to city. And about 65 % of the population still live-in rural areas (Cui & Liu, 2000).

In terms of population, China is the most populous country in the world, in 2019, surpassed 1.4 billion people⁵. With big numbers of young population, China is becoming the most consuming country in the world because is gradually shifting from exporters to a consumer-driven society. Chinese consumers are demanding more and more exotic products, stimulating the expansion of imports. China was responsible for 13,1 % of the total world importation in 2019 (WTO, 2020) and 16,2 % of the total world exportations. Imports to China increased by 6.5 % year-on-year to a record high of USD 203.7 billion⁵ in December of 2020.

Although China has received over USD 140 billion⁵ of FDI flows, becoming the second largest recipient of FDI, with an annual growth of 6.2 %, the long-term national grow is mostly due to national forces. China has the highest saving rate and the largest labor force in the world, with 77471.00 tens of thousands⁵ employed persons, and an unemployment rate of 5.2 %⁵ in 2019.

Schlevogt (2002) consider that the great increase in the economic results in China is due to an “entrepreneurial revolution”, a rapid growth in private economic that happened after 1981 when the government encouraged entrepreneurs to set up individually owned companies in urban areas. Six million domestic private companies generated employment and represented an important driver of growth. Schlevogt (2002) considers that “nothing comparable have ever happened in human history”, and the number of millionaires started to increase from this time on.

The development was not homogeneous and generated a great imbalance that is still visible nowadays. Most Chinese reside in the Eastern provinces. Their common language and cultural heritage, reinforced by decades of communist rule, give the illusion of a homogeneous market (Landry, 1998).

But China is not a homogeneous market. Different provinces have different dialects, values, lifestyle, traditions, customs, consumer purchasing power, economic infrastructures, distribution channels.

⁵ Information retrieved from Trading Economics websites (<https://tradingeconomics.com/>) accessed on January 25th, 2021.

These differences make it harder for companies to adopt effective strategies in China. China is constituted of many smaller markets segmented by regional economic development and local culture (Cui & Liu, 2000).

“Foreigners still think they can tackle China in one go, when they would never start in 17 countries in Europe at once” Tex Gunning, former president of Unilever Bestfoods Asia (Abella, Bellver, & Brusselmans, 2012)

Already in the 13th century, Marco Polo could identify the differences in China, separating the country in two, Cathay (north) and Manzi (south, especially Canton).

People in the south was more involved in the international trade since long time ago, and more exposed to western influences. For this reason, they have a more entrepreneurial attitude, commercial thinking, and management models from abroad, such as market and customer orientation, advertising, and other promotional techniques (Schelevogt, 2002). Their lifestyle is also more urban, with weaker traditional Chinese culture and family ties comparing to the north, which is more traditional.

The north is more controlled by the political authorities and are more worried to establish a closer relation with the government, to guarantee more favorable treatment related with taxes, subsidies, special incentives, and export aid (Schelevogt, 2002).

The inland provinces are behind in terms of development. For this reason, the government is putting efforts in developing projects to soften these regional disparities, like the Ten Million Project in Zhejiang, aiming to provide more job opportunities and improve distribution in this area (Taylor, 2015).

3.2. Business relations between Portugal and China

The number of Portuguese exportations to China increased 5.62 % in the first seven months of 2020, with export of products valued at EUR 1.2 billion (USD 1.4 billion). The importation of goods from China had a decrease of 9.76 % compared with the same period in the previous year, with a total value of EUR 1.9 billion (USD 2.3 billion)⁶.

The numbers above are positive for the business panorama between Portuguese and Chinese companies, especially during the pandemic situation of Covid-19.

Although, in general terms, the exportation of Portuguese companies to China is still relatively low and depend mostly on multinational companies.

⁶ Information retrieved from Observador, <https://observador.pt/2020/09/22/exportacoes-de-portugal-para-a-china-crescem-562-ate-julho/>, accessed on January 26th, 2021.

Portuguese companies do not have enough internal stimuli to internationalize to China. The only visible stimuli is the expectation to increase the profitability (Ilhéu, 2006). The geographic distance between Portugal and China, the complexity of the Chinese market, the difficulty to obtain updated and concrete information, adding to the difficulty to find a suitable Chinese partner, represent barriers for the Portuguese companies to enter China.

Ilhéu (2006) concluded, from her research, that Portuguese companies need more governmental support, not only to acquire more information, but also, and mostly important to promote the image of Portugal and Portuguese products in China and establish better diplomatic relations.

The cultural distance and differences in the business practices and ethics conditionate the activity of Portuguese companies in China and the relation with the Chinese partners. The Hofstede Dimension Index (1980) is a good way to measure the cultural distance, meaning, differences in the religion, language, work ethic, value system, social structure, and ideology, between the country of origin and the host country.

This index shows big cultural distance between Portugal and China, especially in the aversion to change and risk (avoiding uncertainty dimension) and in values of material success (masculinity dimension). Chinese are not afraid of taking risks, they are constantly looking for new opportunities, in contrast, Portuguese show a high avoidance to risk; Chinese are long term oriented, and Portuguese are short-term oriented; Chinese look for material accomplishments, Portuguese value the quality of life; Chinese have a broader view (holistic thinking), Portuguese worry about the details; Chinese gives priority to relations rather than the business, Portuguese gives priority to business and after the relation; both greatly emphasize the family, although Chinese involve family in businesses.

The big financial effort that the companies need to do to enter the Chinese market represents a barrier. The size of the Portuguese companies, especially if we are talking about small companies, is also classically pointed out as an obstacle to success in the international market, because these companies have less knowledge of the foreign markets' potential, less experience, lack of a network (national and international), lack of experience in international markets, lack of a marketing strategy, lack of products accepted by the international market and lack of dimension (Ilhéu, 2006). The absence of these resources will limit a well-informed entry strategy in the market, focusing only on sales.

To overcome the liability of size and limited capacity, Portuguese companies can consider joining with other companies to fulfill the needs of the Chinese market and be more competitive. A similar model was applied in the rice market in Portugal (Silva, 2015). The companies Novarroz, Valente Marques and Orivárzea joined to sell rice to Turkey. As a result, the volume of exportation increased from EUR 16 million (USD 19,240 million) in 2013 to EUR 32 million (USD 18,480 million) in 2014.

Chapter 4 - Methodology

4.1. Data Collection

For the development of this dissertation, we have used qualitative data from previous studies and analysis, developed above in the chapter 2 - literature review.

To complete our literature review and to reach our objectives: Identify the main factors that influence the activity of the Portuguese companies in the Chinese market; introduce the main knowledge that companies should acquire and understand to internationalize to China, according to previous studies; identify the key success factors to enter the Chinese market; we have prepared a questionnaire for the Portuguese companies from the Food and Beverage sector with business in China.

We believe that the collection of primary data through questionnaires will allow us to reach more companies and have a better and real insight of the activity of Portuguese companies in the Chinese market.

Some questions of the questionnaire were based in previous studies (Ilhéu, 2006) and some were constructed following the literature about the necessity to acquire knowledge about the market (Schelevogt, 2002), competitive advantage (Porter, 1985), establishment of relations (Graham & Lam, 2003) and necessity of governmental support (Ilhéu, 2006).

The questionnaire was prepared in Portuguese, as all the participants are Portuguese speakers. The questionnaire, available in the annex I for consultation (already translated to English), is divided into six sections for better reading and organization of ideas. The questionnaire is mostly constituted by multiple choice; "yes or no" questions; evaluation of, in the Likert scale of 5 values, how the respondent relates with the question; and open questions. The average time of answer is ten minutes.

In the beginning is introduced the purpose of the questionnaire and is asked the contact details of the participant.

The first section aims to understand the experience of the company in international markets and Chinese market, and the percentage of the sales volume in international market and Chinese market.

The second section is about the entry mode, trying to understand the main reason to select the Chinese market, the entry mode used, if the company has online business, if the company had a previous contact to enter the market, if used any intermediary in the negotiation, if had or have any local partner to help on the business, if the company segmented the market and selected a specific city or area to enter.

The third section aim to understand the degree of knowledge about the Chinese market. If the responsible for the internationalization had previous knowledge about the market, if the company did research and preparation for the market, if the company consider that know the market at the moment of the question, and what are considered the main barriers to enter the Chinese market for these companies.

The fourth section is about the product and the consumer, aim to understand if the company studied the Chinese consumer before entering, if the company adapted the product to the local market, if did some local marketing and which were the tools used, if the company considers that have competitive advantage, and how the company stores and distributes the product.

The fifth section is about the company results in China, in how many years expect to see the return on investment, and about the difference that the Portuguese government entities can make in the internationalization process of these companies.

The sixth and last section is mostly open questions, if the company considers important to have a local partner; which are, in their point of view, the differentiator factors to have success in China; what the company would do differently now compared to the time when the company entered the market; and what is the general view about the business in China.

In general, this questionnaire aims to understand the importance that the Chinese market has on their business activity; the previous knowledge the companies had about Chinese market, Chinese consumer, Chinese business practices; the studies developed before entering China; the decisions they took in the internationalization process; the decision to adapt or not to the local market; the decision to find or not a local partner; understand if these companies achieved their objectives in the Chinese market; and if they would change something in their decisions now as they acquired experience in the market.

Since the questionnaire was ready, we prepared the collection of the contacts.

As a first step, we contacted AICEP (*Agência para o Investimento e Comércio Externo de Portugal*) in Shanghai to have a list of the Portuguese companies that are currently doing business with China. The Director of AICEP, Mário Quina, sent us a list with the general contacts of the 200 biggest Portuguese exporters into China. We selected the companies that operate in the food and beverage sector, and we obtained a total of 27 companies out of the 200. We sent, by email, the questionnaire to these 27 contacts. We could not get any answer from these companies, probably because the emails were all sent to general email accounts.

As a second step, we asked a Portuguese Chinese Business Association to send the questionnaire to more companies, although we do not have idea to how many companies were sent, if any.

As a third step, we looked on LinkedIn for the contacts of export managers, brand managers, representatives in the Chinese market, of some companies from the initial list and established the contact through personal message on LinkedIn. From this selection, we were able to receive three answers.

As a fourth step, we used the available web of contacts to reach more companies, namely through friends, ex-colleagues, teachers. From this selection, we received five more answers.

As a final step, we contacted by phone a few companies from the first selection (the initial list), asking one more time for their participation, although we were not successful.

The data collection was done on Google Docs, during January 2021.

We estimate that the questionnaires were sent to about fifty Portuguese companies from the food and beverage sector with business in China, including branded and trading companies.

We received answers from eight companies, although we excluded two, because one company is managed by a Chinese citizen, and the other company only has activity in Macau, and both do not fill the requisites. We accepted the answers of six companies. For a better understanding of the answers, we asked the companies for a videocall, and we were able to talk with two companies, who explained a bit their activity, experience, and shared thoughts about the Chinese market.

The participants of the questionnaire were all responsible for the Chinese market activities, with positions such as Export Director, Brand manager export markets, Commercial director, partner of the company.

The sample is constituted by six companies, four branded companies and two trading companies. Two participants are in the wine sector (Company B and Company E), one in the juice industry (Company F), one in the fish industry (Company C) and the two trading companies are a mix of food and beverage (Company A and Company D).

Four companies are considered as small and medium, and two are large companies (above 250 employees). Although small and medium enterprises are from a different universe of large enterprises, we considered valid for our comparison because the answers given to the questions were similar. We also thought could be an interesting comparative point, because no matter the size, the resources, the number of employees, the experience in the domestic and international markets, when entering China, such a complex, big, and different market, almost all companies crossed the same difficulties and concerns. For an easier comparison of the results, we have elaborated a table with the answers to the most important questions to analyze and compare (Annex II).

4.2. Analysis and Discussion of results

From our questionnaires we intended to have a more real understanding of the experience of these Portuguese companies in the Chinese market, and identify the main factors that influenced their activity, understand if the existence or non-existence of knowledge about the market has changed their experience and results, and if now, with a few years of experimental knowledge about the market, they would change their approach. For this reason, we have also created two open questions for the share of experiences.

To analyze the results and have a better discussion in the light of our literature view, we decided to analyze and discuss the results together, at the same section. We will develop mostly a qualitative analysis, because the most important we can extract from these results are the given answers and not the number of the companies who replied that answer in specific. Also, as our sample is considered small, we think that a qualitative analysis will lead us to a better discussion. For a more fluent and comprehensive analysis, we divide it into sections, the same as in the questionnaire.

1. International experience

The first section aimed to understand the international experience of the companies and the weight of international activity in their sales volume.

Five participants (83,3%) declare that have more than 10 years' experience in international markets, and four of those participants responded they also have more than 10 years' experience in the Chinese market. One of the large companies declared has between 1 to 5 years' experience in the international market and in the Chinese market.

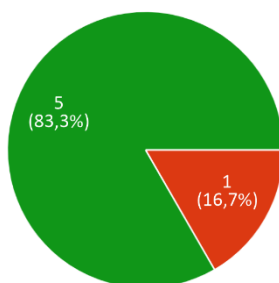


Figure 2-Years of experience in International markets

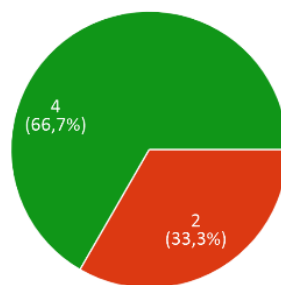


Figure 1 - Years of experience in the Chinese market

- Less than 1 year
- Between 1 and 5 years
- Between 5 to 10 years
- More than 10 years

When asked about the percentage of international sales volume in the company's total sales volume, we have diverse answers. Two companies have replied a percentage higher than 50%, two companies with a percentage between 15% and 20% and two companies with a percentage equal or below 1%. About the percentage of the sales volume of Chinese market volume in the company's total sales volume, two companies replied the same percentage as for international markets, meaning that these companies only have activity in Portugal and China. The others four companies have a relatively lower percentage in the Chinese market comparing with their sales volume in international markets.

Five of the companies has a percentage of the sales volume of Chinese market volume in the company's total sales volume equal or below 15%, making us understand that the Chinese market is still insignificant in their activity and their activity is also insignificant in the Chinese market.

Ilhéu (2006), in her study about the internationalization of the Portuguese companies to China, also had a similar conclusion, saying that despite the demonstrated importance of China, the presence of the Portuguese companies still has lower importance in the Chinese market, either through exportation, licensing or Foreigner Direct Investment.

The number of employees responsible for the Chinese market in the company already shows an investment of the company to this market, with two or three employees focused on China, which for a small and medium enterprise is already significant.

2. Entry in the Chinese market

The second section aimed to understand the entry process in the Chinese market.

Regarding the main reason to consider the internationalization to the Chinese market, the most selected was "looking for new clients". No one replied that was excess of stock or saturation of the domestic market. This means that, according to Czinkota, Ronakainen and Ortiz (2004), the companies had proactive motivations to internationalize.

About the entry mode, three companies (50%) did direct export, two companies (33,3%) did indirect export (through distributors, agents, or others), and one company entered through the exhibition of its product in a Portuguese products pavilion or showroom.

These results already show the commitment of some companies to the market, through direct export. This means that companies want to participate more, and take more decisions on the Chinese market, not letting the course of the brand in the hands of the importers, agents, and distributors. Usually, these intermediaries work with more than one brand, as does not develop the business in China as good as the own company. The companies that are doing indirect export, according to Ilhéu (2006), are not taking the full advantages of the market and are not gaining competitive advantage.

Portuguese companies cannot rely on intermediaries to develop the brand and growth in the market, they need to have more presence in China. One of the companies commented that sometimes the Chinese distributors abuse in the use of brand, changing the brand image and the concept of the company. The company also added that, to guarantee that the partner follows the concept and image of the brand, all the developed marketing communication by the partners need to be approved by the Portuguese company, and this is not a necessary measure with other markets.

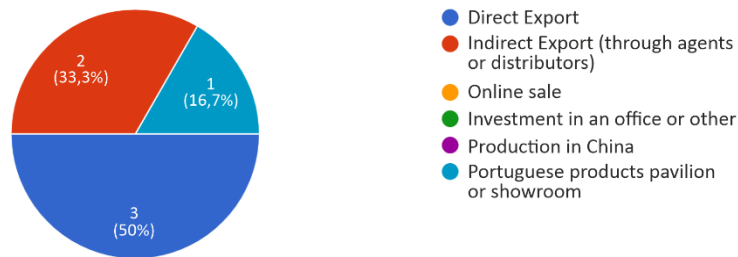


Figure 3- Company's entry mode into the Chinese market

Four companies (66,7%) entered the market because of a previous contact. From those four companies, three replied that the previous contact was a local Chinese and one said that entered the market through the contact of a Portuguese citizen living in China.

These companies found an opportunity when someone contacted them to enter the Chinese market. These results are in accordance with the Theory of Networks from the Uppsala Model, saying that should have a recognition of an opportunity before entering a new market and the existing business relationships of a company will impact the selection of the geographical market to enter (Johanson & Vahlne, 2009). Although the previous contact with a local Chinese did not influenced in the same way the entry mode of the companies, some did direct export and others indirect export.

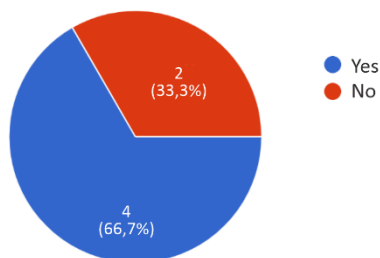


Figure 5- Did you enter the Chinese market through any previous contact?

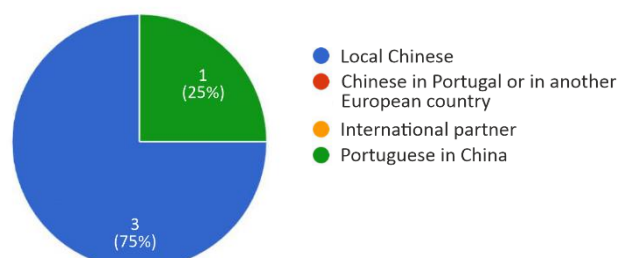


Figure 4- If yes, through what type of contact?

Also, four companies (66,7%), answered that they had or have a local Chinese partner that supports them in China. The two companies that do not have a Chinese local partner have above ten years' experience in international markets, and between one- and five-years' experience in the Chinese market (one company) and over ten years (one company).

The companies with a previous contact from a local Chinese to enter the market, also replied that they have nowadays the support of a local Chinese in the market, this means, either the business relation lasts until now, or the company found a new partner. But the important is, that the company recognize the importance to have a local partner to develop the business. The company that entered the market through the contact of a Portuguese in China, does not have a local Chinese partner.

The relationship, mentioned in the Theory of networks, gives emphasis to how important is to establish connections, because these relations will bring more knowledge, and more contacts, two important factors to have success in the Chinese market. These Portuguese companies recognize the importance to have a local partner in the Chinese market, because as Arenius (2005) refers, even if the company lacks knowledge about the foreigner market, a trusted middleman can help to develop the business.

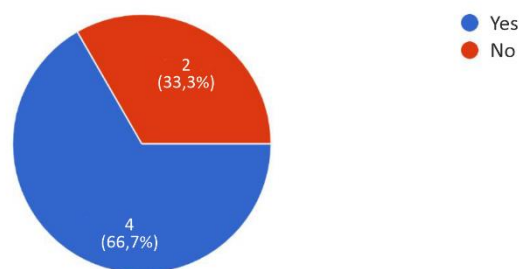


Figure 6- Do you have or had a Chinese partner who helps or helped you to develop the business?

When asked about the online sales the answers are equally divided, 50% - 50%. From the companies who are doing online business in China, JD.Com (Jingdong) was the most mentioned platform, followed by Taobao. From the companies who were not in the Chinese online platforms, it is not in their priorities to enter the online market (replied “no” or “maybe”).

Some companies recognize the importance of the online sales nowadays, especially in China with the enormous numbers of e-commerce sales, although others still prefer the offline business. These companies do not have the final consumer as target, and this could be a reason to not consider the online business. The consumer of these companies is very diverse, mostly sell to Food Service (Hotels, restaurants), following by distributors for retail, corporate sales, wholesale, and importers that supply multiple channels.



Figure 7- Who is your main customer in the Chinese market?

For the negotiation process, more than half of the companies considered important to have someone who speaks the local language, either through a Chinese intermediary or other person who speaks Chinese (two answers in each). We believe the company considered that the language could be a barrier for the negotiation or just decided to have someone who speaks Chinese to show respect and preparation. The knowledge of the culture and the language are essential skills to approach the Chinese market. If the company does not possess these skills, an intermediary can help. It is advised to have a Chinese intermediary, because he/she can understand the underlined message that a westerner cannot, and because Chinese are more suspicious about foreigners (Ilhéu, 2006). Although, we believe that to a Portuguese businessman it is more comfortable and easier to find a Portuguese who speaks Chinese, because it avoids misunderstanding with the Portuguese negotiator and still understands both cultures.

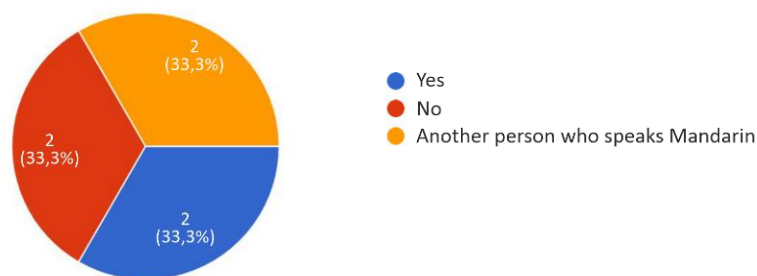


Figure 8- Did you use any Chinese intermediaries in the negotiation?

When asked about the segmentation of the market, five companies (83,3%) replied that they selected a specific city to enter the Chinese market. Three companies said they started their business in Macau, one company replied started in two markets, Shanghai and Guangzhou, and another company said it started in Macau and Shanghai. We can see that Portuguese companies recognize the regional disparities mentioned by Schelevogt (2002) and Cui and Liu (2000), and understand the importance to select a smaller, regional market to enter China.

The two selected cities in the mainland China were Shanghai and Guangzhou, cities from the first tier, with customers with higher purchasing power, more expose to international product and willingness to try new things, which facilitates the entrance of international products. The company took a prudent step, starting the business in more developed cities, with better infrastructures and more receptive consumers.

We may also conclude that Portuguese companies are using an “entry market” to reach the mainland China, in this case, Macau. Macau is a special administration region that incorporates characteristics of Portugal and China and can represent a good test for the Chinese market, in a quite familiar environment. This follows the statement of Ilhéu (2006) saying that in a market with high potential but difficult to explore like the Chinese, the company should enter an “entry market”, like Macau, Hongkong, Taiwan.

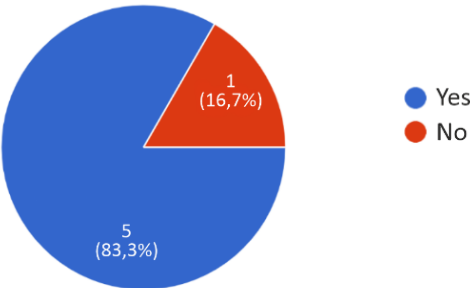


Figure 9- Did the company select a specific city in China as its first entry market?

3. Knowledge about the market

The third section aimed to analyze the knowledge of the companies about the Chinese market.

Four companies (66,7%) replied that they had previous knowledge about the market, mainly because of personal experience living in China, working in China in other previous companies and one of the participants replied that knows the local language. We may conclude that the personal experience and knowledge is a driver of internationalization. Four companies out of six replied that consider that have a good knowledge or a great knowledge about the Chinese market (meaning, scoring 4 and 5, in a scale from 0-5, where 5 is the maximum, when asked if they consider that the company knows the market).

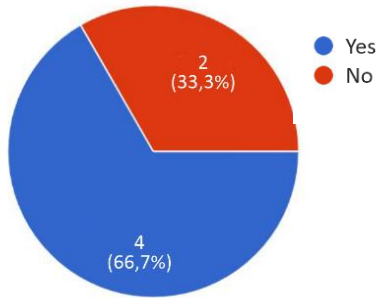


Figure 11- Did the company or person responsible for the expansion into the Chinese market had knowledge about the market at the time of the entry decision?

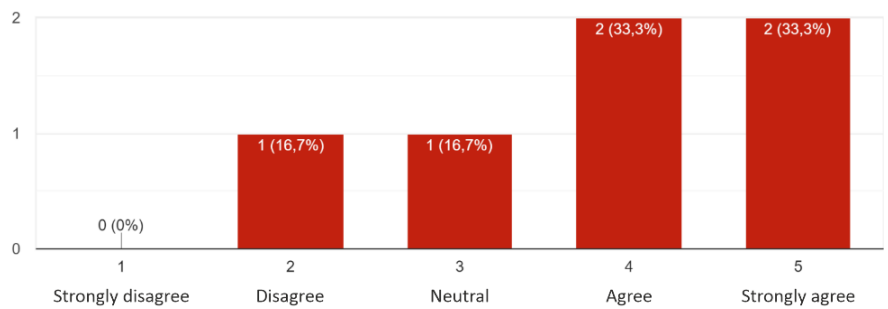


Figure 10- Does your company consider that knows the Chinese market?

Ilhéu (2006) considers that the knowledge about the Chinese market is only achieved from experience with local operations, although the answers we collected are very diversified and not clear to reach this conclusion. The company with 5-10 years' experience in the market, with three employees focused on China, with 10% sales volume in China, we can consider that, through experience, the company acquired knowledge about the market. Although we have another company also with 5 -10 years' experience in the market, with no employees focused on the Chinese market, with 1% sales volume in China, but still considers that has a great knowledge about the market (5- strongly agree); and also another company that has between 1-5 years' experience in the market, with three employees focused on the Chinese market, with 1% sales volume in China, and also consider that has a good knowledge about the market (4-agree).

The two companies that replied that they had no experience and knowledge before entering the Chinese market, are also the companies that replied that do not consider that know the Chinese market now (scoring 2 and 3, disagree and neutral) and are also the same companies that do not have a Chinese partner to help them in the market. This can mean that they probably missed the knowledge that can be transmitted by the partner.

When the companies were asked about the differentiation factors to success in the Chinese market (question 6.2.), three companies mentioned "a good knowledge about the market"; the other three companies mentioned have a local partner or a distributor, which will cover the lack of knowledge that the companies may have about the Chinese market.

These results show that the companies are conscious about the need to have knowledge to enter the Chinese market or the need to have a local partner to overcome the lack of knowledge. As Porter (1986) mentioned, knowledge is an important factor to care about when decide to internationalize.

Knowledge is never too much, and although some of these companies have someone with personal experience in the market, four companies (66,7%) replied that did a previous preparation to enter the market or a market research. Most companies replied that prepared about the cultural issues, following by legal requirements, logistics challenges and local negotiation style.

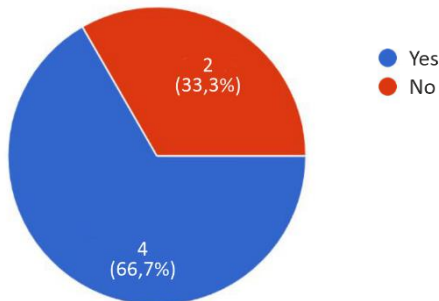


Figure 12- Did the company do any type of preparation or market research before moving ahead with expansion to China?

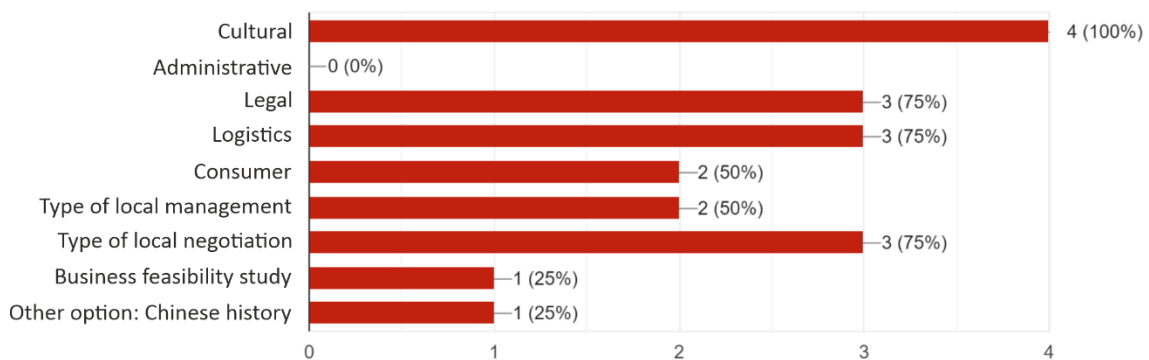


Figure 13 - If yes, at what level?

The biggest obstacles that the companies felt in their expansion into China (question 3.6) were the language differences, cultural differences, different negotiation style and lack of support from Portuguese governmental institutions (all in equal percentages). The same companies that did the preparation about the culture differences, were the same companies that argued to feel the cultural differences as a barrier. This leads us to consider that, or the available information is not enough and concrete, or the company did not have the capacity to look at the right sources or interpreted it wrongly or interpret culture on books is a very hard task. As Ilhéu (2006) said, the knowledge about the Chinese market is only achieved from experience with local operations, meaning that the study or preparation through reading, is never enough to get the full knowledge and be ready to overcome the barriers. The barriers mentioned by the companies will only be possible to overcome with experience at the place.

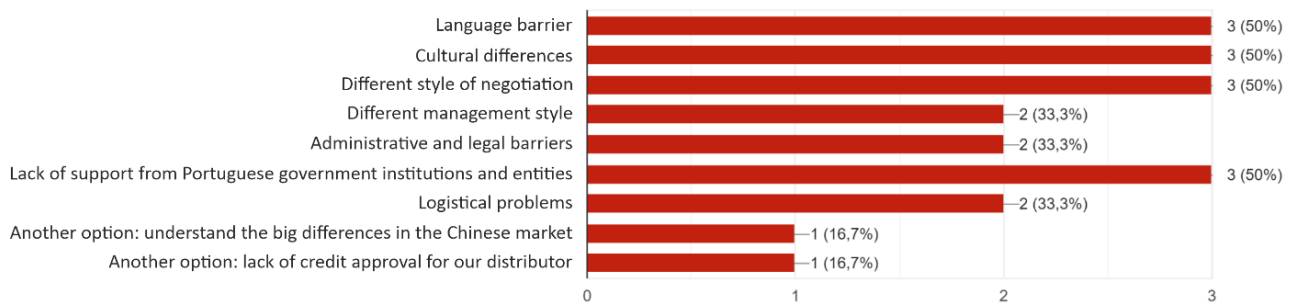


Figure 14 - What were the biggest obstacles your company had to overcome when entering the Chinese market?

4. The product & the consumer

The fourth section was focused on the product and Chinese consumer.

Five companies (83,3%) argued that have not studied about the Chinese consumer. The only company who did the study about the Chinese consumer considered it highly relevant for formulation of strategy to enter the market.

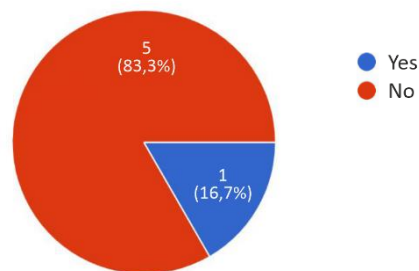


Figure 15 - Has your company done a study about the Chinese consumer?

In terms of adaptation of the product to the local consumer, the answers are 50%-50%, three companies adapted, mostly in the package, but also about price and marketing, but none of them decided to make changes on the flavor. The other 50% decided to not adapt to the market.

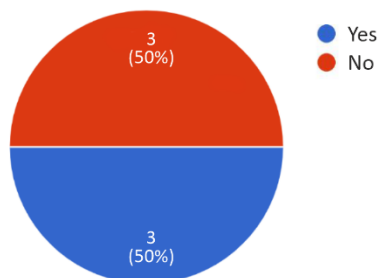


Figure 16 - Has your company adapted the product to the Chinese consumer?

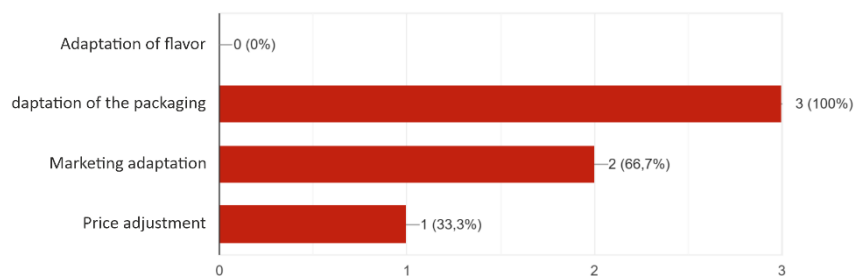


Figure 17 - If yes, what kind of adaptations have been made?

The three companies who adapted to the market are the same with a higher percentage of sales volume from the Chinese market.

One of the companies, who have not studied the Chinese consumer and did not adapt the product to the market, answered that if the company was entering the market in this moment (question 6.3), would make an adaptation of the product to the market; and the same company, answered, to the question about the general view of the business in China (question 6.4), that companies should have a product exactly how the Chinese consumer is looking for. This means, that after a few years' experience in the market, the company understood that is necessary to make some adaptation to the Chinese market (see answers at the annex II).

Two other companies have not studied the consumer but decided to adapt the product to the local market.

As mentioned above, Bradley (2002) argues that products closely linked to culture, such as food products will tend to use an adaptation strategy, although only half of the sample share this belief, plus the company that recognized that the company should have made an adaptation. We have not investigated why the other companies (one medium company and two big companies) decided to not adapt, but it could be due to the high cost related or because of bureaucratic and hierarchical issues, typical from big companies, with a less flexible structure (Ilhéu, 2006).

Although decide to adapt or not is one of the hardest questions to answer. The Chinese consumer has very special and typical habits, but also values the international products, enjoy trying new things and associate international brands to quality. If the company decide to adapt too much can lose the essence of being an international and imported product, if does not adapt at all can be rejected by the local, because does not match the criteria of the Chinese consumer. Knowing the right balance between adaptation and non-adaptation is the golden answer. Many factors need to be analyzed, studied, and measured, such as the capacity of the company, the desired brand position, the regional local consumer. This is one of the most important decisions to take since the beginning, and Ilhéu (2006) recall that if companies decide to change the strategy after a short time can be costly and takes time.

Also, half of the companies replied that used marketing tools and strategies to promote the product in China. The same companies said that promoted the product mostly through fairs and exhibitions, but also through social network, wechat, influencers and use the marketing of agents and distributors.

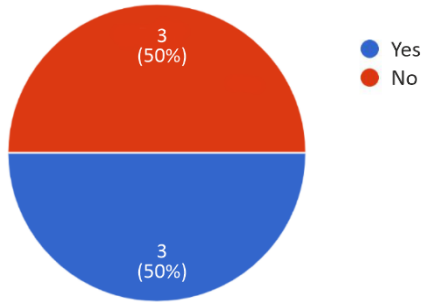


Figure 18 - Did your company use marketing tools to make your product known in China?

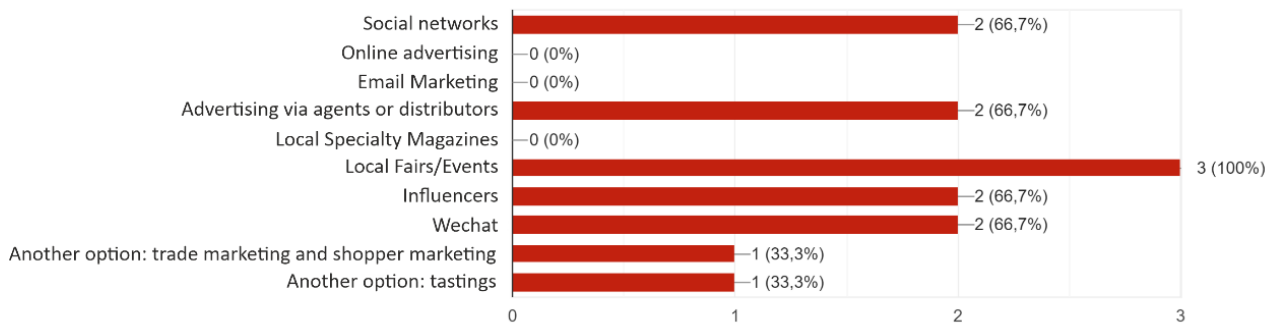


Figure 19 - If yes, what type of marketing tools were used.

One of the companies that replied “no” about the use of marketing tools to promote the product in China, replied that if would do something different now (question 6.3), it would participate in more fairs and exhibitions, meaning that recognize the importance to promote the product among potential buyers in the sector. The professional fairs and exhibitions are highly appreciated by the companies, not only because is the best way to expose, receive feedback from the locals, but also because allow to meet a great number of potential professional buyers. And this is even more important when talking about food and beverage because people can taste, drink, eat, try, look, touch, make questions.

Four companies (66,7%) consider that have competitive advantage in China and answered that their competitive advantage is mostly based on quality, but also differentiation and “premium” position, that are all positive consequences of a differentiation strategy.

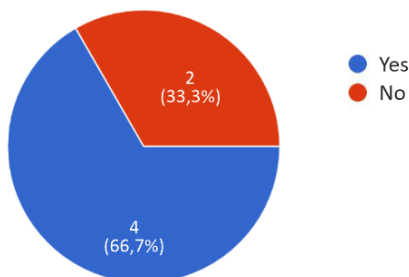


Figure 20 - Do you think your product has a competitive advantage in China?

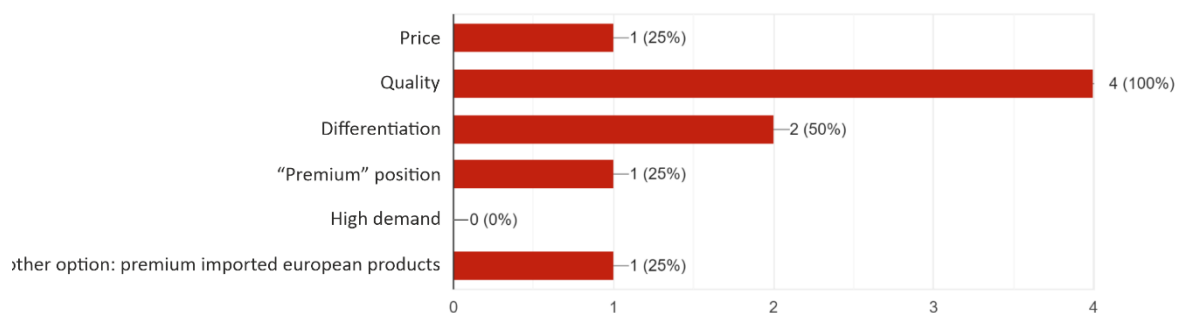


Figure 21 - If yes, what are the competitive advantages of your product?

According to Porter (1985) is not enough to have quality or a different product to achieve a differentiation position, the manager needs to acquire the necessary resources and capabilities to execute that business strategy. And this requires time, continued investment, strong marketing capabilities and build a reputation for quality or uniqueness. From this statement, and the results showed above, we may say that although the company decided to pursue a differentiation strategy and argues that the quality is the reason to achieve that "Premium position", is the customer who need to perceive that product as unique and accept higher prices for its differentiation factors. And from the data we have, the only way to confirm the interest of the customer about the product, would be again, the percentage of the sales volume of the Chinese market in the company's total sales volume, and the four companies that consider having competitive advantage are the ones with higher sales volume in Chinese market, among our sample. Although, this could be just a coincidence or be justified by other factors.

50% of the companies have their product stored in Hongkong, Macau or Taiwan. The totality of the companies (100%) uses a local distributor to deliver the product. This makes us understand that either storage the product in Macau, Hongkong or Taiwan or from Portugal, a distributor is needed.

5. Results

The fifth section aimed to understand the expectation of the companies about their results and satisfaction.

Five companies (83,3%) expect to see the returns on investment in about 1 to 5 years; one company expect results in less than one year. These results are in accordance with the conclusions of Ilhéu (2006) from the 5D Model of Professor Hofstede (1980), saying that Portuguese companies are short-term oriented. This goes against the long-term orientation of Chinese people, making it harder to match the expectations of the Portuguese companies.

Because of this short-term orientation, Portuguese companies start to be disappointed with the results, and lead companies to give up too soon on the Chinese market. Although, as Johanson and Wiedershein-Paul (1975) said, internationalization is a long, complex, and dynamic process, it means that a company cannot expect to have international results too quick, it takes time.

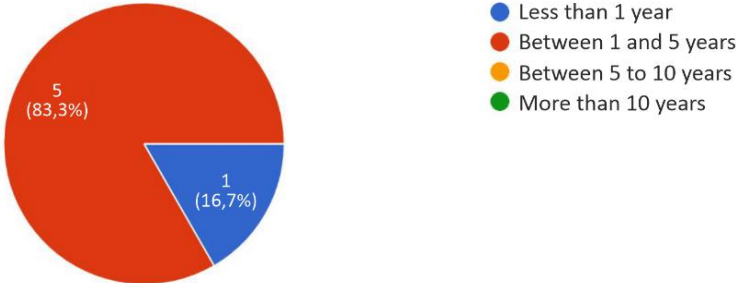


Figure 22 - When do you expect to see the results of the investment you made for the Chinese market?

Although, confronting with the years of experience of these companies in the Chinese market, most of them between 5-10 years, could lead to an opposite interpretation, because these companies are investing in the market for so long already.

When asked to score between 1 to 5 (where 5 is strongly agree), about the achievement, with success, of the established objectives, 50% of the companies replied “4”, meaning that agree that reached or are on the way to reach, with success, the established objectives, and the other 50% of the companies replied “3”, being neutral. The companies that replied “3” on the scale provided, are the same that presents lower percentage of sales volume on the Chinese market. This can indicate that probably they are evaluating performance based on the sales volume in the Chinese market.

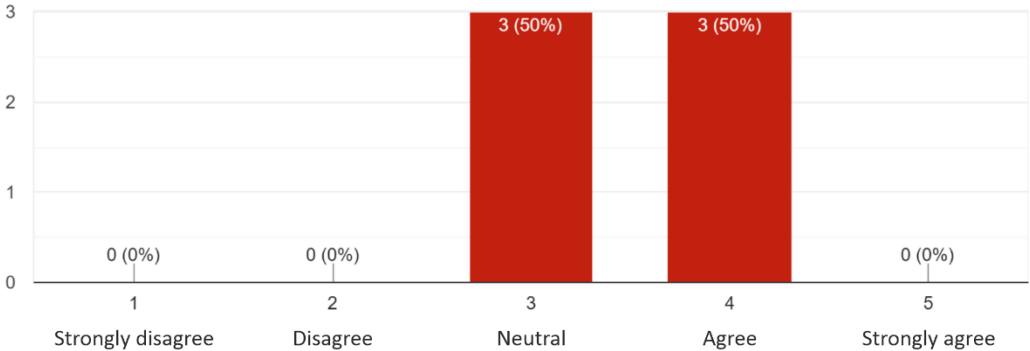


Figure 23 - Has the company achieved or is it on track to successfully achieve the results established for the Chinese market?

Although, Wang and Olsen (2002) stated that satisfaction is an important aspect linked to performance and is considered an appropriate way to assess success in a market. Meaning that, the feeling of accomplishment by 50% of our companies, maybe is not only related with sales volume, but also because they results matched the expectations of the manager and the company, and this is positive to continue committed to the market.

Despite their sales volume and accomplishment of the objectives, half of the companies strongly agree that if existed a better support from the Portuguese government the entrance of their companies' product in the market could be smoother. Even one of the big corporations, that has more resources than the small and medium companies, strongly agree that the support from these entities would make a difference.

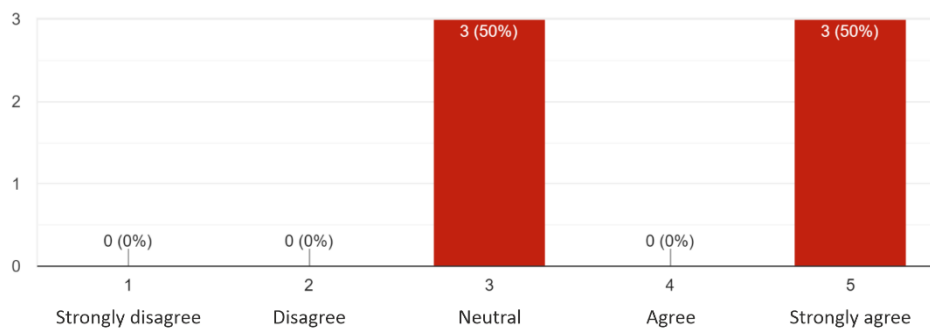


Figure 24 - Do you consider that if you had more support from Portuguese governmental institutions, your entry into the Chinese market could have been facilitated?

As it was concluded in a previous study conducted by Ilhéu (2006) the lack of government support and the low level of the companies' satisfaction with the support provided by the Portuguese government are considered as barriers to the expansion of the Portuguese companies to the Chinese market.

In this study was not asked what companies considered as the most important government support to enter the Chinese market, but in the previous study conducted by Ilhéu (2006) the companies considered the most important support the Portuguese government could provide to the companies is the availability of information, incentives to Portuguese companies, promotional activities, and more logistical support in China.

6. In Conclusion

The sixth section is a conclusion of keys factors considered from previous studies. This section has two open question, replied by all the companies, to have an opinion of the participants about the Chinese market and to understand what are, according to them, the key success factors.

Four companies consider very important (rating 5) to have a local partner to develop the business in China, one company considers important (rating 4) and another company gives a neutral answer (rating 3).

One of the companies that strongly agree with the need to have a local partner, answered before that do not have a local partner for the Chinese market, showing that the company agrees that a Chinese partner will bring more positive results, or smooth the activity in China. The same company also consider that have a Chinese partner is a differentiating factor for success in the Chinese market.

Another company does not give high relevance for the Chinese partner, and does not have a Chinese partner, although gives emphasis to the need of a good distributor (question 6.2), considering it as a differentiation factor for success in the Chinese market.

Other company consider highly important to have a local partner, although does not have one, but also consider that a good distributor is a factor for success.

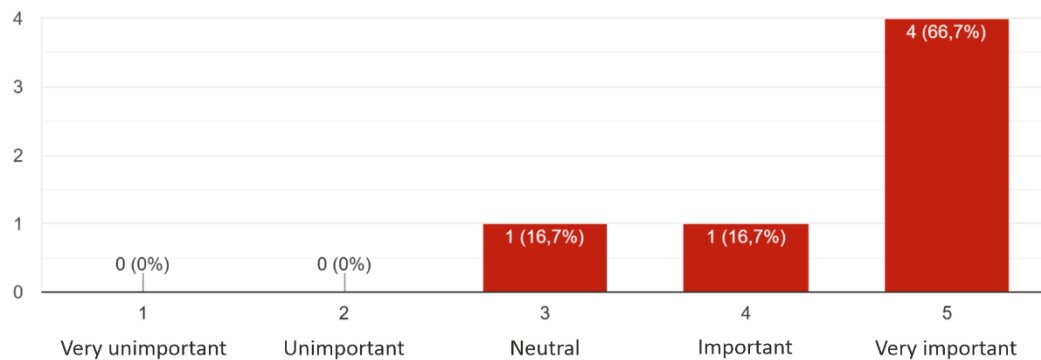


Figure 25 - Do you consider important to have a Chinese partner for the development of your business in China?

We can conclude that companies recognize the high importance of good relations in the market, through a distributor or any other partner. A partnership can help the companies to overcome part of the barriers felt when entering the market, provide knowledge about the market, the consumer, the procedures and open the companies' web of contacts.

For these companies, the most important differentiators factors to have success in China are, by order of importance: have a good distributor (with the highest percentage), have a great knowledge about the market, have a Chinese partner, have a differentiator product (positioning in second, all three with the same percentage), and have an excellent marketing strategy, have a good network, know how to speak the local language (positioning in third, all three with the same percentage).

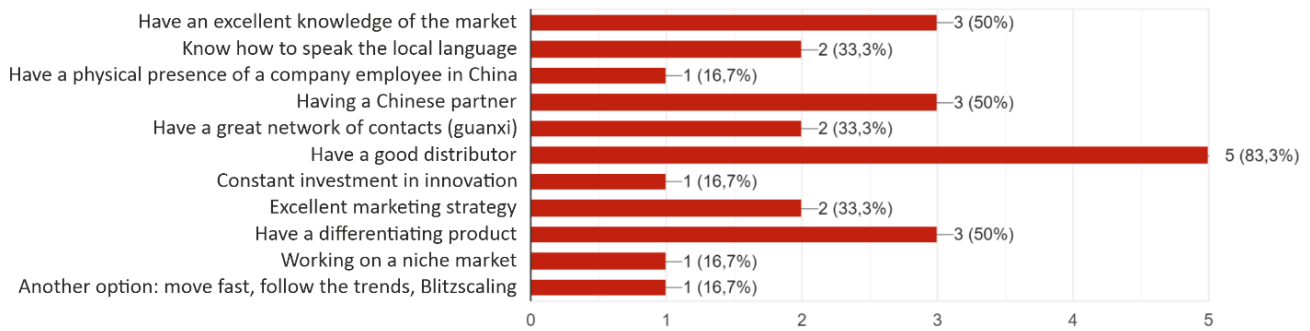


Figure 26 - What do you consider to be the differentiating factor for success in China?

In the first open question, we asked the companies what they would do differently if they were starting their activity in China at this moment, and the answers are very different, according to their experience in the market and the barriers they needed to overcome. Some of these answers were already discussed above, in comparison with other answers, now we only present the responses (also summarized on the table at the annex II): would register the brand (mentioned by two companies), would concentrate more to understand the model of local business instead of lose time trying to implement other European models, would participate more in fairs and exhibitions, would be more careful about contractual conditions related with the use of the brand by distributors and partners, would do a better adaptation to the market.

In the second open question, we asked the general vision of these companies about the business in China, also summarized on the table at the annex II. The general idea of the participants is that China is a big market with a great potential and many opportunities that change very fast. Other ideas are: the Chinese market is controlled by local players and is important to establish strong relationships; Portuguese companies are dependent of a good distributor that implements a marketing plan in some sales point focused on imported products; if the Portuguese company gets familiar with the market and build trust, is possible to enjoy many opportunities (it follows the thoughts of Madhok (2006) when say that “trust building” is a costly and time-consuming process but is crucial for a successful internationalization); China is a fragmented market, and is necessary to adapt the distribution channels to these regional disparities; the required initial investment to enter the Chinese market is too high; the products need to match exactly what the customer is looking for.

These answers and comments are the result of their experience in the market, from the barriers they felt, from the strategies they think it works for them. As mentioned before, each company experience is an individual experience. Each company should understand what it works for them, according to its own objectives, available resources, strategy, and type of product.

Chapter 5 – Conclusion

On this dissertation, we proposed to understand what are the key strategies that the Portuguese companies in the Food and Beverage sector should take to enter, successfully, the Chinese market.

To answer this research question, we have developed literature that would guide us to a better understanding and deeper knowledge.

Knowledge is the main key factor for success. Only with knowledge companies can make accurate decisions. To enter the Chinese market, companies should acquire knowledge about the Chinese market, recognize regional disparities in the country, know the Chinese consumer, the Chinese management practices, organizational structure of the Chinese companies, the Chinese negotiation style. This information will allow the Portuguese companies to have more knowledge about the Chinese entrepreneurs, Chinese companies and will facilitate the business between both parties. It is important to understand the local practices, adapt and do not lose too much time trying to impose the western models. Chinese management is complex, as we have seen with Schlevogt (2002). Chinese businessman does not care only about the financial situation; family, loyalty, status, face, comes first. Sometimes it is hard for Portuguese companies to understand this and predict some of their decisions.

Portuguese companies are not prepared for the negotiation process, do not understand that the Chinese negotiation style is highly influenced by cultural and social factors and bring the wrong strategy for the negotiation. The big differences between Portugal and China, visible through the dimensions of Hofstede (1980), make it harder to lead a successful negotiation. Chinese are patient, long-term oriented, the Portuguese are the opposite. These differences make it very hard to finish a negotiation.

Companies need to establish good networks to bring more opportunities to the company and overcome most of the liabilities of foreignness. Relations are an essential part of the business. The company can only be successful inside a web of contacts. A partnership is a key point for good performance in China. A business partner can give support in many ways, either to obtain information about the market, about the consumers, about the business practices, help with the local authorities, open the distribution channels, help with legal and administrative issues related with the importation and sale of the products. A distributor has a very important role in the success of the brand abroad and represents one of the most important relationships to establish.

Joint ventures with Chinese companies are not always the best solution to enter the Chinese market. Sometimes it brings even more problems if the company does not select the right partner. The two companies need to be aligned on the motivations, objectives, expectations and agree on the percentage of each other's control and responsibility.

To the company successfully match its products with the Chinese consumer, it needs to know the customer, especially in the Food and Beverage sector. This sector is highly related with habits, purchasing power, sensibility to tastes, willingness to try new products. Is important that companies understand the regional differences existent in the Chinese market. Try to enter all the cities in China does not work. Is the same as trying to enter many countries at the same time.

China is divided into well-defined regional groups. Portuguese companies need to select one or two of these markets, implement resources there, and prepare a good marketing strategy, suitable for the target customer. To facilitate the process at the beginning is prudent to start in a more developed city, with better infrastructures and more receptive consumers, like Shanghai, Beijing, Guangzhou, and Shenzhen. Customers from these cities establish the trends and are the opinion leaders for the rest of China, meaning that if they like, there is a good chance that the product will spread later to different cities. It is suggested a progressive expansion rather than try to enter multiple cities at the same time. With this vertically promotion of the "premium" brands, companies should be ready to work to start work later in less developed cities, positioned in the 3rd and 4th tier (Ilhéu, 2006).

The company need to know their customers habits, purchasing power, desires, dreams, tastes, feelings. The online business can help to obtain more information about the customer and their purchasing habits. The company also need to develop resources and capabilities to be always ready for shifts in demand and in purchasing habits. The market is constantly changing, and what works today, maybe does not works tomorrow.

Differentiation is a good strategy, Chinese consumers are looking for new, innovative, different, premium products. Although, the company only gain competitive advantage with a differentiation strategy if the consumer perceive value in the product. The company must develop great marketing strategies to promote it as a value-added product, showing that the product worth the high price.

The size of the Portuguese companies is pointed out as one of the main barriers for the successful enter of Portuguese companies in the Chinese market. Many companies have limitative capacity and lack of financial resources. The lack of brand recognition is another factor that can restrict the brand's success in China. Portuguese companies need to think in a long-term commitment and be ready for the necessary investments to enter the market. It is rare that any company payout in a short term (Ilhéu, 2006).

The lack of Governmental support from the Portuguese entities is also mentioned as an obstacle. A better promotion of Portugal and the Portuguese products from the Portuguese government entities in China would help to create interest from the local Chinese about Portuguese brands and products. The government entities also have an important role of sharing business information about the Chinese market.

Is also important to understand the laws, regulations and how government interact with the industry that the company is in (Ilhéu, 2006). A close cooperation with the government can help the companies to enter China smoothly and settle the business there.

The answers of the questioned companies, with already a considerable experience in the Chinese market, follow the previous literature and conclusions. Companies recognize that China is a vast market with many opportunities, although relations are needed to be able to explore the market. Companies recognize the importance of knowledge, relations, partnerships, good marketing strategies and adapted distribution channels for segmented markets. They also replied that is important to care about legal and administrative issues. The experimental knowledge, mentioned by Ilhéu (2006), lead the participants to give a step back to analyze their activity in China, and reach some conclusions that would generate different strategies now. This experimental knowledge is personal, it cannot be transmitted from one company to another. This means that, although is important to read about others' companies experience, it cannot be use as a model to follow. Each company is individual. What is possible to prepare is the knowledge that will lead the company to take the best advantages when in the Chinese market.

5.1. Limitations of the Study

When researching sources to structure this dissertation, it was difficult to find studies about Portuguese companies in China, and even more difficult to find studies about the Food and Beverage sector. The literature review was built with generic findings related to the Chinese market and not specific to any origin country and type of company and this can represent a limitation to our study.

It is interesting to study a single sector, especially the Food and Beverage, as is so sensitive to different cultures, although the study at a single sector narrowed down to much the number of possible companies to analyze. From the list of the 200 biggest Portuguese exporters to China, only a small part was in the Food and Beverage sector.

The biggest difficulty was to obtain answers to my questionnaire. Certainly, if we could obtain more answers, the practical part of my dissertation would be more representative about the strategies, considerations, expectations, and results of the Portuguese companies in the Chinese market. Six companies are a limited number to be representative. Although almost all the answers were in accordance with the literature review.

Bibliography

A.T.Kearney. (2003). Winning the China FMCG Market. Retrieved from www.A.T.Kearney.com

Abella, A., Bellver, A., & Brusselmans, C. (2012). Strategies for Asia Pacific: How can foreign companies enter China successfully? Lu Rui & Co. Retrieved from <https://pt.slideshare.net/cedricbrusselmans/how-can-foreign-companies-enter-china-successfully-lu-rui-co>

Anderson, O. (1993). On the internationalization process of firms: A critical analysis. *Journal of International Business Studies*, 209-232.

Arenius, P. (2005). The psychic distance postulate revised: from market selection to speed of market penetration. *Journal of International Entrepreneurship*, 115-131.

Baan, W., Zipser, D., Poh, F., & Luan, L. (2017). *Double-clicking on the Chinese consumer*. Mckinsey & Co. Retrieved from <https://www.mckinsey.com/featured-insights/china/double-clicking-on-the-chinese-consumer>

Barney, J. B., & Hesterly, W. (2015). *Strategic Management and Competitive Advantage: Concepts*. Pearson.

Batra, R. (1997). Executive insights: marketing issues and challenges in transitional economies. *Journal of International Marketing*, 95-114.

Bradley, F. (2002). *International Marketing Strategy* 4th. FT Prentice Hall.

Brooks, E. L. (2003, June). Products and Prejudice: Measuring Country-of-Origin Bias in U.S. Wine Imports. UC Santa Cruz Center for International Economics Working Paper No. 03-10. doi:<https://dx.doi.org/10.2139/ssrn.421800>

Calantone, R., & Zhao, Y. (2001). Joint-Ventures in China: A Study of Japanese, Korean and US Partners. *Journal of International Marketing*, 1-23.

Cavusgil, S., Zou, S., & Naidu, G. M. (1993). Product and Promoting Adaptation in Export Ventures: An Empirical Investigation. *Journal of International Business Studies*, 479-506.

Chandler, A. D. (1962). *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*. Cambridge: MIT Press.

Chen, M. (1995). *Asian Management System*. London: Routledge.

Cui, G., & Liu, Q. (2000). Regional market segments of China: opportunities and barriers in a big emerging market. *Journal of Consumer Marketing*, 55-72.

Czinkota, M., Ronkainen, I., & Ortiz, M. (2004). *The Export Marketing Imperative*. South-Western Educational Pub.

Daniel Zipser, Y. C. (2016, March 17). *Mckinsey & Company*. Retrieved from <https://www.mckinsey.com/industries/retail/our-insights/here-comes-the-modern-chinese-consumer>

Deloitte Research. (2012). China's Consumer Market: A Closing Window of Opportunity. Retrieved from www.deloitte.com/research

Denrell, J., Fang, C., & Winter, S. G. (2003). The economics of strategic opportunity. *Strategic Management Journal*, 977-990.

Duhaime, I. M., Stimpert, L., & Chesley, J. (2012). *Strategic Thinking - Today's Business Imperative*. New York: Routledge.

Dunning, J. (1988). The Eclectic Paradigm of International Production, a Restatement and Some Possible Extensions. *Journal of International Business Studies*, 1-31.

Fernandes, J. (2015, October). Factores Críticos de Sucesso na Internacionalização para a China: Plano de Marketing para as empresas Portuguesas de Vestuário. *Unpublished working paper*.

Ferreira, M., Miranda, R., Reis, N., Pinto, C., & Serra, F. (2013). Pesquisa em empreendedorismo no principal periódico internacional: Um estudo bibliométrico das publicações no Journal of Business Venturing entre 1987 e 2010. 2, 3. REGEPE - Revista de Empreendedorismo e Gestão de Pequenas Empresas. Retrieved from https://globadvantage.ipleiria.pt/files/2012/08/Working_paper-108_globadvantage.pdf

Ferreira, T. I. (2016, September). International Strategy of Portuguese Born Global. *Unpublished working paper*.

Garcia, R. C. (2000). *Marketing International 3rd*. ESIC.

Goulart, L., Arruda, C. A., & Brasil, H. (1996). *A evolução na dinâmica de internacionalização*. Rio de Janeiro: Qualitymark.

Graham, J. L., & Lam, N. M. (2003). The Chinese Negotiation. *Harvard Business Review*, 1-10.

Hamel, G., Doz, Y., & Prahalad, C. (1989). Collaborate with Your Competitors—and Win. *Harvard Business Review*.

Hofstede, G. (1980). *Culture's Consequences: International Differences in Work-related Values*. Beverly Hills: Sage.

Ilhéu, F. (2006). *A Internacionalização das Empresas Portuguesas e a China*. Almedina.

Johanson, J., & Vahlne, J.-E. (1977). The Internationalization Process of the Firm - a Model of Knowledge Development and Increasing Foreign Market Commitments. *Journal of International Business Studies*, 23-32.

Johanson, J., & Vahlne, J.-E. (2009). The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership. *Journal of International Business Studies*, 1-22.

Johanson, J., & Wiedersheim-Paul, F. (1975). The Internationalization of the Firm-Four Swedish Cases. *Journal of Management Studies*, 305-22.

Johnson, G., Whittington, R., Scholes, K., Angwin, D., & Regnőz, P. (2013). *Exploring Strategy Text & Cases*. Pearson.

Landry, J. (1998, May/June). Emerging markets: are Chinese consumers coming of age? *Harvard Business Review*, 17-20.

Leonidou, L. C., Katsikeas, C. S., & Samiee, S. (2002). Marketing Strategy Determinants of Export Performance: A Meta-Analysis. *Journal of Business Research*, 51-67.

Ling, F. Y., Ibbs, C. W., & Cuervo, J. (2005). Entry and business strategies used by international architectural, engineering and construction firms in China. *Taylor & Francis Journals*, 509-520.

Liu, G. C. (2000). Regional market segments of China: opportunities and barriers in a big emerging market. *Journal of Consumer Marketing*, 55-72.

Liu, H., & Pak, K. (1999). How Important is Marketing in China Today to Sino-Foreign Joint Ventures? . *European Management Journal*, 546-554.

Luo, Y. (2000). Entering China Today: What Choices Do We Have? *Journal of Global Marketing*, 57-82.

Luo, Y., & Peng, M. (1999). Learning to compete in a transition economy: Experience, environment and performance. *Journal of International Business Studies*, 269-295.

Madhok, A. (1995). Revisiting multinational firms' tolerance for joint ventures: A trust-based approach. *Journal of International Business Studies*, 345-369.

Madhok, A. (2006). How much does ownership matter? Equity and trust in joint ventures. *Journal of International Business Studies*, 4-11.

Mahoney, D., Trigg, M., Griffin, R., & Pustay, M. (2001). *International Business: a Managerial Perspective*. Pearson Education.

Mckinsey & Company. (2020, September 3). Retrieved from <https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/the-chinese-consumer-resilient-and-confident>

Merrilees, B. (2001). Do traditional strategic concept apply in the e-marketing context? *Journal of Business Strategies*, 177-190.

Miao, L., & Barbaroux, A. (2006). Local Adaptation in Emerging Markets - Study of the Swedish Subsidiaries in China. *Unpublished working paper*.

Montagu-Pollock, M. (1991). All the Right Connections. *Asian Business*, 20-24.

Morgan, R., & Hunt, S. (1994). The commitment-trust theory of relationship marketing. *Journal of Marketing*, 20-38.

Ngouem, A. C. (2008). *Product Standardization by Multinational corporations in a regional multicultural market: case studies of cosmetic MNCs in the European Union*». Fakultät der Universität Dortmund.

Peng, M. (2001). How Entrepreneurs Create Wealth in Transition Economies. *Academy of Management Perspectives*, 95-108.

Peng, Y. (2014). A Internacionalização Empresarial: O Caso da Sogrape e o Caso da Jereh. *Unpublished Working Paper*.

Pereira, T. (2015, October). Influência da Cultura Chinesa na Instalação de Empresas no Mercado Chinês. *Unpublished working paper*.

Poh, F., Wintels, S., & Brown, B. (2017, February 13). *Mckinsey & Company*. Retrieved from <https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/partnering-with-chinas-retailers-a-guide-for-consumer-goods-companies>

Porter, M. E. (1985). *The Competitive Advantage: Creating and Sustaining Superior Performance*. NY: Free Press.

Rheem, H. (1996). International Investing: who profits in China? *Harvard Business Review*, 10-11.

Sapienza, H., Autio, E., George, G., & Zahra, S. (2006). A capabilities perspective on the effects of internationalization on firm survival and growth. *Academy of Management Review*, 914-933.

Schelevogt, K. A. (2002). *The Art of Chinese Management*. Oxford University Press; 1 edition.

Schlauch, A. J., & Laposi, S. (2001). E-tailing and Internet-related Real Estate - Cost Savings: A Comparative Analysis of E-tailers and Retailers. *Journal of Real Estate Research*, 43-54.

Schmitt, B. (1997). Who is the Chinese consumer? Segmentation in the People's Republic of China. *European Management Journal*, 191-4.

Shane, S. (2000). Prior Knowledge and the Discovery of Entrepreneurial Opportunities. *Organization Science*, 448-469.

Silva, A. R. (2015, March 8). Vendas de arroz para o estrangeiro disparam quase 100% num ano. *Jornal Público*.

Silva, S. C., & Elo, M. (2017). How to Internationalize a Traditional Portuguese-Style Food – Liability or Asset of Portugueseness? *Progress in International Business Research*. doi:<https://doi.org/10.1108/S1745-886220170000012007>

Taylor, R. (2015). *The Globalization of Chinese Business : implications for multinational investors*. Chandos Asian Studies Series.

Theodosiou, M., & Leonidou, L. C. (2003). Standardization versus Adaptation of International Marketing Strategy: An Integrative Assessment of the Empirical Research. *International Business Review*, 141-171.

Varis, J., Kuivalainen, O., & Saarenketo, S. (2005). Partner selection for International Marketing and Distribution in Corporate New Ventures. *Journal of International Entrepreneurship*, 19-36.

Wang, C., Chen, Z., Chan, A., & Zheng, Z. (2000). The Influence of Hedonic Values on Consumer Behaviors: An Empirical Investigation in China. *Journal of Global Marketing*, 169-186.

Zipser, D., & Gong, F. (2016, April 16). What's driving the Chinese consumer. (G. Leibowitz, Interviewer)

Zipser, D., Chen, Y., & Gong, F. (2016, March 17). Here comes the modern Chinese consumer.
Mckinsey & Company.

Annex

Annex I- Questionnaire

Dear Sir. /Mme.,

My name is Anaïs Barroso. I am a master's student in Business Management at ISCTE- Instituto Universitário de Lisboa, and I am a former student of the Chinese-Portuguese translation degree at the Polytechnic Institute of Leiria. At this moment, I am doing my master's dissertation entitled **“Internationalization Strategies for the Portuguese Companies to enter the Chinese market in the Food and Beverages sector”**, and this research aims to understand the source of success of the Portuguese companies in Food and Beverage sector in the Chinese market.

Your participation will be very important for the completion of my study, as well as for other Portuguese companies that want to internationalize to China. There are still few studies in this area, and for this reason the contribution of all that have experience will bring good results.

I ask you to respond as complete as possible to open questions. The confidentiality of your answers will be guaranteed, I will only draw conclusions from the total answers obtained from all the companies that will be interviewed.

I appreciate your time.

Sincerely, Anaïs Barroso

General Data

Company: _____

Name: _____

Job Title: _____

Email: _____

1. International Experience

1.1. Years of experience in international markets.

1.2. Years of experience in the Chinese market.

1.3. Percentage (%) of international sales volume in the company's total sales volume.

1.4. Percentage (%) of the sales volume of the Chinese market in the company's total sales volume.

1.5. Number of people responsible for the Chinese market in the company.

2. Entry in the Chinese market

2.1. What was the main reason for considering entering the Chinese market?

- a) Saturation of the domestic market
- b) Excess stock
- c) Search for new customers
- d) Possibility of obtaining larger margins
- e) Contact of a Chinese customer
- f) Another option ...

2.2. What was your company's entry mode into the Chinese market?

- a) Direct Export
- b) Indirect Export (through agents or distributors)
- c) Online sale
- d) Investment in an office or other
- e) Production in China
- f) Portuguese products pavilion or showroom
- g) Another option ...

2.3. Did you enter the Chinese market through any previous contact?

- a) Yes
- b) No

2.4. If yes, through what type of contact?

- a) Local Chinese
- b) Chinese in Portugal or in another European country
- c) International partner

d) Portuguese in China

e) Another option ...

2.5. Does your company sell online in China?

a) Yes

b) No

2.6. If yes, through which platforms?

2.7. If not, do you consider entering the Chinese online market?

a) Yes

b) No

c) Maybe

2.8. Did you use any Chinese intermediaries in the negotiation?

a) Yes

b) No

c) Another person who speaks Mandarin

2.9. Do you have or had a Chinese partner who helps or helped you to develop the business?

a) Yes

b) No

2.10. Did the company select a specific city in China as its first entry market?

a) Yes

b) No

2.11. If yes, in which city/cities did you start your activity?

3. Knowledge about the market

3.1. Did the company or person responsible for the expansion into the Chinese market know about the market at the time of the entry decision?

a) Yes

b) No

3.2. If yes, what kind of knowledge / experience? How did you get that knowledge and experience?

3.3. Did the company do any type of preparation or market research before moving ahead with expansion to China?

a) Yes

b) No

3.4. If yes, at what level?

a) Cultural

b) Administrative

c) Legal

d) Logistics

e) Consumer

f) Type of local management

g) Type of local negotiation

h) Business feasibility study

i) Another option: _____

3.5. Does your company consider that knows the Chinese market?

Rate on a scale from 1 to 5. (1- strongly disagree; 5- strongly agree)

3.6. What were the biggest obstacles your company had to overcome when entering the Chinese market?

- a) Language barrier
- b) Cultural differences
- c) Different style of negotiation
- d) Different management style
- e) Administrative and legal barriers
- f) Lack of support from Portuguese government institutions and entities
- g) Logistical problems
- h) Another option _____

4. The product & the consumer

4.1. Has your company done a study about the Chinese consumer?

- a) Yes
- b) No

4.2. If yes, do you think this study was relevant to your strategy to enter in China?

Rate on a scale from 1 to 5. (1- strongly disagree; 5- strongly agree)

4.3. Has your company adapted the product to the Chinese consumer?

- a) Yes
- b) No

4.4. If yes, what kind of adaptations have been made?

- a) Adaptation of flavor
- b) Adaptation of the packaging
- c) Marketing adaptation
- d) Price adjustment
- e) Another option _____

4.5. Did your company use marketing tools to make your product known in China?

- a) Yes
- b) No

4.6. If yes, what type of marketing was used:

- a) Social networks
- b) Online advertising
- c) Email Marketing
- d) Advertising via agents or distributors
- e) Local Specialty Magazines
- f) Local Fairs / Events
- g) Influencers
- h) Wechat
- i) Another option _____

4.7. Do you think your product has a competitive advantage in China?

- a) Yes
- b) No

4.8. If yes, what are the competitive advantages of your product?

- a) Price
- b) Quality
- c) Differentiation
- d) "Premium" position
- e) High demand
- f) Another option _____

4.9. Who is your main customer in the Chinese market?

- a) Wholesalers
- b) Retailers
- c) Food Service (hotel, restaurant, ...)
- d) Final consumer
- e) Another option _____

4.10. Is your product stored in Mainland China?

- a) Yes
- b) No
- c) Macau, Hongkong or Taiwan

4.11. How do you distribute your product in Mainland China?

- a) Through a local distributor
- b) Through the Chinese post office
- c) Through international operators, such as DHL or other
- d) Another option _____

5. Results

5.1. When do you expect to see the results of the investment you made for the Chinese market?

- a) Less than 1 year
- b) Between 1 and 5 years
- c) Between 5 to 10 years
- d) More than 10 years

5.2. Has the company achieved or is it on track to successfully achieve the results established for the Chinese market?

Rate on a scale from 1 to 5. (1-strongly disagree; 5- strongly agree)

5.3. Do you consider that if you had more support from Portuguese governmental institutions, your entry into the Chinese market could have been facilitated?

Rate on a scale from 1 to 5. (1-strongly disagree; 5- strongly agree)

5.4. Has the pandemic situation in which we live influenced your company's activity in the Chinese market?

- a) Yes
- b) No

5.5. If yes, how did it influence?

6. In Conclusion

6.1. Do you consider important to have a Chinese partner for the development of your business in China?

Rate on a scale from 1 to 5. (1-very unimportant; 5- very important)

6.2. What do you consider to be the differentiator factor for success in China?

- a) Have an excellent knowledge of the market
 - b) Know how to speak the local language
 - c) Have a physical presence of a company employee in China
 - d) Having a Chinese partner
 - e) Have a great network of contacts (guanxi)
 - f) Have a good distributor
 - g) Constant investment in innovation
 - h) Excellent marketing strategy
 - i) Have a differentiating product
 - j) Working on a niche market
 - l) Another option
-

6.3. If now you were starting your activity in the Chinese market, what would you do differently?

6.4. What is your overview about business in China?

Grateful for your time

Prepared by [Anaïs Barroso](#)

Annex II - Summary of main results

	Company A	Company B	Company C	Company D	Company E	Company F
Years of experience in international markets						
years of experience in China	5-10 y	1-5 y	5-10 y	5-10 y	5-10 y	1-5 y
% of sales in China in the total volume sales	70%	15%	1%	3%	10%	1%
number of people responsible for the Chinese market	2	2	0	1	3	3
Entry Mode	Direct Export	Portuguese Pavilion	Indirect Export	Direct Export	Direct Export	Indirect Export
Previous Contact: yes or no	√	X	X	√	√	√
Previous Contact	Local Chinese			Portuguese in China	Local Chinese	Local Chinese
Use of intermediary in the negotiation (Local Chinese or someone who speaks Chinese)	√	√	X	X	√	√
Have a Chinese partner	√	X	√	X	√	√
Previous Knowledge about the Chinese market	√	X	√	X	√	√
Actual knowledge about the Chinese market (1- do not know; 5- knows very well)	5	2	5	3	4	4
Study about the market	√	X	X	√	√	√
Study about the consumer	√	X	X	X	X	X
Adaptation of the product to local market	√	√	X	X	√	X
Obstacles for the company's internationalization	Cultural differences, different negotiation style, different management, lack of support from Portuguese governmental entities	Language differences, lack of support from Portuguese governmental entities	Lack of approval of credit insurance to the distributor	Language differences	Cultural differences, different negotiation style, different management, administrative barriers	Language differences, cultural differences, different negotiation style, administrative and legal barriers
Marketing strategies	√	X	X	X	√	√

Competitiveness of the product in the Chinese market	√	√	X	√	√	X
Expect the Return on Investment (ROI)	1-5 y	1-5 y	less than 1 y	1-5 y	1-5 y	1-5 y
Achieve the objectives (1- did not achieve; 5- achieved completely)	4	4	3	3	4	3
More support from the Portuguese Government entities would make a positive impact on the companies' activity (1- completely disagree; 5- completely agree)	5	5	3	3	3	5
Importance of a Local Chinese partner (1- not important at all; 5- very important)	4	5	5	3	5	5

	Company A	Company B	Company C	Company D	Company E	Company F
What would the company make it different now?	Try to understand better the Chinese business model, without losing time trying to implement western models; register the brand in China.	More presence in professional fairs and exhibitions from my sector.	(Nothing different)	(Nothing different)	Would be more careful with legal requirements, contractual conditions, registration of the brand.	Adapt better the product to the market.
General view about the business in China	A lot of opportunities, although is a difficult market, dominated by the local players. It is crucial to have local partners and a good network.	A big market with a lot of opportunities.	The foreigner companies are dependent from a good distributor with a good marketing plan to sell the product in selling points for international products.	A lot of opportunities, a great potential, if we get familiar with the market and gain trust among the players.	It is a market divided into several regional markets, that need adapted distribution channels.	Is a market that requires a lot of initial investment; the product should be exactly what the Chinese consumer is looking for.

	Company A	Company B	Company C	Company D	Company E	Company F
General differentiation factors to have success in China	Have an excellent knowledge of the market, a great network of contacts, a good distributor, constant investment in innovation.	Have a Chinese partner, work a niche market.	Have a good distributor.	Know how to speak the local language, have a Chinese partner, have a good distributor.	Have an excellent knowledge of the market, know how to speak the local language, have a Chinese partner, have a great network of contacts, have a good distributor, have an excellent marketing strategy.	Have an excellent knowledge of the market, know how to speak the local language, have a physical presence of a company employee in China, have a good distributor, excellent marketing strategy, have a differentiating product.