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School of Industrial and Information Engineering

Master of Science in Management Engineering

Cross-Border E-Commerce in China and the Italian start-ups: An opportunity for the Italian digital export

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ABSTRACT

EN

This research explores the Chinese Cross-Border E-Commerce market from the Italian start-ups' perspective. The aim of this research is to highlight the role that start-ups could have in the Italian digital export towards China. It provides suggestions to entrepreneurs and evidences about the positive results that these companies could obtain in China because of a set of characteristics that they naturally incorporate. Therefore, structured interviews were conducted in person or through phone calls with the people responsible for the management of the Chinese market The results were explored according to a methodology based on the achievement of three goals: a) Demonstrating that China can be considered a suitable market even for Italian Start-ups; b) Highlighting the differences between the strategies applied by the small-medium enterprises (SMEs) and the start-ups applying the Digital Export Model; c) Defining a list of characteristics that start-ups naturally have and that are linked to a better performance in China. The results obtained allowed me to demonstrate that start-ups can perform better than the largest majority of the Italian enterprises. This is due to a series of characteristics and because of their strategies, characterized by higher levels of commitment, necessary to get a positive performance in China. For this reason, researchers should focus more on this category of enterprises, since they could be the driving force of the Italian digital export towards China in the next years.

IT

Questo elaborato esplora il mercato del Cross-Border E-Commerce in Cina dalla prospettiva di una start-up italiana. Lo scopo della tesi è quello ti mettere in risalto il ruolo che le start-up potrebbero avere nell'export digitale verso la Cina. La stessa fornisce suggerimenti utili agli imprenditori e prove su risultati positivi che questa tipologia di imprese potrebbero ottenere in Cina per via di una serie di caratteristiche a loro comuni. Lo studio è stato condotto tramite interviste di persona o in via telefonica ai manager responsabili del ramo Cina di alcune start-up italiane. I risultati sono stati analizzati tramite una metodologia basata sul raggiungimento di tre obiettivi: a) Dimostrare che la Cina può essere considerata come un mercato accessibile anche dalle nostre start-up; b) Evidenziare, con l'ausilio del modello di export digitale, le differenze tra le strategie applicate dalle piccole e medie imprese e quelle adottate dalle start-up in analisi; c) Definire una lista di caratteristiche che le start-up possiedono di natura, e che potrebbero essere correlate ad una performance migliore sul mercato digitale cinese. I risultati ottenuti mi hanno permesso di dimostrare che le start-up possono operare con risultati migliori della grande maggioranza delle imprese italiane. Questo fatto risulta essere collegato ad una serie di caratteristiche comuni alla categoria e alla strategia adottata, caratterizzata da una maggiore focalizzazione e allocazione di risorse, approccio necessario per ottenere risultati positivi in Cina. Per questa ragione, i ricercatore dovrebbero focalizzarsi maggiormente su questa categoria d'impresa, siccome la stessa potrebbe divenire la forza trainante dell'export digitale italiano in Cina nei prossimi anni.

ACKNOWLEDGMENTS

To my friends,
my Family
and the woman I love.

INDEX

INDEX (FIGURES)

EXECUTIVE SUMMARY

Italy is not performing as the other European countries in the digital export toward China: the largest majority of Italian enterprises, about 90%, do not even export through the available digital channels (Maconi, 2019). Available data and statistics about the digital export also highlight a bad performance from SMEs in China, reflecting a condition of inadequacy in a market that, if properly approached, could lead a foreign firm to get positive results. The absence of data focused on start-ups and the lack of evidences about the positive performance that these companies could naturally obtain in the Chinese market (due to their unique characteristics), contribute to make this market apparently not approachable by this enterprise category, preventing some of these entrepreneurs from approaching China. However, start-ups could be more likely to approach and succeed in the Chinese market than the traditional SMEs: the development of cross-border e-commerce (CBEC), described in the second chapter of this thesis, and the shift that the Chinese economy had in the last decades (as explained in chapter one), created a favorable environment for foreign companies that are able to properly exploit all the available digital channels and that are aware that a high extent of flexibility and commitment is, as we will see in chapter two of this thesis, what the Chinese market requires to any foreign player.

In this context, start-ups seemed to be most likely to succeed in the Chinese market than the traditional SMEs. With a more focused and mass support to these companies enforced by the cooperation that Italy and China (as explained in the chapter one of this thesis) and with the spreading of evidences about real Italian start-ups, these companies could be pushed to approach this market, becoming in the next future the new driving force of the Italian digital export toward China.

This thesis aims at demonstrating the role that these companies could have if properly supported, contributing to focus the attention of the literature on their condition and their propensity at exporting abroad through the available digital channels. Start-ups are companies that grow fast and follow dedicated paths. A detailed description of what a start-up is can be found in chapter three. They are different from the traditional SMEs and for this reason, their performance could differ from that of the SMEs in China. Starting from this simple assumption, I conducted a study aimed at assessing that start-ups' performances are better than the average Italian SMEs', as described in Giuffrida (2019). This included an analysis of the structural and strategical reasons behind these different ways to approach the Chinese market; among the results, SMEs appeared to generally have worse performances.

This research has also the intention to positively contribute to the literature on start-ups' development industry toward China. In order to develop a thesis that could be a useful source of information to all present and future entrepreneurs, in the first chapter I provided a detailed description of the Chinese market from an Italian firm's perspective. I described the Chinese economy in detail, the context and the reasons why China has become one of the first economies globally; an overview which is necessary to understand a market as complex as China. This section is particularly useful to understand the shift that China had in the last decades, but also to predict the future governmental interventions and the evolution of the trends that characterize the Chinese economy. In this chapter, I also described the existing relationships between China and Italy, discussing the trade relationships between the two countries and their reciprocal trade structure.

Following this first overview of the Chinese economy, the second chapter focuses on cross-border e-commerce (CBEC) from an Italian firm's perspective and the Chinese market. This latter topic was discussed in detail, since it is particularly useful for the analysis performed in the chapter four. The market, the existing trends, the Chinese customers, the possible strategies, and the most important product and industries involved in the CBEC were illustrated, processed and exploited to assess coherence between the strategies pursuit by the interviewed companies (studied with the Digital Export Model created by Osservatori Digitali, illustrated in the chapter three of this thesis) and the requirements coming from the Chinese market and from the industry in which each of them operates.

In order to conduct my study, I created a unique methodology, described in detail in chapter three. I set my goals, assumed to be useful to validate my assumption ("Start-ups could perform better in China than traditional SMEs"), and then I divided each goal in different sub-goals, from which I created the questions useful to achieve them. For every sub-goal I defined an achievement criterion and a framework to resume all the results coming from the interviews. For the strategy assessment part, which was resumed in the goal G2 (see chapter three), I mapped the results on a framework obtained by Giuffrida (2019), useful to operatively test the Digital Export Model, to then compare it with the strategies pursued by the average SME.

The study conducted allowed me to demonstrate that the strategies pursued by the average of my sample were characterized by a higher commitment in the Chinese market than that of traditional SMEs. I also demonstrated that this difference in the strategies applied is due to some unique characteristics that are common to the majority of start-ups, making them more likely to be successful in the Chinese market; in this way I achieved my goals and validate my assumption. Chapter five provides a complete description of the results obtained. In addition, I tested the Digital Export Model out of its original field of applicability: this model was built starting from a sample of many SMEs without involving start-ups and for this reason, there were doubts about its applicability on this particular enterprise category. The results obtained from my sample, which is small but reliable, enforced the applicability of the model, highlighting the high quality that it has in the description of a digital export strategy.

CHAPTER 1 – THE CHINESE ECONOMY

1.1 - INTRODUCTION

Cross border e-commerce represents an opportunity for all those companies worldwide which aim at expanding their customer base and their revenues selling abroad to foreign customers. E-commerce began to grow thanks to a facilitated and spreaded access to the internet and a reduction of logistics and communication costs. Even the standardization of customers' preferences, which is possible thanks to globalization processes, played a key role in the diffusion of e-commerce. Today, the whole e-market is valued $ 3.000 bln for B2B (about 4% of global PIL) and $22.000 bln for B2C (about 30% of global PIL) and it is still expected to grow because of high growth rates of emerging economies (ICE, 2016), which would allow companies to access a wide customer base (The Huffington Post, 2017).

At present, the USA and China are the two main digital markets. The 2 economies are quite different: USA is a mature and developed market, while China is an emerging economy. The improved and facilitated trade conditions within and outside the country made China the most interesting market globally. The large customer base and the popularity foreign goods acquired over time inside the country must be carefully evaluated by companies worldwide because of the obstacles and peculiarities that the Chinese market has compared to other mature digital markets: different culture, preferences, ways of thinking, processes and actors required in the supplying process, are only few of the issues entrepreneurs have to deal with. Despite this, a proper strategy and a conscious operations management would allow foreign companies to successfully expand in one of the most growing and difficult market of our era.

Italian digital export to China is today growing compared to the past, but the position of Italy in the overall cross-border e-commerce to China is still too far behind the other European countries as Germany or the UK. Italian small and medium enterprises – SMEs, are not fully exploiting the existing digital channels because of the many obstacles that these enterprises experience with the online export.

A set of choices that companies should consider while evaluating an online export to China can be obtained applying the digital export model developed by the Osservatori Digitali. This model resumes the necessary interventions in seven main pillars, guiding the companies in the creation of their internationalization strategy.

1.2 – THE CHINESE ECONOMY

The People's Republic of China (PRC) is the world most populous country (Worldometers, 2019) with an estimated population of 1.428 bln. The country is governed by the Communist Party of China (CPC) which controls the whole territory, organized into 33 divisions, as shown in the figure 1.1:

- 22 provinces;

- 5 autonomous regions
- 4 municipalities (Beijing, Tianjin, Shanghai, Chongqing)
- 2 special administrative regions (Hong Kong and Macau)

Figure 1.1 - The administrative map of China. Source: Nations Online Project

China is today the world's largest export economy with an export of $ 2.41 T and import for $ 1.54 T, with an overall trade balance of $ 873 bln (Observatory of Economic Complexity OEC, 2017).

Since the Chinese economic reform of 1978, that consisted in a shift from a closed and centrally planned economy to an open and market-based economy, the country experienced an incredible rapid and inclusive growth, and a positive growth rate of national GDP that persisted until our days (as shown in the figure 1.2).

China is the world's second largest economy (after USA) and it has contributed around 30% of global growth in the past eight years (World bank, 2019).

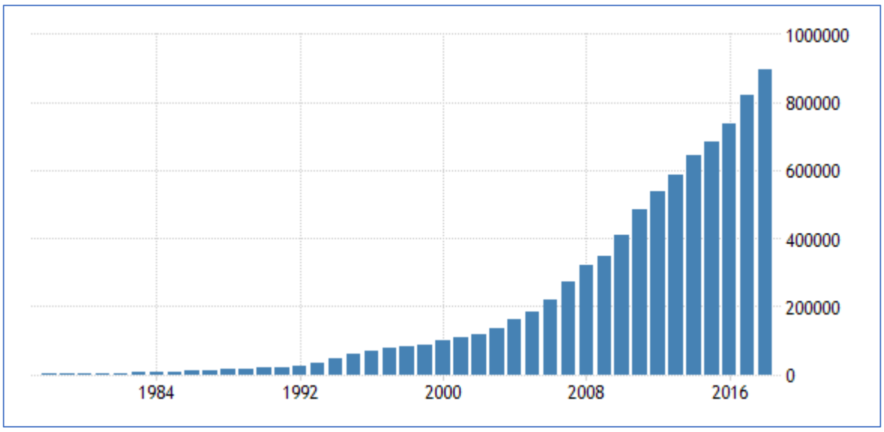


Figure 1.2 - China's Gross Domestic Product. Source: National bureau of statistics of China in Trading Economics

The incredible growth experienced from 1978 to our days raised many challenges that will be analysed in depth in the next paragraphs. The growth in GDP China experienced from 1978 highlighted a critical situation China must deal with even today: GDP per capite at the moment of reform, was one of the lowest globally, and today is still below world's average. Chinese GDP per capite was, in 2018, \$9.770 compared to the world average of \$11.298 (World Bank, 2019).

Other issues and challenges that the actual and future administration will have to face regarding the Chinese situation are:

- **GDP growth is unbalanced** in favour of a rise in the investments, whose growth did not generate any substantial improvement in the Chinese economy (consumption and public expenses remained low)
- Around **373 million people still lives below the international poverty line** of \$ 5,50 per day (World Bank Group, 2019)
- **Environmental liabilities**: China is one of the most polluting country in the world. Many organisations as World Health Organisation (WHO) and international agreements trying to set a pace to limit China's emissions
- **Demographic issues** about an aging population and a problem in the allocation of resources within industries

The only way China can fill these gaps against the rest of the world is a proper and effective set of policies. The government is trying to solve these issues with the **structural plans.**

1.3 – THE CHINESE ECONOMIC REFORM OF 1978

On December 1978 the Central Committee of the *Communist Party of China* (**CPC**), leaded by Deng Xiaoping, decided to start a process to move the country from a **closed and centrally planned economy** to an **open and market-based economy**.

Since 1978 the planned economy, which was a sort of adaptation of the Soviet Union economic system to the Chinese context, regulated all the economic activities of the country:

- Agriculture was under state control: farmers were allowed to produce given products at a given pace, to be destinated according to the state's needs
- The market was made of State-Owned Enterprises (SOEs), and the Chinese government was planning all the economic activities
- The Chinese government was allocating workers to the industries according to its interests
- The country was closed to foreign trade and FDIs

In 1978, China had one of the worst **GDP per capite** (as observable in the figure 1.3), lower than half of the Asian average and lower than two thirds of the African average (Weforum, 2019).

At present, considering the western and developed powers China is competing with (USA, European countries, etc.), the country is quite far from the world's standard.

Considering the extreme **poverty** line of $2 per day set by the World Bank, nine out of 10 people in China was suffering from extreme poverty: about 90% of the Chinese population was considered to be poor (World Bank, 2019) and around 74,5% of labour force was employed in agriculture during 1977.

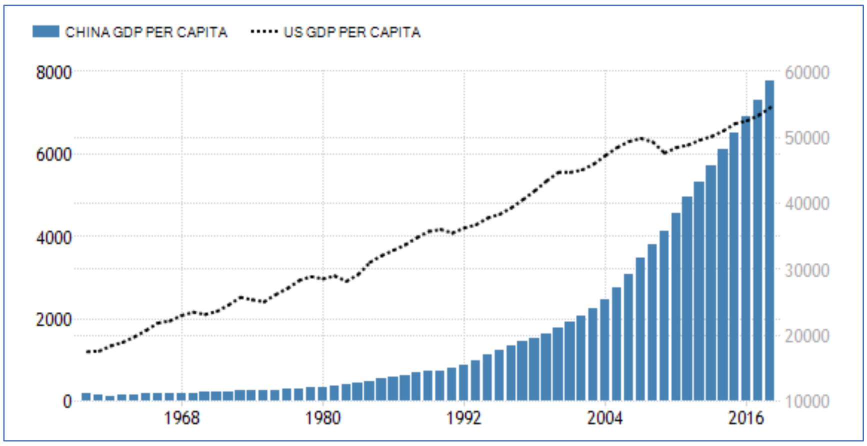


Figure 1.3 - China's GDP per capite vs USA's GDP per capite. Source: World Bank

Surely, with the planning system, China would never have been able to align itself to other developed and developing countries (Garnaut, Song & Fang, 2018). In addition to this, despite China demonstrated that it was able to mobilize the capital accumulated through **investments**, the country was not growing at the pace the world was expecting: in 1978 the investments accounted for more than 29,5% of the Chinese GDP (Garnaut, Song & Fang, 2018), but China was not growing and poverty conditions remained unchanged.

Import and export accounted for less than 9,7% of Chinese GDP in 1978. The most exported goods were agricultural products and raw material. There were no FDI and the growth of the country was below the world's average (Garnaut, Song & Fang, 2018). Additional issues were related to the **demographical condition** in which the country was at the moment of the reform.

The incredible surplus in labour force during the 1950s set the basis in the '60s of a potential world leadership in industries based on **labour-intensive goods**. The potentially successful comparative advantage the country had in the decades before the economic reform, had been wasted by the Chinese government since it did not open up the country to foreign trade (Garnaut, Song & Fang, 2018).

According to Justin Lin (2011), China could have exploited two strategies:

- **Comparative advantage defying (CAD):** a premature development of capital-intensive industries in a closed environment is not effective and leads, over a long time, to an increase in poverty (Abu Bakkar, 2016).
- **Comparative advantage following (CAF):** in order to expand China's capital-based industry, the country could have focused its resources and investments on the industries in which it had a comparative advantage (labour-intensive industries), investing the surplus in the gradual and organic expansion of capital-intensive industries (Justin Lin, 2007). According to Justin Lin (2011), this process is the only way to have **viable firms**, which are enterprises that can run without

the government's support. The establishment of an open economy is also essential to benefit from this comparative advantage: this strategy is based on the Ricardian concept of comparative advantage, which simply states that two countries in an open environment through the specialisation of production factors in the most efficient industries can both benefit from trade.

The Chinese government pursued a CAD strategy, trying to develop capital-intensive industries following a "Push strategy". Despite the huge capital accumulation (and thus, investments) generated between 1952 and 1981 (that reached 30,8% of Chinese GDP), the country's growth rate was 0,5%, which is quite below the world standards: the economy was reacting after being forced to expanding inefficient and uncompetitive industries, supported by government (non-viable enterprises) through taxation, damaging the poorer population.

The planning economy lacked the positive features of **market mechanism** and resulted in an obstacle to the growth of the Chinese economy:

- Firms were not free to decide autonomously
- Workers were not put in the condition to perform in a satisfying way

The system resulted in an ineffective allocation of resources and a missed opportunity to grow as the rest of the world, in an era in which the processes of the globalisation were bringing benefits to all the most efficient countries.

1.4 – THE EFFECTS OF THE CHINESE ECONOMIC REFORM

The economic reform allowed China to exit from the critical situation in which the country was before 1978 compared to other economies worldwide. The reform:

- Opened-up the economy to foreign trade and FDI
- Shifted the Chinese economy from a centrally planned to a market-based economy

The areas of interventions were various: agriculture was no longer collectivized, and the market-based economy changed the environment in which firms were operating. State Owned Enterprises (SOEs) gained autonomy against the state, and the private sector was allowed to grow.

The reform generated economic growth and social development, aligning over time the economy to that of the world leaders and reducing poverty. However, despite the positive results, China needed continuous policies and government interventions to face all the challenges that an unbalanced growth caused over time.

The reform started in 1978 and required a gradual implementation process to reduce the natural economic shock of a drastic change as that of China. In 2018 China celebrated the 40^{th} anniversary of the reform, as a demonstration of the continuous improvements China has been carrying since 1978.

1.4.1 – The Chinese Gross Domestic Product (GDP)

In 1980 China was ranked 7th in the world for the GDP computed in current prices, and 11th in GDP considering the purchasing power parity. The USA was the world economic leader, as shown in the figure 1.4 (IMF, 2019).

The reform and the implementation process lasted 40 years, totally disrupting this ranking. Today China is the 2nd world economic power for national GDP computed in US $ (with a total GDP of $ 14.217), right after the USA (with an overall GDP of $ 21.345). The ranking sees China as the world leader if we compute the GDP according the purchasing power parity (IMF, 2019).

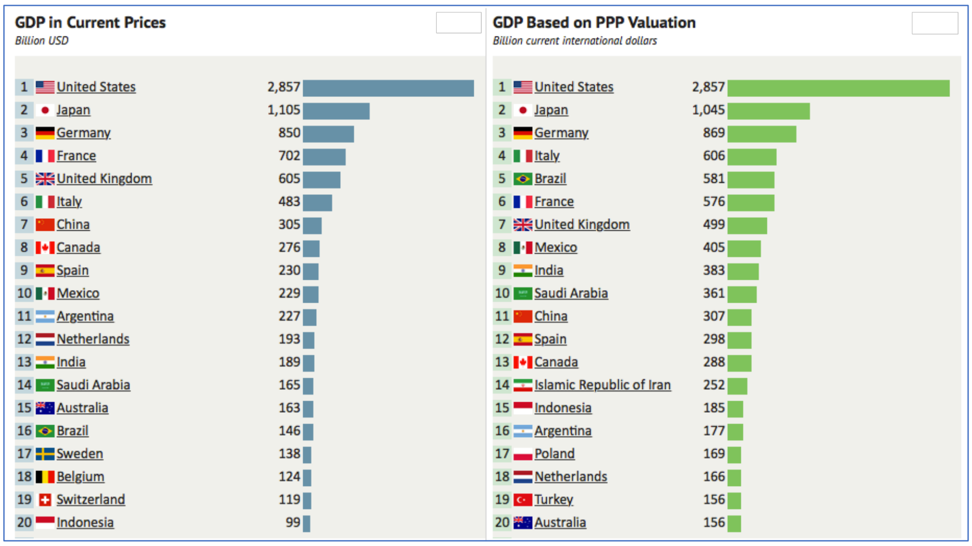


Figure 1.4 - Ranking of countries (1980) according to the GDP in current prices and the GDP based on PPP. Source: IMF in Knoema, 2019

At the end of 2018, China reached an overall production of $ 25,3 trillion (GDP ppp) becoming the world's largest economy, followed by the European Union with an overall production of $ 22 trillion, and the USA with $ 20,5 trillion (as shown in the figure 1.5).

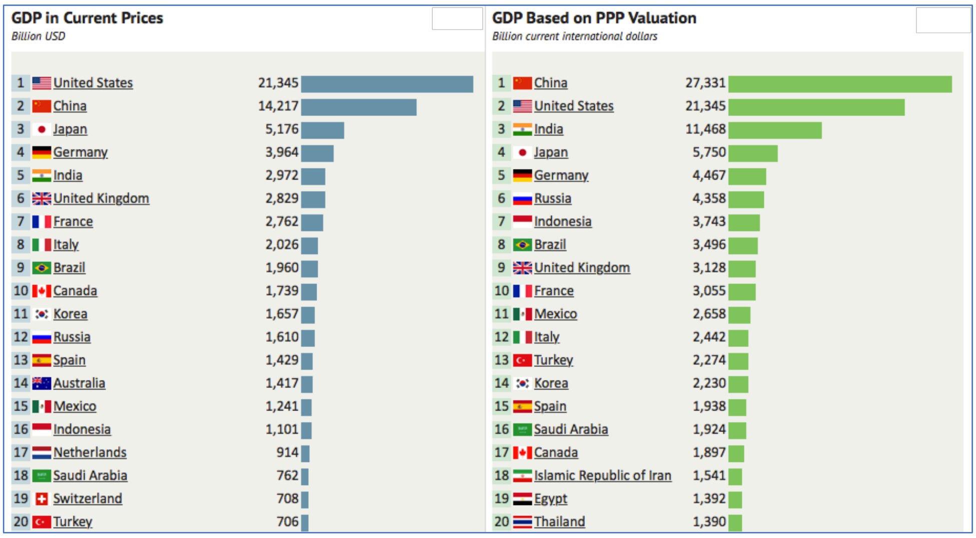


Figure 1.5 - Ranking of countries (2018) according to the GDP in current prices and the GDP based on PPP. Source: IMF in Knoema, 2019

Despite the leading position in terms of GDP, China is still a relatively poor country, with a GDP per capite of $ 18.120, compared to that of USA which is $ 62.518 (IMF, 2019).

Today the Chinese economy is strictly connected with that of the USA: China is the largest foreign holder of USA's treasury. China buys USA's debts to support the value of the dollar, with which the country pegged its currency. This process allows China to devaluate the yuan whenever it needs to keep export prices competitive. In addition, China is the USA's main trading partner (The Balance, 2019).

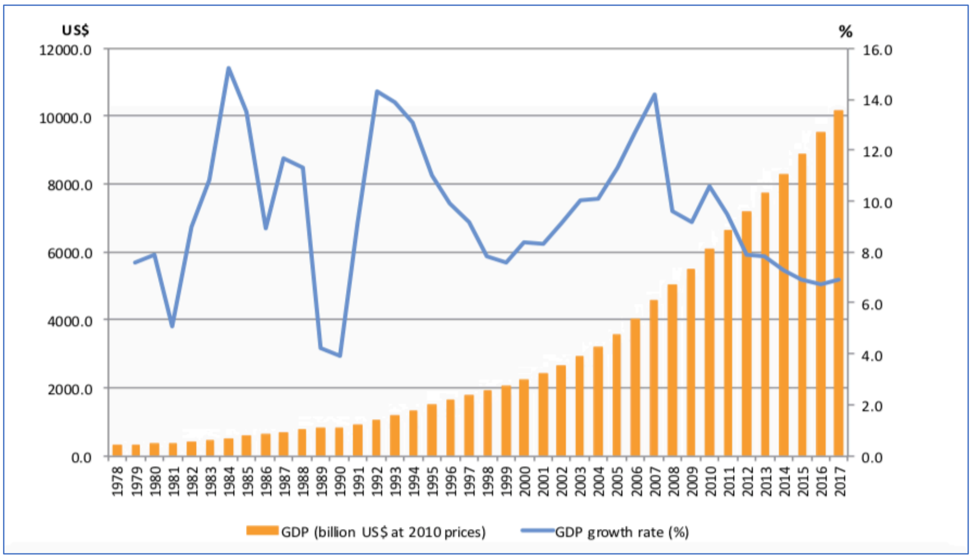


Figure 1.6 - Chinese GDP and GDP growth rate. Source: UNCTAD in Garnaut, Song & Fang, 2018

The economic reform and the restructuring process run by the Chinese government generated a growth in GDP which lasted until our days, despite the growth rate had not been constant over time. The figure 1.6 shows the country's GDP and its trend over time.

In 2008 China suffered from the world financial crisis as all the other economies worldwide, facing a **slowdown in the GDP growth**. The state intervention in the economy had been crucial for the country: state subsidies set by the government allowed China to keep growing (even if at a lower rate) and to avoid inflation.

China can be considered as a **mixed economy**, since the reforms aimed at merging elements from both systems (planned and market) to better serve the Chinese economy (Chow, 2011). We can stress this information and suggest that the contribution of the government in the market economy had been the key factor for the success of all the policies addressing the financial crisis of 2008.

Thanks to the government intervention, China kept growing after the 2008 crisis, but policies set to stimulate investments did not raise private consumption, which remained low (as shown in the figure 1.7).

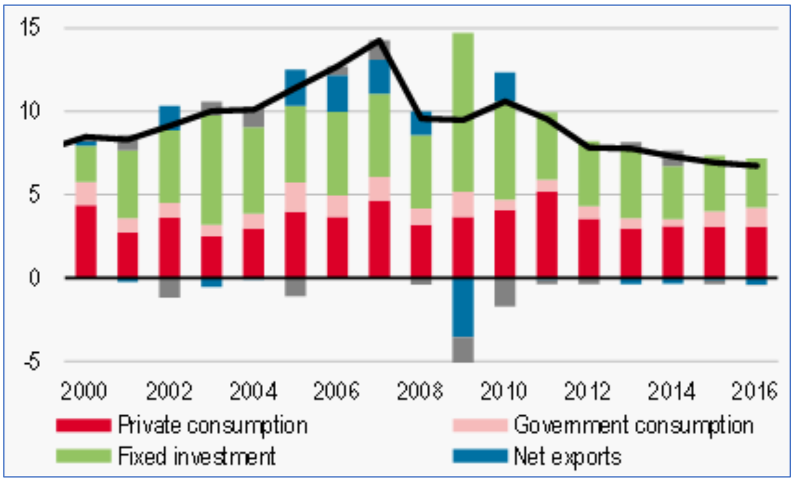


Figure 1.7 - GDP growth and contribution of components. Source: Oxford Economics in Atradius

Since the launch of the economic reform in 1978, China's growth model has always been reliant on investments and exports, generating over capacity in some industries (such as mining and steel). This led the government to set corrective policies in 2012, aiming at enhancing private consumption over a reduction in investments and export, in order to ensure a sustainable growth path, as we can observe from the figure 1.8 (Atradius, 2017).

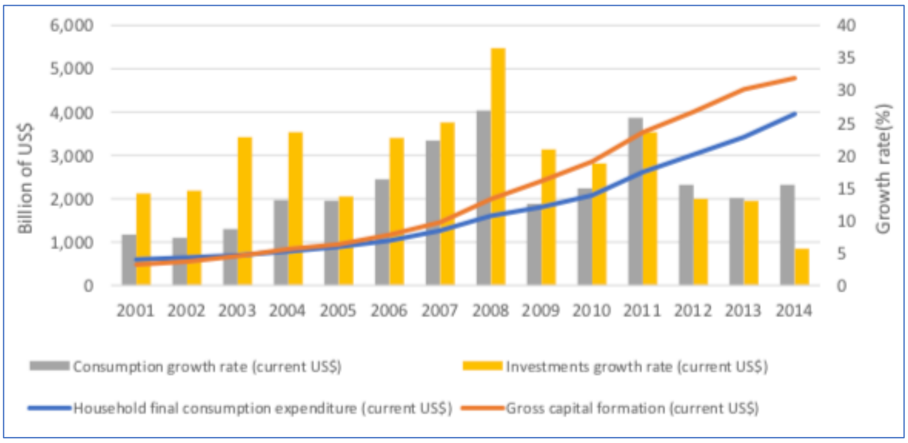


Figure 1.8 - Investments vs Consumption. Source: World Bank in Chiericozzi, 2016

The policies and the subsequent reduction in investments were not compensated by an adequate rise in private consumption, which slightly increased from 35,4% in 2010 to 38,9% in 2016. This gap reduced the GDP's growth rate.

Given the negative results in terms of private consumption, the Chinese President Xi Jinping and the national Premier Li Keqiang decided to enforce economic measures in favor of household consumption. In doing so, they expressed their willingness to tolerate lower growth rates, a necessary move to boost a more sustainable and balanced economic development (Chiericozzi, 2016).

A new China was rising, based on a market-driven economy with a GDP ruled by private consumption.

1.4.2 – Drivers of the Chinese economic growth

The incredible and explosive economic growth of China is a clear example of how policies and changes at national level can effectively allow countries to emerge. China shifted from being one of the last economies worldwide, to be the biggest and more interesting economy in the world, directly competing with the USA for the leading position. The main drivers of China's economic growth are mainly four (Li Yang, 2007):

1. **Gradual economic reforms**: the market economy has been introduced through incremental and gradual reforms, which have been covering several topics in the last 40 years:
    - **Fiscal reform:** taxes are now collected centrally by the state but also through a local-central sharing system;
    - **Financial reform:** before the economic reform, the only bank in China was the People's Bank of China (PBC). With the restructuring of the financial industry, the PBC remained the national authority in charge of setting monetary policies, while the number of other different banks, insurances and investment banks increased as the financial market was starting to grow;
    - **Exchange rate reforms:** in the first decades after the economic reform, China maintained different exchange rates depending on the market in which the currency was transferred to. In 1994, the reform unified the exchange rate and a floating exchange rate system was introduced;
    - **Private investments:** gradual liberalization of private investments in the consumption goods market, capital goods markets and in the financial sector;

    All these policies and their gradual application between 1978 and 2000 allowed the country to shift to a market economy, and to make it fit into the Chinese system. A graphical evidence about the Chinese state contribution in the economy (and thus, the liberalization of private business in a market economy) is reported in the figure 1.9. It is possible to observe how the state gradually reduced its contribution and control in the industrial sector, leaving the planning system to the past.

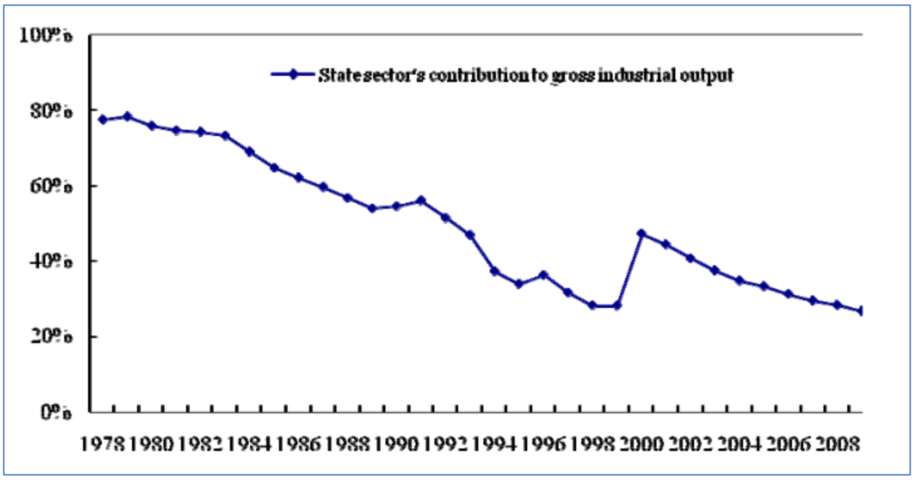


Figure 1.9 – Percentage of State's contribution on Gross Industrial Product. Source: China Industry Economy Statistical Yearbook, 2011 in Mitchell, 2016

2. **Constant opening-up process**: as the previous reforms, the opening-up process has been carried on gradually. Before opening up the whole country, China expanded the opening process from the so called "Special economic zones", to the "Coastal Economic Development zones"; afterwards, it moved from riparian region to inland regions, and finally to the country as a whole. The maximum opening extent goes back to 2001, when China joined the World Trade Organization (WTO), and therefore adopting the international terms of trade.

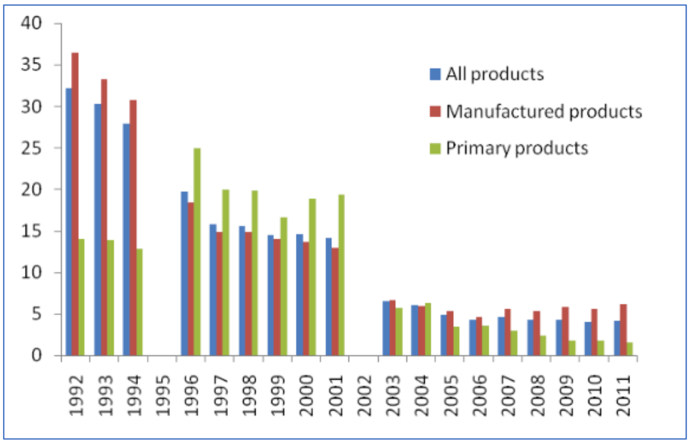


Figure 1.10 - China's tariffs on products. Source: World Bank

The gradual opening-up process had resulted in a gradual reduction of tariffs on all kind of products. (World bank, 2013). We can observe this gradual reduction of tariff on all products in the figure 1.10.

3. **Constant improvement of the economic structure**: industrialization and urbanization are two key aspects to achieve economic growth. These must be improved together: a higher level of urbanization increases the demand for labor, and thus it goes in favor of urbanization.

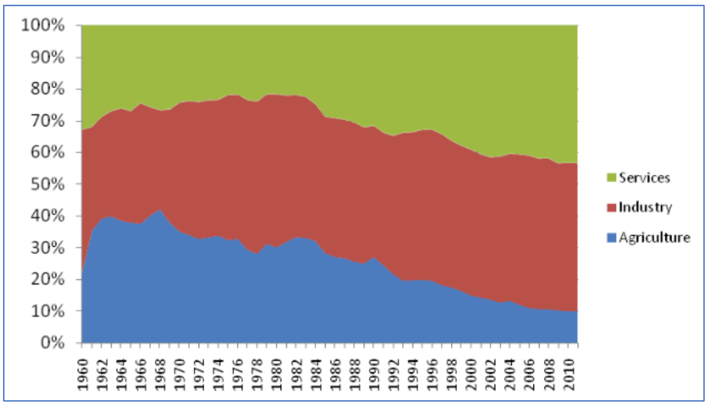


Figure 1.11 - China's industrial structure as % of GDP. Source: World Bank

The industrialization process translated into a gradual reduction of the impact of all the agricultural activities on the country's GDP, in favor of a rise in the importance of the industrial sector and services (figure 1.11).

The level of urbanization changed due to the increased demand for labor in urban areas: as we can observe from the figure 1.12, the percentage of population living in urban areas started to rise after 1978.

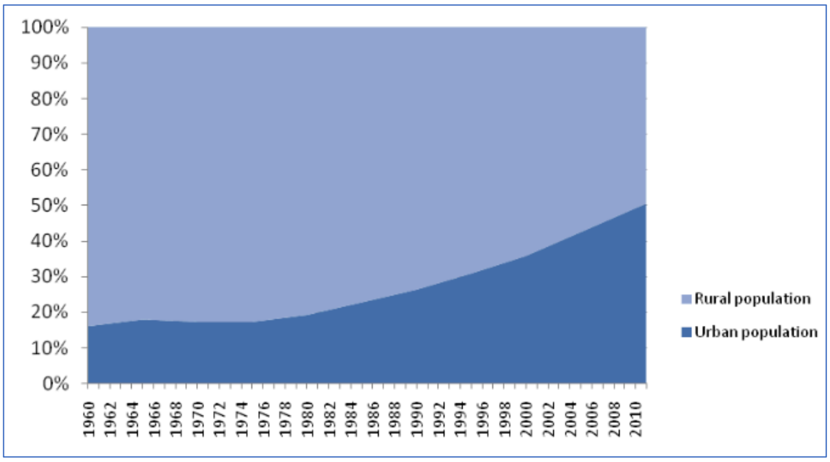


Figure 1.12 - % of the Chinese population living in rural and urban areas. Source: World Bank

In 2012, for the first time the number of people living in urban areas (51,27% of the Chinese population, which was nearly 1,35 billion) passed for the first time that of people living in rural areas (Simpson for Telegraph, 2012).

This shift demonstrates the industrialization process' effects on the agricultural sector, which has been driving the economy since the start of the new economic path in the country.

Cities are expecting to grow in terms of population: from 1978, around 46% of the Chinese population moved to cities to satisfy the labor demand, and cities will have to accommodate more people from suburban and less developed areas. This created a social issue (such as diversity and overpopulation of towns), assessed by the structural plan of 2014, called the "National New Urbanization Plan" which simply consisted in integrating rural immigrants into urban areas (Sara Hsu, 2016).

4. **High savings and investments**: in all the economies, savings are an important driver of economic growth according to Lewis model. Savings, and thus investments, tend to increase as the GDP increases.

   China had a higher saving rate compared to other countries, allowing the country to invest more, to spur the economic growth in the long term and to avoid heavy inflation (Li Yang, 2014). In 1979 domestic savings was 32% of GDP (Morrison, 2019).

Finally, the growing pace China experienced in the last decades brought many benefits in several respects: First of all, the most evident improvement is the incredible reduction in poverty: the share of the population which was considered poor according to the World Bank's standards, decreased from 90% in 1981 to less than 2% in 2013, as shown in the figure 1.13 (Kopf & Lahiri, 2018).

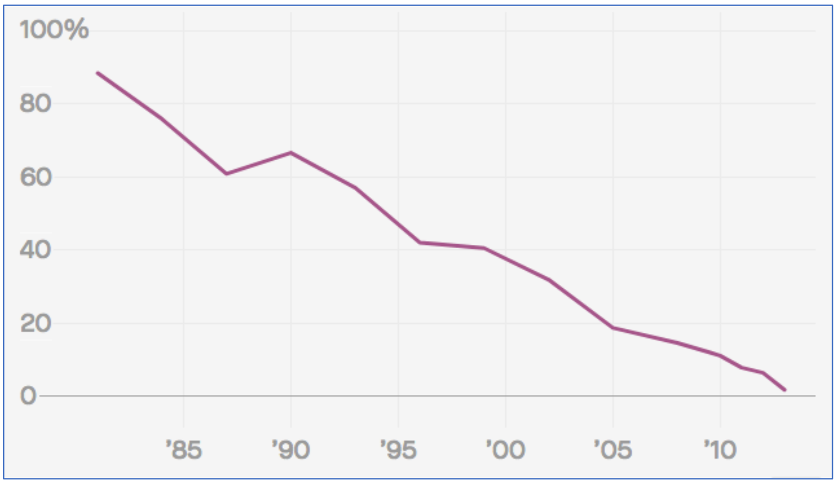


Figure 1.13 - % of the Chinese population in extreme poverty condition by World Bank definition. Source: Our World in Data in Atlas, 2019

In addition, the quality of life improved: the GDP per capita increased (as we can observe in the figure 1.14), and people started living in better conditions, reflecting the government's effort to enhance private consumption (Kopf & Lahiri, 2018).

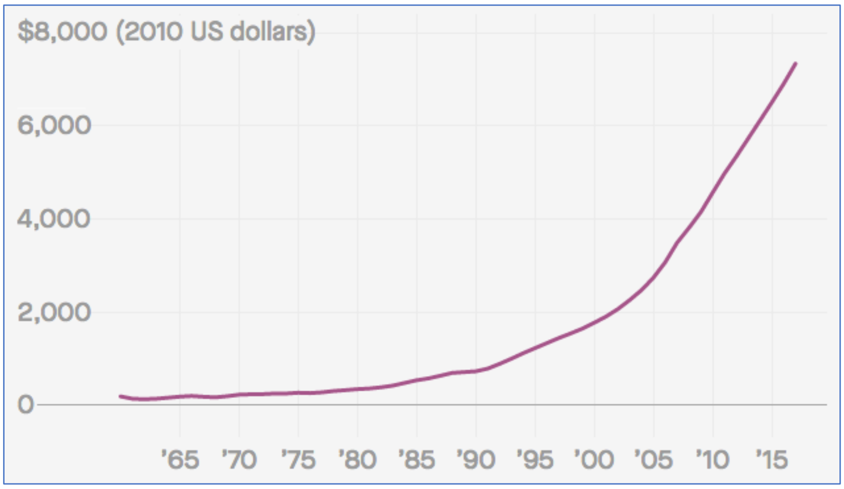


Figure 1.14 - China's GDP per capite. Source: World Bank in Atlas, 2019

1.5 – CHALLENGES BEHIND THE ECONOMIC GROWTH

After the crisis of 2008 and the subsequent intervention in 2012 by the Chinese government to reduce investments and enhance private consumptions, many **challenges and imbalances** have been highlighted.

1.5.1 – Inequalities

Since 1978, the economic reform allowed China to reduce the overall poverty and to enhance country's economic growth, but inequalities across different regions started to rise. In 2005, the Chinese government decided to pursuit a strategy with a unique objective, defined as "harmonious development". The ambitious goal that the Chinese Prime Minister wanted to reach, was a balanced development across different regions through investments and policies, aimed at stimulating the growth and the living conditions of the rural and the western areas. The Chinese government was focusing most of the policies in the urbanization of the country to better balance the income and the sectoral inequalities: in 2008, 39% of the Chinese population was still employed in the agricultural sector (Schiavenza, 2013).

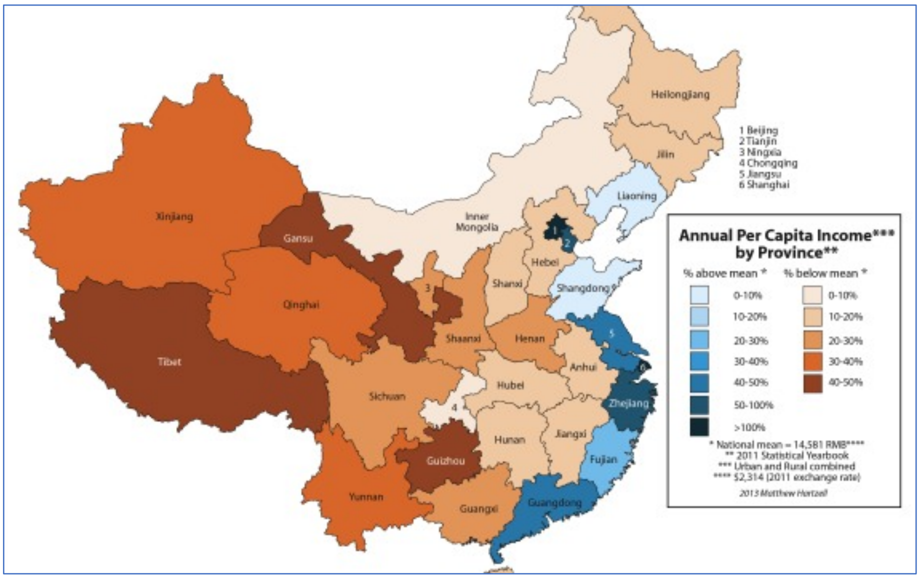


Figure 1.15 - Annual per capita GDP by province. Source: China Statistical Yearbook, 2011 in The Atlantic, 2012

From the figure 1.15, we can observe the differences in term of GDP by province. Generally, the more we move to the west, the less developed and rich are the people living in that area: coastal-areas are more industrialised and richer than in-land provinces (Schiavenza, 2013).

Changes in regional inequalities are linked to the different phases of the China's economic development strategy: heavy industry-led development strategy (the forced industrialisation process pursuit in the planning era) is responsible for the today's gap between rural and urban areas, while the openness and decentralization process contributed to the economic gap within coastal and in-land provinces (Fan, Kanbur & Zhang, 2011).

These differences across regions are something that the foreign importers must consider while trading to China, because they still exist today: the customer is not homogeneously similar across the country. Substantial differences in terms of income, needs, preferences and urban conditions (infrastructures, logistics, channels and communication mean) make the Chinese market a reality that need to be carefully evaluated before starting any internationalisation process.

It's important to highlight the existence of a system that ranks the Chinese cities, known as "City-tier classification system". According to this raking, not officially recognized by

Chinese government but commonly adopted by foreign firms to better target their destination market, cities are clustered in various tiers according to different parameters that can vary depending on the source. The most widely adopted system is the one developed by Yicai Global in 2017, that allows companies to identify the market potential of lower-tier cities.

1.5.2 – Low household consumption level

China's explosive growth of the last decades made the country one of the biggest and more fast-growing economy in the world (World Bank, 2019). The country, through policies and fiscal interventions, was able to positively survive to the financial crisis of 2008, keeping positive growth rate as explained in the previous paragraphs.

Despite this, economists and politicians highlighted the fact that the composition of the China's growth was (and it is today) unbalanced (Mckinsey, 2009).

A rise in the government spending and investments (made through State Owned Enterprises – SOEs) reduced the negative effects of the country's weak exports during the crisis, but it did not rise the household's consumption as much as what the government was expecting.

In 2009, the percentage of the GDP representing the Chinese private consumption was 36%, about a half of the consumption in the USA, and significantly below (around two-third) that in the European countries and in Japan (Mckinsey, 2009).

The reasons why the Chinese population was not spending as much as expected, was linked to the rural condition of the country: the cost for education, medication and housing (and the absence of a social security system provided by the state) increased more rapidly than what the GDP and the income did (Mckinsey, 2009), especially in the less developed areas of the country.

Being the target level of consumption to GDP about 50%, China had to narrow, in 2009, a gap of more than 15%, and the only way to fill this gap was creating a proper fiscal policy (setting, as example, changes in the tax system) in favor of a more balanced distribution of income between the citizens, the government and enterprises. (Mckinsey, 2009).

The Chinese government was able to improve the demographic condition of the country through policies in favor of urbanisation and industrialisation, through subsidies to the less developed areas of the countries and through a proper fiscal policy, financing itself destinating the dividends collected from its SOEs to these targeted public expenses (Mckinsey, 2009).

The policies and the structural plans brought the consumption level to increase and, even if far from the target level of 50% of the GDP, the result was satisfying. Nowadays, the Chinese government is still focusing in improving the social condition of the country, adopting policies in favour of the rise of the private consumptions (see the figure 1.16, which shows the growth that characterised the private consumptions).

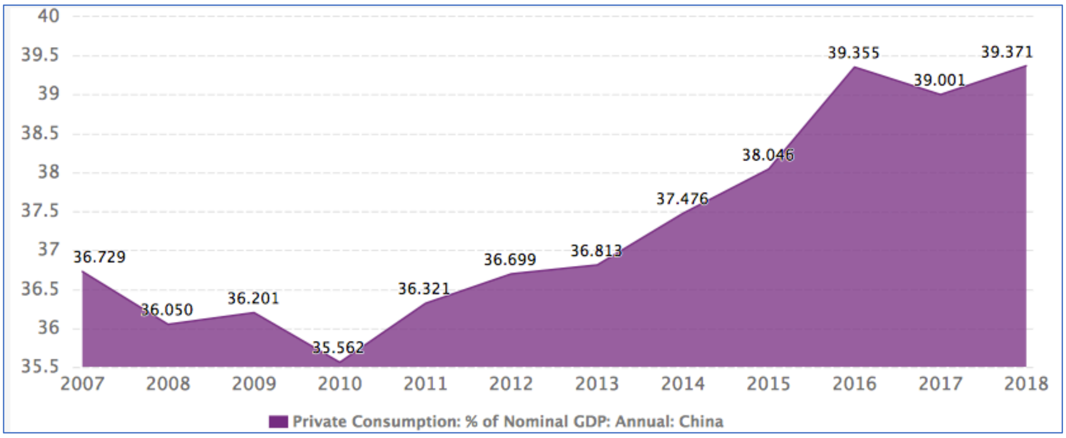


Figure 1.16 - China's private consumption as % of GDP. CEIC data, 2019

Another challenge that the government had to solve was linked to the aging of the population. If the Chinese government makes these people paying for the health-related services (healthcare, medical, elder care, child care) that are considered necessary, a large share of private consumption would be destinated by the Chinese citizens to satisfy a primary need, and the spending would not be destinated to the other consumption markets (Wong, 2019).

At the beginning of 2019 the State Council issued the “2019 domestic consumption policy package” to stimulate domestic consumption growth in 2019. The policy package aims at improving private consumptions, considered to be the main contributor to the GDP growth rate’s slowdown of the last decades: the GDP growth rate in 2018 was 6,6%, the 0,3% lower than that of 2017 (Wong, 2019).

This new set of policies aims at targeting those sectors which have seen the weakest growth rates in the recent years, as the automotive industry, creating new markets for these products and improving services both in rural and urban areas such as supply, accessibility, quality and related services (Wong, 2019).

The policies also aim at improving the health-care service and the social security system offered by the state, focusing on their accessibility. This strategy is supposed to increase the per capita disposable income (reducing the spending in healthcare) and, theoretically, private consumption should rise.

1.5.3 – Environmental emergency

China was able to improve its economy, increasing consumptions, reducing poverty and acting in favor of a more balanced growth and urbanization, but all these successes came at a large cost: a deteriorating environment (Pang, 2017).

Today, the country is the most polluting nation in the world: about 9 million metric tons of CO_2 are produced every year, followed by the USA and the European Union (World Population Review, 2019).

Being clear to all that the emissions of CO2 has a direct and critical link to the global warming (recognized to be a world emergency), and being China the most polluting country in the world, the environmental emergency should be considered as a main point in every political strategy worldwide, and not just a debate or a policy to set and respect. The Chinese impact on the world is enormous, and China has the biggest responsibility in the actual climate emergency. This means that China could potentially give the greatest contribute to fight the global warming.

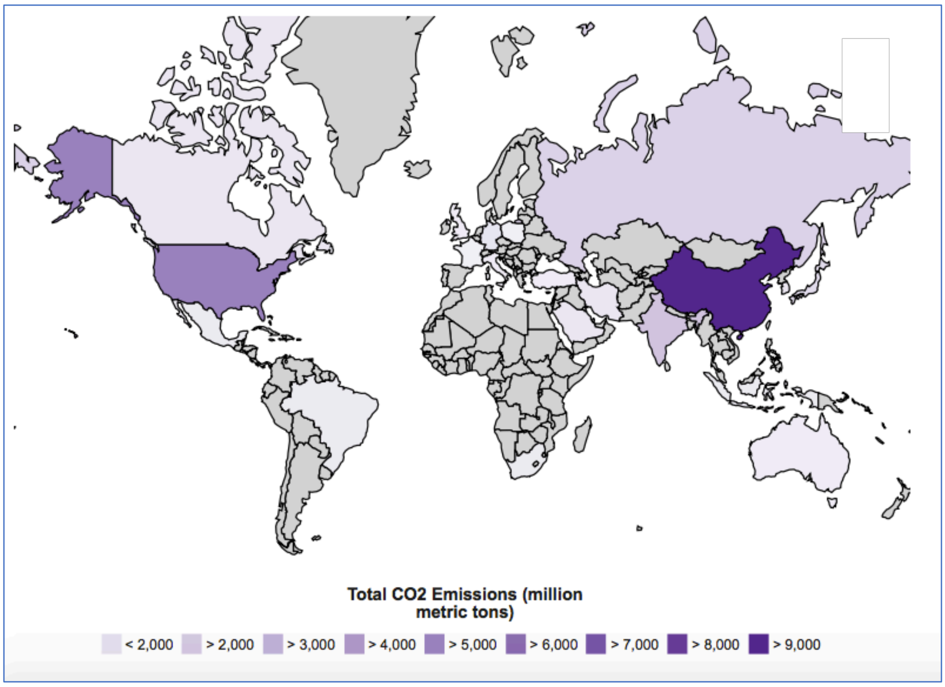


Figure 1.17 - Total CO2 emissions in million metric tons. Source: WHO, 2019

From the figure 1.17, we can observe that China is one of the countries whose impact on environment is devasting. What is clear to all is that China is heavily dependent from coal: the country, whose industrial sector developed later and less efficiently than other economies, contributes to most of the air pollutants and the subsequent effects. In 2017, 60% of electricity produced in the country came from coal sources (Greenpeace, 2017).

The impact of global warming will be devasting: experts say that 250.000 additional deaths per years from climate-sensitive diseases will be expected from 2030 (World Health Organization, 2019).

Today, this challenge is gaining importance globally and it is generating a social mindset across economies. I decided to consider this environmental challenge in this introductory section because policies are now environment-oriented: production, operations, customers' behaviour, fiscal policies and all the economic activities will drastically change in the next 30 years, to align countries' effort to an always growing importance of such a challenge in our everyday life.

North China, and the region around Beijing and Tianji, are the most heavily polluted area, and presumed to be the areas that will be targeted first by the local and the international policies (Pang, 2017).

In the last years, a famous intervention by the Chinese government against pollution was the "2017 environment protection act in Beijing, Tianjin, Hebei and surrounding area" (also called "2+26 act"), which targets energy and manufacturing sectors. The main elements of the 2017 are listed here:

- Reducing of the energy consumption, the wastes and controlling waste discharge
- Eliminating the redundant capacity correcting the supply-side
- Considering the environmental impact as the main driver of any economic and political decision

Today it is impossible to forecast policies that will be set in the next decades, but these should be always considered because of their importance and their central role in every State's decision. Companies, even foreign enterprises that are considering selling in China, should the country's environmental interventions in addition to all the other existing obstacles and peculiarities of the Chinese market.

1.6 – CHINA TODAY

China is the world's largest export economy in the world, with a positive trade balance of $ 873 billions (OEC, 2017).

1.6.1 – Sectorial analysis of the country

Before studying the Chinese trade structure, it's necessary to evaluate the contribution of each sector on the national economic development.

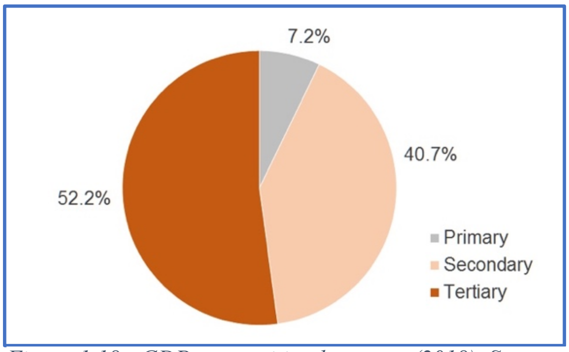


Figure 1.18 - GDP composition by sector (2018), Source: HKTDC Research, 2020

As we can observe from the figure 1.18, the service industry is now the dominating sector in the Chinese economy, changing the situation in which the country was before the Chinese economic reform of 1978.

Analyzing the sectorial performance of China:

Primary sector: its contribution to the country's GDP is reducing over time. It went from 33% in 1983, to our days' value of 7,2% (World Bank, 2019). The workforce moved from agriculture, which historically employed almost 90% of the Chinese population, to the two other sectors. This downfall can be explained by both the rise of the two other sectors, but also by the Chinese government's effort to modernize agriculture by 2020, improving the efficiency of farms all around the country and thus the human input required.

Secondary sector and the "Made in China 2025" strategy: the Chinese government historically focused most of its forces on the development of the industrial sector, dealing with various challenges and committing heavy mistakes, as explained in the previous paragraphs. With the opening-up process initiated by the government, industrial forces worldwide started focusing their production activities in China, to exploit the location economies given by one of the cheapest labor forces in the world market. For this reason, industrial sector gained importance in the last decades, employing almost half of the country's labor force and contributing to the economic development of the country.

In the recent years, this sector reached the mature phase of its lifecycle and the government tried to push the adoption of more sophisticated technologies to improve the quality and the value of production. Factories, due to the technological modernization, need less human input at assembly lines, while the skills required from workers have radically changed in favor of a more valuable human capital (Hyatt, 2019).

The wide product availability, united with a more tech and value-based industry, allowed the country to dominate specific global market (Sourcify, 2019).

The interventions to upgrade the secondary sector is also known as **"Made in China 2025"**, a strategic plan issued by the People's Republic of China which aims at making the production in China more value-adding, giving up with the image of a cheap and low-quality production associated to the Chinese industries.

This strategy is made of a set of policies and interventions aimed at improving the overall production of the country. The main obstacle to the Chinese's ambitious goal is the need to adapt the interventions locally, in the 31 different provinces that compose the country (Fasulo, 2018).

The industrial upgrade of the country will directly contribute to the rise of the domestic consumption, driving salaries up (workers are now valued more because higher is the knowledge and the skills required) influencing private spending (in addition to other advantages as a stronger infrastructure, better managed factories and advanced machineries that will improve overall production processes and the whole supply chain) (Sourcify, 2019).

From the figure 1.19, we can observe the positive trend that characterized the Chinese labor market in the last years: a rise in the wages.

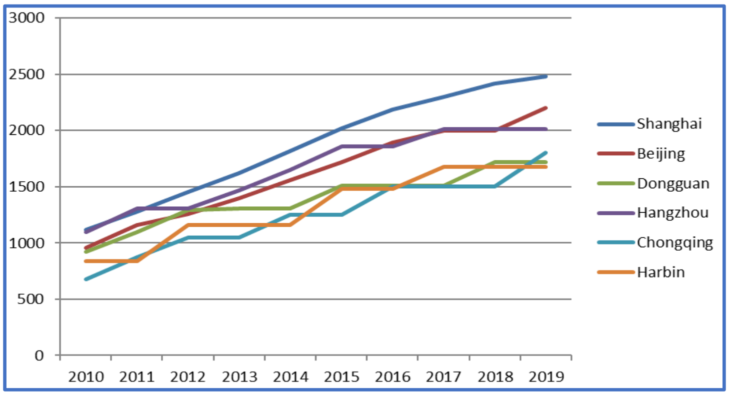


Figure 1.19 - Average monthly wages. Source: China Labor Bulletin, 2019

Made in China 2025 will drastically change the world trade flows that involve China. This strategy and its focus on the development of 10 keys industries (shown in the figure 1.20) and in a more value-adding and tech-based production, are destinated to disrupt the world trade market: China will try to become the world leader in the high-tech industry, controlling the whole supply chain and, consequently, acquiring a wide bargaining power over the world. Many industrial democracies (especially the USA) see this as a threat: taking the cobalt (an input necessary to all the modern electronics) industry as example, countries worldwide fear that entire industries could end under control of a rival power (McBride, 2019).

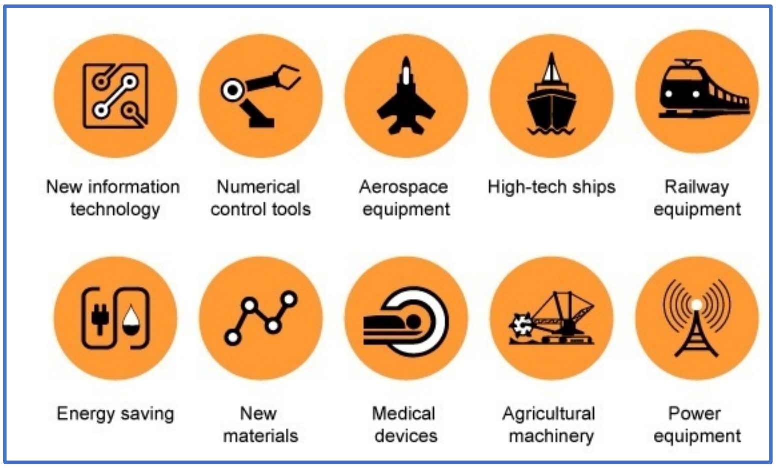


Figure 1.20 - 10 keys industries of Made in China 2025. Source: Focus Economy in People's Daily Online, 2015

Resuming, the Chinese secondary sector is evolving from a production based on scale economies (high volumes, low costs and low quality) to a more value adding production (high-tech industries, exploitation of better human capital & quality of production). These changes, made possible by the Made in China 2025 strategy, will shape the economy of the country in the next decades, making China a leading economy in many industries that are critical worldwide, affecting the trade flows versus and from China, changing the rules of the world trade.

Tertiary sector: the growing influence of this sector on the national's GDP reflects the effort of the Chinese government in making the service industry the dominant driving force for national economic development (People's Daily Online, 2019).

The Chinese's service industry started to grow when the country joined the World Trade Organization (WTO) in 2001: the opening of service sector to the world trade boosted the growth for both the national and the international market: from 2006 to 2010, the Chinese position on the world ranking for export of service, climbed from the 8th position to the 4th (Intracen, 2011).

The main boost given by the government to the development of service sector was the 12th five-year plan (2011-2015), in which most of resources were strategically assigned to the development of the main services and the trade in services (TIS) through a massive opening-up strategy, which involved 5 key sectors:

Financial service industry: cross-border operations

logistic industry: third party logistics and others

high-tech services: information system integration services, digital content services, software development and others

business services: consulting, market researches and others

tourism: domestic and outbound tourism

The data released by the China's National Bureau of Statistics (NBS) in 2019 clearly shows that, during 2018, the country was the main destination for global foreign direct investments, with a share of 68,1% of the total inflow invested into service industry (in 2005 the share of FDI invested into the service industry was 24,7%). This growth is the result of a proper set of opening-up strategies defined by the government, in addition to the positive expectations that the investors have in the Chinese market.

Despite in other developed countries the service industry contributes more to the national GDP (according to Statista in 2019, the USA service industry's contribution to GDP accounts for almost 80%), China is now competing globally for the leadership in the export market for knowledge and technology intensive services, enhanced by a development of ICTs and by the positive externalities of the Belt and Road Initiative.

The greater benefits involved companies operating in fields such as finance, technology, patents and standardization, whose revenues increased by an annual average of 13.3% from 2016 (People's Daily Online, 2019).

1.6.2 – The Chinese current account and its trade balance: the impact of tourism on the Chinese surplus position

Since 2000, China has been running a current account (which is the sum of the trade balance, the net income to foreign factors and the transfers) surplus, thanks to effective national policies about exchange rates and currency manipulation: this means that, since 2000, China is a net lender in the world (Santacreu, 2016).

From the figure 1.21 we can observe that the current account (and its main component: the trade balance) started to decline from 2007 to 2011, in a period in which the whole world was suffering from the world financial crisis of 2008.

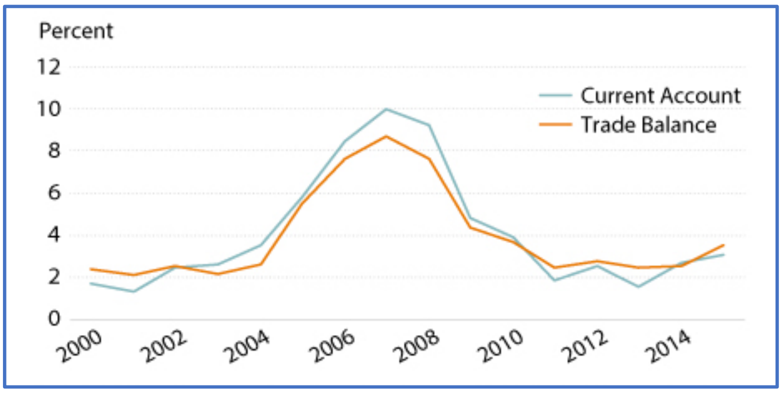


Figure 1.21 - Current account and trade balance (as a % of GDP). Source: State Administration of Foreign Exchange (SAFE) in Chinese Tourist News, 2016

The fall in the trade balance can be related to a fall in the Chinese's trade surplus, due to a contemporarily decline in the surplus of traded goods and an increase in the deficit of traded services (as shown in the figure 1.22).

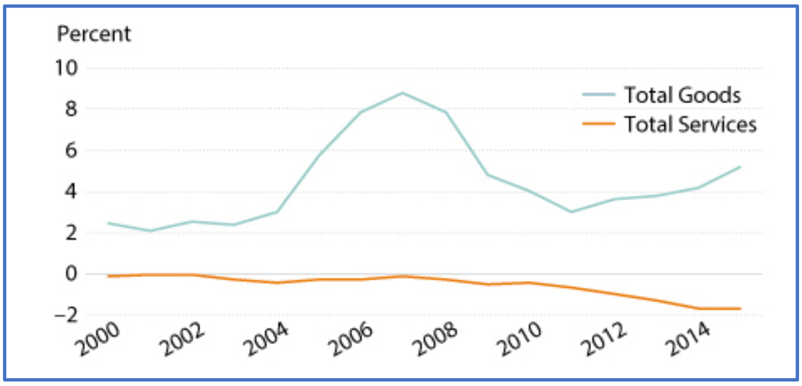


Figure 1.22 - Goods and services (as a % of GDP). Source: State Administration of Foreign Exchange (SAFE) in Chinese Tourist News, 2016

As we can notice from the figure 1.22, while trade surplus of goods started to grow again from 2011, the trade deficit in services became more pronounced (China was spending more for importing services than what was earning exporting them).

Service industry prevented, right after the 2008 crisis, the current account to grow and to wholly benefit from the rise in the trade surplus for goods (Santacreu, 2016).

Going deeper into the service industry we can notice, from the figure 1.23, that the main reason behind the increasing deficit in trade of service is a fall in the travel industry: the Chinese young people travel more to overseas experiences and for shopping purposes than what people from outside the country do in the Chinese destinations.

The main point is that the surplus in the current account is increasing, but at a slower pace than what it should do considering only the growing trade surplus in goods. A potential solution to solve this issue is exploiting the fluctuation in the exchange rate: a depreciation of the yuan could both slow the increase in the travel services deficit and increase the exports of goods (Chinese goods would become less expensive and thus more competitive), generating a larger current account surplus (Santacreu, 2016).

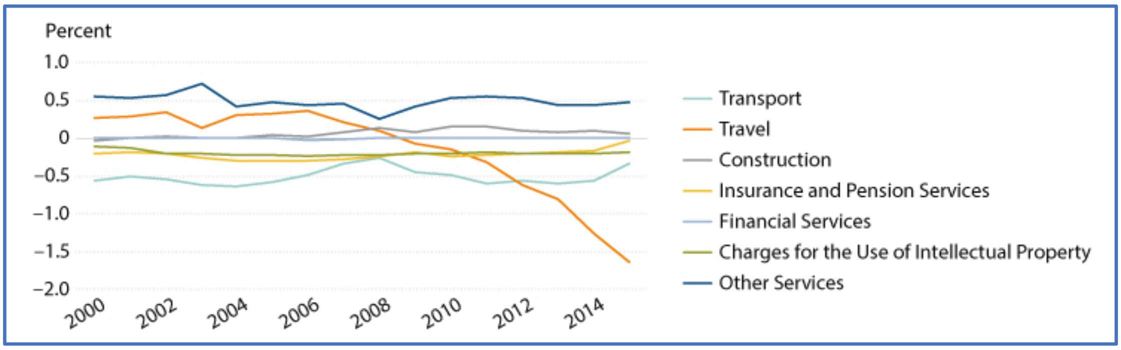


Figure 1.23 - Decomposition of services (as a % of GDP). Source: State Administration of Foreign Exchanges (SAFE), 2016

From the data available, we can consider the country's current account (until 2015) damaged by the deficit observable in the travel industry, which plays an important role in the definition of the surplus position of the country.

This topic is relevant for this thesis because one of the companies that I will interview, Wonderful Italy, is a start-up that operates in the tourism industry and that is moving toward the Chinese market: this company, as we will see, is actually evaluating the possibility of going in China (the Chinese channel is today not operative yet) and the main reason behind its choice is the exploitation of this trend, being China a large market in which the citizens travel more outbound than what foreigners do inbound the country. Other future and actual Italian start-ups could evaluate to exploit this trend that is today characterizing the Chinese economy.

Moreover, this paragraph has the goal to offer a complete and reliable image of the Chinese economy: the tourism industry is a relevant market that needed to be discussed to provide the reader with a complete overview about the economy, because this industry is the most impacting phenomenon in the Chinese GDP .

1.6.3 – The Chinese current account and its trade balance: the impact of trade war against Trump and the USA

In the previous paragraph, I decided to study country's current account until 2015, to isolate tourism industry, the main reason behind the slowdown of the national trade balance. Before 2015, indeed, tourism industry was underperforming, causing a slower growth in the balance of trade despite the export of goods was growing.

On June 2018, as we can observe from the figure 1.24, the Chinese trade surplus decreased to 0.8% of the GDP, at the lowest value ever observed (World bank, 2019).

This fall in the country's trade balance can be related to the US president Donald Trump and his protectionist intervention on trade between the USA and China. I'm describing this topic in this thesis because the trade war between the USA and China is impacting worldwide on every market (both offline and online), being the countries involved in the dispute the two main players in the world market.

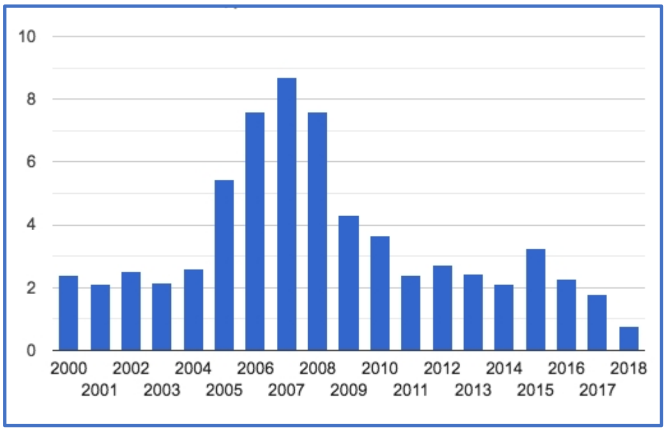


Figure 1.24 - China, Trade balance (as a % of GDP). Source: The World Bank, 2019

In 2018, the USA was importing from China products (mainly computers, cell phones and apparel/footwear) for an overall value of $ 540 billion, exporting goods for $ 120 billion (commercial aircraft, soybeans and cars), running a trade deficit with China of $ 419 billion (The Balance, 2019).

A graphical description of the trade relationship between China and the USA can be observed in the figure 1.25.

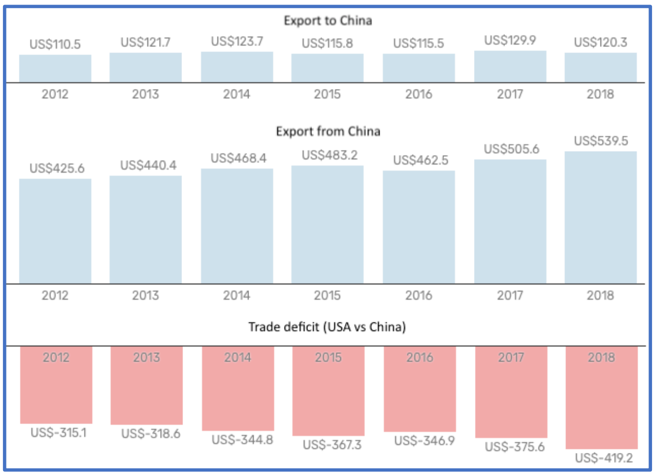


Figure 1.25 - U.S. Imports and Exports from China, and the U.S. Trade deficit vs China. Source: U.S. Census Bureau, 2019

Since 2012, the U.S. trade deficit with China has gradually increased due to:

- **The lower labor costs**: it's important to highlight that the import value also includes the goods from U.S. manufacturers, which assembly in China to achieve location economies, to then ship these goods back to the USA, where these will be accounted as imports. This phenomenon generated a delocalization of the production from the USA to China, and the subsequent rise in the unemployment rate in the USA.
- **The exchange rate**: China pegs its currency to the dollar in a modified fixed exchange rate regime. The country actively supports the dollar and it is the largest lender to the USA: when the dollar loses value, China buys U.S. treasury notes to support the USA's currency and to keep its interest rate low. In that way, China ensures itself that the exports to the USA, its main trade partner until 2018, remain stable over time. The financial and trade dependence of the USA

to China was seen as a potential threat by many U.S. economist: in 2019, the U.S. debt to China was $ 1.1 trillion, the 27% of the whole U.S. public debt (The Balance, 2019).

The trade war started on the 15th of June 2018: Trump, aiming at reducing the trade deficit with China, announced that the USA would have imposed tariffs and quotas on some categories of goods, most of these coming from China. At first Trump imposed tariffs on panels and washing machines (in which China was the world's main exporter), to then apply a 25% tariff on steel imports and a 10% tariffs on aluminum imports. This protectionist move, defined by Trump as policies to protect the country's interests from China's threat, increased the price for the Chinese goods in the U.S. market, cutting $ 34 billions of the Chinese imports (The Balance, 2019).

In order to hit back, Beijing decided to put higher duties on $34 billions of American products, reducing the imports of soybean from the USA (Lee, 2019). From that moment, the tariffs between China and the USA started to rise, as we can observe in the figure 1.26.

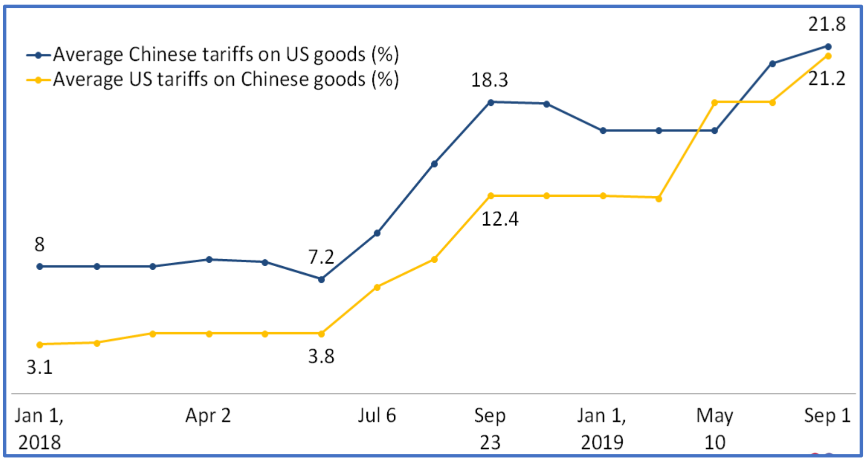


Figure 1.26 - Tariff war between USA and China. Source: International Trade Centre, China's finance ministry in CNBC, 2019

The trade war initiated by the USA represents a lose-lose situation in which the whole world is now paying for the negative externalities. Countries facing new tariffs experience declines in exports and thus, in their GDP. Other countries are indirectly affected from this reduction, facing lower exports and a less integrated global supply chain in which relying on (IHS Markit, 2018).

US consumers are paying for the tariffs imposed by Trump, because they have access to the same goods at higher prices, while in China the cost is absorbed by the Chinese firms which are obliged to reduce the prices of their exports.

The tariffs imposed by the USA caused a loss of $ 34 billion in the Chinese exports. The trade war allowed other countries to substitute TO China in the provision of some given categories of goods to the USA. This effect, known as "trade diversion effect", took place in the USA market and brought imports from China to be substituted by those from other countries ($ 21 billion, about 63%) or directly from local producers, for about $ 14 billion. Europe, Canada, Taiwan, Vietnam and Korea increased their shares of export to the USA (UNCTAD, 2019).

1.7 – THE CHINESE TRADE STRUCTURE

This paragraph will conclude my analysis on the Chinese economy and the peculiarities on its opened and controversial market.

The figure 1.27 illustrates the main import/export flows, considering only those which accounts for more than $ 100 billion. From the image, we can observe that most of these involve China, highlighting the key leading role that the country is vesting in the world trade.

As told before, the country is experiencing a trade surplus since 1993.

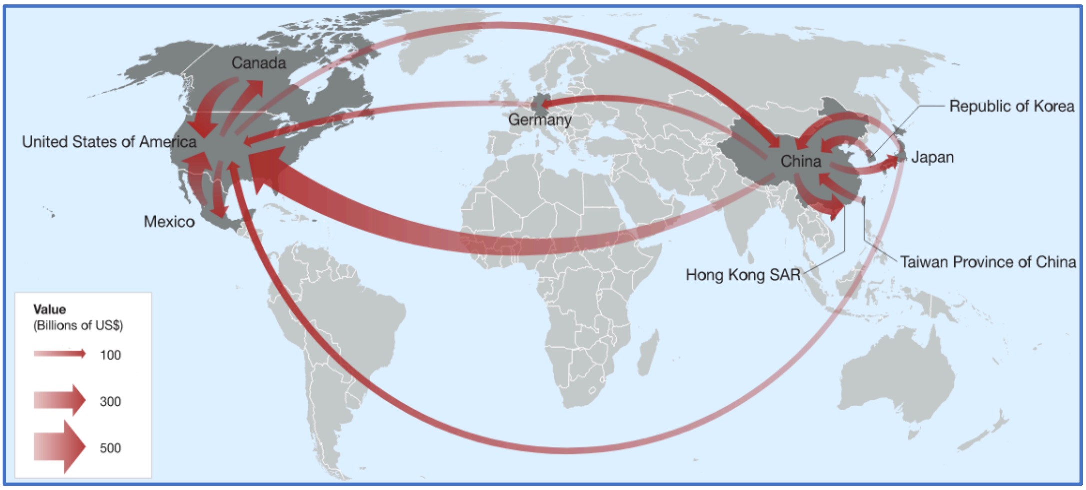


Figure 1.27 - Main world import flows (2017). Source: UNCTAD, 2018

Despite the effort put by the government in moving the country out from an economy-based manufacturing, the country is still producing and exporting both low-tech and high-tech goods, while the service industry is underperforming from what was expected.

In 2019, McKinsey highlighted that China's economy reduced its reliance on trade as a source of growth, becoming more self-reliant and less exposed to the rest of the world. The growth rates of the Chinese's exports and imports is slowing down (as a prove of the intent of the Chinese government to make the country less dependent from trade), while the trade surplus is still increasing, because imports' growth rate declined more than that of exports.

From the figure 1.28 we can observe that growth rates of imports and exports are reducing compared to those from the 2004.

Figure 1.28 - Imports & Exports, Growth rates. Source: World Bank in Chiericozzi, 2016

As a result, China exported just 9% of its output in 2017, down from 17% in 2007, demonstrating that the country is trying to find internal sources of growths (Lee - McKinsey, 2019).

Analyzing the country's trade structure will allow me to identify the peculiarities of the Chinese's supply and demand, in order to better describe the context in which China today is.

1.7.1 – The Chinese exports

Thanks to the opening-up process and the subsequent period of adjustment policies, the country turned from being the 32nd exports in the world to what it is today, the second larger importer in the global market (World Bank, 2017).

In 2018, country exported $ 2.494 trillion of goods (Workman, 2019), and the main exported items were:

- **Electrical machinery & equipment**: 26,6% of total exports ($ 664,4 billion)
- **Machinery including computers**: 17,2% of total exports ($ 430 billion)
- **Furniture & prefabricated buildings**: 3,9 % of total exports ($ 96,4 billion)
- **Plastic and made-of-plastic articles**: 3,2 % of total exports ($ 80,1 billion)
- **Vehicles**: 3 % of total exports ($ 75,1 billion)
- **Clothing & accessories**: 5,8 % of total exports ($ 144,6 billion)
- **Optical/technical & medical apparatus**: 2,9 % of total exports ($ 71,4 billion)
- **Articles made of iron or steel**: 2,6% of total exports ($ 65,6 billion)
- **Organic chemicals**: 2,4% of total exports ($ 59,8 billion)

In addition to the exported goods, the country exported, in 2018, an overall value of international services of $ 266,8 billion (Workman, 2019).

Considering the two most important services that are useful for this master thesis, China exported about $ 42,3 billion from **transport-related services** (third service providers) and an estimated $ 39,5 billion for **travel-related services**.

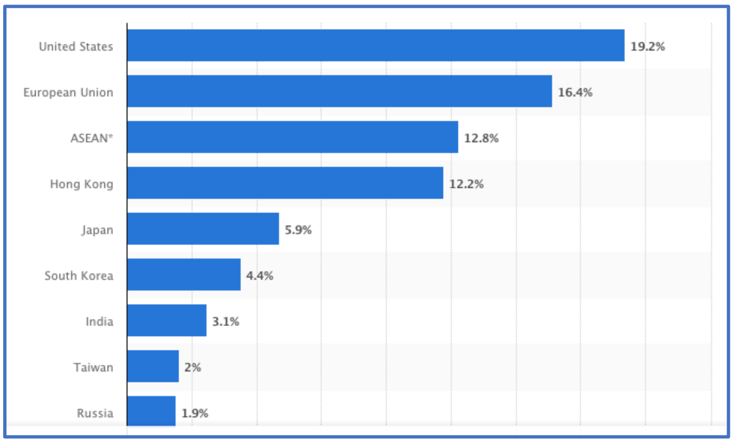


Figure 1.29 - China's main partners (exports), 2018. Source: Statista, 2019

The main destinations of the country's export are listed in the image above. As we can observe from the figure 1.29, the USA were the ranked 1st in 2018, but the trade-war between USA and China made us to assume that, in 2019, the EU will gain importance over the USA in terms of destination markets for the Chinese exports.

1.7.2 – The Chinese imports

In 2018, China imported $ 2.135 trillion of goods, 55,9% coming from fellow Asian countries, while 17,7% was coming from European countries (Workman, September 2019).

Today China is the second larger importer in the world (World Bank, 2018).

In 2018, As listed by Workman, the 10 goods which impacted the most on the Chinese's overall goods imports were:

- **Electric machinery & equipment**: 24,4% of total imports ($ 521,5 billion)
- **Mineral fuels**: 16,3% of total imports ($ 347,8 billion)
- **Machinery including computers**: 9,5% of total imports ($ 202,3 billion)
- **Ores**: 6,4% of total imports ($ 135,9 billion)
- **Optical/technical & medical apparatus**: 4,8% of total imports ($ 102,5 billion)
- **Vehicles**: 3,8% of total imports ($ 81,5 billion)
- **Plastic & plastic articles**: 3,5% of total imports ($ 74,9 billion)
- **Organic chemicals**: 3,2% of total imports ($ 67,4 billion)
- **Gems & precious metals**: 2,9% of total imports ($ 62 billion)
- **Copper**: 2,2% of total imports ($ 47,6 billion)

In 2017, according to the Observatory of Economic Complexity (OEC), the Chinese main trade partners considering imports of both goods and services were:

- South Korea (9,7%)
- Japan (8,8%)
- USA (8,7%)
- Germany (6,2%)
- Australia (5,5%)
- Singapore (3,3%)

- Brazil (3,1%)

The European Union accounted for about 16% of the overall Chinese Imports, while Italy's share in 2017 was the lowest of the main European country, with an overall share of imports of China of 1,1% (OEC, 2019).

1.8 – ECONOMIC RELATIONSHIP BETWEEN CHINA AND ITALY

Italian start-ups are emerging in the global market because of the value of their human capital: skilled and talented people are now creating innovative solutions, products and services that the whole world started to demand for. In the B2B industry, especially in the high-tech and in the most innovative sectors, Italian start-ups gained ground and importance, attracting investors from all over the world, interested in their potential profitability but, most important, in their innovative solutions and their knowledge.

This global interest in the Italian knowledge started to produce its effects due to the innovation race between China and the USA: aiming at acquiring knowledge from the most profitable sources, these countries started to include the Italian start-ups in their internal research and development centres, offering them the possibility to access to their market following a preferential route. In terms of internationalization, this translates in a facilitated access by the Italian start-ups to the foreign market. This, over time, was expanded to the similar companies operating in the consumer goods industries, opening up the Chinese market (our case in this thesis) to the Italian start-ups segment.

1.8.1 – The history of the relations between China and Italy

In 1975, the European Union opened up to the diplomatic relations with China, while in Italy the negotiation started earlier, in 1970.

The trade flows between the European Union and China started to grow after the economic reform of 1978, in which China began the process to abandon the dominating principles that characterized the country under Mao's regime.

As we saw, as the country was experiencing its biggest economic growth, the need to innovate the industrial sector aiming at adapting it to that of other most developed countries brought the Chinese government to look for a strategic commercial partner. China decided to partner up with Italy, because:

- The country was experiencing an economic boost started some year after World War II;
- The country was a strategic link to indirectly reach other strategic commercial partners as the USA and the other European countries;
- The country's economic environment was dominated by Small and Medium Enterprises – SMEs;
- The country had an innovative and technologically advanced industrial sector, a huge R&D potential, an advanced machinery industry and innovative research centres driven by skilled and talented researches;

From 1978, the Chinese imports from Italy grew 5 times, allowing the country to import machineries and other industrial products useful to advance the manufacturing sector in China. On the other hand, Italy became reliant on the Chinese silk, which was the finest in the world.

The positive relationships between Italy and China lasted until 1989, when the Tiananmen's historical episode took part: it caused a political breakdown between China and other leading countries worldwide. Italy tried to exploit the isolating situation in which the eastern country was, trying to establish itself as the main Chinese partner enforcing relations and trade flows, but the political crisis of 1992 called "Mani pulite", which directly involved the Italian prime minister Andreotti, seriously damaged the bilateral relationship between the countries: the Chinese government decided to enforce the relations between China and the other western countries (USA, UK, Japan, France), in a period in which it was gradually re-accepted into the cooperation system, leaving the relationships with Italy at the lowest level possible.

Italy lost a huge opportunity to become a strategic partner of a growing and developing economy as was China, that today is the biggest market in the world.

The first real step ahead in favor of the bilateral cooperation between China and Italy was made with the strategic partnership of 2004: the cooperation, strengthen over the last 15 years, allowed the countries to improve the mutual political, cultural, and economical collaboration.

1.8.2 – The today's situation in the cooperation process

The cooperation between the countries evolved in a mutual focus on the environmental issues, developing a model for a more sustainable agriculture and urbanization, including also cooperation activities in such innovative industries as the aerospace and the health care.

The next stage of the Chinese cooperation will be focused on (Chiericozzi, 2016):

- **Aligning China's Belt and Road initiative with the Italian strategy**: Italy, due to its geographical position, is the perfect entry point for the Chinese "Maritime Silk Road" (that can be observed in the figure 1.31) that would allow the Chinese products shipped by sea to flow into Europe without heavy restrictions. From this point of view, Italy has a large bargaining power, because of the benefits in cooperating with such as powerful country, vesting an advantaged position compared to that of other European countries. With the cooperation in the Belt and Road initiative, China can count on an access point for its products and a more liberalized trade, while Italy can develop its ports and its role in the global logistics (Meng, 2019).

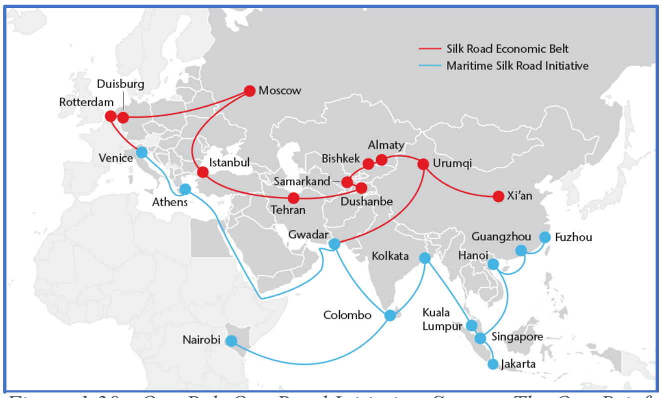


Figure 1.30 - One Belt One Road Initiative. Source: The One Brief, 2019

- **Integrating "Made in China 2025 strategy" with the Italian strategy "Industry 4.0"**: China relies on the advanced manufacturing and R&D industry that characterize the Italian economy to improve and align its secondary sector, still associated to a low-value adding and cheap production, to make it more hi-tech and knowledge intensive. The complementarity of the two countries' industrial structures create rooms for further cooperation, in manufacturing, agriculture and innovation (Meng, 2019).

Today China and Italy complement each other in terms of resource endowment, with trade cooperation being the milestone of their relationship, promoting globalization and free trade. (Meng, 2019).

The two government continuously meet and negotiate new terms in the profitable cooperation they are running, mutually collaborating in the resolution of common issues and in the definition of a new trade model.

1.8.3 – Opportunities from the cooperation for the Italian start-ups

Due to the advanced technology, knowledge and know-how that characterizes the Italian economy, a large flow of FDI investments (both for acquiring shares of Italian companies and for opening up subsidiaries of a Chinese multinational in the country) flows into Italy, making it one of the main destinations for the Chinese investors (Meng, 2019).

Italian start-ups, the main pillar of this thesis, are highly innovative. The large majority of these companies (the most innovative ones) are not involved in the direct production of consumer or capital goods, but employs its skilled and talented human resource in knowledge-intensive industries, which are: Big data analytics, Digital apps, Biotechnologies, Environmental technologies, Engineer solutions, Mobile and smartphone, 3D modelling, Research and development, Software and Internet of Things – IoT (IBS Consulting, 2018).

A better description of the Italian start-up will be provided in the sample description paragraph. Despite this, it is important to highlight that the number of start-ups working in the capital and consumer goods production and in the service industry is not negligible. The data provided by IBS Consulting just put in evidence the trend that characterizes the Italian enterprises' system, reflecting the fact that the Italian start-ups are able to deliver highly knowledge-intensive outputs, as that of larger firms.

The cooperation and collaboration between Italy and China involved also these start-ups, which are the main sources of innovation. China is trying to shift the global innovation centre to the eastern area, to become a world innovation leader surpassing its rival, the USA. In doing this, China recognized the value of the Italian start-ups and worked with the Italian government to access their precious knowledge cooperating in many mutual initiatives.

Europe as a whole entity lost the innovation race against other world giants. According to Fuschetto, 2019, nowadays China is ranked second for the investments into the R&D, with $ 485,5 billion. The USA lead the rank with $ 565,8 billion, and other Asian countries follow China (as example, Japan with $ 191,5 billion).

In 2024, China will become the leading country for expenses in R&D, surpassing the USA and establishing itself as the world's innovation centre (R&D Magazine, 2019 in Fuschetto, 2019).

The Chinese goal is indeed clear (Fuschetto, 2019):

- "Made in China 2025" strategy aims at making China a high-level manufacturing power by 2025;
- The "Internet plus" strategy aims at digitalizing all the services innovating industries and processes;
- In 2017, China approved a set of strategies to make the country the leading nation in the development and application of the Artificial Intelligences – AI;
- All the agreements of cooperation involving Italian start-ups and the liberalization of investments aim at absorbing knowledge and applying it on the Chinese territory;

The cooperation between the Chinese and the Italian start-ups in the development of innovative solutions, supported by their governments, creates a suitable condition for all the Italian companies interested in selling their goods, services or licenses in China.

The Chinese government, united with the Italian one, now work together to help innovative companies in delivering their output providing support, resources and knowledge from the necessary sources. The two countries jointly organize competition, mentoring sessions, innovation races and development campus, giving to all the innovative entrepreneurs the possibility to realize their project on a larger scale, facilitating the access to the partner's market.

In March 2019, Italy signed three "memorandums" on the Belt and road initiative, aimed at making the e-commerce facilitated thanks to the cooperation with China.

The agreement aims to align the Italian export flow to China to that of the other European countries, cooperating (Inghirami, 2019):

- In favor of the e-commerce, strengthening the collaboration between the Italian firms and the Chinese marketplaces, sharing the best practices and providing access to the channels necessary to succeed;

- In favor of the start-up system, providing the Italian start-ups with all the resources to successfully internationalize abroad, facilitating their entry in the Chinese market;

The possibilities created by the cooperation between Italy and China are an additional element that make us to consider the Italian start-ups as one of the potential drivers of the digital export to China of the future. Their role is acquiring an always more critical importance in the innovation and in the rise of revenues coming from the cross-border e-commerce, and the consumer goods industry is included in this process.

In order to study the cases discussed in this thesis, it is necessary to describe in detail the Chinese digital market and the peculiarities coming from its cultural differences and the trends that are involving it. A detailed description and their link with the Italian case is provided in the chapter 2.

1.8.4 – Trade flows between China and Italy

China is one of the largest trade partners of Italy: the country is China's ninth-largest export destination and the third-largest source of imports. In 2018, bilateral trade volume had reached $ 48,25 billion (Meng, 2019).

In 2018, Italy imported from China's goods valued € 31 billion, exhibiting a commercial trade deficit of € 17,2 billion. The most imported categories were: (Ciabattoni & Drigo, 2019):

- Electric equipment (smartphones and computers): 21,1% of the overall import flow;
- Mechanical tools: 18,2% of the overall import flow;
- Textile and clothes: 17,9% of the overall import flow;
- Iron and other raw material: 9,2% of the overall import flow;

On the other hand, the "Made in Italy" and the products from the italian small and medium enterprises are gaining popularity over the Chinese customers. In addition, the Italian high-tech and specialized industries are becoming a strategic pillar in the Chinese manufacturing industry, strengthening the mutual collaboration within them.

The interdependency of the two countries' manufacturing sector is high. Both countries are export-oriented, and both rely on foreign inputs to run their manufacturing processes: the share of Italian inputs in the Chinese production has been growing in the last decades in a large number of sectors. (Chiericozzi, 2016).

In 2018, the Italian most exported good categories and their trading values are listed in the figure 1.30.

Italian exports of machinery and technology is mainly led by small and medium-sized enterprises – SMEs, which were able to remain flexible and to establish themselves as strategical suppliers, starting to make the Chinese people to perceive Italian products as high quality goods.

Machinery, nuclear reactors, boilers	$ 4,71 B
Pharmaceutical products	$ 954,13 M
Vehicles (other than railway)	$ 879,31 M
Optical, photo, technical, medical apparatus	$ 734,19 M
Electrical, electronic equipment	$ 727,32 M
Articles of apparel	$ 698,13 M
Furniture, lighting signs, prefabricated buildings	$ 612,15 M
Articles of leather, travel good	$ 534,09 M
Plastics	$ 510,87 M
Footwear, gaiters	$ 342,71 M

Figure 1.31 - Most exported Italian goods to China (2018). Source: Trading Economics, 2020

Over time, Italy became a top supplier in lightweight technology in many industrial sectors: textile machinery, packaging, ceramics, plastics, wood, glass and machine tools. The supplying relationship between China and Italy allowed China to evolve from a cheap and low-quality manufacturing to a more value adding production process (Scarpa, 2017).

It is important to highlight that some of the Italian exports to China are indirect: being the European Union's production chain integrated among member countries, the Chinese demand from Italian companies depends also on that from German companies, that led the whole chain (Chiericozzi, 2016).

1.8.5 – The flows of the Italian consumer goods to China

In 2018, the Italian consumer goods exported in China was the 2,8% of the overall exported value: considering the size of the Chinese market, its CAGR and the opportunity coming from a government that uses foreign imports as a driver for internal growth, Italy is now trying to improve its performance in the eastern country, strengthening the collaboration and the mutual initiatives (Redazione PMI, 2019).

The Italian exports to China described in the previous paragraph consider both capital (industrial) and consumer goods. In order to better describe the export flow to China, to better focus this paragraph on the goal of this thesis, we must separate these capital goods, usually sold in a Business-to-Business channel, to the consumer goods, usually sold through the Business-to-Consumer channel.

The Made in Italy products, from here defined for simplicity as “consumer goods”, started gaining ground on the Chinese market in 2014. The Italian prime minister Matteo Renzi and the Italian minister for the economic development signed, with the Chinese prime minister Li Keqiang and the Alibaba’s founder Jack Ma, an agreement to enforce the economic cooperation between Italy and China.

The Memorandum of understanding had the goal to bring the Italian companies at selling their product to China through a preferential way (Fatiguso, 2014):

- Alibaba Group will provide the Italian companies with the necessary services to sell through Tmall Global;
- Alibaba Group will promote the Italian products on all its platforms with specific marketing campaigns and providing the necessary logistics services, contributing to the rise in the awareness that the Chinese people already have in the Italian products;
- Alibaba Group will provide the Italian companies with a locally based supporting team, cooperating and providing assistance on a wide range of issues;

The goal of the founder Jack Ma was to generate new profits from its platforms, exploiting the fact that the Italian consumer goods are highly appreciated by the Chinese customers. Indeed, over time, the Italian consumer goods became famous in China because of their quality: a growing number of Chinese became aware that Italy is the world’s biggest producer of wine, food, and well-designed products. The Italian export in this category of goods can be resumed by the so called “4 F’s”: Food, Furniture, Fashion & Fun (Scarpa, 2017).

Other B2C products digitally exchanged to China by the Italian companies are those that satisfy the Chinese demand of consumer goods: as we will see in the next chapter, the Chinese customers tend to the foreign brands articles such as (Deloitte, 2019):

- Childcare, toys and maternal items;
- Cosmetics and apparel;
- Healthcare and cultural-sport items;
- Watches, glasses and jewels

My thesis focuses on the role of the Italian start-ups in China, considering the consumer goods industries only. In order to study this market, applying the digital export model by Osservatori Digitali described in the Chapter 3, I had to select some Italian brands operating in these most demanded industries.

While industrial and capital goods in China are provided by companies of all the sizes (from medium and large companies able to deliver complex machineries and tools necessary for the development of the Chinese manufacturing sector, to the most innovative start-ups, whose innovations are transferred to China due to the cooperation described in the following paragraph), consumer goods are mostly provided by Italian large brands which already have an international experience on other foreign markets.

Italian Small and medium enterprises – SMEs are not actually exploiting all the possibilities in the Chinese market, because of the low digital attitude that characterizes the Italian economy and the low propensity to adapt to the changes in the trends and in the global demand. Just a small share of the Italian SMEs effectively exports to China through the digital channels. In the next chapter I will describe this situation more in details.

Due to this, start-ups seem to be the proper kind of company to conduct my study: being them innovative, born digital and organized internally according to the agile approach, they could be able, overcame the obstacles, to successfully reach the Chinese market with their products. This enterprise segment has, according to my opinion and as demonstrated by the findings of this thesis discussed in the following chapters, the largest potential and forces to drive the Italian digital export market to the level of the other European countries.

My study will consider simultaneously the strategies applied to reach China by 4 Italian start-ups operating in the consumer goods industry only: these companies will be selected, to provide the wider vision possible, including the 4 most important product categories demanded by the Chinese customers:

- Food industry
- Fun industry
- Childcare industry
- Fashion industry
- In the furniture industry, enterprises were mostly SMEs;

A better description of the methodology and the description of how sample was built will be provided in the chapter 5.

In conclusion, the Italian consumer goods market in China is today driven, as said by large and already international companies (Barilla, Gucci, Armani are just few examples). Small and medium enterprises are too rigid and complex to fully exploit the Chinese opportunity, while start-ups seem to be agile enough to sell to China. The grown interest in the Italian consumer goods products and the facilitated access reserved to these companies set the basis for a new era of digital export, in which emerging companies can now look for profits abroad opening to the new markets and expanding their customer base.

CHAPTER 2 – CROSS BORDER E-COMMERCE IN CHINA

2.1 – E-COMMERCE – OVERVIEW

E-commerce refers to the selling of goods and services through digital channels to the final consumer (B2C) or other companies (B2B). When the transaction occurs between two parties located in two different countries and connected through ICTs, we refer to the "Cross Border E-Commerce (CBEC)", one of the main source of profits and the result of decades of development from the common trade.

In 2017, the global ecommerce market (both national e-commerce and CBEC) was valued $3 trillion for the B2C market, and more than $22 trillion for the B2B market. The global sales reached $ 29 trillion in 2019 (UNCTAD, 2019)

Nowadays, about 2 billion people, which is more than a quarter of the world's population, shop online. We are expecting that the next 2 billion people that will join the online commerce will come from the developing countries (Diamandis, 2017).

2.1.1 – Global e-commerce

A study conducted by "Osservatori Digitali" (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018), defined the main general characteristics of the global e-commerce.

In order to benefit from the advantages of the e-commerce, companies need to evaluate the digital propensity of their target countries: the study exploits the so called "IDI index", computed by the International Telecommunication Union (ITU), that simultaneously considers:

- The ease to access to the online channels
- The level of development of the necessary infrastructures
- The extent of the usage of the new technologies by consumers and companies

We can easily observe, from the figure 2.1, that the IDI index is commonly higher for those countries which have a medium-high extent of development, which are the countries that are supposed to be able to guarantee a proper infrastructure to access the online service and thus, to benefit the most from the e-commerce (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018)

The study also identifies the percentage of the population which actually uses internet as a driver of the e-commerce's diffusion worldwide: in 2016, the global average was 45,9%, with countries such as Norway, Denmark or Japan with the highest percentages (almost 100%) while in China, due to the differences within the rural and urban areas and the still existing problem of poverty all around the country, the percentage was just 53%. In the European Union the value was 80%, while in the USA it was 76%.

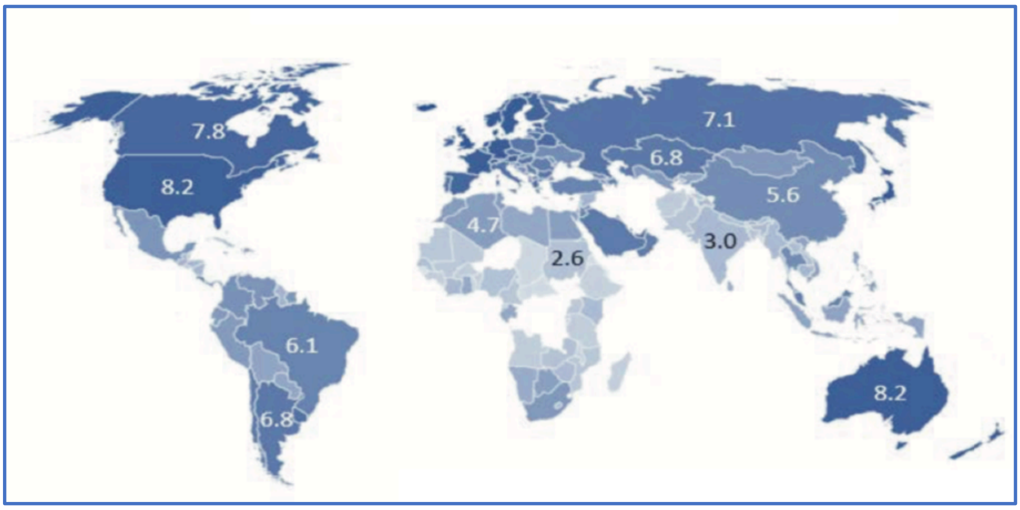


Figure 2.1 - IDI Index (1-9). Source: Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018

Considering the B2C e-commerce only, the ICTs and the ease of access to the necessary infrastructure are not the only drivers of the e-commerce's diffusion: a proper and commonly accepted mean of payment can be crucial to bring people to shop online (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018).

Today, in 2019, Global B2B e-commerce market is valued $ 12.2 trillion, and it is over 6 times that of the B2C market (Statista, 2019).

Despite this huge difference, the B2C e-commerce market grows at a faster pace than the B2B market, due to the gradual diffusion of ICTs in the most populous developing countries (Diamandis, 2017).

Considering the two most important e-commerce markets:

- The USA are the leading country for B2B e-commerce, with a market valued $ 6,07 trillion in 2015, and a B2C market value $ 511 billion (UNCTAD, 2016)
- China is the leading country for B2C e-commerce, with a market valued $ 623 billion in 2015, and a B2B market valued $ 2,07 trillion (UNCTAD, 2016)

A report by Andrew Lipsman for EMarketer, conducted in 2019, allows us to observe how the B2C global e-commerce market is expected to grow in the next 5 years.

From the figure 2.2 we can easily observe that the global B2C e-commerce market will reach a value of $ 6,54 trillion in 2023, acquiring shares and gaining importance over the total B2C commerce (today B2C e-commerce market accounts, on average, the 14,1% of the whole B2C commerce, , considering both online and offline channels, but is expected to grow to 22% by 2023).

The growth rates are expected to be positive for a long time: despite this, the chart highlights an interesting gradual slowdown of Compound Annual Growth Rate – CAGR (Lipsman, 2019).

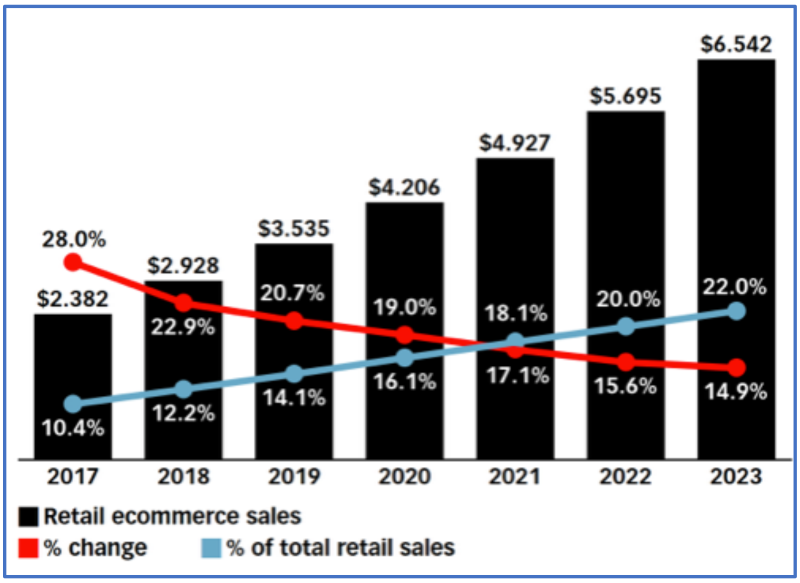


Figure 2.2 - Retail e-commerce sales worldwide, 2019. Source: Lipsman, 2019

2.1.2 – The e-commerce market in Italy

The B2C e-commerce market in Italy is less mature than that of the other developed countries. This happened because of the technological, cultural and legislative barriers that do not put the enterprises and the citizens in the favorable condition to fully benefits from the digital commerce.

Despite this, in 2017, the Italian expenditures on goods purchased online, considering both national and international channels, was € 23,6 billion, exhibiting a growth of 17% from the previous year, as we can observe from the figure 2.3 (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018).

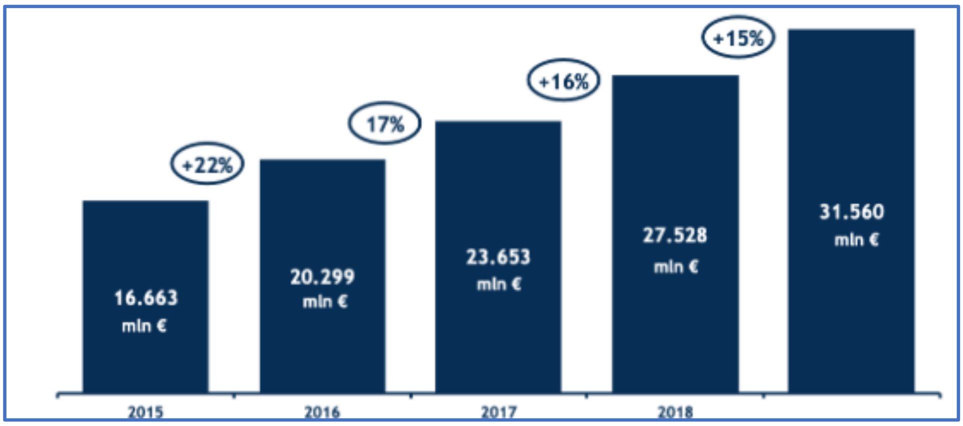


Figure 2.3 - Expenditures by Italian customers on goods and services purchased online. Source: Maconi, 2019

From the figure we can also observe that the Italian e-commerce market keep growing in value.

According to the report by Giuffrida, Mangiaracina, Marvasi and Tajoli, 2018, during 2017, the value of goods purchased online (€ 12,2 billion, the 52% of the whole Italian e-commerce market) surpassed that of services for the first time, growing by 28% from the 2016.

Today, the Italian e-commerce market is valued more than € 31,5 billion, and keep growing at high ACGRs, even if Italy is still behind the most developed markets as China, UK, France and the USA in term of online commerce (Maconi, 2019).

Electronical devices	€ 5 B
Clothes	€ 3,3 B
Furniture	€ 1,7 B
Food & grocery	€ 1,6 B
Other products	€ 6,6 B
Tourism	€ 10,8 B
Other services	€ 2,5 B

Figure 2.4 - Goods purchased online by the Italian customers. Source: Maconi, 2019

From the figure 2.4 we can observe the goods and services mostly purchased online by the Italian customers. According to this classification (Maconi, 2019):

- Goods account for the 57% of all the purchases online: € 18,2 billion;
- Services account for the 43% of all the purchases online: € 13,3 billion;

It is important to highlight that having a predominance of goods in the overall internal sales signal maturity of the digital market. Most mature markets exhibit the good sector absorbing the 70% of the overall online sales. From the data available, it is possible to assume that, being the impact of goods sold online growing, the Italian e-commerce market is evolving toward a more mature phase (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018).

Analyzing and comparing the data available, we can observe that the Italian internal e-commerce market is growing, but the Italian's CAGR compared to that of the other developed countries is not satisfying.

In 2019, just the 44% of the Italian population purchases online (while in the UK it was the 86%) and, most important, just the 10% of all the Italian companies sell their products and services through the digital channels (Maconi, 2019).

This fact reflects the low digital propensity that characterizes the Italian companies, generating a negative effect on export too. Without a proper adoption of the digital technologies, indeed:

- Italian online shoppers will buy the products online from the foreign companies;
- Italian companies will not be able to align their digital cross-border exports to that of other developed countries;

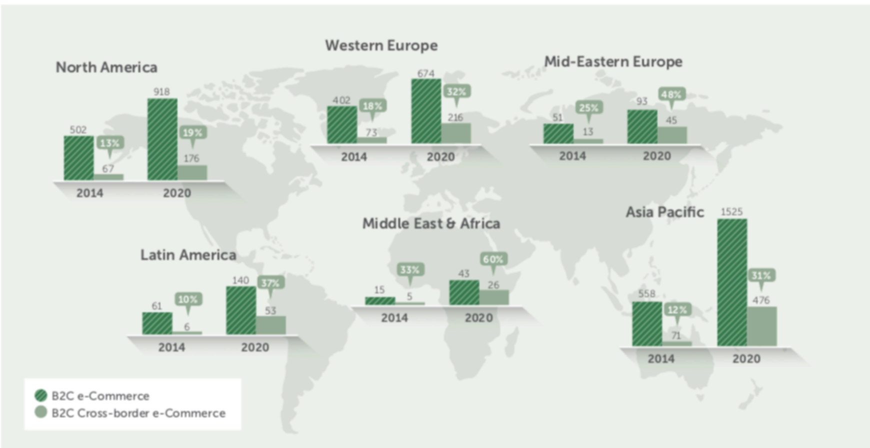
Italy is ranked 25th in the European ranking of the most digitalized countries, and the low propensity in adopting the digital channels bring the Italian SMEs to outsource the whole trade channel to the most famous marketplaces, without creating an owned e-commerce platform (Maconi, 2019).
A deeper analysis of the difficulties that Italian enterprises find in selling through the digital channel will be provided in the next paragraphs.

2.1.3 – The B2C Cross-Border E-Commerce

Let’s introduce the main topic of this thesis: the cross-border e-commerce (CBEC). As described in the previous paragraph, CBEC refers to the selling of goods and services across borders within two countries that exploit the ICTs to complete a transaction.

In 2015, CBEC B2C was valued $ 189 billion, that was the 7% of the overall B2C e-commerce, involving about 380 million consumers worldwide (UNCTAD, 2017 in Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018).

China and the USA are the leading countries in terms of the overall value of the CBEC B2B markets but, considering the percentage of revenues coming from cross border e-commerce (B2C) on the overall national B2C e-commerce market, we can obtain a measure of the openness level to the CBEC of each country: in 2015, China’s revenues from CBEC was the 6% of the overall B2C market, while the USA were lying on the world’s average (7%). Italy was one of the most opened B2C e-commerce markets, with 19% of the e-commerce revenues coming from the CBEC (UNCTAD, 2017 in Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018).



	2014-20 incremental B2C cross-border e-Commerce trade volume (billion dollars)	Contribution of global total incremental trade volume (%)
Asia Pacific	405	53.6%
Western Europe	143	18.9%
North America	109	14.4%
Latin America	47	6.2%
Mid-eastern Europe	32	4.2%
Middle-East and Africa	21	2.7%

Figure 2.5 - Global cross-border B2C e-commerce transaction value US$ Billion. Source: Accenture

From the figure 2.5 we can observe the different contributions of CBEC (B2C) in the main macro areas worldwide, highlighting the growth that B2C e-commerce had from 2014 to the forecasted 2020.

The global cross-border B2C e-commerce market was valued $ 562,1 billion in 2018, and it is expected to reach 4.856,1 billion by 2027, growing at a Compound Annual Growth Rate (CAGR) of 27,4% from 2019 to 2027. The cross-border e-commerce grew exponentially in the last years because (Zion Market Research, 2019).

- The export volume grew thanks to the trade liberalization (such as the Chinese free trade areas and the European free trade agreement).
- Globalization played a key role in the spreading and diffusion of technologies, accelerating the variety and the volume of goods traded across borders.
- The introduction of advanced e-commerce technologies reduced the administration expenditures and the marketing costs, enabling organizations to reach dispersed markets and expanding the online shopping customer base.
- The demand for online cross border goods raised, enhanced by the policies set by the governments to facilitate and stimulate consumption.

It's important to highlight, as I will explain in the next paragraphs, that selling abroad through the CBEC exposes the company to serious risks that must be carefully evaluated. In particular, a SME and start-ups will face challenges and threats that could bring the whole export project to the failure. These are mainly related to the costs and the requirements that today exists in this kind of international expansion: the costs for shipping and logistics, the different exchange rates and the issues about the necessary requirements (law and legal "to dos", payment issues, custom, local culture and requirements influencing the product, the label and the packaging, etc.) heavily obstacle firms from all over the world from selling their goods and services abroad (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018).

2.1.4 – Italian Start-ups and their potential role in the CBEC

In an open and global market, facilitated by the trade liberalization policies and the diffusion of innovative supporting technologies, each country has the possibility to access to foreign market to achieve growth and higher revenues.

In the case of China, a market that is under the world's eye, the possibilities to grow, adopting a proper strategy, are not negligible, because the Chinese online shoppers are growing in number and are gaining interest toward the foreign products and in particular those coming from Italy.

The Italian SMEs are today wasting a huge opportunity in China: in 2017, just the 25,7% of the Italian companies operating online sold to a customer outside the EU area (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018).

In 2017, considering the consumer goods market only that in Italy was value € 144 billion, Italian companies exported through the digital channels just the 6,4% of this good category: most of the Italian online export was made by the fashion products (which was the 66%), the food and groceries (accounting for the 15%) and the furniture (accounting for the 7%).

Online retailers and marketplaces, representing the indirect trade channels, are preferred by the Italian companies over the personal website, processing the 85% of the online sales abroad (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018).
The study of the Italian case tells us that the Italian companies must change something to succeed in China. As shown, the situation in which the Italian companies are in terms of online export toward China is critical. While the whole world is effectively approaching the eastern market, Italian companies are not fully exploiting the technologies and the possibilities that the Chinese market and the whole eco-system built around it have to offer. Evolving toward a more internationalized perspective, applying the digital export's pillars described in the following chapter, is the only way to succeed in the Chinese market, and to align the Italian business performances on that of the other countries.
Analyzing the Italian export strategies, according to a survey by Osservatorio Export of 2015 performed on 110 Italian companies, we obtain the results that are graphically represented in the figure 2.6 (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018):

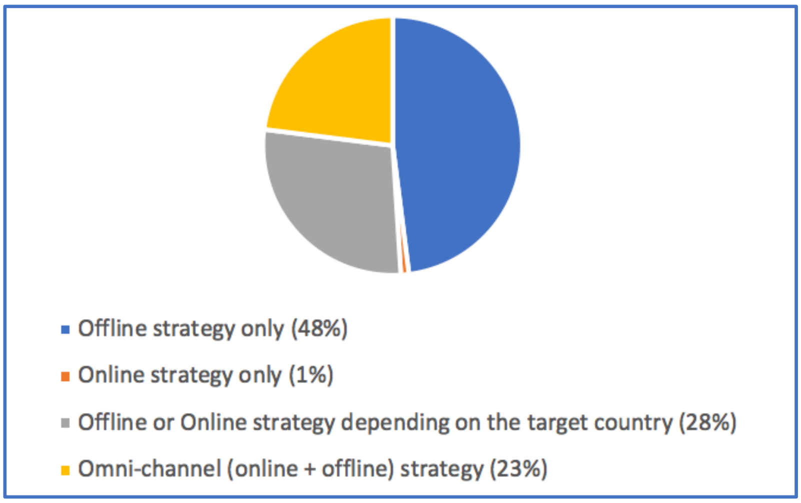


Figure 2.6 - Export strategies of the Italian companies. Source: Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018

From the data, we can observe that almost half of the Italian companies (48%) avoid online channels while exporting to a foreign country while the other companies adapt their strategies depending on the target country, both in an exclusivity approach (online or offline) and in the so called "omni-channel strategy" that is, as I will explain in the following paragraphs, one of the most successful strategies to approach the Chinese market.
The study has been performed considering the Italian SMEs: start-ups are not considered in the analysis. These companies indeed have unique characteristics that differentiate them from the traditional companies:

- A higher digital propensity, that bring them to sell directly through the e-commerce channels. Sometimes the e-commerce channel is the optimal solution for these kinds of companies with limited financial capabilities, because cheaper;
- An agile organization built in the start-up phase and aimed at adapting the company to the dynamic and uncertainty environment in which it operates. This elastic way to internally organize a company made the start-up more reactive on the market in which it operates;
- A born global perspective, which made these companies able to operate in foreign markets since their birth;

Due to these characteristics, start-ups should theoretically find the internationalization abroad and the selling through digital channels easier than other companies.
Despite this, many start-ups, assumed to be the large majority, will not reach foreign markets through the digital channels. The reason behind this choice (the barriers and the obstacles to entry) could be similar to those observed by the traditional SMEs. From the same survey by Osservatorio export, traditional Italian companies tend to avoid the digital export, preferring the domestic market or the traditional offline channels in reaching foreign countries, because of:

- The low digital propensity of the management that does not allow the companies in properly use the available digital trade channels and to spot digital opportunities and threats;
- The inadequacy coming from a wrong organization of the internal resources, that translates in a lack of technical competences in managing the internationalization process;
- The need to partner-up with a local company enabling the access to the local knowledge and services. Finding the right partner is indeed far from easy and sometimes, in case of the niche markets, these can be too expensive;
- The bureaucracy and legal compliance issues;
- The cultural and communication issues;
- The logistics issues, which can be connected to difficulties in managing the logistics for some specific categories of goods, as example food and groceries goods that could be perishable, increasing the costs;
- The payment issues, that I will describe more in detail in the following chapter;
- The large investment required and the uncertain returns from the internationalization process which could expose the company to the financial risk;

In this thesis, I will test the digital export model on start-ups only. These companies are assumed, according to a whole set of characteristics that will be described in the chapter 5, to be the Italian best solution to boost the cross-border e-commerce. In addition, as said in the previous chapter, Italian start-ups have an additional reason why to invest into the Chinese market: the mutual collaboration and cooperation coming from the Belt and Road Initiative between the countries set the basis for a favorable business environment: Italy, its companies and, subsequently, its products are services, are perceived by the Chinese people as high quality products, both for the B2C and the B2C sectors.
This fact should enhance the Italian new and innovative businesses to focus their sales' effort on the Chinese market, to achieve growth, profits and success. While converting the Italian SMEs' structure to a more agile and digital organization is harder, a profitable way to proceed could be demonstrating to start-ups that China represents for them an opportunity that can be approached following a proper and patient strategy, acting on the pillars described by the digital export model.
Testing the model on 4 different cases in 4 strategic sectors, I will look for differences in the strategic decisions taken by the start-ups, analyzing the way in which these companies approached the market, in order to understand if this can be replicated on similar companies. One of the goals of my thesis will be to identify the differences in how these companies use the digital trade channels and how they overcame the obstacles that kept the Italian SMEs out of China.

There is only a thing that Italian companies should keep in mind when they start thinking about the possibility to sell in China. Rodrigo Cipriano Foresio, the Alibaba group's managing director responsible for the south-Europe area, describes the choice to sell in China as tricky, because most of the companies think that, being the Chinese market large (more than 500 million people), the success is guaranteed, but it is not. It is not easy to emerge in a market culturally different and not concentrated as China. In order to succeed companies must be committed and focused: the company must be able to offer to the Chinese shopper exactly what he is asking for, using the means of communication that he is used to. Selling to China is not just opening an online shop on Tmall, and companies must be able to adapt, change and create something unique to differentiate themselves in the wide competition on the Chinese market (Corriere Comunicazioni, 2018).

2.2 - CROSS BORDER E-COMMERCE IN CHINA

I will now describe more specifically the e-commerce in China, that is the central pillar of this master thesis.

Retail sales (both online and offline) in China will grow 3,5% to $ 5,291 trillion in 2019, while retail e-commerce sales will expand 27,3%, reaching $ 1.935 trillion (or 36,6% of the total retail sales). While the CAGR of retail sales is expected to decrease until 2021, the e-commerce retail sales' CAGR will maintain high values of growth (Cheung, eMarketer, 2019).

From the figure 2.7, we can observe that the B2C e-commerce's CAGR measured in the last 4 years is growing at high rates.

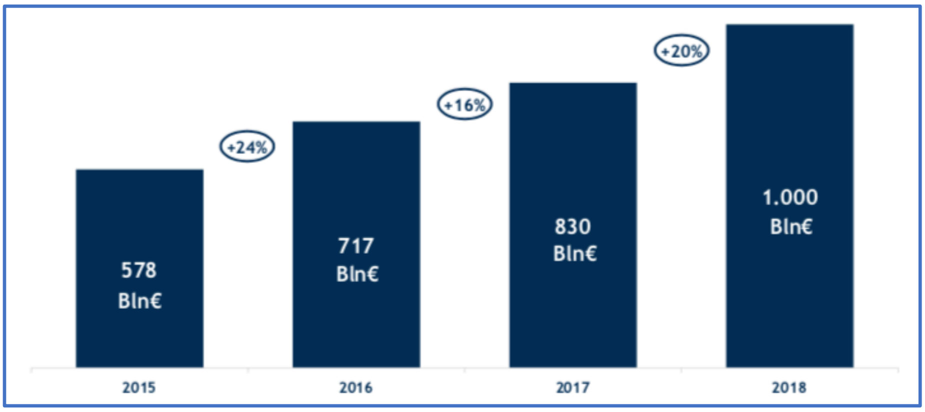


Figure 2.7 - B2C e-commerce in China. Source: Forrester, 2018 in Giuffrida, 2019

The Chinese economy is characterized by positive growth rates, with a household consumption level that grows 8% each year (reflecting the effort put by the government in enhancing the consumption and promoting a balanced economic growth). Despite this, the households' consumption level remains below the 50% of the national PIL (that in 2018 was $18.490 per capite): considering that income is not equally distributed, foreign exporters can count on the fact that, in a given area of the country (the more developed and richer areas), consumers will demand more of high quality products (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018).

In 2015, China became the first online market in the world (while the country is ranked 2nd in the overall retail B2C market), with an overall value of its e-commerce B2C transactions of € 752 billion, which was almost one third of the global B2C e-commerce. In 2017, China's demand for high quality products increased, enhanced by the positive economic boost that affected the country in the last years: import grew 10% compared to 2016 (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018).

China represents an incredible opportunity for companies all around the world: its market, as we will see in the next paragraphs, is tricky and challenging, but it would allow the foreign firms to access to the wider costumer base in the world.

The cross-border e-commerce market in China grew at a compound annual growth rate of 76% between 2015 and 2018, positively boosted by the trade-friendly policies and by the rising demand among Chinese consumers for international goods, as said by Gao Hongbing, vice president at Alibaba (Wang, 2019).

The strategy of opening up the country to foreign trade, united with the strong growing domestic demand (in 2018, final consumption contributed 76,2% to the growth of the national's GDP), brought China's share of global final consumption to expand: this brought the country to become the 2nd largest consumer market in the world, after the USA, and to expect to have more than 200 million consumers of cross-border goods by 2020 (Deloitte, 2019).

In 2019, CBEC accounted for just 2,2% of the total online B2C market: at the actual growth rates and considering a long term perspective, companies worldwide can count on the fact that China will expand the imports from the e-commerce channels within few years: Alibaba group, the leading e-commerce platform in Asia, said it would import $ 200 billion worth of goods by 2023 (Wang, 2019).

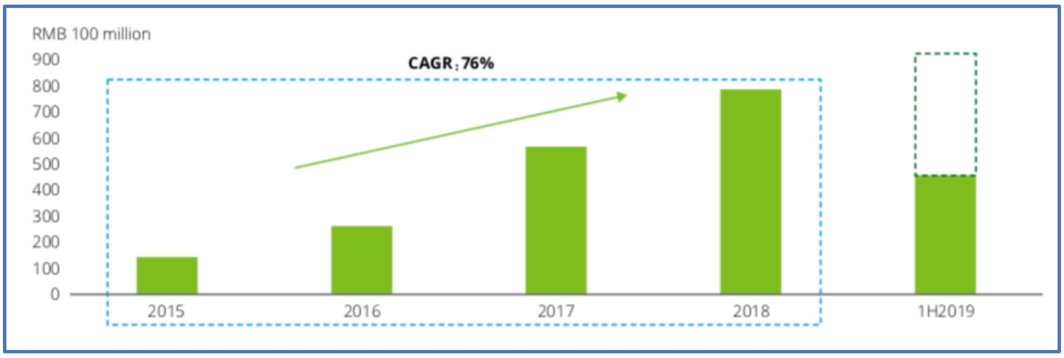


Figure 2.8 - Goods imported into China via CBEC. Source: Deloitte, 2019

From the figure 2.8, we can observe how the volume of goods imported through CBEC is growing at a fast pace, and how the growth is assumed to be continuative for a long time.

2.2.1 – Driver of CBEC's growth in China

According to the report published by Deloitte in 2019, there are some key aspects that boosted the Chinese's CBEC and made China one of the most attractive market for companies and investors:

Shopping trends in favour of the CBEC

Chinese consumers want to shop for quality products from all around the world, looking at quality, design and safety in the purchasing process. The CBEC channel is the only connection within them and the products which are assumed to have these characteristics. Other trends about Chinese consumers will be discussed in the next paragraphs. What is important to keep in mind is that the Chinese consumers are now demanding for high quality, diversified and personalized goods, and the cross-border e-commerce in China is developing at the right time to meet these profitable needs.

Leading products which drive growth

Some categories of products are the most driving force of CBEC's growth: beauty (in 2018, the beauty supplies accounted for 32% of the total GMV on Tmall global), consumer electronics and pet supplies (the faster-growing categories on Tmall global) drove consumptions and strengthen the link between Chinese consumers and the foreign players. Another key force involved in the CBEC's growth is the silver market, a segment made by people aged 60 or more, which demands for specific products or services.

Inclusive spending from less developed areas

The less developed areas of the country (lower-tier cities or rural areas), which account for 74% of the Chinese population and 56% of the total GDP, are now increasing their consumptions and expenditures, starting to shop from the main CBEC channels. This became possible because the government considered private spending as a driver of growth in the less developed areas, and so it decided to set policies in favour of a more inclusive growth, increasing incomes (and thus, consumptions) and providing these areas with the necessary infrastructures to shop from the online channels. The inclusive growth of consumption in favor of the imported goods in these less developed areas, was possible because of three factors:

- Local policies aimed at promoting the rise of incomes;
- Internet-enabling policies to gradually spread the consumption through internet;
- The local promotion and expansion of cross-border e-commerce to increase the consumption possibilities for these areas;

The interventions set by the government increased the overall penetration rate of goods imported through the cross-border e-commerce channels in all the areas of the country, as we can observe from the figure 2.9.

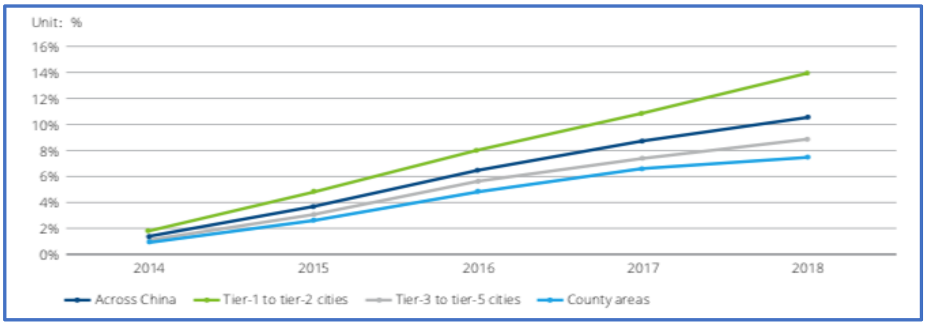


Figure 2.9 - Penetration rate of goods imported through CBEC. Source: Tmall global in Deloitte, 2019

Increased variety due to the easier import processes

Thanks to all the policies to opening-up the country to foreign trade, CBEC became, for all the small companies which want to evaluate their performances and possibilities in China before heavy investing in structural export models, a relatively cheap and safe channel to test the Chinese market. The initial cross-border experience will allow companies to learn from mistakes and successes, to subsequently increase their commitment inside the Chinese's borders. This ease in doing business in China translates into a larger variety (and a higher competition) that meets the consumers' desire of a wide and premium (quality-design-safety) supply. In the last years, the CBEC market in China moved from the exchange of maternal and infant goods to the trade of a complete variety of products and services (multiple segments). Start-ups and smaller companies, for which CBEC is the only access point they have to the Chinese market, can follow a "learn-on-market" approach: through efficient export strategies, flat structures and the exploitation of the digital opportunities (bid data, AI, cloud computing, etc.), even niche brands now have a chance to successfully expand in China. Moreover, overseas brands can now cooperate with CBEC platforms to better meet the Chinese market, exploiting the marketing services or the precious data sold by these, in addition to all the overall logistics services that these platforms are today offering.

2.2.2 – Governmental support to CBEC

The volume of goods imported through CBEC continues to rise as China's favorable policies are promoted (Deloitte, 2019).

In 2017, the Chinese government issued new rules for cross-border e-commerce: for all those overseas goods distributed through "Bonded warehouses", the government would have applied a preferential trade treatment.

> Bonded warehouses are custom-controlled warehouses where goods from overseas countries are stored before the in-country delivery. These buildings can be owned by large firms (in the case of China, Alibaba) or by the government itself. The goods are stored until the custom duties and taxes are paid. Their main advantage, in addition to the safety and the proper storage of any kind of good, is that the payment of duties and taxes are issued to the foreign company only once the goods are ordered and need to be delivered.

The Chinese government supported the international exporters and enhanced the Chinese CBEC avoiding quarantine-quality checks and reducing the normal import duty of products such as food, cosmetics and health supplements (Brennan, 2017).

In 2019, China is working on its consumption policies, trying to both expand imports (the government considers CBEC as a driver of growth), and to make the quotas for foreign goods less restrictive.

According to Deloitte (2019), the country is trying to create the best conditions to spread the CBEC over the country. In 2019:

- China cut general import tariffs from 15,3% (value set in 2001 when the country joined World Trade Organization WTO) to 7,5%;

- The country sharply reduced import taxes on some categories of products (such as automobiles and pharmaceuticals products). The list of goods subjected to this reduction expanded to 1.321 items, with new 63 codes including wine, beer, fitness equipment (etc.) that was added in 2019. All these goods included in the list are highly demanded by the Chinese consumers (Chin, Zhang & Luo, 2018).
- 8000 types of goods are listed in the Duty-free list (goods for which the country will apply zero tariffs);
- China is reducing the categories of goods subjected to import quotas, and it is reducing some tariffs to make the oversea goods more convenient;
- China reduced its overall customs clearance procedures by 56,36%
- China created 22 pilot zones for CBEC: these zones include 37 cities and areas such as Beijing, Chongqing, Guangzhou, Hangzhou, Kunming, Shanghai, Xi'an and others. Hangzhou was the first experimental zone, and its trade volume has risen from 100 million yuan (in 2014) to more than 60 billion yuan in 2017 (China Daily, 2018).

More in deeply, from the 1st of January 2019, the new policies increased the threshold for a single transaction from RMB 2.000 to RMB 5.000, upgrading the annual purchase threshold as well, from RMB 20.000 to RMB 26.000. The new policy allows a transaction valued more than RMB 5.000 to occur, in the case this doesn't exceed the annual transaction threshold: in that case, all the duties (customs duties, import VAT and consumption tax) will be paid in full (Chin, Zhang & Luo, 2018).

CBEC retail imports will be regulated as articles imported for personal use: this category is not subject to the first-time import license, registration requirements and the other duties in term of compliance (Chin, Zhang & Luo, 2018).

In addition, China has signed 18 free trade agreements, and it is still negotiating the sign of 13 other agreements. A map of the existing and ongoing agreements is shown in the figure 2.10 (Deloitte, 2019).

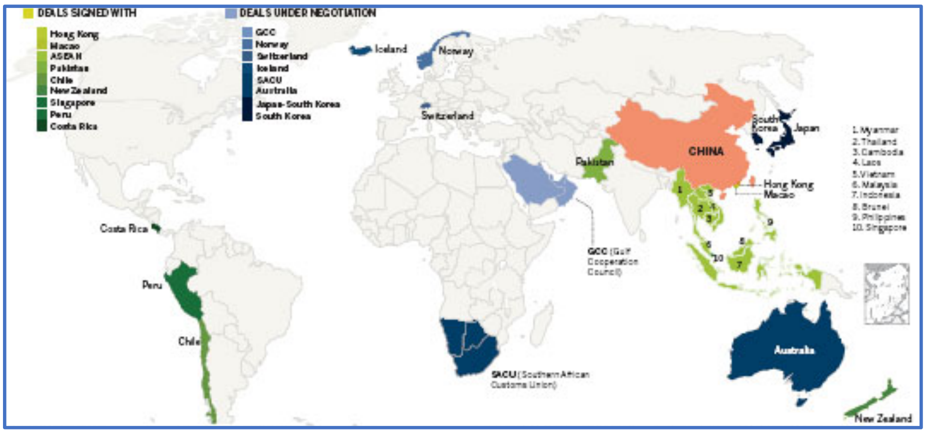


Figure 2.10 - China's trade agreements. Source: China's ministry of commerce in China Daily, 2013

All these policies reflect the effort that the government is putting in boosting CBEC within the Chinese borders and put the foreign firms in a favorable condition to access the Chinese market.

Despite this, China remains a tricky and complex reality, and a challenging destination market. Due to this, start-ups and smaller firms find it difficult in emerging and survive in the long time. A proper business model is necessary to succeeding, and a deep knowledge of the peculiarities of this market is essential to survive on the market. Both of these 2 pillars of this thesis, the Chinese market and the proper business model (digital export), will be discussed in the next paragraphs.

2.3 – THE CHINESE MARKET

China is a must-play market for retailers and brands globally: the gradual development of the CBEC allowed brands to enter into the Chinese market in a quicker and easier way than the traditional offline channels.

The Chinese market is characterised by high rates of growth, that make the country the most interesting destination for overseas companies that are evaluating to expand their markets in China. As we can observe from the figure 2.11, today China is the first country for e-commerce penetration over the overall retail sales.

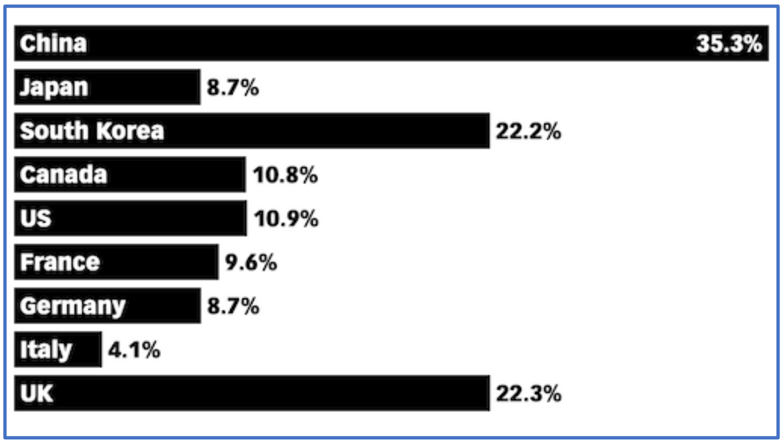


Figure 2.11 - Retail e-commerce sales penetration. Source: Lipsman, 2019

In this paragraph I will describe all the features about the Chinese market that are essential to understand and to apply the digital export model discussed in the paragraph 2.4.

The Italian enterprises, as we described in the previous paragraph, are the worst performers because traditional companies are not familiar with the usage of the global digital channels. The companies which decide to adopt the e-commerce to reach the more dispersed customers and to boost sales are not facilitated by the Italian government, and the obstacles that they have to overcome are not negligible. The Italian e-commerce market is now moving to a more mature phase.

2.3.1 – Drivers of growth for the B2C e-commerce Chinese market

The most important feature about the Chinese market is the incredible growth the country is experiencing, considering the sale of goods and services through e-commerce channels.

In the case of China, the growth drives profits, and the expected growth is a driver for future revenues for companies worldwide.

Chinese e-commerce market, according to a survey from PWC (Birtwhistle, 2017). is driven by:

- **Mobile-first consumers behaviour**: international brands must know that the Chinese shopper tend to spend on mobile channel most of its time and money. Smartphone is today the main selling channel in China, and nowadays brands are trying to bring the remaining non-digitalised consumers into the online market, exploiting the smartphone as a tool to facilitate commerce (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018);
- **Innovative social commerce model**: international brands must be familiar with the most locally used social networks and their dynamics, and they must be able to build an effective commerce strategy above them;
- **Trusted digital payment system**: a really critical factor to succeed is related to the safety in the payment system. In order to bring the Chinese consumer at shopping online in our online store we, an international brand, must be able to provide a known and trusted payment system;

Considering the growth that characterised the market in the last 15 years, the drivers of growth are (Sovereign Group, 2016):

- **Demand-side maturity**: the aged population, that is still growing, spend a large share of their disposable income on online purchases (18%-27%);
- **Technology infrastructure development**: a wide number of online shoppers in China (which are almost half of the Chinese population) can count on innovative and adequate technologies that made online shopping easier and accessible to all, in different areas of the country;
- **Development of the supporting services and infrastructure:** logistics and warehousing services have expanded rapidly in the last years, and the popular online payment companies (as Alipay) standardised and made the online payments easier and safer for all;

In 2017, the Chinese consumers spent more than $ 750 billion online, which was more than what the UK and the USA did combined together (Williams, 2019).

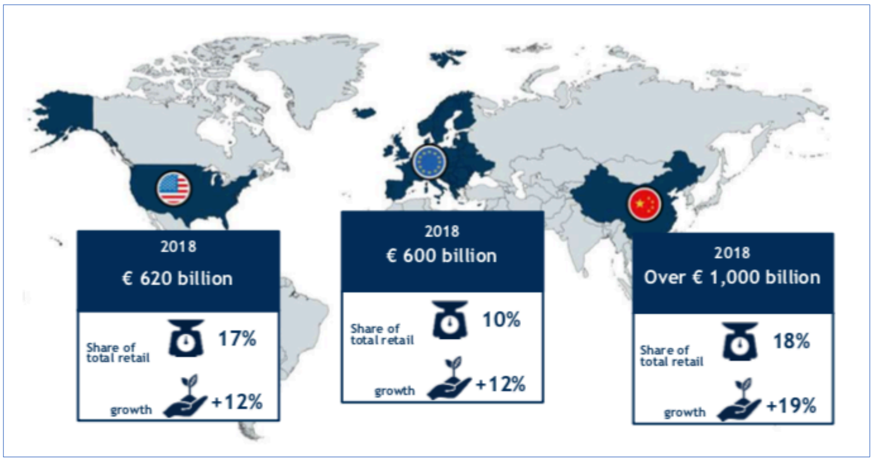


Figure 2.12 - Biggest B2C e-commerce markets in the world. Source: Forrester, 2018 in Giuffrida, 2019

From the image above we can observe that the Chinese market is the first B2C e-commerce market in the world, considering:

- Absolute value of the overall e-commerce market (€ 1.000 billion)
- Share of B2C e-commerce over the overall retail market (18%)
- CAGR (19%)

From the survey by PWC discussed in this paragraph, we can guess the main reason why the Italian traditional SMEs are not performing as expected in China.

Being the Chinese e-commerce market guided by three different drivers related to the digital evolution (mobile commerce, social media and digital payment systems), the traditional Italian companies are not ready to match these drivers to succeed in the Chinese market. Without a proper digital strategy, even the largest investment in the Chinese market can bring the company to fail. That is why start-ups, studied in this thesis, could be supposed to perform better than larger and richer companies, that are less digitalized. The integration between social media, smartphone commerce and digital payment system will be discussed with the managers of the interviewed start-ups, to put in evidence that these companies have more possibilities, adopting the proper strategy (coming from the digital export model) to succeed in the Chinese market than the traditional and less digitalized SMEs.

2.3.2 – The role of the marketplaces in the e-shopping

China's e-commerce market is not leaded by stand-alone websites, as in any other country in the world, but it is dominated by marketplaces, which are platforms that facilitate the transaction listing products and offering supporting services as marketing, logistics and order management.

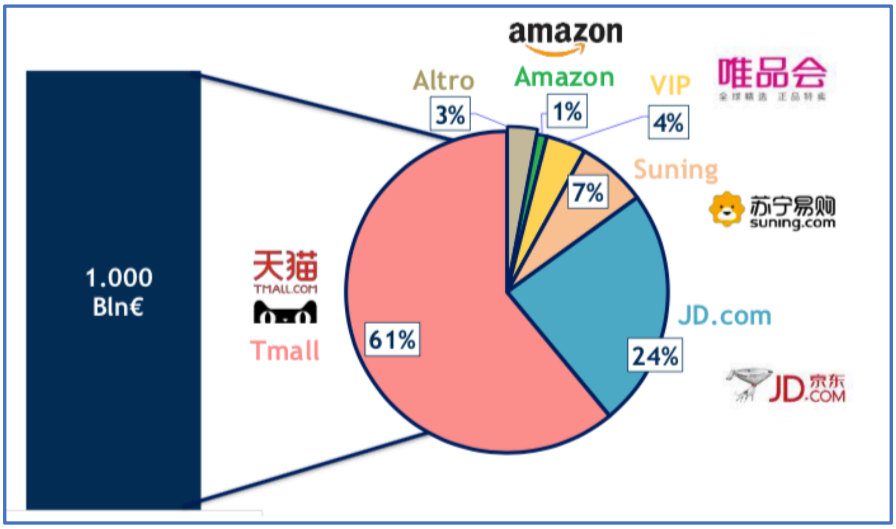


Figure 2.13 - Marketplaces - B2C e-commerce market shares. Source: Forrester, 2018 in Giuffrida, 2019

While in Europe and in the USA the main marketplace is the American company Amazon, in China the situation is quite different: the country is closed versus the western colossus created by Jeff Bezos, and the market is divided by the Alibaba's controlled company, **Tmall**, and the rival **JD**, which owns respectively the 61% and the 24% of the overall B2C e-commerce market in China (as we can observe in the figure 2.13). The western company, Amazon, is one of the worst performing company, with a market share of just 1%. As we can notice, the Chinese e-commerce market is highly concentrated, having two companies (Tmall from Alibaba and JD) owning 85% of the whole market.

Considering the cross-border e-commerce versus China that, in 2018, was the 10,2% of the overall Chinese e-commerce (Giuffrida, 2019), the market is dominated, as we can observe from the figure 2.14, by Kaola.com and Tmall Global, followed by JD Worldwide and Vip.com.

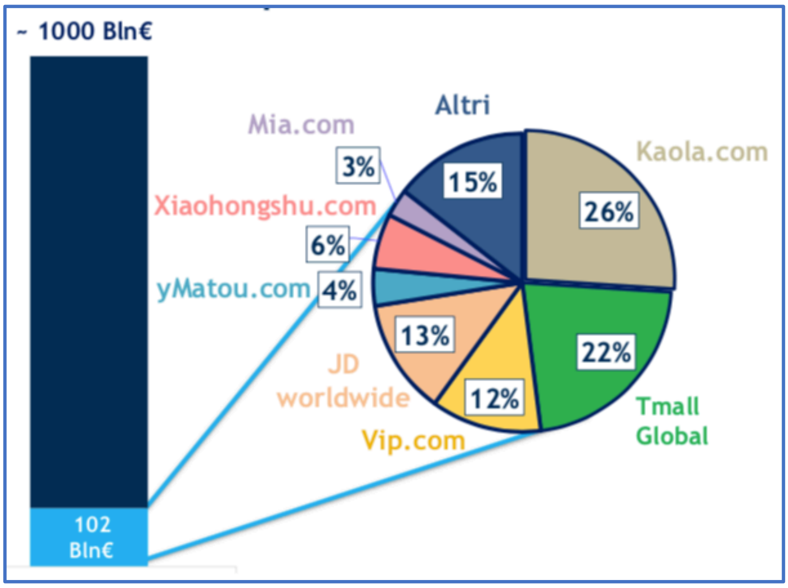


Figure 2.14 - CBEC marketplaces - Market shares. Source: iMedia Research and Fung Business Intelligence, 2018 in Giuffrida, 2019

In 2019, Kaola.com was purchased by Alibaba Group from the Chinese holding NetEase. The $ 2 billion worth deal will create the largest CBEC platform of the market, with a total share of 48%, integrating Kaola.com into Tmall Global structure (Shu, 2019).

The marketplaces shown in the figure 2.14 are actually the most common solution that foreign companies have to easily access the Chinese market.

In the Italian case, all the platform owned by the Alibaba's group (Tmall Global, Kaola.com and other niche market platforms) shown a growing interest versus the Italian products and, leveraging on the Chinese demand of goods coming from the Italian brands, Alibaba's CEO Jack Ma signed an agreement with the Italian government in order to facilitate the access of the Italian companies to the Chinese market through a dedicated channel with exclusive supporting services. This topic has been already discussed in the chapter 1.

Marketplaces as JD, Tmall but also Tencent's company WeChat, absorb the largest majority of the Chinese online shoppers, because:

- They are trusted companies, a necessary characteristic that the Chinese people look for;

- They offer an intuitive and social media/content-integrated shopping experience, guaranteeing a safe and recognized shopping process;

In 2017, the Italian companies operating in China through the digital channel increased their interest among these marketplaces (Il Sole 24 Ore, 2018):

- The 57% of the Italian based companies operating in China sold through at least a marketplace;
- This share grew of 16% considering the 2016, highlighting a growing interest by the Italian companies in these platforms;

I will now describe more in details the two dominating platforms, which are also the two most common solutions adopted by the Italian brands:

Tmall Global

Launched in 2014 and totally controlled by Alibaba group, Tmall global is a cross-border B2C platform that hosts stores of official brands (called flagship stores) from all around the world. Tmall was born to base the whole shopping experience on the new shopping trend that was gaining importance over the audience: the authenticity of the goods sold. The platform tries to solve the authenticity issue associated by the audience to the other Alibaba's platform (C2C), that was Taobao.

Tmall global allows international brands to open an online official store in China, offering an easy and convenient way to enter into the Chinese market without establishing a physical and legal entity in the country. Today the platform hosts more than 20.000 brands in over 4.000 categories from 77 different countries (Hsu, 2019).

The strength of Tmall is the direct link within the platform and the giant holding Alibaba group, which provides the platform with the resources to offer worldwide companies the necessary services, and the infrastructures to operate in China at their best. The advantages for a non-Chinese brand of selling through Tmall global are:

- Alibaba owns and manage different **bonded warehouses** located in the so called "free-trade zones". This allows Tmall Global to store inventories of the international brands and to let them benefits from taxation & tariffs' advantages. The bonded warehouse model will be discussed more in detail in the next paragraphs.
- Tmall global can provide the brands with **report and statistics**, to help them in the development of a proper commercial strategy. In addition, the platform can provide consultancy services to support companies in the whole e-commerce process.
- Alibaba Group applied, on every platform that it controls (Taobao, Tmall, Tmall Global, Kaola.com, etc.), the in-house developed payment system known as **Alipay** (which allows companies to process payments in different currencies), that perfectly meets the needs of foreign brands to have an accepted (by the customer base) and safe way to collect payments from buyers in their cross-border transactions.
- Tmall Global allows each foreign brands that open a flagship store to retain control over its own brand identity: the design of the shop, the communication and marketing strategy, the operations managements and the choices about

logistics, can be set and created by the foreign brand, to let them concretizing the desired branding strategy that the company want to pursuit.

- Tmall Global provides some tools to help companies in creating the desired brand awareness through local social networks or opinion leaders.

One of the big advantages of selling through Tmall Global instead that through its competitors is the effectiveness in reaching buyers located in lower-tier cities. The figure 2.15 describes how CBEC's purchases by Chinese's inhabitants from different areas of the country have grown in the last 5 years.

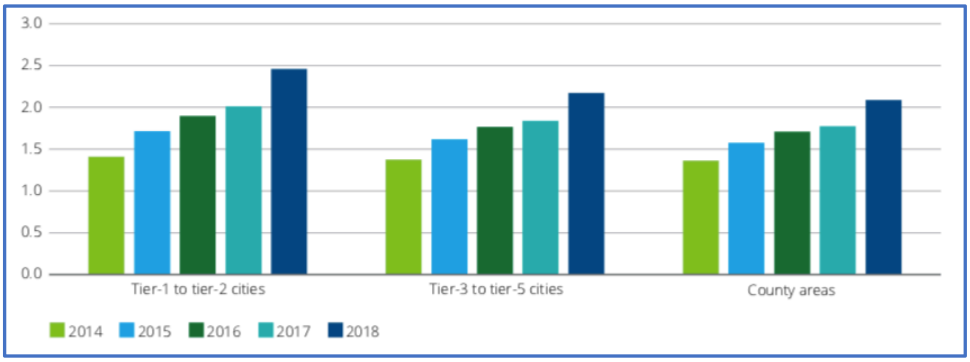


Figure 2.15 - Shopping frequency (times per year) for goods imported through CBEC. Source: Tmall Global in Deloitte, 2019

This is a profitable opportunity: McKinsey, in a survey conducted in 2016, highlighted that the lower-tier cities and the rural areas are home to 257 million online shoppers, compared with 183 million in the higher-tier cities (Perez, 2016).

E-commerce represents the solution found by the Chinese government to boost private consumptions in less developed areas to achieve economic growth and to lower national inequalities. Alibaba Group (but also JD.com) supports the government in its intents, providing and building networks, channels and infrastructures to expand its business in these areas. On the other hand, the government can count on an effective way to make these areas rise through the digital commerce, both CBEC and national e-commerce.

JD Worldwide

JD Worldwide was launched by JD.com to compete against Alibaba's Tmall Global on the cross-border e-commerce marketplace's market. Differently from its direct competitor, JD Worldwide (JDW) directly buys from foreign brands the goods, to re-sell them through its own and dedicated channels and network, applying a mark-up.

JDW, in fact, acts as a reseller (wholesaler): this is the main difference between JDW and Tmall Global. The company also allows foreign brands to open an online store on the platform, in exchange of a commission on sales. This part of the value proposition is quite similar to that of Tmall Global.

JDW is recognized by its audience to be a premium seller of high quality and authentic products. This happened because Alibaba Group's, Taobao (a C2C platform), was criticized to list and sell fake and not reliable products.

Tmall Global (considering Kaola.com as a company integrated within Tmall Global' business model) and JDW are the 2 key players on the CBEC market. Alibaba Group owns almost half of the shares of the market, and its platform is the leading company that set the pace to the whole ecosystem.

These 2 companies are the two main channels that a foreign brand (as an Italian start-up) has in order to reach China with its products. Marketplaces are channel that allows foreign brands to avoid setting up costly and complex organisations subjected to heavy requirements in terms of taxes and custom duties.

I will describe the different channels (marketplaces vs physical presence) that a foreign brand can exploit to reach China in the following paragraphs.

Basically, both platforms require that:

- Products must be authentic: brands must be able to certify their rights on the goods they are selling;
- Description, labelling and marketing must be totally adapted to the Chinese language;
- An effective return system must be provided (or allowed by a service provider) to respect marketplaces' standards of 72 hours, and a Chinese customer service should be created or outsourced;

There are some other differences that I want to highlight to then discuss about them in the interview phase of this thesis:

- The logistic networks;
- The role of the platform's strategic partners;
- The costs of selling through these marketplaces;

As we saw, the two marketplaces, JD Worldwide and Tmall Global, differ on some few characteristics. Basically, Tmall Global creates its own supply aggregating the brands' online stores opened on the platform, while JDW mainly acts as a giant wholesaler which buys, stores, re-sells and delivers the products.

In doing so, JDW manages its own **logistics network** (made of automated central warehouses, local transit points and last mile delivery networks), directly exploiting it or outsourcing it to the foreign companies;

A brand that opens an online shop on JDW can choose to outsource all (or some of) the logistics activities – warehousing, delivery, return system, customer service - or other connected activities – payment processing, post-sale assistance - to JDW, or perform them individually (or through other service providers, that will be described in the following paragraphs). JD.com's logistic network and its geographical coverage is shown in the figure 2.16.

Tmall Global has a totally different approach on logistics, relying on third parties service providers. Despite this, in the last years, the company is investing lot of financial resources in the development of an owned network as that of JD.

While JDW stores the imported goods in their owned warehouses to then deliver them through its internal distribution network (exploiting the advantages of having an internal complementary logistics network against its main competitor Tmall), Tmall Global relies on public bounded warehouses located in the so called Free Trade Areas (FTAs) of the country, to then ship the goods through its partners' networks (China Briefing, 2015).

Figure 2.16 - JD.com China nationwide logistic network. Source: TMO Group, 2018

This approach on logistics allows Tmall Global to focus its resources on the development of the related infrastructures, supporting the less developed areas (rural areas and lower-tier cities) and guaranteeing itself a leading and exclusivity position for a more geographical comprehensive commerce. In addition, a third-party service provider can be an expert on different categories of goods or on different regions, ensuring Tmall Global to offer international brands the best service possible.

Considering the **strategic partnerships** involving these two marketplaces, the most strategic partners in the e-commerce industry is TenCent.

JD worldwide acquired popularity over the Chinese audience and international brands because:

- It was associated to high quality and authentic products;
- It owns the most advanced fulfillment infrastructure allowing same day delivery;
- It signed a partnership with the Chinese internet giant Tencent (2013);

Tencent is a Chinese holding which controls popular messaging companies as WeChat or QQ, providers of online payment systems and other online service providers (cloud storage, etc.). The group is a direct competitor of Alibaba group, and decided to support JD's business to indirectly obstacle Alibaba.

The two Chinese companies decided to merge their data to boost the effectiveness of the marketing consultancy offered by JD and JDW to all the national and international brands, optimizing the whole targeting process (Marketing to China, 2019).

The strength of the partnership between JD and Tencent is enhanced by the importance that the messaging companies WeChat is acquiring in the commerce market: selling through WeChat permits to access 900 million customers in China (Digichezf.com).

WeChat is a social media platform that enables its users to socially interact through messaging and the other social media practices. The platform also integrates a well-studied e-commerce function, supporting marketing and payment functions: WeChat became an essential tool for brands which want to build an effective brand awareness in China.

The process to start selling through WeChat is the following (Digichezf.com):

- The brand opens an official account on WeChat;
- The account is linked to the brand's official store, that can be designed by the brand itself to respect its brand identity (as on Tmall and Tmall Global);
- Payment terms and systems are set, and then the store can start to exploit all the platform's functionalities (blog, social sharing, messaging, streaming, key opinion leaders etc.) to start its e-commerce campaign;

Alibaba, on the other hand, is involved in the cooperation process between the Chinese and the Italian government, facilitating the access by Italian large brands, SMEs and start-ups in the Chinese market, as described in the first chapter of this thesis.

Considering the **costs for selling**, according to the thesis by Chiericozzi (2016), both platforms (Tmall Global and JD Worldwide) require a deposit (respectively, \$25.000 and \$15.000) and apply an annual service fee to brands for using their services (it goes from \$5.000 to \$10.000 for Tmall Global, while it is just \$ 1.000 for JDW). In addition to these "fixed costs", both platforms apply different transaction fees:

- Tmall Global requires, depending on the product category, a fee that goes from 0,5% to 5% of the sum between the price of the good sold and the logistic cost;
- JD Worldwide requires, depending on the product category, a percentage that goes from 1% to 5%. The commission will be higher if the brand should decide to exploit the company's logistic network

Nowadays, despite the more advantaged condition in which JD and JDW operate, the e-commerce and the cross-border e-commerce market are both dominated by Alibaba Group, which remains the leading Chinese company on the e-commerce market.

For an international brand or an Italian start-, it is important to remember that there are no competitive restrictions in choosing Tmall Global instead that JD Worldwide, or vice versa: a brand can decide to sell through both platforms at the same time, to exploit the unique advantages that characterise them. The choice is on the brand's hands, keeping in mind that the costs for opening a store and start selling through these marketplaces are not negligible.

2.3.3 – The Chinese customer

One of the critical aspects in selling goods and services in China is the importance of meeting the Chinese customers' needs.

The Chinese market, that is the biggest national e-commerce market in the world, still grows at a CAGR of more than 10%, as we can observe from the figure 2.17.

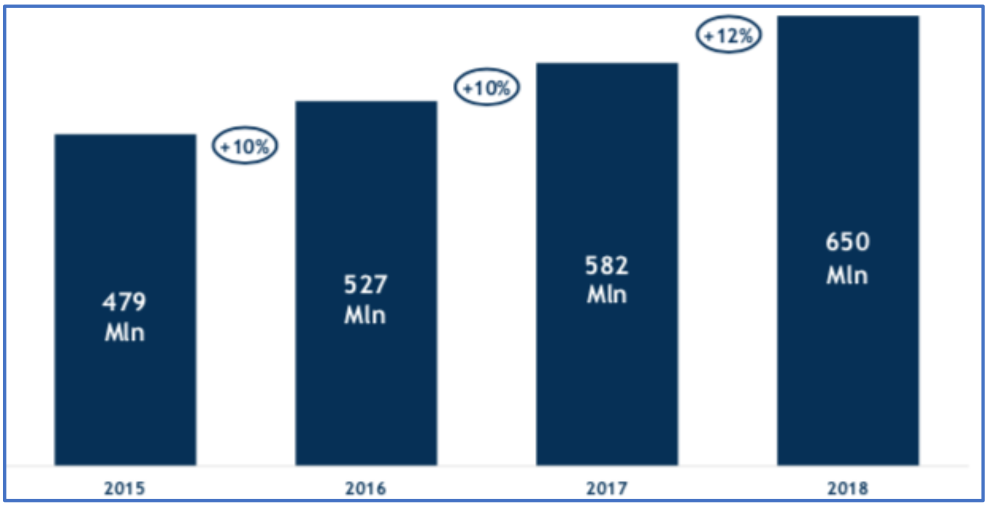


Figure 2.17 - Number of Chinese web shopper. Source: Statista, 2018 in Giuffrida, 2019

Despite this, the penetration rate is only about 47%, leaving significant room for growth in the following years (Sovereign Group, 2016).

This unique trend is what brings foreign companies to focus on China to expand their revenue stream, but targeting the Chinese audience is far from easy, and requires the companies to develop a deep and local-based knowledge or, at least, outsource the communication and marketing activities to a third-party service provider. Both the solutions are costly, especially for a company as a start-up, but are necessary to achieve a successful strategy in China.

The complexity of the Chinese market come from the different preferences and the habits that the Chinese shopper has differently from the western shoppers, and the different dynamics that established over time locally, as example the integration within the online-to-offline and the importance of social media in the shopping process.

In this paragraph I will try to define the common characteristics of the Chinese shoppers and the related processes that are today necessary to successfully operate in China through the CBEC. I will perform a macro-segmentation of the Chinese market

From 2008 to 2014, urban disposable incomes have doubled, while rural disposable incomes have more than doubled (Sovereign Group, 2016).

Most of the wealth in China is concentrated along the coastal areas and in the higher-tier cities, where online shoppers tend to buy more goods through online channels. Despite this, the gradual improvements and the access to the online markets for the less developed areas of the country boosted the private expenses: online-shoppers from lower-tier cities now spend a higher percentage of their income on online shopping (Sovereign Group, 2016).

We can observe, from the figure 2.18, that lower-tier cities are essential to fully benefit from the wide customer base of China: foreign brands should not only focus on most popular cities and areas, but they should be able to focus their efforts on the whole country, facilitated by the infrastructures and the channels set by the government and the local e-commerce giants Alibaba.

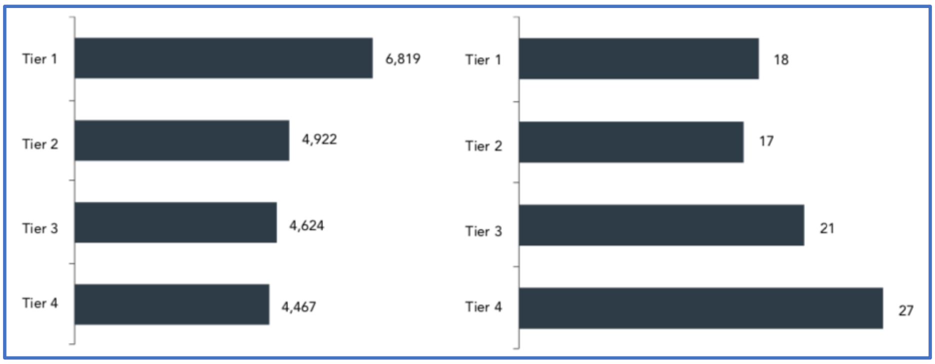


Figure 2.18 - Online consumption per online shopper RMB (on the left) & % of disposable income spent on online shopping (on the right). Source: Sovereign Group, 2016

Another evidence about the importance of the customers coming from lower-tier cities can be observed from the figure 2.19.

The image shows us the RMBs spent on imported goods per capita by different customers coming from different tier cities, highlighting the growth and the similarities in volumes among different areas.

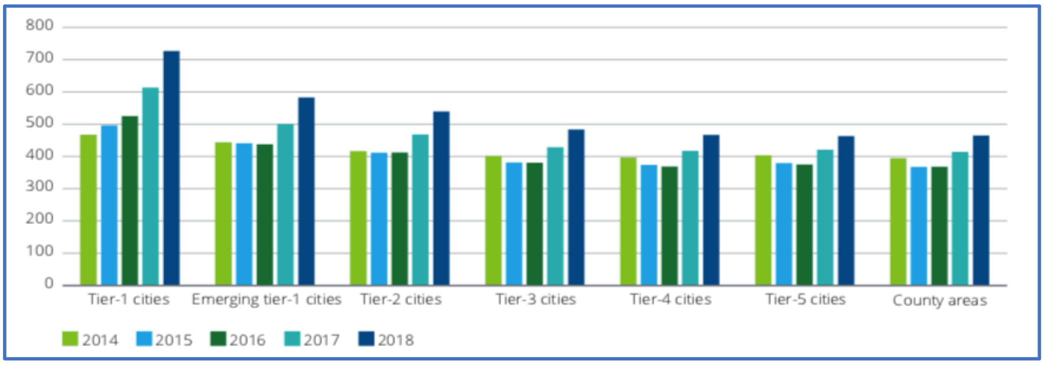


Figure 2.19 - Per capita spending on imported goods through CBEC. Source: Tmall Global in Deloitte, 2019

Generally, in cities at every level, per capita expenditure and purchase frequency of imported goods through CBEC have maintained high growth rates (Deloitte, 2019).

Due to this, we will try to segment the Chinese population according to three main characteristics: the income, the age and the gender, whatever the area in which the cluster considered lives, keeping in mind that a different city tier is made of people with needs that could be different from that of most developed areas (and considering that marketplaces, especially Tmall Global, already provides support to physically reach these markets).

An interesting segmenting approach that considers income distribution among different classes is that created by McKinsey in 2012.

The forecast represented in the figure 2.20 divides the Chinese population in 4 different clusters, according to their income level, highlighting the shifts in income distribution that will occur by 2020: what is clear from the image is that China is subjected to a general enrichment (Atsmon, & Magni, 2012):

- The poorer population (Poor cluster) will be reduced, also thanks to all the interventions set by the government to fight poverty;
- The cluster of population that was considered the average wealthy people in 2010 (Value cluster) will be reduced, in favor of an overall enrichment;
- The two most spending clusters will rise: the most interesting cluster for foreign brands is the so called “Mainstream cluster”, which is predicted to be more than half of the Chinese population by 2020. The upper cluster (Affluent cluster) will rise as well;

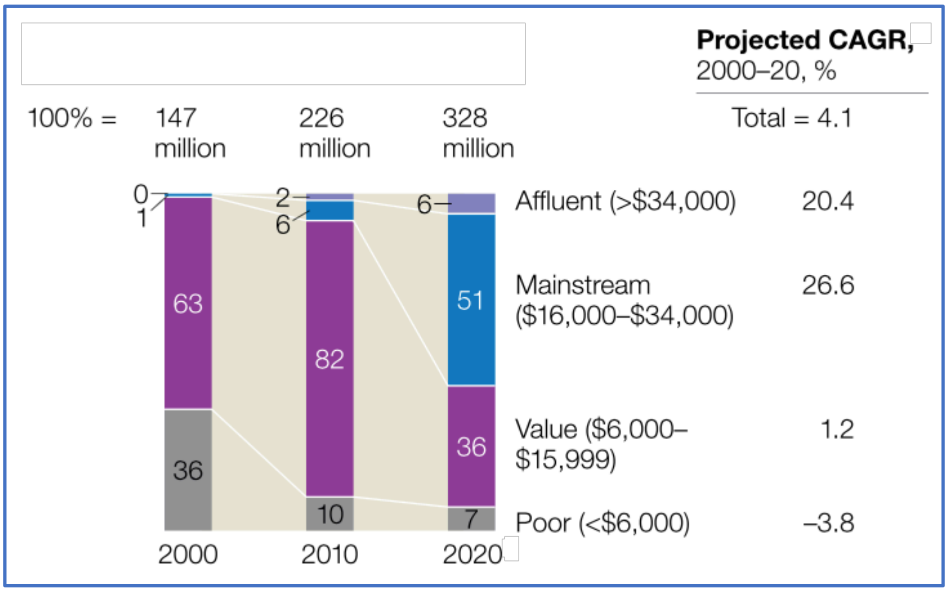


Figure 2.20 - Annual households' income. Source: Atsmon & Magni, 2012

Having more affordable goods for a larger share of people, due to the income rise and its re-distribution, will make the trade of some categories of goods (that we will see in the next paragraph) to grow.

This income’s rise and re-distribution has effects on the Italian companies too: the reduction in poverty raised the disposable income and thus the share that the people living in the less developed area destinate to the private consumption. Being e-commerce, and the CBEC, tools used by the Chinese government to increase these spending to achieve economic growth, as described in the first chapter, the general enrichment of the Chinese population shifted the demand to the foreign consumption goods, recognized to be those with the highest quality, in particular in those coming from Italy: goods coming from Italy, indeed, are subjected to the so called Country Of Origin (COO) effect, that make the Chinese people associating to the Italian product some characteristics that Italy signals worldwide, as the quality, style and the premium design.

For this reason, the local demand for the Italian products, which are usually priced higher than domestic products (due to the higher costs of production and costs to export) grew, and this growth can be associated to the overall enrichment of the Chinese population:

- The mainstream class, which represents more than a half of the Chinese population (the 51%) is the driving force of the Italian CBEC in China: these people, whose majority live in first tiers cities, demand for all the Italian goods, looking for quality, design and safety of the product itself. This class shops from both large and small brands, demonstrating that the potential market in China is large enough to justify, with a proper and studied strategy, a digital export model even by an Italian start-up;

- The value class is the driving category for the Italian smaller brands (and start-up) selling to China: their share of income destinated to the private consumption is high enough to make the need to buy foreign products relevant, but not to sustain heavy expensed in highly expensive large Italian brands as Gucci or Armani. Due to this, the largest majority of the smaller Italian brands and start-ups selling to China will be selling their products to this customer category. These people mostly live in second and third tiers cities that, as we saw from the figure 2.18, destinate a larger share of income to their expenses,
- The affluent class could be considered as not relevant for this thesis: the richer customer category (coming from the first-tier cities) will just buy high quality products from largest and most globally famous brands: the smaller Italian companies will find it difficult in reaching this cluster, because the marketing investment to appear as large as the other world leading Italian brand is enormous, and cannot be sustained by start-ups.
- The poor class is that share of people living in the poorer areas of the country (rural and lower tiers cities). For this reason, these people will not be considered as a target cluster in this thesis: their private consumption share is sometimes not enough to even justify their primary needs.

In conclusion, considering the goal of this thesis (Italian start-ups), the target clusters that potentially all the interviewed companies will reach are the mainstream and the value class, accounting for almost the 87% of the Chinese population. It will be interesting in finding how the interviewed start-ups approach, in the marketing and communication pillar (see chapter 3), different clusters based on income.

Making another step ahead in the segmentation of the Chinese population, considering the age and the gender as other factors useful for our demographic segmentation, from the figure 2.21 we can observe that the Chinese population can be considered gender-balanced (51,7% are males, while 48,3% are females) with 3 main clusters based on age:

- **Younger consumer group**: people of 30-years-old or below, which are the 36,6% of the Chinese population;
- **Adult consumer group:** people from 30-years-old to 59 years old, which are the 46,6% of the Chinese population;
- **Senior consumer group**: people aged more than 60, which are the 16,8% of the Chinese population;

Male shoppers generally purchase electronic products while female shoppers tend to purchase apparel, cosmetics and maternity products (Sovereign Group, 2016).

Considering the research carried out by Deloitte in 2019, there are some interesting findings about these demographic conditions:

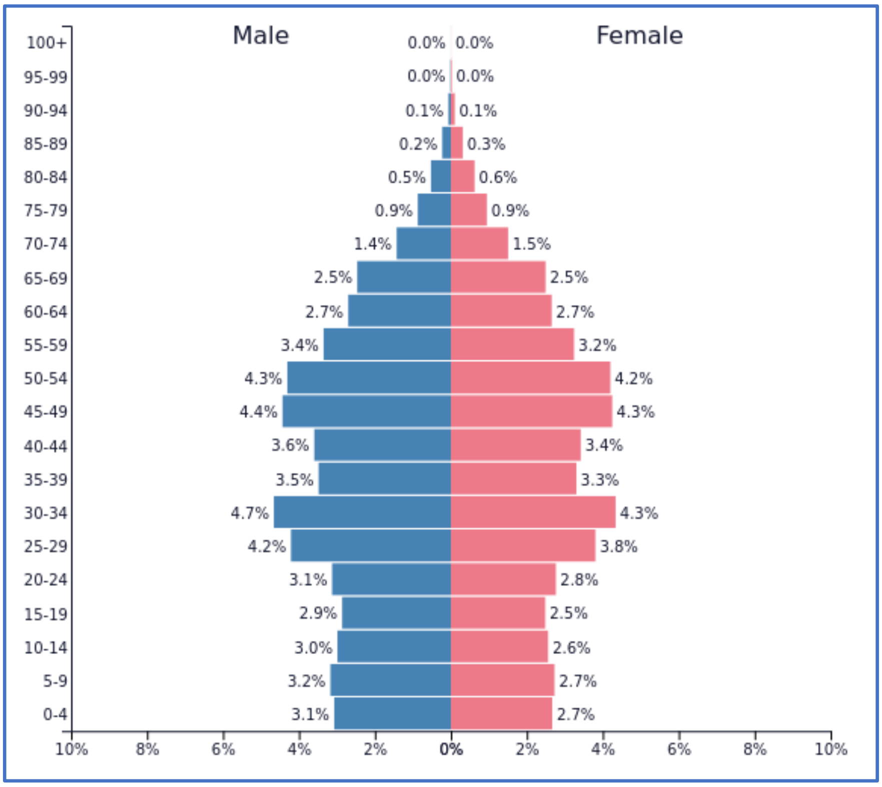


Figure 2.21 - Pyramid of the Chinese population. Source: Population Pyramid, 2019

Younger consumer group is the main driver of imported goods consumption: from 2014 to 2018, the annual payments for goods purchased through the CBEC increased from 13,6% to 44,1%, due to the enrichment of the population discussed in this paragraph. The rise in the purchase power of these people, united with the confidence of the younger generations in favor of the digital channels, ensure to foreign brands that the growth of imported goods consumptions in China will be constant and positive for a long time. The Italian start-ups and traditional SMEs are aware about the role of "Millennials" in the purchase of the Italian products; indeed, they require a social and content-integrated purchasing process. Their shopping from Italy involves the Italian fashion and food products, but also trips, following cluster-specific dynamics;

Female consumers lead the imported goods consumption trend: since 2014, women consumption of imported goods grew to 73% in 2018 (as observable from the figure 2.22). Female shoppers (especially those included in the Adult consumer group, and those which lives in county areas of the country) have become the major force in imported goods consumption in China. This cluster focuses its shopping budget on the Italian products as cosmetics and infant care, both from large and small brands.

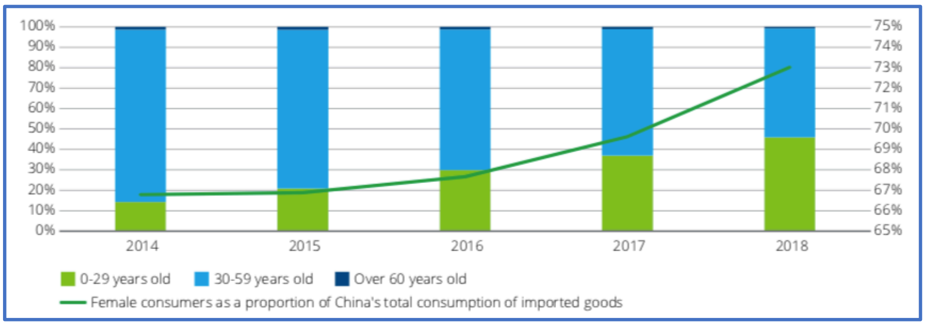


Figure 2.22 - Female consumers by age group. Source: Deloitte, 2019

Senior consumer group should not be underestimated: people aged 60 or more significantly contributed to the growth of the consumption of imported goods in China. There is a dedicated market which tries to profitably reach the 10.5% of the Chinese population with the higher income, a market that is expected to grow in the following years due to the aging of the population: the "Silver market". In our thesis, this cluster will be supposed to buy the Italian food products and to be the main cluster of the fun industry of tourism. In the interview phase, this assumption will be tested and verified;

In conclusion, we clustered the Chinese population following a macro-segmenting approach considering their demographic characteristics, obtaining different macro-segments based on:

- The income level, because the richer a person is, the more he/she will be willing to spend for costly imported goods;
- The age, because younger and older consumer groups have different market and contributes differently to the growth of CBEC in China (Deloitte, 2019);
- The gender, because as we saw, female consumers tend to shop more imported products than other categories;

In our macro-segmentation, the different areas of the country (urban, rural, county) in which the population lives must be considered as well, because these people:

- Contributes to the growth and the diffusion of the imported goods in China;
- Has been subjected to the reduction of poverty and to the rise of incomes, thus to the rise in the expenditures and in the purchase power;
- Looks for goods that can be different from those demanded in the most developed areas;

Considering the overall complexity in targeting the Chinese population, a small foreign company or a start-up that is approaching the Chinese market cannot rely on its own competences: a deep knowledge about the Chinese market and its culture is necessary to avoid failures, to create defined segments and to properly target them. Start-ups cannot fail, because the invested amount into the Chinese market project, if lost, could heavily damage the financial solidity of the company, exposing the start-up to serious risks.

Third Party Service Providers (TPSPs) are, in this case, the solution: relying on an external expert or a specialized consulting company to outsource the marketing process or to receive precious insights about the Chinese market is essential to avoid failures and risky mistakes. These companies could support the start-up in the definition of the Chinese market, its segmentation and in the creation of a proper targeting strategy, applying a precise and effective micro-targeting.

An example can be done on the fashion industry: creating a product category targeted to the Chinese middle class is potentially a failure, because this cluster yet buys clothes online, but they are not willing to spend a large share of their budget on them (Sohlberg, 2019).

Without all these micro-insights about the Chinese consumers, a foreign small brand could find itself in troubles in the short term. A deep knowledge is essential. A better description about the TPSPs will be defined in the following paragraphs.

2.3.4 – Products: demand side analysis

Despite the growth in salaries and the overall reduction of the poverty that characterized China in the last decades, the Chinese consumers are becoming more selective about their spending, focusing their funds on lifestyle services and experiences, for leisure or entertainment. They also started looking for premium products, considering quality as one of the main drivers in their purchases (Zipser, Chen & Gong 2016).

Chinese consumers look for diversified, personalized and quality imported goods, and the CBEC fully meets these desires. The sales of given categories of goods, due to the favorable China's policies, grew in the last years, creating new markets and opportunities for the oversea companies (Deloitte, 2019).

This happened because locals usually don't trust locally produced goods, because they also suffer from the prejudice about the low quality and the low safety related to the Chinese production, so they are willing to spend more on the imported goods, boosting the CBEC's market (Sohlberg, 2019).

Considering Tmall Global statistics about the most sold products on the platform, being Tmall Global the main player on the Chinese market (with more than 50% of shares on the market, as explained before), we can list the most demanded international goods by the Chinese consumers (Sohlberg, 2019):

- **Fashion and clothing**: both large multinational brands (as Nike, Adidas and Gucci) and small independent companies supplies a wide range of different fashion products destinated to the younger segment of the market. This product category is extremely wide, and it is difficult for a small brand to emerge without significant intervention in terms of marketing and communication: competition is high and, without a satisfying level of revenues, fixed costs (and the fees, that for the fashion products are the highest on Tmall Global) could damage the financial reliability of the company. One of the interviewed companies in this thesis works in this industry.
- **Maternity and infant care**: this product category grew a lot in the last years, and it is expected to grow further while the Chinese population will get more used to the online shopping. The reason behind the growth is that the Chinese people are willing to spend more on the imported goods, because these are associated to a premium quality that they consider essential for a product destinated to their kids. The most selling items are baby clothes, infant formula, toys and organic products. One of the interviewed companies in this thesis works in this industry.
- **Cosmetics and skincare**: all these products are sold to young and middle-aged female shoppers. One of the main characteristics of this product category is that the shopper is loyal to the brand: it is hard to bring a Chinese shopper to abandon a brand they like to shop from an unknown brand. The marketing and the communication are essential to create loyalty and to bring these people to shop our products. This product category represented the 20,8% of the consumption share of the imported goods in China, reaching 32% in 2018 becoming a major growth driver fro CBEC (Deloitte, 2019). A foreign company should keep in mind that also males shop these products, and the growth that this new market is

having in these years should not be neglect. The most selling items are skincare products, make-up and beauty tools.

- **Consumer electronics**: mostly purchased by male shoppers, creating a niche market for electronic products and accessories is the key strategies to succeed in the Chinese market. This product category is one of the cheapest to sell on Tmall Global. The most selling items are niche products, drones and mobile accessories.
- **Food and beverages**: demand will continue to increase when young and middle-aged Chinese will get more used to shop fresh products online. Despite this, selling perishable food cross-border is not easy, and requires the foreign brands to find the proper channel in which selling their products. The most selling items are beer, wine, cereals, snacks, meat, fish and seafood, olive oil, fruits and vegetables and liquors. One of the interviewed companies in this thesis works in this industry.
- **Vitamins and supplements:** these products are destinated to both the elder (the silver market) and the younger segments, because the Chinese population is becoming more health-focused and more sensitive to these health-related products. The most selling items are those related to gym and fitness products, a market that is growing at high rates and should be kept under observation by foreign companies.
- **Household appliances & furniture:** demand of imported household appliances and kitchen tools will increase at high growth rates. The reason can be found in the urbanization process: as long that the Chinese people move from the county areas to the bigger cities, the new houses built to host this massive flow of people generated new innovative needs and trends (the Chinese consumers look for smart home appliances, eco-friendly products and systems). Also, the furniture industry experienced a boost: the Chinese shopper become more interested on the imported furniture, decreasing his sensitiveness to the price and developing brand loyalty.

It is important to keep in mind that different platforms have different selling performances: some platform can be associated by the audience to given categories of goods, and for this reason it could be more suitable for selling these categories instead than the other platform.

For instance, while Tmall Global is the most popular marketplace in which the Chinese consumers buy fashion clothes and shoes, JDW is more focused on consumer electronics and kitchen appliances while Kaola.com (that will be integrated within Tmall Global soon) is specialized in the selling of food products, beverages and supplements (Sohlberg, 2019):

According to a survey released by the Ministry of Commerce in July 2019 the Chinese consumers evaluate the imported goods on the basis of three characteristics: the **safety** in the usage of the product, the **quality** and the **design** of the product purchased (Deloitte, 2019).

From the figure 2.23 we can observe the results of this survey: for each of the most imported good category we can see the related shopping driver which brought the Chinese consumer to the purchase. As we can observe, the price is not the main reason behind a purchase, reflecting the decreasing price sensitivity that is spreading across the Chinese people.

Food	Safety	90.00%
	Price	68.00%
	Raw materials	65.40%
Clothing, footwear and hats	Price	70.00%
	Style	68.30%
	Fabric	55.90%
	Comfort	54.70%
Maternal / infant items	Safety	89.50%
	Raw materials	57.70%
Household furniture / home decoration items	Quality	69.70%
	Safety	59.60%
Toiletries	Safety	71.30%
	Quality	64.60%
Cultural, education, sports and leisure items	Quality	67.20%
	Safety	59.90%
Electric and electronic items	Functions	65.50%
	Safety	57.70%
Clocks, watches and glasses	Design	79.90%
	Price	65.20%
	Materials	64.60%
Jewellery	Design	83.60%
	Price	68.80%
	Materials	58.70%

Figure 2.23 - Chinese consumers' preferences when buying imported goods. Source: Ministry of Commerce in Deloitte, 2019

Focusing our product analysis on the county areas only (to be coherent with our previous consideration about the importance of these areas and the differences within them and the larger and most developed cities), those people have diverse consumption habits for different product categories: while growth rates in consumption of the popular categories as maternity and infant care, health-care products and fashion and clothing are decreasing, categories as the household digital appliances (from the 0.9% in 2014, to 4,9% in 2018), large household furniture and food and beverages are increasing, contemporarily to the rise of the total consumption and the stronger purchase power acquired by these less developed areas (Deloitte, 2019).

From the figure 2.24 we can observe that basically the consumption of all the imported product categories in county areas grew in 2018. What we can assume today, regarding the country areas and the lower tier cities, is that consumption structure will vary with the changes in the consumption power of the people: their preferences and their purchases will diverse from that of the larger and richer cities, creating complexity but also new different markets which, on the other hand, will become an opportunity for many oversea companies.

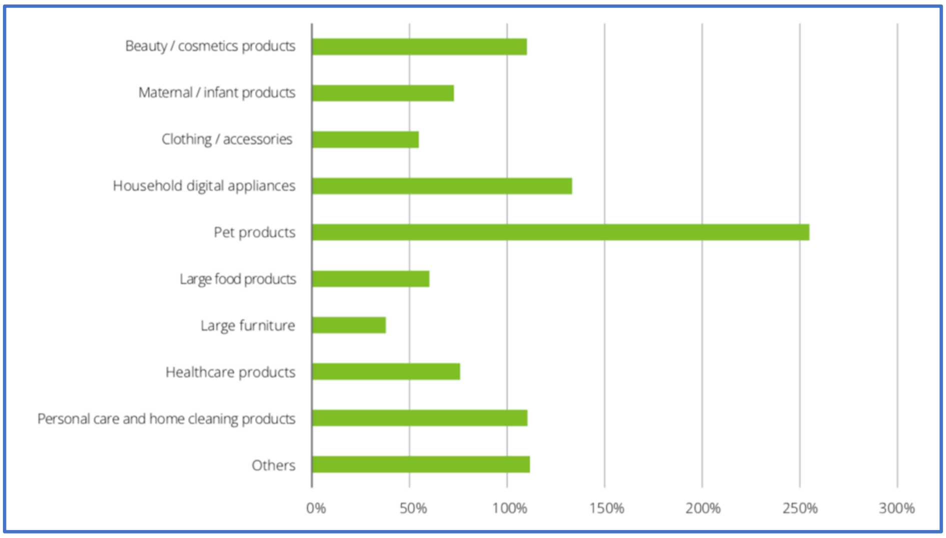


Figure 2.24 - Growth rates in good categories in county areas, 2018. Source: Tmall Global in Deloitte, 2019

In conclusion, CBEC increased in all the areas of the country, having all the product categories exposed to high growth rates, especially during 2018 (as we can observe from the figure 2.25).

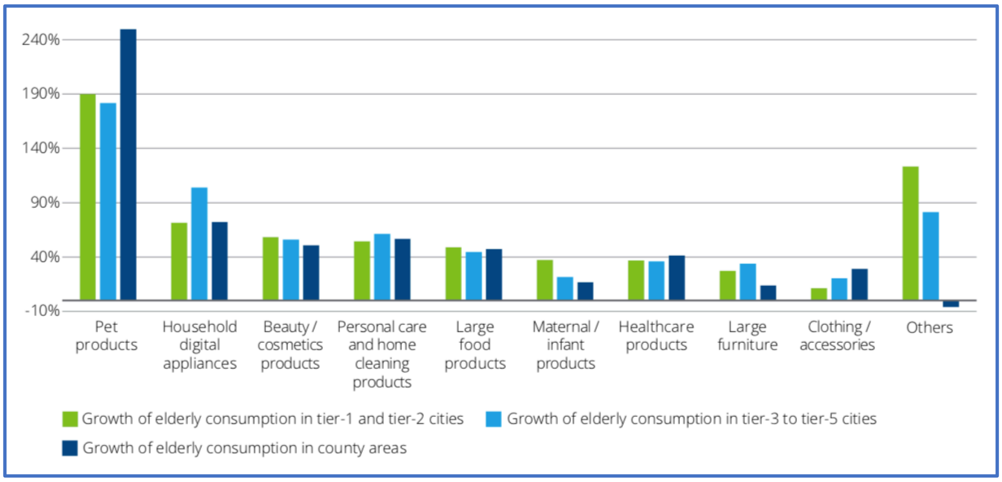


Figure 2.25 - Growth of CBEC goods categories (2018). Source: Tmall Global in Deloitte, 2019

The consumption structure varies depending on the area in which the consumer lives, because different are the needs and the desires of the people living in different conditions.

Considering that the clothing and the electronics markets already reached their mature phase, as we can also observe from the image above, all the other markets are interesting and require a deeper analysis (Birtwhistle, 2017).

I will focus the following section of the paragraph on the four markets in which the interviewed companies analyzed in this thesis operate. These markets will be described in general, considering their peculiarities that are expected to impact on the Italian start-ups too, and the relationship between these and the Italian enterprises, looking for market specific and related practices and criticalities. I will also try to assess, for each of these market, opportunities and threats, that I will then test in the interview phase of this thesis.

Food and beverage market

The food market is particularly attractive, because the Chinese consumers search for grocery goods more than what people from the other countries of the world do, attracted (as demonstrated by the survey discussed previously) by the low price (Birtwhistle**,** 2017).

In 2016, nearly 30% of the CBEC sales was contributed by food products. (Koe, 2018).

In the food market, consumers are willing to try different brands and varieties of products: for this reason, foreign companies tend to avoid intermediaries, establishing a direct and solid contact with their customers to make them loyal to the brand. The trust is essential in the food market, and the seller must be able to signal quality and safety of its products (Birtwhistle**,** 2017).

The importance acquired over the last years by the food market set the rules of a new internal market in China: being most of the goods perishable, many companies (Alibaba, JD but also many independent companies and start-ups) are now building specialized logistic networks to properly manage these goods within the whole logistic process. What's clear from this market is that there is not a dominant network for perishable goods in China (Birtwhistle**,** 2017):

- Tmall Global, JDW and other platforms directly ship the food to customers from their dedicated warehouses;
- Metro, FruitMart and other companies exploits their shops as intermediate hubs or transit point;

Being the demand for grocery goods increasing, and being the main players competing locally to set up a standard logistic network, this market is far from mature and could evolve into a profitable reality within few years.

According to the website MarketingToChina.com, the 59% of the Chinese population get info about foreign food brands through internet, while key opinion leaders (the Chinese influencers) and the family and friends' suggestion are the second source of information (about the 18%), highlighting the importance of the word of mouth. Social media can be really useful to attract the cluster aged from 25 to 34 and contribute to the 9%.

Generally, food brands can now take the Chinese market into consideration because (Marketing to China, 2018):

- Taxes and tariffs heavily decreased;
- Chinese are willing to try new experiences and different culinary specialties from other different countries, as Italy;

In our case, the sale of food and drinks from the Italian small companies to the Chinese customers through the digital channels, the Chinese population is really appreciating all the food related products coming from Italy, because:

- The Chinese tourism flow into Italy increased the interest that these people have in regards of the Italian food. The dynamics of the word of mouth and the country of origin effect contributed to spread locally the desire to taste our Italian specialties;
- The cooperation and the agreements between the two governments increased the initiatives aimed at promoting the Italian products in the Chinese territory;

In 2018, the Italian agri-food market in China was valued € 439 million, and it is expected to grow even because of the agreements between the two governments signed by 2014. Wine (€ 127 million), olive oil (€ 40 million) and pasta (€ 23 million) are the three most purchased Italian products in China (Caputo, 2019).

In the case of wine products, Alibaba launched an initiative on Tmall Global subsequently the agreements signed with the Italian government, in which more than 500 Italian labels of wine were added to the marketplace and protected by Alibaba itself against counterfeit. Due to this, China became the larger red-wine consumer country in the world (ItalianFood.net, 2016).

Also, the Italian cheese is highly appreciated by the Chinese people, and the recent trade policies set by the government simplified the custom procedures to let the import of this excellent product category into the eastern market grow. Recently, the Chinese market opened its borders to the Italian pork meat, after almost a decade of negotiation (ItalianFood.net, 2016).

An opposite situation involves the fruit and vegetable products: due to local policies aimed at protecting the health of the domestic plants, Italy can only export to China citrus fruit (Caputo, 2019).

Cross-border e-commerce is the right choice for our small food brands: 94% of the Chinese consumers have purchased food online at least once on the most famous platforms (Tmall, JD or Yihaodian, a niche platform) and today they are still the best solution to sell the food products in China: buying from a safe and known platform that aggregates many comparable products ensures the Chinese consumer safety (of the product and of the purchasing process) and quality, because most of the platforms only accept verified and quality brands (Marketing To China, 2018).

In conclusion, the food market for the Italian product in China is thus growing. It will play, in the next years, a main role in the alignment of the Italian digital exporters' performances to that of the other European countries. All the most traditional and high-quality products have a profitable market in China, and the marketplaces (both the most famous and the niche platforms) are now providing the Italian companies with all the tools and services to let them reaching the Chinese customers, facilitated by the agreements between China and Italy. Made in Italy agri-food products can now more easily flow into the eastern country: safety of the products must be guaranteed, and counterfeit must be fought to avoid misperceptions on the Italian products.

Tourism market

China is the world's fastest growing online travel market: 705 million Chinese tourists visited 1.155 cities in 88 countries during the 2018 Golden Week (which is popular Chinese period of vacation in October), with people from second and third-tier cities spending more on overseas travel compared to those from first-tier cities (Ka-Ho Wong, 2018).

The Chinese tourists travel in many destination all around the world: in the last years, due to the trade was between China and the USA, the flow of inbound tourism in the USA decreased by 42%, in favor of a rise in the European tourism by 50% (Ka-Ho Wong, 2018).

The Chinese travel industry became profitable for all the foreign companies and travel agencies that wanted to approach the Chinese market. What foreign firms should keep in mind that the Chinese traveler has specific consumption habits that must be respected (Cyrill, 2018):

- The cashless payments must be guaranteed through Chinese payment systems;
- Discounts on vacations are essential, especially during the Golden Week;
- Social media should be properly used for the promotion campaigns;

The tourism industry grew at a CAGR of 10%, with the online travel services contributing by 40% to the growth. Despite this, foreign travel agencies have so far been prohibited from facilitating overseas tourism from China (Cyrill, 2018).

From 2013, these companies were allowed to operate and to offer touristic products to the Chinese consumers: the opening-up policy reduced the market for the domestic companies, increasing competition, but the overall welfare was in favor of the Chinese consumers. The new rules introduced by new opening proposal oblige the foreign online travel agencies to provide (Cyrill, 2018):

- Rescue and emergency plans;
- Inspection and management of their partners;
- Insurances;
- A proper protection system of the Chinese's data;

Italy is the second country visited by the Chinese tourists, and its tourism sector is growing at a CAGR of 6%. This sector is strategically important because it contributes to the 9,8% of the Chinese GDP (Info Mercati Esteri, 2019).

Most of the Chinese travelers that visit Italy today come from the first-tier cities, and a large share of these (about the 59% in 2017) are millennials: in 2017, the overall outbound tourism flow of China involved more than 133 million people, with an overall expense of € 228,1 billion (Info Mercati Esteri, 2019).

Lazio (Rome), Veneto (Verona) and Tuscany (Florence) were the most visited Italian regions in 2017, absorbing the 63,5% of the Italian inflow tourists coming from China. By the 2017 we can observe that the average stay costed € 117 per night, and that the major part of the Chinese tourists (about the 88,1%) looked for a hotel, while just the 11,9% decided to spend their stay in an apartments or a B&B (Info Mercati Esteri, 2019).

One of the most criticalities of the tourism industry is reaching the Chinese customer: on average, the Chinese people book an oversea trip starting two months before the departure date. While millennials book everything online through mobile channels, elder clusters are still stuck in tradition booking methods as the mail, the phone calls or the physical visits (Kizmaz, 2018).

In order to plan a trip, a Chinese traveler accesso to a wide range of information sources, that are useful to get the information necessary and to get in touch with the travel organizer. According to a survey by China Luxury Advisors, the most adopted sources and the percentage of adoption are shown in the figure 2.26.

Figure 2.26 - Most used resource for overseas trip planning in 2017. Source: China Luxury Advisors in Kizmaz, 2018

Offline booking methods ar not abandoned: a large share of the market still relies on tradition sources.

What is clear from the Chinese culture, is that western platforms are not free to operate in the Chinese area: China has a substitute domestic version of all the most adopted platform in Europe and USA: Airbnb and Booking.com are not used by the Chinese customers in China, while Online Travel Agencies (OTAs) as Ctrip, Qunar and eLong are very popular. Also, e-commerce websites as Qyer and Mafengwo could be a proper solution for the touristic products (Kizmaz, 2018).

An Italian company operating in the tourism field should carefully analyze the platform and website's ecosystem existing in China, and the habits of the Chinese travelers. A partnership with the local operators seems to be the only and most effective solution for a western company to sell the trip in China. Creating a company's profile on the most popular websites and OTAs, developing the proper contents spreading it using the social medias is the basic strategic approach to reach the Chinese traveler.

Fashion market

Italy has always been associated to quality, design and style. The fashion industry contributed to the diffusion of a positive perception associated by the people worldwide to Italy.

With the development of the e-commerce channels, many luxury fashion brands started to focus on the Chinese market, creating a proper and dedicated branding strategy, achieving incredible revenues and successful results.

While China's market keeps growing, the fashion industry in gaining ground and importance, due to the growing interest by the Chinese customers in wearing the western fashion products as shoes and clothes, considered to be high quality and stylish products: always more and more fashion brands, from large companies to small and emerging start-ups, are entering into the Chinese market, facilitated by the existing domestic players and their services offered to foreign brands.

For a Chinese customer, wearing a luxury product means a lot, because they really care about their image and reputation: high-end brands as Gucci or Armani are always preferred because well known, famous and recognized. The problem behind the luxury brands is that these products are not affordable by the average middle class, whose income increased in the last decade but not enough to let them buy highly expensive goods.

For this reason, the largest majority of the Chinese shoppers look for the other luxury and fashion brand that are able to offer high quality and luxury products at a lower price. Due to this need, the smaller Italian fashion brands have a huge opportunity to enter into the Chinese market.

The key pillar for a fashion and luxury brand in the Chinese market is the branding strategy. Positioning the company and its products in the market is essential to be considered as a relevant brand in the wide supplies that characterizes China. All the branding strategies should be implemented through the existing digital channels: being familiar and propense to the adoption and usage of these digital instruments is essentials to survive as a small or medium brand. Exporting without promoting the company online is the most failing strategy that an Italian brand could pursuit, because a brand must emerge from the wide supplies in China, and once emerged it must position itself in the high-end of the market, to attract the largest share of the market and to define the most appropriate pricing model.

Italian brand should (E-commerce China agency, 2018):

- Collect feedbacks and opinion from the Chinese audience: the marketing built around the product must be local based, and sometimes foreign brands can rely on the Chinese customers' opinion, collecting information from the social media or other digital channel as WeChat, to adapt the product or the branding strategy built around it. The data insights provided by the marketplaces could be really useful to evaluate and to develop effective marketing moves;
- Create a long-term relationship with the customers: the brand must have a good reputation in China. This positioning technique that generates the most appreciated quality that the Chinese customers look in a foreign brand, which is trust. The trust in the brand guides the purchase and guarantees the customer's loyalty, in order to make him purchase from the brand more than once.

For an emerging brand (as an Italian start-up), the entry mode into the Chinese market exploiting the cross-border e-commerce is based on a gradual commitment that increases over time with the growing success gained on the market:

1. At first, the Italian brand should study the Chinese market, identifying its potential customers and building, supported by a local partner, the marketing campaign and brand positioning to approach the new and different context: the marketing strategy must be created ad hoc. A working strategy that generates profits in a western country could not work in China.
2. Studied the customers, identified the image we want signal and built the marketing in order to reach the desired positioning, fashion brands can now start approaching the marketplaces: Tmall Global is preferred over JD Worldwide, because the latter is more focused on other goods categories and, in addition, the loss of the title of the good (as it happens selling through JD Worldwide) doesn't allow brands to directly manage their image with the Chinese customers.
3. Once gained popularity over the Chinese audience, a fashion brand should evaluate the opening of an own Chinese website: running a Chinese working e-commerce website is a practice commonly adopted by those brands interested to remain into the Chinese markets. It increases brand awareness and change the whole marketing effort, which now will be aimed at bringing traffic into the company's website: optimizing search engine results on the Chinese version of Google (Baidu), through the Search Engine Optimization (SEO) techniques, and using the social media to obtain information and to position the brand, will become essential activities to survive on the Chinese market.
4. For a brand became strong in the Chinese market, the main goal is the reaching of an omni-channel strategy (described in the following paragraphs). According to this strategy, a brand integrates the online and the offline shopping experience to complete the purchasing process. Physical stores exist not just as stores, but as nodes of the owned logistic networks and as part of the online shopping experience.

In the case of fashion and luxury brands, the marketing must involve all the possible social media adopted by the Chinese customers:

- WeChat is essential, both to promote the company through different advertisements, but also to complete transactions with the final customers;
- Weibo intermediates between brands and the key opinion leaders, a channel that, in the case of the fashion industry, is essential to reach a wider customer base;

Infant products market

The baby products market is one of the most premium markets in China, growing by more than 250% in five years, with sales of more than $ 75 billion (Marketing to China, 2017).

The foreign brands gained an incredible popularity in this market, becoming the leading driving force of the industry's sales, because:

- China recently allowed couples to have more than one child;
- Income has raised, increasing parent's purchasing power;

- A series of scandals involving domestic producers of baby products brought the Chinese parents at preferring the products offered by the foreign brands, characterized by healthier and safety standards.

As a result, Chinese parents are willing to pay more for healthier products destinated to their babies: foreign brands gained popularity and the market developed in favor of the international companies. This raised the importance of the most common cross-border e-commerce platforms, as Tmall Global or JD Worldwide, but the importance of the offline physical channels (as supermarkets) is not negligible for this product category, because being the parents older than millennials, sometimes traditional channels could be still used.

For an Italian brand, the process to be followed is the same as that of any other consumer good: exploiting a marketplace (also a niche platform could be useful) building a proper marketing campaign around the product. In the case of infant products, the target customer cluster includes the mothers: these uses digital and social channel as the largest majority of the Chinese shoppers, and relies on feedbacks, opinions and suggestion from website and platforms dedicated to mothers and babies.

2.3.5 – The role of the Third-Parties Service providers (TPs)

In order to sell to China, foreign companies and brands must define and perform some common and essential key activities, which contribute to the definition of the company's strategy.

These activities are listed in the figure 2.27.

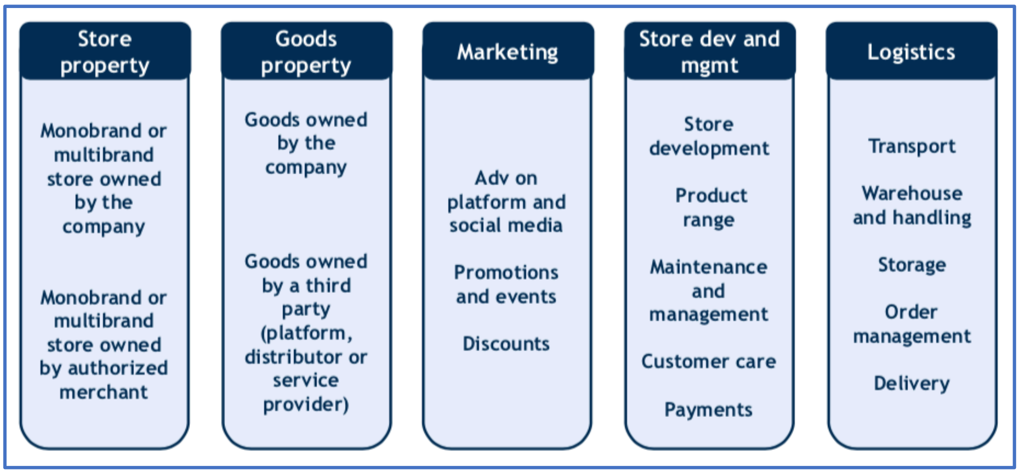


Figure 2.27 - Key activities to sell to China. Source: Giuffrida, 2019

These activities are highly capital and knowledge-intensive: performing them without a proper competence, could expose the company to the risk of failure. The whole supply-chain process (from the goods' management to the logistics management) and the selling process (marketing activities) depend on how these activities are performed.

For this reason, the planning phase and the execution of these activities are as much important as the entry strategies and the digital export model described in the following paragraphs.

More in details:

- **Store property**: a company needs to decide how to identity its own store (both online and offline). A large multinational brand could have no doubts: a direct ownership and management of a mono-brand store could be the right choice. The possibility to sustain higher financial expenditures, and the need to constantly and directly manage the brand image, justify the investment in a company-owned and exclusive mono-brand store. A different reasoning is that about smaller companies and start-ups (which are the subject of this master thesis). These companies usually have lower financial capabilities and could decide to aggregate their supply with that of other brands, establishing multi-brand stores to divide the related fixed costs. Considering the ownership of the store, while a large multinational brands is supposed to have the internal capability to internally develop the necessary knowledge, a smaller company could decide to provide their goods (or services) to a store (usually multi-brand) owned by a third-party assumed to have all the necessary competences to operate in the Chinese market. In this case, the company should rely on a third-party service provider.
- **Goods property**: depending on the strategy that the company is trying to apply on the internationalization process versus China, the choice about the goods property is directly connected to the chosen entry mode. Relying on a third-party service-provider, which acquires the ownership of the goods to then manage them as their own goods (acting as a wholesaler or as a reseller), could allow the company to save money from the downward process, but will generate a loss of control by the brand on its goods and on its brand image in China. Platform, distributors and other service providers (JD Worldwide usually perform this kind of ownership exchange, buying goods from foreign companies to then resell them on their own) are available to simplify the whole process. The choice is on the brand's hands, which must counterbalance the savings with the loss of control versus the brand's image.
- **Marketing**: all the marketing activities are essential to operate in China. The incredible high competition created by the liberalization of the markets increasing the competition. A foreign company cannot survive without a proper communication and marketing strategy but, in order to develop an effective marketing plan, a deep and precise knowledge of the Chinese market and of the habits and trends that characterize its customers is necessary. Large multinational brands can rely on the internal competences and knowledge, leveraging (in some cases) from the knowledge spillovers coming from a controlled company already operating within the Chinese borders. For a small company, creating a successfully marketing strategy alone is complex: a fail in the Chinese market, due to the resources invested, could make the company failing even in the home market, exposing the company to the financial risk. For this reason, these companies are used to rely on a third-service party provider (or more) to perform all the marketing-related activities. Sometimes, these activities are offered or facilitated by marketplaces as Tmall Global or JD Worldwide, but many companies (both Chinese and international) are now offering services related to the marketing strategy.
- **Store development and management**: an online store must be designed (according to the desired brand's image) and managed (collecting payments,

offering assistance to consumers, etc.). Sometimes, these activities are highly knowledge-intensive, and can be outsourced to a third-party service provider (to the platform, the marketplace or a specialized company).

- **Logistics**: in most cases, the whole logistic process is outsourced to a third-party service provider. Setting up an owned network and an owned infrastructure is an investment that is affordable only by few companies worldwide. For this reason, most brands, both small start-ups and multinational companies, tend to rely on already existing networks run by other more competent and specialized companies.

The Chinese cross-border e-commerce market is composed by 4 main players, which are:

- The exporting company, in our case an Italian start-up;
- A distributor, a Chinese company that could be involved to facilitate or to perform all the key activities;
- An e-commerce platform, that is a marketplace that can offer a wide range of services to foreign companies and that, in some cases (as that of JDW), can perform all the key activities;
- A service provider, that is a company (or the platform itself) that offers to the foreign brands some services, performing or supporting the brand in the execution of the main key activities;

According to this distinction, a foreign brand has different possibilities (and strategies) to adopt to sell its goods in China. Each of these possibilities (shown in the 2.28) has a different involvement and commitment level of the exporting company: if a lower commitment on one hand reduces the exposition of the foreign company to the risk of failure, on the other hand it reduces the control on the brand identity in China, and could not create internal competences for future internationalizations.

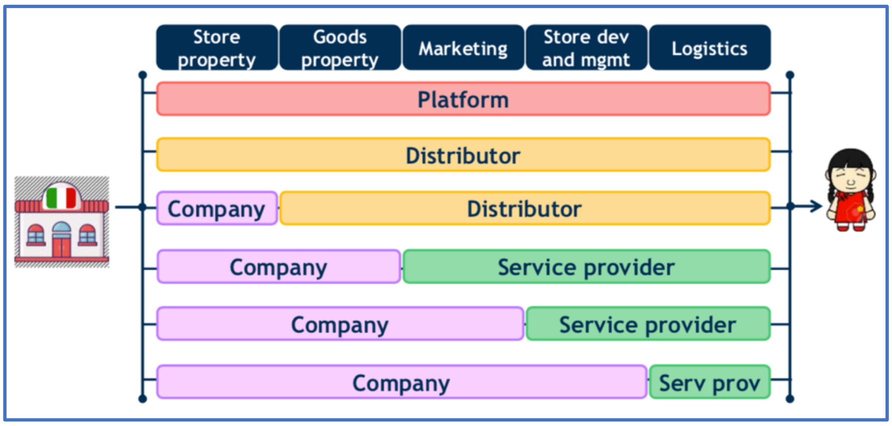


Figure 2.28 - Service providers of the key activities. Source: Giuffrida, 2019

As told before, the choice is on the brand's hands, but it is related to a strategy defined upward, that involves a whole set of smaller decisions. Each sub-choice or sub-strategy depend on the general strategy defined at the beginning of the whole process.

For this reason, the choice to rely on a given service provider to perform a given key activity could not be the best solution in the case this would obstacle the main objective of the foreign company defined upward. This waterfall approach of the internationalization strategy enhances the importance of the planning phase and highlights the need to define risks and opportunities before investing outside the home country.

Considering third-party service providers on the basis of their level of specialization, and considering that each of the following categories can offer services on both the online and the offline channels, we can have (Giuffrida, 2019):

- **Market leaders' companies:** the most known and popular companies in the Chinese market. These offer basic and general services (related to the key service activities) to a wide number of foreign companies, leveraging on the large popularity acquired on the market. They tend to generalize their competences (offering services applicable to most of the existing categories, maximizing their benefits on the scale economies), thus they have the lower level of specialization. Some example are the most common platform and marketplaces, as Tmall Global, JD Worldwide, Suning.com or similar companies.
- **Niche companies:** these companies (less popular) offer services that are product specific or specialized on a given product category (as example, a logistic network dedicated to the perishable food). For this reason, these are more costly and have a smaller market made of foreign brands, but the output of the service is usually better than that of market leaders' companies. They have the highest level of specialization. Some examples are Kaola.com, Yiguo.com or Xiaohongshu.com.
- **Social media companies:** these companies try to balance the specialization of the services offered by the two previous categories. Social media players provide the foreign brands with the necessary competences of marketing, to help the brands to locally adapt their supplies. These can manage and support the company in all the activities related to the brand in China, and in the exploitation of the existing dynamics of the market. Some examples are WeChat, QQ, YouKu or Sina Weibo.

In the planning phase of the internationalization process, identifying all the existing third-party service providers in the market is essential to build a solid and effective strategy. Companies should be able to map the market and all the players involved (partners, service providers, competitors, etc.) to then design their strategy. Sometimes, a strategic partner or service provider could be more effective than any other move.

2.3.6 – Drivers and trends

In this paragraph I will list some of the most interesting trends characterizing the Chinese market. These trends will be verified in the interview phase by the four companies.

The omni-channel approach: new retail model

China is the biggest digital country in the world, and the volume of sales concluded through digital channels rises every year. Despite this, the importance of the physical units in the country is far from useless, and firms (both domestic and foreign) are now converting or orienting their business models toward a single direction: the omni-channel approach.

Today, about 15% of the total retail sales in the country are performed through digital channels. This means that 85% of all the retail sales in the country still occur in the

physical stores only. This was a huge unexploited opportunity for all the Chinese internet giants interested in expanding the online commerce to its maximum (FoodWeb, 2017).
The whole market started to change with the adoption and the inclusion of the other used-to-be-physical activities, such as supply chain, fulfillment and so on, within the digital system, redesigning the role that physical stores had until the digital era.
The Chinese and the International brands started to be aware that the traditional Online-to-Offline (O2O) strategy, which consisted in exploiting the digital online channels to convince people at shopping in the offline physical stores, is now a mature and not effective practice. The integration within online and offline in China became a standard: firms stopped to invest in dispersed physical stores and decided to focus all their resources on the improvement of the costumer experience.
Integrating the online and the offline channel means converting the role of the offline physical systems with the online channels, aiming at nullifying the perception gap that a costumer could have in shopping online or offline.
Aiming this, the role of physical stores has changed:

- Physical stores were converted into transit points or hubs for the logistic network supporting e-commerce sales;
- Physical stores were re-designed to become "Click-and-collect point", in which people can physical go to collect the good shopped online;

In this context, Alibaba created its "**New Retail Model**": in the Alibaba's view, boundaries between offline and online commerce disappears as it focuses on fulfilling the personalized needs of each customer (Bird, 2018).
The whole model is based on the integration of the logistic data supporting sales, mixing the online and the offline elements to conclude a transaction. The goal that Alibaba's CEO Jack Ma had was not to make the retail e-commerce sales, which are 15% of the total retail sales, to rise, but to digitalize the remaining 85%, making the online shopping experience less "traumatic" (FoodWeb, 2017).
In China this whole concept translates into Hema, the Alibaba's group supermarket chain that is revolutionizing the market, even for the foreign companies which supplies food in China. Customers can visit the physical Hema shop to buy the products they want. Products can be collected at the store, delivered at home or consumed at the moment. The integration between online and offline occurs with the Hema app, connected with Alipay: scanning a product through the app, the shopper will get all the necessary information (reviews and feedbacks, track of the delivery path, information, price, etc.), and will have the possibility to add it to the cart to then pay it through Alipay. The data acquired by Alibaba will help foreign and domestic companies that sells through Alibaba's platform to better segmenting the costumers.

The new role of the online marketing

This Big Data is at the basement of the new e-commerce model that is driving the Chinese market into the new commerce era. A proper data processing could allow foreign companies, supported by the big platforms (as Tmall Global, JDW and WeChat), to create effective **personal marketing campaigns** through all the existing digital channels.
According to a survey conducted by PWC in 2017, the 70% of the Chinese shoppers consider personal marketing as important, while only the 50% of these are satisfied by it. This happen because the data that companies used to offer before the rise of the new

possibilities was not reliable or based on a too small sample of costumers (Birtwhistle, 2017).

When Alibaba, JD and Tencent entered into the data market, the whole data management approach has changed, and the digital marketing acquired a new and key role in the selling process. The new possibilities enabled by these big players (as demand-side and supply-side platforms - DSP & SSP, Application Programme Interfaces -API and others) allowed companies to benefit from a more reliable and always updated insight of their customers.

The exchange of Data in China, which is costly and potentially useless without a proper processing phase that, in the case of smaller companies and start-ups, should be outsourced to a third-party, must be carefully managed:

- The Chinese law heavily punishes abuses or mistakes by the enterprises which involve the Chinese customers' data;
- Trust is a key selling pillar: if a company is considered not reliable about how the data will be useful, customers will not shop from it;

Content driven e-commerce

Tmall Global is not just an e-commerce platform, as Amazon. Tmall is a channel in by which the Chinese customers search for products and acquire info about it: a large share of the activities performed on the platform (and similarly on its competitors Tmall and WeChat) is about **contents' creation** (Birtwhistle, 2017).

Videos, livestreaming, games, competitions and contents created by the Chinese influencers, called Key Opinion Leaders (KOL), are necessary to compete in the market: being the supply on marketplaces extremely wide, and being the Chinese consumers used to be engaged into the purchase process, competition shifted from the basic transaction to the development of a complex set of contents all around the product. The Chinese market entered into an era of content driven shopping.

What should a company do? Foreign brands should exploit the third-parties' knowledge as a consultancy, keeping promotional marketing activities in-house in order to have a better control on the contents created and to better strategically align the company's brand image perceived from these contents to the customers' expectations (Birtwhistle, 2017).

The Chinese Single Day

A trend that deserves to be highlighted is the Chinese Single Day, that happens on the 11^{th} of November. During the Single Day, that is the Chinese version of the western Black Friday, sales experience a boom on every category: each company, both domestic and foreign, expands its supply, offering exclusive deals and promotions dedicated to the single day. Even contents are affected: the data generated by the main marketplaces and the main social channels are boosted. Each company adapts the promotional message to the Single Day.

From the figure 2.29 we can better observe the potential of the Chinese Single Day for a foreign company: in 2017 in the USA, during the two main shopping events (Black Friday & Cyber Monday in both cases on Amazon.com), the transactions concluded accounted for $ 10.6 billion. In China, during the single day, the transactions concluded on Alibaba's platforms accounted for $ 25,3 billion, and the trend highlights a growth in sales that is still affecting the Chinese market.

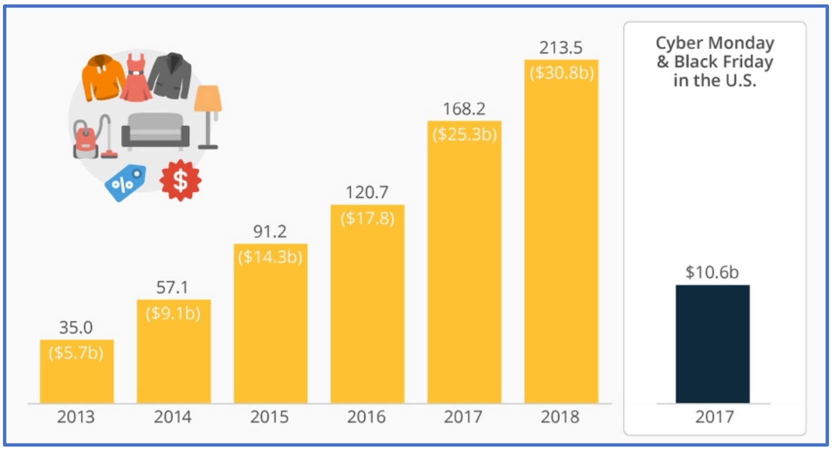


Figure 2.29 - Gross Merchandise Volume for Alibaba's platforms during the Chinese Single Day, and comparison with US Black Friday/Cyber Monday. Source: McCarthy, 2018

The role of mobile and social e-shopping

In China, 84% of sales are concluded through mobile channels (smartphones), while just the 16% of the whole e-commerce market sales are concluded through desktop or laptop (Forrester, 2018 in Giuffrida, 2019).

This data makes the desktop commerce almost irrelevant: the mobile shopping, and the related social medias, are the trends that are driving the Chinese market in our era (Birtwhistle**,** 2017).

The dominant platform that combines the e-commerce dynamics and services with the mobile and social network activities (content creation) is WeChat.

Companies, that in our case are foreign start-ups, should not avoid this channel in creating their own image in China: many activities (loyalty programs, livestreaming and other contents' creation, engagement systems and customer relationship management programs) are optimized to be performed on WeChat, and could even allow the company to directly access to the lower-tier cities, because the mobile-social channel is a channel in which:

- Gaining attention from the customers, even those dispersed in the less developed areas;
- Managing the relationship with the customers;
- Concluding transactions and increasing sales;
- Defining the brand's image creating contents;

According to a survey by PWC of 2017 (Birtwhistle**,** 2017), the Chinese consumers are more used than the global customer in performing different activities on mobile and smartphones, as example:

- To pay through smartphone for the product purchased (with Alipay or other recognized payment systems): 56% of the varied sample interviewed agreed on this point (world average: 37%);
- To research products: 55% of the varied sample interviewed agreed on this point (world average: 44%);
- To save product's information for a later purchase: 44% of the varied sample interviewed agreed on this point (world average: 24%);

- To search and to use promotional codes or coupons: 43% of the varied sample interviewed agreed on this point (world average: 31%);
- To compare the price of a good by a company with that of its competitors: 42% of the varied sample interviewed agreed on this point (world average: 38%);

The sample was made of 905 people (in different demographic conditions in terms of age, gender, income and region) coming from China, and 24.471 people coming from all around the world.

The social channel is also an opportunity that companies and foreign start-ups could exploit to try to escape from competition: differentiation could be, in some cases, the key success factor, and the social networks could allow the foreign brands to manage their image and the relationship with their customers.

From the PWC's survey of 2017 (Birtwhistle**,** 2017), social media platforms are totally integrated within the customer's journey. This channel is mostly adopted:

- To discover new brands and products;
- To read and write reviews, comments and feedbacks;
- To purchase products directly;

Building a strong community and engaging it on the social platforms is a key activity that should be introduced in every strategy that involves the Chinese customers.

Traditional media are today ineffective to capture attention: a brand must be creative in the contents it creates and should be able to exactly individuate the moment in which a given content can successfully gain the attention of the audience targeted.

An example of an effective strategy applied by a Chinese snack brand to capture the attention of the millennials is the following: this company used an animated squirrel as a mascot, creating a wide range of contents (cartoons, gifts and livestreaming) basing them on that characters and sharing them on social medias and websites. The company also created a chat-bot on WeChat to answer to basic customers' requests. The chat-bot was programmed to answer as it was the mascot, to maintain the characteristics that the customers associate to the brand (Birtwhistle**,** 2017).

A last dynamic that I will analyze in the mobile social e-commerce context, is the role of the key opinion leaders (KOL). These influencers represent for a company a real selling channel.

KOL are mostly exploited because of the personalized and interactive impact that they could have on their targetable audience. The market built around them expanded the possibilities that a foreign company has in terms of communications: today is easier for a company to identify the perfect KOL that meets the company's requirements.

Some important considerations about the Key Opinion Leaders (Birtwhistle**,** 2017):

- KOLs directly impact on the customers, raising awareness and supporting companies in building the brand's image;
- Livestreams and Q&A sessions by the influences, practices quite popular among the Chinese context, support companies in raising data, insights and real-time customers' feedbacks;
- Most of these KOLs entrepreneurially exploit their image opening up digital or physical stores, acting as retailers; these channels should not be underrated;

In the following years, the Chinese market will be fully driven by content-led experiences, and the mobile commerce will remain the dominant channel of the Chinese market. Due to this, emerging technologies affecting mobile could create new

opportunities and should be constantly monitored by the companies interested in the early adopter's segment. The whole market moved to a direct engagement of the customer, performed on the social media channel, creating new business model and disrupting the less-propense-to-change companies.
Understanding the today's customer journey (and forecasting the future ones) is a basic pillar to survive on the market. The customer experience should be based on the existing trends and habits, trying to differentiate the company to make it unique, acting on the contents, on the channels and the platforms in which the brand operates.
The environment became more sensitive to brand and content created: the strategic importance gained by the digital marketing over the audience created rooms for a better control and a higher effectiveness in performing these activities (or parts of them) in-house (Birtwhistle**,** 2017).

2.3.7 – How to sell in China: possible business models

Before approaching the Digital Export Model by the Osservatori Digitali, the model I will apply on start-ups as main topic of this master thesis, I will now define the two existing strategies that a foreign company, both a start-up or a large firm, can evaluate to access into the Chinese market.

The two models are different in terms of:

- The necessary investment and commitment, and thus the risks in the case of a failure of the project;
- The control over the products/services or the activities related to the whole supply chain;
- The impact of the custom procedures or the Chinese trade policies over the overall performance;

As we will see, one of these two strategies will be more suitable for smaller companies and start-ups.

The General Trade strategy

Figure 2.30 - The General Trade Strategy. Source: Giuffrida, 2019

In the case of the "general trade strategy", the foreign company establishes a physical and legal entity in China. This strategy requires the company to meet and respect all the requirements set by the Chinese government: operating locally in the Chinese market means being subjected to all the national regulation policies that affect foreign firms to balance competition with the domestic ones.

It is clear that this strategy sets up a multinational company: creating a subsidiary to operate locally in a foreign state is a practice that cannot be pursued by every company. The two drivers involved are the financial capabilities, which must allow the company to set up the new structure without exposing it to the financial risk, and the strategic importance of the Chinese market in the company's overall strategy.

The different types of organizations that a foreign brand can decide to set up, according to the general trade strategy, are (HRone):

- **Sales office**: the foreign company set up this kind of subsidiary which conducts the overseas company's sales and networking, run by local employees (generally outsource to local partners (HR companies);
- **Representative offices**: easiest way to enter in China, suitable to conduct in-area market researches. It cannot perform for-profit operations;
- **Wholly owned foreign enterprise**: independent company that operates in China wholly controlled by the foreign brand;
- **Equity joint venture**: a company created locally with a local partner, dividing risks and profits on the basis of the owned shares;

In this situation, the Chinese government and its custom must perform some checks about the products and the company, before the product is sold: quality checks, controls by the China Food and Drug Administration (CFDA) and other stricter requirements, are performed on all the products shipped to the subsidiary, when these flow into China's boundaries. There are no as many advantages as in the case of Cross-Border E-Commerce (the other strategy), that is enhanced by the domestic government and, for this reason, facilitated in terms of requirements and procedures. (Giuffrida, 2019).

In addition to this, the strategy is costly and risky (it could financially expose the company in case of failure) and creates an additional level between the foreign company and the final customer that, in case of an inefficient communication process, could generate problems in terms of control and coordination.

The general trade is a long-term strategy: the physical presence in a country is a clear signal of growth for investors and other actors involved in the enterprise-system. Setting up operating organizations in foreign country, if convenient, would allow the brand to locally develop the competences and the knowledge to successfully operate in the following years, exploiting the local channels, both online and offline, and all the possibilities that the market has to offer.

The commitment is high, and only few companies can approach a foreign market adopting this strategy. For all the other companies, which aim at testing the foreign market to then gradually increase commitment and complexity, there is another strategy, that is the Cross-Border E-Commerce, discussed in this thesis.

The Cross-Border E-Commerce strategy

Figure 2.31 - The Cross-Border E-Commerce strategy. Source: Giuffrida, 2019

Already discussed in this thesis, the CBEC strategy exploit the public or private bonded warehouses in the "Free trade areas" to let the company benefit from the favorable regulations set by the Chinese government. It is much cheaper than the General trade strategy, because it doesn't require structural investments in operating legal entities.

The CBEC strategy is a short-term approach which allows foreign brands to:

- Test how the Chinese market reacts to the value proposition;
- Evaluate the feasibility of a future investment to set up physical entities;
- Start selling the domestically produced goods (or services offered) in a foreign country;

Despite this, CBEC is a dynamic context that is constantly exploited by the government to spur the domestic economic growth. All the policies and the de-regulations affecting this online channel can vary and must be monitored by the foreign brands to not find themselves squeezed out of the market.

CHAPTER 3 – METHODOLOGY FOR THE ANALYSIS OF THE DIGITAL EXPORT

3.1 – ASSUMPTIONS

China represents an untapped opportunity by the Italian enterprises: while the whole world is approaching the eastern market thanks to the available digital channels increasing profits and achieving growth, Italy is one of the worst performers in the Chinese market. SMEs, which compose the largest majority of the Italian enterprise ecosystem, are actually far behind the other European countries. Considering that the Chinese market grows at high rates, and that the domestic demand for the Italian consumer goods grows as well, Italy must be able to modify its approach regarding the digital export, filling the gap between them and the rest of the world.
The Italian domestic e-commerce market, as we saw, is reaching its mature phase, but the low digitalization of the country, due to both the supply and the demand side, slowed the whole process and reflected this negative performance on the digital export market too: just the 10% of the Italian SMEs use the digital channel to export their products and services.
Italy must change something in both the domestic and the international digital market, to establish itself as one of the leading countries, enhanced by the high value globally attributed to its products and services.

Considering the Italian enterprises system's composition:

- Largest Italian brand as Armani, Barilla and Ferrero are multinational companies: their experience in the international markets, their large financial resources and the knowledge that they can easily acquire from the domestic players with which they cooperate, make their internationalization process successful in most of the cases;
- Italian traditional small and medium enterprises, due to the low digitalization level that characterizes them, badly perform abroad or, in most of the cases, they avoid adopting the digital export channels. The Italian SMEs lack of the necessary competences and of the born-with characteristics, reducing their performance in the foreign markets;
- Italian start-ups, in this situation, seems to be more likely to survive and to achieve a satisfying performance in the Chinese market, because they do not follow the same path of the traditional SMEs;

Start-ups, indeed, are companies that differ from the traditional SMEs because:

- They offer innovative solutions or products, usually based on a higher level of technology;
- Their team is highly motivated and focused on the growth of the company, to remunerate the investors in the planned time horizon;
- They are highly digitalized, and find it easier in adopting and integrating the digital channels and solutions within their business model;

- Their organization is not rigid, and allows them to adapt, change and improve to internally prepare the company to the impacting events in the business environment (agile organization);
- Some start-ups are born global companies: this means that in the business plan of some of the most opened start-ups, the internationalization abroad is a short-term goal to be reached;
- They rely on different financing sources than traditional SMEs, and grow in an environment in which partner up with strategic partners and accessing to essential services or technologies is easier;

In a context in which the Chinese market is growing and Italy is not getting all the benefits due to the low performances of the Italian SMEs, which composes the Italian B2B and B2C market both domestic and international, start-ups could be assumed to be the next driving force of the Italian role in the e-commerce market in China.

Without considering the largest Italian multinationals, that operate with specific dynamics that cannot be assumed similar to those of the traditional SMEs and start-ups, it is possible to assume that SMEs are less likely to change and to adapt to the digital revolution that is today disrupting the global market, at least in the short term. These companies lack of soft-competences and built a solid mindset around the traditional way of doing business, which characterized the Italian business environment since the economic boom right after the World War II.

Considering all that has been said since now, this thesis is based on the assumption that start-ups incorporate a series of characteristics, skills and managerial views that could put them in a more favorable condition regarding the adoption of digital channels in the selling of their products and services to the foreign markets and, in our case, to the Chinese market.

Starting from this assumption, considering that traditional SMEs bad and under perform in China and that this market, as long that it grows, enhances the untapped gap between Italian enterprises and the European ones, I assume that start-ups are expected to be the next driving force for the Italian cross-border e-commerce in China, vesting a major role in the gap reduction for the next years.

These two assumptions guided my approach in defining the goals of my thesis, and in the whole interview phase described in the following chapter. Collecting the proper information from the sample selected, orienting it toward the assumptions defined according to the methodology described, will help me in the achievement of my goals.

In order to make this thesis valuable and reliable for an academic purpose, I will try to select the most characterizing start-ups that are actually operating in China: being the sample small (as we will see, it is composed by three different Italian start-ups operating in China in the most strategic industries, and one start-up which is approaching the Chinese market, from which collecting some opinion and ideas), the selected companies will have to incorporate a whole set of characteristics that will allow me to assume them similar to the other start-ups operating in the same industry. In this way, the results obtained from this thesis will be applicable to the whole Italian start-ups ecosystem, adding value to the research and contributing to the spreading of a more accurate and pragmatic evaluation of the Chinese market, contributing to the rise of the Italian cross-border e-commerce in China.

3.2 – GOALS OF THE THESIS

As we saw, this thesis is based on the assumptions that start-ups, due to their characteristics, are more likely to successfully operate in the CBEC market and, for this reason, they are expected to contribute to the filling of the gap between Italian enterprises and the European ones in the reaching of the Chinese market.

These assumptions drove me in the definition of this thesis' goals, that will be achieved thanks to the analysis conducted according to the methodology described in this chapter. The goals of the thesis are here described in details, but my personal strategy in their achievement will be provided in the paragraph dedicated to the methodology, in which all the peculiarities of this thesis will be defined in order to generally described what will be then applied on the interviewed start-ups.

The goals that I will try to achieve with this thesis are the following:

Goal n. 1: Demonstration that China is a market that the Italian start-ups can approach thanks to the cross-border e-commerce channel;

Start-ups in Italy are subjected to a failure rate of the 90%: this means that 9 start-ups out of 10 fail within few years from their birth, and there are many reasons behind this scary data. The most frequent reason of failure is the absence of a market for their products or services: the start-up and its output could be innovative, but the product could not solve any need of the customers or could not be properly delivered to them. The absence of demand makes the company failing, because the market could not be ready or interested in the products as it is. The most appropriate strategy to overcome this risk is the adoption of the pivotian approach: testing the product on the market, collecting feedbacks and suggestions to re-develop the product to then test it again, could allow the start-up to create, in the end, a product that generates a market around itself.

Resuming what has been said since now:

Many start-ups fail because there could be no market for the output they deliver;

In order to increase the possibilities to survive, start-ups should be able to work according to the pivotian approach;

Applying these theoretical concepts to the assumptions defined, considering the Chinese case discussed in this thesis, we obtain the main goal of this thesis, that is demonstrating that the CBEC allows the Italian start-ups to access to the Chinese market more effectively than the traditional SMEs. If the Chinese market, as studied, would involve a set of characteristics that contributes to the creation of a start-up friendly environment, that directly or indirectly meets the needs and the peculiarities that are typical for this enterprise category, the goal described would be considered achieved.

In many cases, a product not demanded in the domestic country could instead be highly demanded in a foreign market. Expanding the market available is what the other European companies already did in the Chinese case. Italian start-ups, due to the low propensity from the Italian customer base to purchase through the digital channels, could find in China a more business-friendly environment, being the Italian consumer goods highly appreciated and demanded in the eastern country. The cooperation and the collaboration between the Chinese and the Italian government set the basis for a less restrictive and a more facilitated trade relationship, involving mainly the CBEC's channels. Italian start-ups are indeed pushed by the giant players in the Chinese market (re-sellers, marketplaces, platforms) at selling their goods or services in China, because these players, in particular Alibaba, created a whole market around the Italian products. Considering the most important CBEC platforms, as Tmall Global and JD Worldwide, these could be exploited by the Italian start-up to apply the pivotian approach in the foreign market: the CBEC strategy, differently from the general trade strategy, is characterised by a lower level of commitment, allowing companies to avoid structural investments and to collect feedbacks from the customers. These marketplaces, indeed, offer a wide range of data as a service to the partner companies, and the available digital tool in the Chinese markets would allow the start-ups to collect the feedbacks (as example, through WeChat groups) from the customers, to re-design the product or the service according to the suggestions received, to then sell it again only once it reaches the satisfactory level. This principle is aligned with the factor that marketing agencies operating in the Chinese market consider as the most important: the product must be created according to the Chinese needs. A product that is successful in the Italian market could fail in the Chinese market, without a domestic adaptation according to the Chinese customers' preferences.

The question that intuitively come in mind is that about money. Testing our product on the Chinese market is not free, but exposes the start-ups to many fixed costs (R&D, deposit on the marketplace, marketing expenses and data processing). If we link this consideration with the fact that the second reason why the Italian start-ups fail is because they run out of money, we could assume that the Chinese market should be avoided by these kind of companies, because only those which can count on a large financial capability should approach the Chinese market. This, according to me, is wrong. If a start-up should decide to start selling to China, the Chinese market must be considered as the main market (at least, it must be considered as much important as the domestic one). In this way, the fixed investment described will be justified, because of the long-term perspective and the intention by the managers to remain in the Chinese market for a long time, or for the whole life of the company. Considering this, if the approaching of the Chinese market would be one of the main part of the general strategy of the company, influencing all the other operative choices in the other market, the Chinese market could potentially be a gold mine for our start-ups that are looking for profits outside Italy.

Obviously, the cash-less situation in which the largest majority of start-ups are must be considered and it will be evaluated in the interview phase. Start-ups cannot make a single mistake and the Chinese market could potentially bring them to the failure. A proper initial strategy, created at the beginning of the life of the company, would help companies in overcoming this huge obstacle.

Goal n. 2: Evaluation of the strategies applied by the interviewed companies, looking for eventual differences from the strategies adopted by the largest majority of the traditional Italian SMEs in the Chinese market;

In the description of the first goal of the thesis I talked about the general strategy, referring to the definition of all the target markets of a new-born company, the intermediate goals and the general interventions to make the company running as predicted. When I talk about strategy, I refer to the set of actions and interventions to let the company successfully operate in a target market (it can be seen as a sub-strategy focused on specific target markets). Strategy is essential in business and taking decisions from a well-studied strategy is the key to succeed.

Evaluating the strategies applied by the interviewed start-ups operating in China could have a double scope:

It could allow me to understand strategical decision that are the same for similar companies, defining a kind of standard strategy that could be used and applied by future start-ups interested in the Chinese market;

It could help me in looking for substantial differences between standard SMEs and start-ups, supporting me in the definition of a list of "do nots" moves that start-ups should avoid to reduce the risks related to the internationalization;

In doing so, I decided to apply the model developed by the Osservatori Digitali, called "Digital export model", which simultaneously consider the choices grouping them in 7 different pillars. A better description of the model will be provided in the methodology paragraph.

Goal n. 3: Definition of the intrinsic characteristics that a start-up should have in order to be potentially effective in the selling abroad through the CBEC's channel;

Start-ups follow different dynamics compared to the traditional SMEs, that support them in achieving the necessary growth to survive during the whole lifecycle of the company. These companies, during the years, have been subjected to many studies and researches, aimed at defining the unique characteristics that allow to group these companies under the same category, including the characteristics of the managers and of the managerial team, the goals and the values, the fast growth and the internal organization.

In our case, the digital internationalization in China, there are some intrinsic characteristics that I assume impacting in the company's performance abroad. I will test my assumptions during the interview phase, in order to achieve this goal, and I will try to spot other characteristics that can be included in this category, defining a list that I expect to be useful to all these companies that self-evaluate themselves in order to understand if they fit well in the Chinese market. This list could be also used as a checklist of goals to achieve before getting ready to sell into China.

The characteristics that will be tested in this thesis are:

- **Born global**: born global firms are companies that, since their birth seek the foreign markets with a global focus, committing their resources in the international channels. These companies adopt strategies to expand into foreign markets immediately or within a short time since their birth (theories say within two years), exporting a not negligible share of their output (according to the theories, at least one quarter). Being the access to the foreign markets crucial for the life of the company, those companies tend to rely since the beginning on partners that, in the case of the Chinese market, could be represented by the marketplaces and the local TPs. These companies, due to the commitment of the resources on a specific market, offer specialize and adapt their products or services to the needs of a niche of the market. The mindset of its management is also crucial: a high propensity of doing business abroad, an open mind and a large flexibility and an entrepreneurial spirit are essential to make these companies succeeding into the Chinese market.

The concept of born global is an intrinsic characteristic of start-ups: from the description is not difficult to assume that the Italian born global start-ups could easily access into the Chinese market, succeeding and creating value for the whole country in the internationalization race to China. Being the born global concept a mindset and a strategy created at the birth of the company, the Italian future start-ups could born with the perspective that, adopting a coherent strategy, they could access to the largest market in the world, increasing their revenues.

- **Agile organization:** in a fast-moving world, continuously disrupted by the new technologies and new ways of doing business, companies need to be able to rapidly adapt to the contextual changes, in order to not be squeezed out of the market and keep performing well facing new challenges and untapped opportunities. The agile organization of the company, which makes the company as a living organism instead that a rigid machine allows to reduce the delivery times of outputs and solutions, permitting to response to changes in a quicker way thanks to the sharing of the information across the organization, the cooperation with the customer in the output definition, the re-configuration of the strategy, the structure and the processes depending on the environmental changes and the rise in the awareness of the role of the human resources involved in the company. The pillars behind the agile organization are clustered and resumed in the figure 3.1.

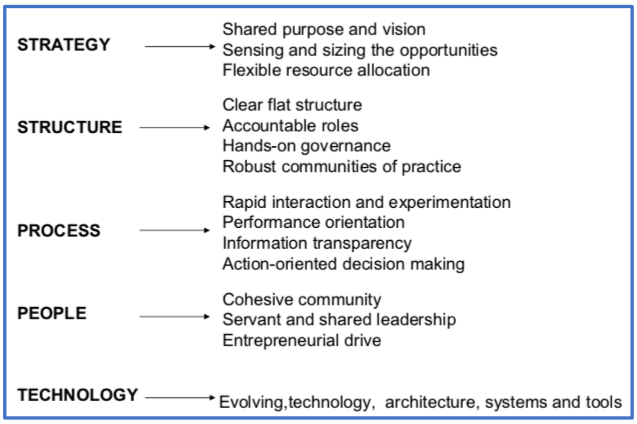


Figure 3.1 - Pillars of an agile organization. Source: Ignjatov, 2019

In our case, a company adopting this organizational approach could potentially perform better in the foreign market, operating in a flexier way and facing the issues coming from a totally different market. An agile organization could be directly linked to the company's success on the Chinese market and, for this reason, it will be considered as one of the starting characteristics to be tested on the sample.

In order to reach this goal, during the interview phase I will structure questions aiming at obtaining the necessary information to test these two characteristics, but I will also analyze the start-ups' responses in order to define additional elements to create a kind of profile of the more likely to be internationalized start-up.

In order to graphically resume the assumptions at the basis of this thesis and the goals I set, before introducing the more practical topics of the next paragraphs (the sample definition and the methodology section, in which all the questions, the tools and the frameworks used in the study will be described), the figure 3.2 tries to resume all the activities, the flows and concepts behind this thesis.

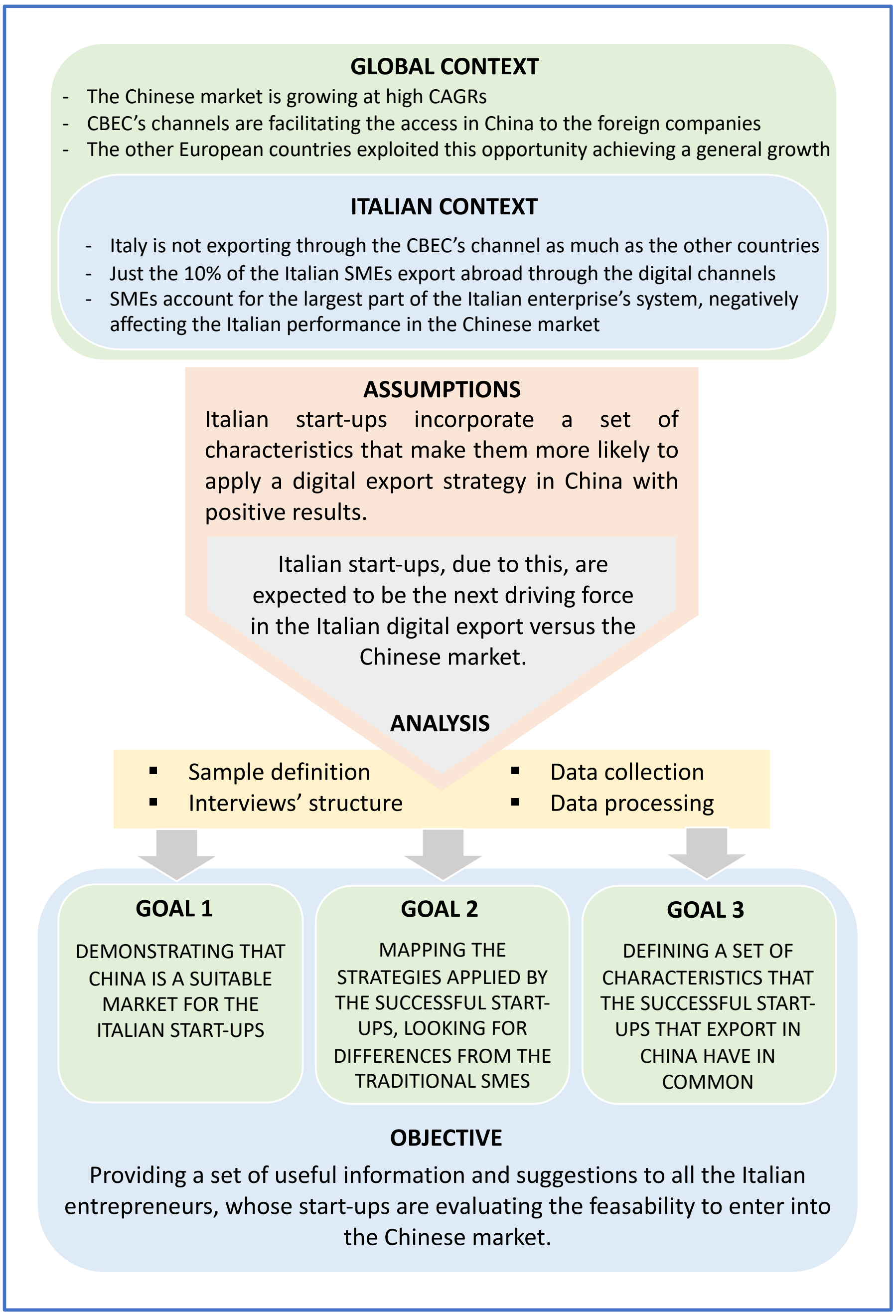


Figure 3.2 - Thesis' framework

3.3 – SAMPLE DEFINITION

In this paragraph I will define the selection process of the sample companies and I will describe the interviewed companies from the source of information available online.

3.3.1 – What is a start-up?

There are many different definitions for "start-up". The five I like the most are those said by 5 different legends in the entrepreneurial field (Start-up business, 2016):

"*A start-up is a temporarily organization built on an innovative idea, that is searching for a scalable and repeatable business model"* - Steve Blank

"*A start-up is a company built to grow at incredible high rates*" - Paul Graham

"*A start-up is a monopoly, thus a company which must be unique*" - Peter Thiel

"*A start-up is a human-based entity built to offer innovative products or services, in highly uncertainty environments*" - Eric Ries

"*A start-up is a company which has a great idea with a valuable market, a great team and a great product. Also, it must deliver this product in a great way*" - Sam Altman

Looking for a general definition, mixing the five previous definitions, we can define the start-up as a company that:

- Has an innovative product with a valuable market;
- Is searching for a scalable and repeatable business model;
- Operates in environments characterised by high level of uncertainty;
- Grows fast and at high rates;
- Has a strong link between its performance and the team that manages it;
- Is temporarily;
- Must have characteristics that make it unique in the enterprise ecosystem;

3.3.2 – Sample selection process

In order to carry on my study, I had to select different start-ups operating in China in the most strategical and meaningful industries of the consumer goods market.

This task was far from easy. The absence of a former study in which all the Italian start-ups operating in China were listed, brought me at looking for an alternative method to search for these companies from the Italian enterprises' system, knowing that:

- The information about the Italian start-ups online is not satisfying in term of volume: there is not an updated register or an alternative source in which companies can be easily found according to different search criteria;
- The Osservatori Digitali focuses its studies on the SMEs only: there is not an updated database containing start-ups companies;

- The incubators, accelerators and co-working spaces, due to the privacy compliance, are not allowed to provide to any external private sources the contact and the information about a specific company;
- Specialized press companies as “Start-Up Italia” are not willing to cooperate with a private person for a thesis study;

In this context, I started to recognize the lack of contact sources as an important and critical aspect: without an intuitive and easily accessible source of information, I would not have been able to create my own sample, to study it and to deliver my output. I decided to start looking for a creative and smart way to look for contact sources, overcoming the obstacle that I was facing.

Remembering that, as I described in the first chapter, China and Italy are today cooperating in the start-up industry to share knowledge, innovations and know-how, bringing the Chinese investors at moving financial funds versus Italy, I selected the most appropriate start-up competitions between these two countries, choosing only those focused on the industries in which I was interested.

From the articles wrote about the results of these competitions, by the specialized press, I selected the most appropriate start-ups simply looking at their websites, filtering them according to different characteristics:

- Companies with the Chinese channel already active and profitable;
- Companies operating in the consumer goods market;
- Companies whose export to China is performed through the CBEC’s channel;

The industries in which I focused to create my sample are the ones described in the previous chapter:

- The **infant and childcare market**, one of the most successful markets for the foreign companies in China;
- The **fashion market**, an industry in which we, the Italians, are recognized globally to be the best in terms of quality, design and style;
- The **food and wine market**, another market in which the Italian products are considered to be the best in the world;
-

A graphical description of the sample selection process can be observed in the figure 3.3.

Identified the companies suitable for my study, I started sending email to the ones I had select. Some of these refused to participate to my interview, while the other were enthusiastic to take part to the project. With the companies that accepted, I established the contact through email, sending them a preview of the interview, to let them prepare the answers on the topic covered, to then discuss about the date of the meeting.

I also selected for this study a company that works in the tourism industry. This company is now approaching the Chinese market, but the project is not defined yet. The company was one of my personal peers because, in 2019, I cooperate with them in the role of “Business developer trainee” for a six-months long experience. I really think that their contribute to this thesis, due to the high competences about the start-up environment that this company includes in its management, could support me in the assessment of the goals related to start-up (G1 and G3), but I will not be able to assess their strategy

(G2) and to obtain other practical information because their Chinese business is not started yet. Despite this, their contribute will help me in integrating the information obtained from the three other companies.

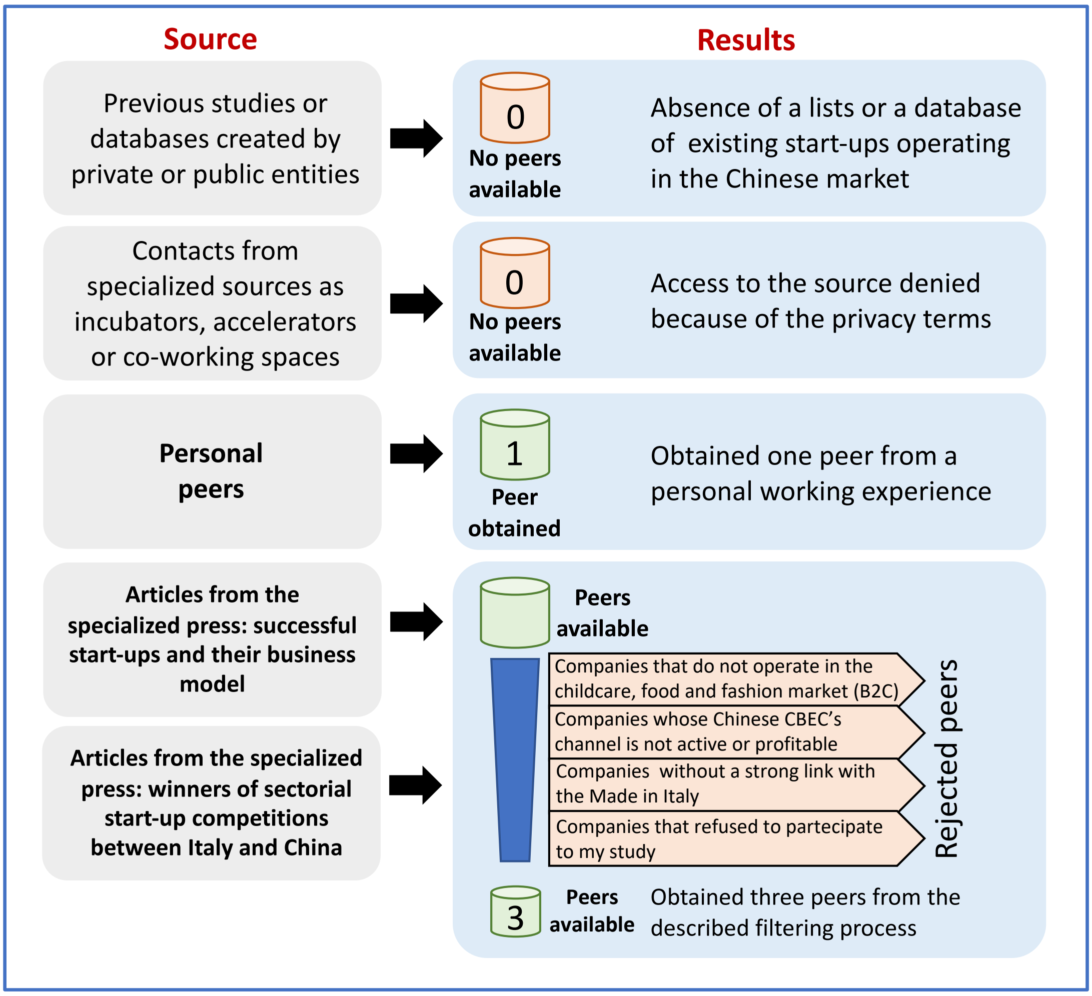


Figure 3.3 - Sample selection process

In the following paragraphs, the four selected start-ups will be described according to the available online sources (articles and websites). These companies work in relevant industries in which the "Made in Italy" products are demanded by the Chinese customers because perceived as high quality and premium: a detailed description of these industries has been already provided in the chapter two – paragraphs 2.3.4.

3.3.3 – Ventuno (Food industry)

Ventuno is a start-up created by Ines di Franco, an Italian woman who worked in the food industry in France and noticed that people were interested in the Italian products, in the history behind these food specialties and in the Italian lifestyle.

What Ventuno does

Ventuno selects premium food and wine products from selected suppliers, combines them according to its CEO's experience in the gourmet fields and sells them in luxurious and premium packages. In order to differentiate itself from its substitutes or competitors, Ines Di Franco decided to leverage on the premium quality of its products but also on the customer experience, creating multi-media contents in virtual reality - VR related to the products that customers can taste from the boxes purchased. The boxes are created according to the specialties that are typical for specific Italian regions and cover three main “foodie” moments of the day: lunch, happy hour and dinner.

Ventuno as start-up

Supported by her sister Valentina Di Franco, marketing manager in Vogue, Ines launched her start-up attracting investors and partners that spotted in Ventuno a potentially profitable company.

In 2016, thanks to the support from the Bank of China and the accelerator G2 start-up, the project Ventuno became reality and the company, provided with the necessary financial resources and competences, started to create its boxes selling them to the foreign customers.

Today, the company is still in its start-up phase, achieving high levels of growth and continuously expanding its offer and its target markets. A deeper analysis of the start-up status will be done in the interview phase of this thesis.

Their Chinese experience

Since the birth of the company, Ventuno was naturally linked to the Chinese market. The interest of many Chinese investors, as the Bank of China, which selected it for the China-Italy SME cross border Investment and trade conference in 2016, and the cooperation between Italy and China in the start-up field (as described in the chapter one), created an environment that launched Ventuno in the China. In 2017, the Chinese market for Ventuno became reality, thanks to the Italian Scaleup Initiative in China - ISIC2017, a competition which was aimed at supporting the winning Italian start-ups (Ventuno was one of the ten finalists) in the access to the Chinese market.

3.3.4 – Mukako (Childcare industry)

Mukako is one of the most successful Italian start-ups in the international global market: founded by Martina Cusano and Elisa Tattoni, who created a modular play-table made out of wood that is highly customizable and adaptable to age of the targeted children, the company is now one of the best performer in its industry, with an earning level of more than €10 million. Their product won the “Gold Parent’s Choice Award”, a globally recognized prize that highlight the success that Mukako obtained thanks to their passion and their premium quality.

What Mukako does

Mukako‘s founders created an empire out of a simple need: kids need toys to play with, and these toys change according to their ages and interests. For this reason, every house is filled with useless and abandoned toys that kids use for a short time to then pass to other new toys, with new features. There was not a toy that would fit the needs of kids throughout their growth. Mukako, in order to solve this issue, created Mutable, an adaptable play-table with 7 modular components assumed to follow the kid’s interests along his growth.

Mukako as start-up

The project was launched in crowdfunding, collecting more than $ 300.000 at its launch and arriving to more than € 1.300.000 from 2.500 supporter, becoming the second most successful campaign in its category ever created on Kickstarter. Mukako immediately attracted one of the largest toys-producer in the world, Hape. Thanks to feedback collected from the public and the large industry, the production of Mutable started and the company moved its first step into the market, with positive results. The company started to grow, and the revenues reached more than € 10.000.000 in 2018. Over time, the company expanded its offer with other child-related products, but Mutable still remains the most appreciated, sold everywhere in the world.

Their Chinese experience

In 2019, Mutable became the “Best New Brand” on Tmall Global and one of the best performers on the Alibaba’s CBEC platform, with more than € 1.5 million earned through Tmall.

Mukako started its internationalization process in the earlier phases of its life: from 2015, the company started to sell its products in the European countries but also in the eastern area (China, Taiwan) and the western one (USA and Canada). In the case of China, in 2018, the company decided to access the biggest market in the world through the e-commerce giant Tmall Global, opening an official Mukako’s flagship store, generating more than € 1.5 millions of revenues (from the biggest cities and the less developed areas of the country) in a market in which, as we saw, the child-care industry from the foreign countries is popular and less sensitive to the price, being the Chinese customers demanding for high quality and safe products.

Today, as told by company’s CEO Elisa Tattoni, China is the main market in which Mukako is operating, with a huge potential of growth in the following years: since 2019, more than 6.000 Mutable and other 12.000 components were sold to China. Due to this, Mukako is trying to develop the product specifically for the Chinese customer (one example, creating a Mutable coloured in “cherry”, a highly demanded and appreciated colour by the Chinese customers), cooperating with local players in many fields of the business development (actually, they are evaluating the adoption of some physical channel in addition to the online trade channels).

3.3.5 –ACBC (Fashion industry)

ACBC is an Italian start-up based in Milan founded in 2015 by the manager Gio Giacobbe and the designer Edoardo Iannuzzi, with the goal of creating the most innovative shoes' brand in the world.

What they do

They sell modular shoes for men and women through digital and physical channel, in many countries around the world. Their value proposition is composed of two main elements:

- Modularity and customizable shoes: each pair of shoes is made of a skin and a sole, that can be connected through a zip. Obviously, the customers can choose to assemble his pair of shoes in many different colours and styles, according to his personal taste and style;
- Environmental sustainability: from the production process to the material in which the shoes are made, ACBC focuses lots of its forces on the environmental sustainability of the company, creating value for world. For a single sole, there are more than 100 skins available, and with 10 soles available, there are 1000 different combination possible;

One of the most interesting fact about ACBC is their focus on the physical retails: the company, in addition to the online sales, owns and runs physical 40 shops all around the world (Europe, Asia and South America).

ACBC as start-up

In 2019, the project was launched on Kickstarter with the name "Made2Share", after two years of development. The video they created was seen by more than 50 million people, and more than 2.500 people financially contributed to the project. Thanks to the collaboration and the co-branding with many giants of the fashion industry, as Armani and Moschino, this innovative start-up de-facto innovated the fashion industry, arriving at opening more than 35 flagship stores in 8 different countries. With the last round, ACBC collected more than € 750.000, that the founders intend to invest in the internationalization in other countries.

Their Chinese experience

ACBC started with a flagship store in Shanghai. Actually, the production process take place in this country, where one of the two founders was living when ACBC was born.

With the expansion, the start-up opened more than 35 flagship stores around the world, and nine of these within the Chinese borders. This allowed ACBC to be strongly connected with the Chinese market since its start, creating a product that meets the requirements of both European and the Chinese customers.

3.3.6 –Wonderful Italy (Tourism industry)

Wonderful Italy is an Italian start-up based in Milan involved in the Italian in-flow tourism industry. I personally worked for them for a six months long internship, in the role of business developer.

What they do

The start-up focuses its effort in the less famous and popular destinations leveraging on the local entrepreneurs, pushing them at offering experiences to worldwide visitors. Wonderful Italy works also as property manager, directly managing the local properties as villas and apartments selling them according to its own conditions. They basically sell touristic products (as holiday packages, single accommodation or experiences) to dispersed global customers, through:

- Digital channels, as Online Travel Agencies OTAs, dedicated marketplaces and other digital partners;
- Partners dislocated everywhere in the world;

Wonderful Italy as a start-up

The company operates according to the idea "Live like a local", according to which a tourist, during the stay in a foreign country, should live the experiences as they were locals to taste the real local culture. Wonderful Italy, in order to offer its services in the best way possible, applied a decentralization strategy, opening a controlled company in each area in which they are actually operating, decentralizing to these hubs the local operations. This strategy allowed the company to rapidly grow (actually, it has more than 100 employees and 5 operating local hubs in 4 different regions in Italy). The enormous growth and the work-load necessary to run this incredible start-up brought the company at facing the largest of its costs, the "cost of employees" that, since the foundation of the company, is overcoming the start-up's revenues.

Due to this, Wonderful Italy is still financially dependent from a venture capital company called Oltre Venture, a private fund focused on the impact investments. They indeed select and finance the start-ups with a valuable social scope, as that of Wonderful Italy, because it:

- Creates local entrepreneurs;
- Brings tourism and welfare in less beaten areas;
- Tries to re-balance the tourism flows in seasonality conditions;

Wonderful Italy is soon-to-be profitable company, as expecting from its business plan built with Oltre Venture. In the next years, the company should be able to self-finance itself, increasing the level of the internal organization and abandoning the "Start-up status" that actually is characterising it.

Their Chinese experience

During 2019, the company started to open its offer to the eastern customers, recognizing the strategic importance of the Chinese market in the achieving of one of its essential goals, that is growth. The management of the start-up took part at the 2019 Shanghai's tourism fair and started creating a local network of partners that, as we saw from the chapter two, is an essential strategy to deal with the cultural differences. Actually, Wonderful Italy's Chinese channel is not fully operative. The company is moving toward that direction, but at the moment it is impossible to properly assess and map the digital export strategy. For this reason, I decided to interview this company in order to verify the basic assumptions of this thesis, satisfying the sub-goals G1 and G3 (that I will explain the following paragraph) thanks to the experience and competences of Karin Venneri, who will be presented in the following chapter. For this reason, Karin will be interviewed to support the achievement of the sub-goals G1 and G3.

3.4 – THE DIGITAL EXPORT MODEL

The most important tool that I will use in this thesis is the Digital Export Model developed by Osservatori Digitali focused on the global Export, a research entity that exists within the Politecnico di Milano. The model allows each company to design the digital internationalization strategy leveraging on the seven main pillar, resulting in the choices and in the intervention that are necessary to succeed in the foreign market.
The authors of this model, which are Giuffrida, Mangiaracina, Marvasi and Tajoli, clearly highlight that this model, in order to be effective and to strategically support the e-commerce expansion of the Italian firms, must be adapted to:

- The target market and the customers' characteristics, discussed in the previous chapter;
- The company's characteristics and its peculiarities, that will be highlighted in the interviews performed;

Considering that the model was obtained sampling many medium and large companies, considered to be the most capable firms in term of financial solidity, we cannot neglect that start-ups, whose dynamics are usually different from those of already structured companies, could be subjected to different elements of the same pillars.

3.4.1 – The model

A graphical representation of the model is observable in the figure 3.4. As we can notice, it is composed by seven main strategic decisions or pillars are (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018):

Figure 3.4 - The Digital Export Model, Source: Osservatorio Export, Politecnico di Milano

Trade channels

All the digital channels that enable a foreign firm and a domestic customer to complete a transaction. In the case of the digital export, in addition to all the traditional offline channels (wholesalers, resellers, importers, etc.), a foreign company can count on:

- **Online retailers**: these players can be located in the foreign country (as Eataly or LuisaViaRoma), domestically in the target country (as JD Worldwide or Suning), or in a third country (As Amazon). They buy the goods from the foreign firms and re-sell them through their own channels (both physical and digital, depending on the retailer) to the final customers.
- **Marketplaces**: they aggregate a wide and dispersed supply from a large base of foreign suppliers, acting as intermediates in the transaction between the foreign firm and the domestic customer (the main example is Tmall Global but also JD Worldwide).
- **Flash sales**: they offer less-popular products from less famous firms applying huge promotions and discounts. These websites (as Vip.com) buy the goods from the foreign firms only once the order is placed.
- **Owned e-commerce website**: the company itself can decide to create and run an owned e-commerce website, to better control the transactions in the target country and increase the brand's awareness. Without a proper strategy, this channel could be a bad choice.

Foreign companies usually decide to sell through more of these channels contemporarily, to reach different niches in the country or to test them to then increase their commitment.

Logistics

All the choices and possibilities that a foreign firm has to ship the product to the final consumer, after the order is placed. Operatively, the sets of choice a foreign company must take in the field of logistics involve:

- The structure of the logistic network (the number of nodes, the types and their location to optimize the whole network);
- The modes of transport for different typologies of good and to different areas of the country;
- The choice to externalize to a third-party service provider the whole (or part of the) logistics process;

The drivers that affect the logistics choices are the value of the goods, that must overcome the costs of a domestic partner or to guarantee a payback of the investment in an owned network, the expected traded volumes, that should be high enough to justify an property warehouse in the domestic market, or the difficulties in terms of regulations and customs, that can vary depending on the logistics choice we take.

Marketing and communication

All the practices and tools adopted by the company to let the audience know about the brand and its products. In the digital case, firms can exploit the online channel to appear as one of the first results in the search engines (Search Engines Optimization, SEO) or to make the image of the company better than that of competitors in the search results (Search Engine Marketing, SEM). One of the most effective is the social media marketing, which gained popularity especially in the case of China, because of the trend described in the previous chapter.

Considering that the global market is getting used to shop on mobile devices (smartphones), firms must know that focusing their effort on this category of consumers could be profitable.

A pain point, for culturally distant countries, is to partner up with a local company to create the perfect marketing campaign based on a proper marketing mix.

Payment system

How the company physically expect to raise money from the customers located locally.

A customer could not trust in a firm located in a country culturally different from his nation and for this reason the payment system must be safe and easy enough to enable the transaction between them to happen.

Traditional payment systems (cash, bank transfer, etc.) are mostly used offline by those people which are the less propense to the digitalization, but they are costly for the company which issues the payment. Most people worldwide opt for the credit card, but nowadays innovative digital payment systems enabled by the smart banks and innovative companies are disrupting the payment market.

In order to evaluate a payment system, a company should keep in mind the costs of using the system, the safety related, the possibility to integrate it within the company's system and the adoption level among the customers (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018).

Legal aspects

All the aspects related to the country's regulations, policies and laws, and the limits imposed by the custom.

The model defines the legal aspects in:

- Modes to access the market: laws and requirements necessary to operate in a country;
- Barriers to entry: cultural and governmental obstacles that disincentivize a foreign firm to enter into a market, to protect domestic firms from the global competition;
- Local law and policies: all the rules of the game existing in a foreign market and imposed by the local government;

Having a deep knowledge about all the legal aspects could aware the foreign company about the costs that must be sustained in order to operate in the country.

Financing

How the digital internationalization is financed.

A profitable digital internationalization process must be able, in the medium-long term, to finance itself re-investing the revenues it generates, after an initial phase in which the finances come from other activities and actors.

The initial investment is made by fixed costs, which cannot be re-obtained in the case of exit, and variable costs that are counterbalance by a not certain amount of profits. Due to this, the financial resources used to finance this investment come from:

- The company's capital, in case the company is large and financially capable;
- Private debt's capital: money from banks and other investors;
- Public capital: money from the administrations which support companies in their internationalization project;

Finding the proper financing source for a small company is essential, because revenues are uncertain and post-dated, and the cost of capital must not overcome the Return on Investment – ROI of the export project.

Organizational issues

How the company organizes itself (internally) to manage the digital internationalization process.

The company's internal organization must be digital-oriented, capable to fully exploit all the possibilities that this process can offer. Two key roles are the "Export manager" and, more in detailed, an "E-commerce manager", who can be specialized in specific markets worldwide. These figures and their functions must cooperate to maximize the effectiveness abroad. Depending on how the company approaches the foreign countries, applying a standardized or a differentiated strategy among different markets, new figure should be added to better manage different trade channels in different countries (differentiated strategy).

3.4.2 – The digital export model applied on the Chinese market for an Italian company

The digital export model was applied by the authors considering medium-large enterprises exporting in the Chinese market.

Starting from the model applied on medium-large companies, I will look for differences applying it on a small sample of start-ups, in order to achieve the goal n. 2, demonstrating that:

- The model can be applied on start-ups too;
- The model changes when applied to start-ups;

The pillars considered are the seven described in the previous paragraph. Their definition can be verified, as a prove of the quality of the model, by the detailed description of the Chinese market done in the previous chapter.

Trade channels

In order to sell in China, a foreign company can decide to sell:

- **Marketplaces and other leading platforms**: Tmall Global, JD Worldwide or VIP.com (in addition to other actors) are the most common solution to sell the products to the mass market. They offer comprehensive services in an intuitive way to all the foreign companies interested in China. Due to this, competition is really high and the companies which are able to survive are those with the most effective and updated marketing.
- **Niche platform:** some marketplaces are specialized in specific segment of the market in terms of product categories, clusters of customers or geographical areas. These platforms are suitable for the companies that offer niche products, allowing even the less known brand to reach the customers interested in their products or services.

- **Social media companies**: as described before, the Chinese market is characterized by a strong link between the online commerce and the social media's dynamics, and some social platforms, as WeChat, are perfect to manage the brand's identity and to complete transactions. A WeChat's group can be accessed by customers scanning a simple QR code, allowing the brand to broadcast to the audience promotions and to obtain real-time feedbacks.

Logistics

Due to the high expected service level that the Chinese customer want to receive, a foreign company can decide to ship the goods following the two strategies described in the previous chapter:

- **General trade**: goods are sent from the country of origin to the final customer through carrier or other players, when the order is placed;
- **Cross-border e-commerce**: goods are sent to the bonded warehouse in China in large volumes, before the order is placed. These warehouses, as we saw, are located in many strategic cities and areas and allow the companies to accomplish all the custom's control only when the order will be placed.

Depending on the value of the goods and the target service level, foreign companies can opt for different solutions: for most of the low-valued goods, a bonded warehouse is the right choice because the cost for keeping the stock is low and the impact of the transport cost is reduced shipping by boat. For high-valued goods, bonded warehouses are usually ignored to avoid the cost for keeping the stocks, that would be high, in favor of a shipping process that exploit transit points. The high value, in this case, justify a faster and more expensive mode of transport, as the shipping by air.

Marketing and communication

For the less famous brand in particular, the marketing investment is essential to survive in the Chinese market: depending on the good category, the marketing investment can vary from € 50.000 to € 300.000 (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018).

The marketing investment must be focused:

- **On the marketplaces and the platforms:** through banners and ad-slots in the home pages of the most popular marketplaces, foreign companies can increase their visibility, considering that million people every day see the contents on the main page before searching for the products they want.
- **On the social networks:** as described in the previous chapter, dedicated campaigns and flash promotions can be incredible effective on the Chinese social networks, which are different from the western ones: Weibo (the Chinese Twitter), RenRen (the Chinese Facebook) or Youku (the Chinese Youtube) are just few of the equivalent socials composing the Chinese reality.

Payment systems

The Chinese e-payment providers' market is composed by credit-card providers (as UnionPay, the less adopted in the e-commerce's case), commercial banks or third parties offering payment services, that own the larger share of the providers' market.

These companies, in particular, offer alternative means of payment, both usable on the desktop or on the mobile channel. The most adopted is that from Alibaba's group, called Alipay: this digital mean of payment leverages on the safety of the payment system, allowing the customer to deposit the sum at the moment of the purchase, transferring it to the issuer only once the goods are received and the compliance verified.

Another third-party payment provider that is popular among the Chinese customers is TenPay, from Tencent group, that is the holding which owns WeChat. In this case, the integration within WeChat and TenPay is the most efficient possible.

Legal aspects

The policies around the CBEC in China allowed always more international brands to focus their selling effort into the Chinese market. These can vary depending on the level of commitment a firm put in the Chinese market.

A foreign company, in the case it creates and runs an owned website in China for the online commerce, must:

- Create a legal entity in China allowed to sell through the web;
- Obtain a license by a local authority in charge of managing all the technology issues, called Internet Content Provider (ICP), compulsory only in the case of an owned website in China;
- Provide all the information and the contents available on the website in the Chinese language;

The legal requirements are less restrictive in case the company decides to sell through the already described platforms and marketplaces: these domestic players include in their offer to the foreign firms a legal compliance for the acceptance of the payments and the post-selling service, being these included in the set of services offered.

An important legal aspect to accomplish is the trademark of the foreign company: this logo must be registered in China and translated into the Chinese language, in order to prevent that someone could use it to defraud other people.

The policies about the CBEC are making the Chinese market suitable for a large number of firms worldwide, facilitating the access of a large list of goods at favorable conditions. A detailed description of the governmental intervention can be found in the previous chapter.

Financing

At the beginning of the internationalization process, costs will overcome the revenues in most of the cases, and will vary depending on the:

- Industry and product category;
- Trade channels;
- Selling strategies;
- City or area in which selling;
- Volume of goods sold;

The investment in the first years will require at least € 100.000 per year: all the costs to set up the structure (that vary if we create a legal entity in China) and all the operative costs (marketing, fees for the platforms, payment of all the third party service providers and custom accomplishment) elevate the payback of the digital export to China at more than three years (Giuffrida, Mangiaracina, Marvasi & Tajoli, 2018).

The uncertainty about the success abroad and the profitability of the project, the huge investment required at the beginning and the large payback time to re-cover the initial investment with the revenues to make the business self-sustaining: all these elements make the choice of the financing sources critical to survive on the medium-long term and to not expose the company to the financial risk.

Organizational issues

Being the Chinese market culturally complex and different from the western markets, having a person specialized in the peculiarities of the Chinese market could put the company in a more advantaged condition than its competitors: in order to successfully operate in China many companies rely on local experts or specialized companies (the third-party service providers) looking for support in the logistics, in the management of the online shop or the company's website and in many other activities.

In order to select the most appropriate partner locally, a company should:

- Look for a company operating in the same industry;
- Evaluate the offers of these players, that can vary from the complete management to individual activities, depending on the company's necessities;
- Evaluate the costs of the third party: these can vary from an extra 5% to an extra 12% on the platform fees, in addition to the fixed fees that change depending on the third party's characteristics and popularity;

3.5 – METHODOLOGY

This paragraph of this thesis is focused in providing all the practical tools, frameworks and strategies in the achievement of the previously described goals, describing the whole building process of the frameworks that will be used in the next chapter.

For simplicity, the goals of this thesis, previously described, are the following

- **Main goal**: providing to all the Italian entrepreneurs that could need it a set of useful information, roadmaps, suggestions and strategies about the Chinese market, to incentivize a larger number of Italian start-ups at selling in China through the cross-border e-commerce channel;
- **Goal 1**: demonstrating that China is a profitable market for companies that are still in the start-up phase;
- **Goal 2**: highlighting the digital export strategy adopted by start-ups, looking for common peculiarities in the strategies of these companies and for differences from that of the traditional Italian small and medium enterprises;
- **Goal 3**: listing all the intrinsic characteristics that facilitate the link between the start-ups and the Chinese market, in order to build a list of features that future start-ups can build, develop or create before approaching the Chinese market;

In order to create the questions of the following interview, I studied these three goals (aimed at reaching the main one) and I decided to add another level of detail in their description, defining some sub-goals as defined in the figure 3.4.

To each of these goals (main, standards and sub-goals) I will associate a code, that I will use in the frameworks to the analysis of the data obtained from the interviews. The sub-goals will allow me to better give the proper direction to the questions that I will make, orienting the whole study toward a defined and precise direction and supporting me in the definition of an analytical framework that I will adopt in the analysis of the results.

3.5.1 – Sub-goals and related questions: creation of the main frameworks of the thesis

I will now define the main framework that I will adopt during the whole thesis, from the question definition phase, to the interview phase and the mapping process of the companies' answers, to the final analysis of the obtained results.

Each of the goals will be divided into many other related sub-goals, and for each of these I will list the main essential questions that will be used to achieve the upward goals. The whole process follows a bottom-up approach in the demonstration of the goals that are considered plausible thanks to the assumption already defined at the beginning of this chapter.

This paragraph will be structured as follow:

- For each of the goals I will define the related sub-goal provided with a description and a code that I will use in the framework.
- For each of the sub-goals, I will list the questions that I will take in the interview phase: I will highlight the questions that will be included in my framework, defining the responses I expected to receive in order to achieve my sub-goals,

but I will also list the questions that will support me in the definition of the overall picture about the company and the Chinese market;

- I will provide the graphical framework that will support me in the whole study;

GOAL 1 (G1)

The first goal of the thesis will be considered achieved with the achievement of the following sub-goals. The following tables:

- Describes the sub-goals;
- Lists the key questions with a description and an achievement criterion that will be useful to complete the final framework;
- Lists the supporting questions, useful to develop and create an overall picture of the business case studied;

SUB-GOAL G1a

<table>
<tr><th colspan="3">Sub-Goals of G1 – Questions – Descriptions – Achievement criteria</th></tr>
<tr><td colspan="3">SUB-GOAL DESCRIPTION</td></tr>
<tr><td>G1a</td><td colspan="2">Demonstrating that the interviewed companies approached China while they were start-ups</td></tr>
<tr><td colspan="3">The definition of start-up is wide and often different definitions are contemporarily valid. In order to achieve the G1, we must demonstrate that the companies included in this sample approached the Chinese market in their start-up phase, comparing their definition of start-up with the one obtained in the previous paragraphs. This sub-goal (G1a) is linked to G1 because, if we demonstrate that start-ups in different stages were able to operate in the Chinese market, this finding will contribute to the demonstration that China can be considered an opportunity market for our start-ups.</td></tr>
<tr><td colspan="3">KEY QUESTIONS</td></tr>
<tr><td>Q1</td><td colspan="2">Did the company approach China during its start-up phase?</td></tr>
<tr><td colspan="2">Demonstrating that China can be approached even by start-ups.</td><td>If the company answers positively, Q1 will contribute to the achievement of G1a.</td></tr>
<tr><td>Q2</td><td colspan="2">Which was the situation of your company when it approached China?</td></tr>
<tr><td colspan="2">Demonstrating that a start-up can approach the Chinese market while it is still looking for its final internal organization.</td><td>If so, Q2 will contribute to the achievement of G1a because it will support me in demonstrating that, even dynamic and changing organizations as most of the start-ups are, can approach the Chinese market;</td></tr>
<tr><td>Q3</td><td colspan="2">According to you, are start-ups more likely to sell in China than traditional SMEs? Why?</td></tr>
<tr><td colspan="2">Collecting opinion by the start-up's entrepreneurs about the feasibility of the Chinese market for a start-up.</td><td>If the opinions are favourable, Q3 will contribute to the achievement of G1a.</td></tr>
<tr><td colspan="3">SUPPORTING QUESTIONS</td></tr>
<tr><td colspan="3">According to you, what is a start-up?
Which are the main differences from start-ups and traditional enterprises?</td></tr>
</table>

Figure 3.5 - Sub-goal G1a

SUB-GOAL G1b

Sub-Goals of G1 – Questions – Descriptions – Achievement criteria	
SUB-GOAL DESCRIPTION	
G1b	Defining the obstacles that start-ups found and how they overcame them
Start-ups, compared to the traditional SMEs, could face similar obstacles but also unique difficulties related to their particular life-stage condition. Mapping these obstacles and analyzing the way in which start-ups overcame them will support me in the achievement of G1, because the sub-goal G1b will demonstrate that the entry barriers for the Italian start-ups in China are not impossible to overcome, adopting a proper strategy.	
KEY QUESTIONS	
Q4	Which are the obstacles considered exclusive for the start-ups?
If I can map the obstacles that are typical for the start-ups in the case of the digital export to China, I will obtain a complete list that could contribute, if considered and predicted in the planification phase, to the positive results in the digital export project.	If the list can be created, Q4 will contribute to the achievement of G1b.
Q5	How does the companies overcome these obstacles?
If the interviewed companies found a way to overcome these obstacles, it will demonstrate that China, even if highly complex, could be successfully reached by the Italian start-ups because these companies demonstrated to be able to positively act in the resolution of the issues.	If so, Q5 will contribute to the achievement of G1b.
Q6	Were these obstacles predictable?
Predictable obstacles and difficulties can be considered in the planning phase of the Chinese project, allowing the start-up to prepare a proper strategy to overcome them.	If some of the obstacles listed are considered predictable,, Q6 will contribute to the achievement of G1b.
Q7	How do they managed to react to the unexpected difficulties faced in the Chinese market?
If the interviewed companies found a way to positive solve the unexpected and unplanned issues and obstacles, this will support the assumption that start-ups can react and solve even the unplanned obstacles.	If so, Q7 will contribute to the achievement of G1b.
SUPPORTING QUESTIONS	
Which are the obstacles they found in the Chinese market?	

Figure 3.6 - Sub-goal G1b

SUB-GOAL G1c

Sub-Goals of G1 – Questions – Descriptions – Achievement criteria	
SUB-GOAL DESCRIPTION	
G1c	Demonstrating that even start-ups could financially sustain the Chinese project
The second reason of failure for a start-up is related to the financial burn-out. The Chinese market is a complex reality that requires not negligible fixed investments that in most of the cases will not be re-obtained as disinvestment. For this reason, start-ups, considered less financially capable than traditional SMEs, could be considered as less likely to operate in the Chinese market. This sub-goal, G1c, instead, will support me in demonstrating that the Chinese market is financially sustainable by start-ups adopting a proper strategy and a coherent financial approach, linking the financial feasibility of the project carried on by these companies to our upward goal, G1.	
KEY QUESTIONS	
Q8 Is the Chinese channel self-sustaining in terms of revenues?	
Having the revenues coming from the Chinese channel higher than the costs and the investments necessary to operate in this market would signals that the Chinese project can be positively approached even by our start-ups. A pain point in this question is about the initial investments: the fixed costs necessary to enter into the Chinese market will be, reasonably, higher than the revenues, especially at the beginning of the internationalization project.	Q8 will contribute to the achievement of G1c if the company already reached a self-sustaining position in the Chinese market or if it is able to show that the self-sustaining position will be reached in a short-medium planned time window.
Q9 How the Chinese channel is financed?	
Different financial sources expose the start-up to different financial risks. Private financing as bank debts and similar sources could heavily damage the start-up in the case of bad performances, while other less-restrictive sources, as the crowd-investments or the governmental support, could let the start-up operating in a more flexible way.	If the financing source allows the company to be more flexible, Q9 will contribute to the achievement of G1c.
Q10 Does the financial plan consider failure?	
A studied and well-planned strategy could support each company even in the achievement of the hardest goals. Start-ups that are able to plan and be prepared to the most impacting events are more likely to survive. If the company included in the planning phase the risk of failing in the Chinese market, this would mean that the start-up included in their plan a strategy to reduce the negative impacts of a financial crisis due to the failure of the company on the Chinese market.	If so, Q10 will contribute to the achievement of G1c.
SUPPORTING QUESTIONS	
What is the target ROI for a successful strategy?	

Figure 3,7 - Sub-Goal G1c

SUB-GOAL G1d

<table>
<tr><th colspan="2">Sub-Goals of G1 – Questions – Descriptions – Achievement criteria</th></tr>
<tr><td colspan="2">SUB-GOAL DESCRIPTION</td></tr>
<tr><td colspan="2">G1d | Defining the possibilities of growth for the italian start-ups in the Chinese market</td></tr>
<tr><td colspan="2">Growth is the main goal of every start-up. Most of the companies in this life-stage need to grow fast and at high CAGRs, to remunerate the investors achieving a satisfying level of revenues. For this reason, start-ups try to create a scalable business model operating in scalable markets. In most of the cases, these companies focus their businesses in their domestic markets, because these markets are more predictable and the easiness in doing business is higher than in the other foreign realities. Demonstrating that the Chinese market approached by the sample of this thesis could provide to the start-ups a higher potential CAGR allowing a foreign company to grow and adapt its business to the new size and necessities, which is the objective of this G1d sub-goal, will support me in the achievement of G1, because will contribute to the definition of the potentially of the Chinese market related to the start-up system.</td></tr>
<tr><td colspan="2">KEY QUESTIONS</td></tr>
<tr><td colspan="2">Q11 | Is the Chinese market scalable?</td></tr>
<tr><td>A long-term strategy in the Chinese market is justified by a growing level of commitment aimed at reaching a better position considering the difficulties and the competitors.</td><td>If the interviewed companies identified in their planning phase possibilities to make their business grow within the Chinese boundaries, varying their strategies, enabling new channels or exploiting new opportunities, Q11 will contribute to the achievement of G1d.</td></tr>
<tr><td colspan="2">Q12 | Can the company grow operating in China?</td></tr>
<tr><td>Start-ups grow fast and at high rates.</td><td>If the interviewed companies grew thanks to the revenues coming from the Chinese channel, Q12 will contribute to the achievement of G1d.</td></tr>
<tr><td colspan="2">Q13 | Is the Chinese market, compared to the domestic one, an opportunity? Why?</td></tr>
<tr><td>Sometimes start-ups fail because of the absence of a market for the products or services they deliver. In this case, the market for a product could exist in a foreign market and, in this case, in China.</td><td>If the start-ups identified in the Chinese market an opportunity to overcome this risk, Q13 will contribute to the achievement of G1d.</td></tr>
<tr><td colspan="2">Q14 | Can the commitment level be varied easily according to the start-up’s necessity?</td></tr>
<tr><td>For a start-up, whose commitment (and thus, whose sunk costs) must be carefully increased proportionally to the revenues coming from the market, operating in a country which allows foreign companies to easily increase or decrease their operations abroad according to the start-ups’ needs would create a positive environment for the start-up’s growth.</td><td>If so, Q14 will contribute to the achievement of G1d.</td></tr>
<tr><td colspan="2">Q15 | Is there any external support provided to start-ups to succeed in the Chinese market?</td></tr>
<tr><td>Start-ups are today supported by many players in the economic system, because of their high rates of failure. In many cases, without a proper external support, start-ups could not be able to operate and to survive in a market.</td><td>if the interviewed companies demonstrate that their growth and their positive results in the Chinese market are also due to the support coming from other players, Q15 will contribute to the achievement of G1d.</td></tr>
</table>

Figure 3.8 - Sub-Goal G1d

GOAL 2 (G2)

In the achievement of the second goal of this thesis, I will test the digital export model by Osservatori Digitali described in the previous paragraph. The goal G2 directly contributes to the achievement of the main goal, but it is also related to G1, because assessing the operational strategies applied by the four successful start-ups in the Chinese market is a demonstration that, following a proper strategy, even start-ups can be profitable in a market complex as China. In order to practically achieve G2, it has been divided into the following sub-goals:

SUB-GOAL G2a

Defining the digital export strategies applied by each of the interviewed company, testing the model out of its applicability area

I will define for each start-up the digital export journey, a framework obtained by the seven pillars from the digital export model (figure 3.9), which will allow me to assess the strategies applied by different start-ups and to graphically compare them, to look for similarities and exclusive peculiarities of the companies considered as individual and unique entities.

Figure 3.9 - Framework to define the individual digital export journey. Source: Giuffrida, 2019

The question that I will take to test the digital export model will be related to the seven pillars described in the previous paragraphs. The output that I will obtain will give me the possibility to apply and adapt the model:

- To a service company, as in the case of Wonderful Italy;
- To start-ups, considering that the model has been obtained sampling many SMEs;

The keys questions that will be considered in the achievement of this sub-goal are the following:

Sub-Goals of G2 – Questions – Descriptions – Achievement criteria	
SUB-GOAL DESCRIPTION	
G2a	Defining the strategies applied by the successful start-ups in China
Testing the digital export model out of its applicability area (the model has been developed considering SMEs in theproduction of goods industry but I will test it on start-ups and on a company operating in the service industry, adapting the model on the different context I will study) I will be able to assess the companies' strategies in the case of the CBEC to China.	
KEY QUESTIONS	
Q16	Is the strategy applied by the start-up coherent with the Chinese market?
China is one of the most complex market in the world: the cultural differences and the peculiarities as the customers' habits or the unique dynamics affecting this market, increase the uncertainty about the internationalization process. Success in China is deeply linked with strategy.	Q16 will support me in the achievement of G2a if the companies, in the description of their business, will link their actions to the market characteristics described in the chapter two of this thesis.
Q17	Which of the pillars is the most critical for a start-up? How did you manage to solve it?
The model is composed of seven pillars. Considering that the model resumes the internationalization strategy, and that the start-ups had to take decisions about all these pillars, assessing the hardest set of decisions could be interesting to define the pain points in the development of the strategy.	If I identify that start-ups commonly found some of the pillars as critical, and if they overcame these difficulties in a similar way, thus Q17 will support me in the achievement of G2a.
Q18	Is the structure of the model reliable for a start-up? How can it be modified?
The model has been obtained out of many SMEs. Start-up could not be covered by this model. A test is necessary to access and eventually expand the applicability of the model on these companies too.	If we can verify that the model can be followed also by start-ups, as it is or modifying it according to some common characteristics, thus Q18 will support me in the achievement of G2a.

Figure 3.10 - Sub-Goal G2a

SUB-GOAL G2b

Comparing the model to that of traditional SMEs, as defined by Osservatori Digitali, looking for substantial differences in the operative strategy

G2b will allow me to demonstrate that start-ups' strategies in the Chinese market could be different from that of traditional SMEs, highlighting the feasibility of the internationalization and enforcing the achievement of G2 and, subsequently, that of G1.

Indeed, Italian traditional SMEs involved in the digital export to China, studied with the digital export model, follow the digital export journey represented in the figure 3.6 (Giuffrida, 2019).

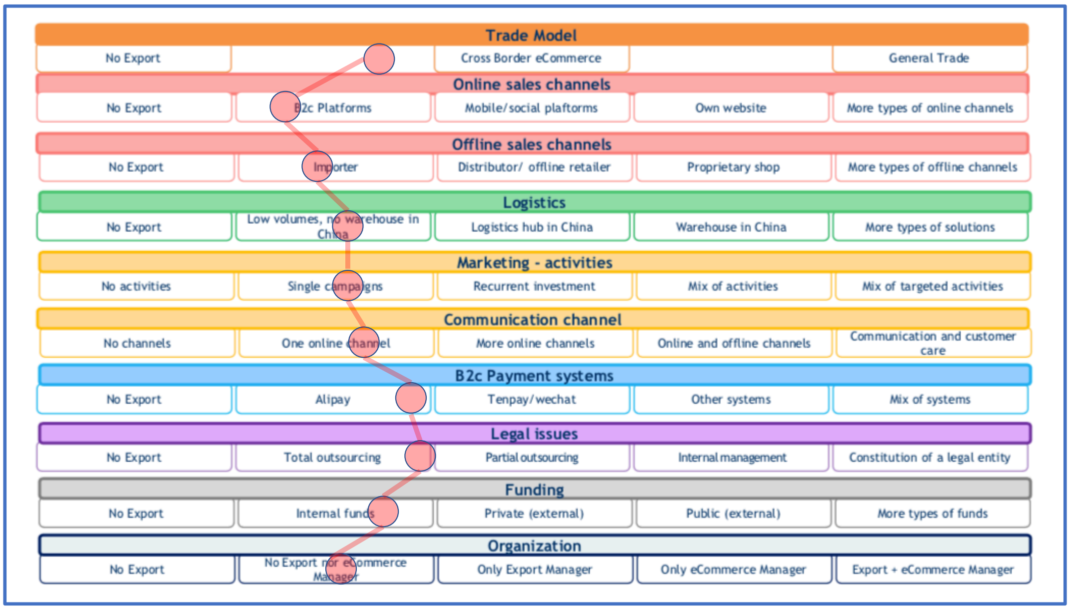


Figure 3.11 - Digital export journey to China of the traditional Italian SMEs. Source: Giuffrida, 2019

The key questions in the achievement of this sub-goal are the following:

Sub-Goals of G2 – Questions – Descriptions – Achievement criteria	
SUB-GOAL DESCRIPTION	
G2b	Demonstrating that start-ups and SMEs follow different digital export strategies
The model has been created out of SMEs, and these companies are under-performing in the global digital market. Few SMEs (just the 10%) export through the digital channels. On the other hand, start-ups seem to be more likely to successfully operate in the foreign market and, in our case, in China. Due to this, their choices about the digital export strategies should differ, and for this reason these differences must be assessed.	
KEY QUESTIONS	
Q19	Which are the differences in the strategies pursued by start-ups and SMEs
Different strategies could mean different results. Assessing the differences will support my thesis based on the assumption that start-ups are more likely to perform better on the foreign digital markets.	If I identify that start-ups approach the foreign market as China in a different way that SMEs, which are assumed to perform worse, thus Q19 will support me in the achievement of G2b.
Q20	Can these differences in the digital export strategy be related to a better performance in China?
The differences in the digital export strategy have an impact on the companies' performances.	If the common differences against the SMEs identified in the digital export strategies can be linked to start-up's key success factors, Q20 will support me in the achievement of G2b.

Figure 3.12 - Sub-Goal G2b

GOAL 3 (G3)

In the achievement of the third goal of this thesis, I will individually test the two intrinsic characteristics assumed to be relevant for the internationalization to China (born global and agile organization), to then look for other characteristics that can be considered as winning features. G3 is aimed at:

- Highlighting the importance of some characteristics in the company's ability to operate in the foreign markets;
- Listing these characteristics, in order to provide to the future entrepreneurs in many fields useful suggestions to give their companies the right mindset since their birth;
- Listing these characteristics, in order to provide to the current start-ups' entrepreneurs a list of characteristics that these people can try to implement to improve their performances in the Chinese market;

G3 directly contributes to the sub-main goal G1, reflecting the characteristics that should bring an Italian start-up at successfully operating in China, but it also contributes to the main goal because the information contained in this thesis and its findings could be useful for the purpose described.

In order to practically achieve G2, it has been divided into the following sub-goals:

SUB-GOAL G3a

Demonstrating that born global start-ups are more likely to operate in the Chinese market

Sub-Goals of G3 – Questions – Descriptions – Achievement criteria		
SUB-GOAL DESCRIPTION		
G3a	Demonstrating that the born-global companies are more likely to operate and survive on the Chinese market	
Testing the first characteristic assumed to be impacting on the company's performance on the Chinese market		
KEY QUESTIONS		
Q21	Did the company consider the foreign market since its birth?	
If a company decides at the beginning of its life to approach a foreign market (as China), the whole strategy will be oriented to the internationalization.		If so, Q21 will support me in the achievement of G3a
Q22	According to you, being a born global start-up is an impacting characteristic? Why?	
Testing the born global characteristic.		If so, Q22 will support me in the achievement of G3a
SUPPORTING QUESTIONS		
• What is the relevance in percentage of the revenues coming from the Chinese channel compared to the overall company's revenues? • How many years occurred between the company's birth and the arrival to the Chinese market?		

Figure 3.13 - Sub-Goal G3a

SUB-GOAL G3b

Demonstrating that an agile organization allows the company to be more likely to operate in the Chinese market

Sub-Goals of G3 – Questions – Descriptions – Achievement criteria	
SUB-GOAL DESCRIPTION	
G3b	Demonstrating that an agile organization allows the company to react better on the Chinese market
Testing the second characteristic assumed to be impacting on the company's performance on the Chinese market	
KEY QUESTIONS	
Q23	If you applied an agile organization, is this approach linked to a better reaction to the impacting issues?
An agile organization could let the company react faster and better to the unexpected obstacles and issues.	If the start-up adopted the agile's pillars and linked these to the faster adaptation, Q23 will support me in the achievement of G3b

Figure 3.14 - Sub-Goal G3b

SUB-GOAL G3c

Identification of the other characteristics that could be considered relevant for the start-up's propensity at operating in the Chinese market (G3c)

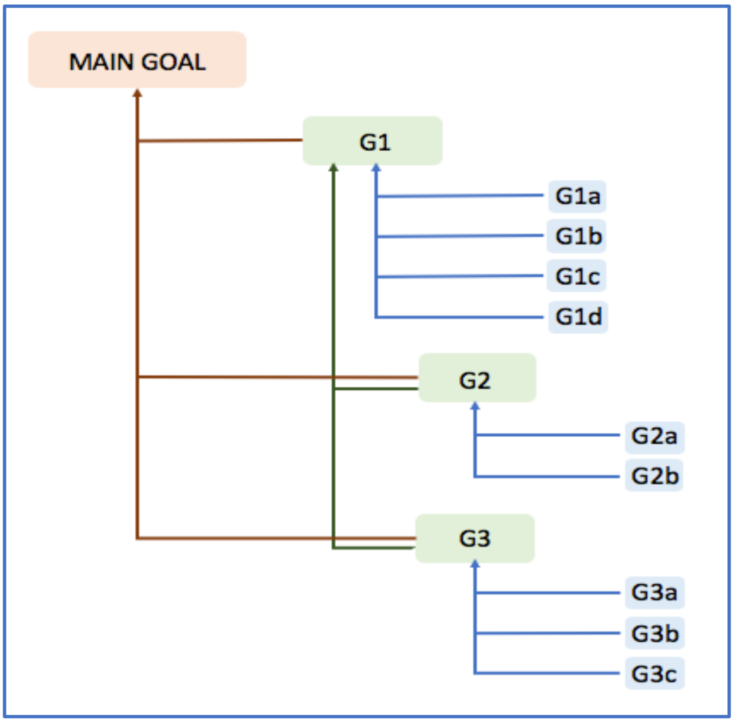


Figure 3.15 - Bottom-up approach in the achievement

I will try to make the start-ups listing new characteristics and I will try to spot them analysing their responses on the other questions that I will take.

As described, the achievement of all the goals of this thesis (main goal, standard goals, sub-goals) follows a bottom-up approach, in which each standard goal contributes to the achievement of the other goals (Main and G1), as we can observe from the figure 3.14.

We can now create the framework that will be adopted in this thesis. From the definition of the sub-goals, the related key questions, their achievement criterion and descriptions provided, we obtain the framework as in the figure 3.15.

COMPANY	MAIN								
	G1 ☐☐				G2 ☐☐		G3 ☐☐		
QUESTIONS (Q_i)	G1a	G1b	G1c	G1d	G2a	G2b	G3a	G3b	G3c
1. Did the company approach the Chinese market in its start-up phase?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
2. Was the company already organized when it approached China?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
3. Are start-up more likely to sell in China through the CBEC?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
4. Which are the obstacles considered exclusive for the start-ups?.	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
5. Was the company able to overcome these obstacles?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
6. Were these obstacles predictable?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
7. Did the company find a way to overcome the unexpected obstacles?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
8. Is the Chinese channel financially self-sustaining for the company?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
9. How does the Chinese project is financed?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
10. Does the company’s plan consider the failure?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
11. Is the Chinese market scalable?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
12. Did the company grow operating in China?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
13. Is the Chinese market an opportunity?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
14. Can the commitment level be easily increased or decreased?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
15. Is there any external support provided to start-ups in China?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
16. Is the strategy applied coherent with the Chinese market?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
17. Is there any critical pillars out of the model? How did you manage it?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
18. Can start-ups follow the digital export model (as it is or modified)?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
19. Which are the differences in the strategies pursued vs the SMEs?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
20. Are these differences related to a better performances in China?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
21. Was the internationalization to China a goal since the beginning?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
22. Are the born global companies more likely to succeed in China?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
23. Is the agile organization linked to a faster adaptation to the issues?	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
24. Other question from the interviews	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
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	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐
	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐	☐☐

Figure 3.16 - Framework for the interviews

CHAPTER 4 – INTERVIEWS

4.1 – VENTUNO

Ventuno is an interesting reality operating in the Italian start-up environment. This business case is an example of the importance of all the branding activities in the case of e-commerce to China. Ventuno and its CEO, Ines Di Franco, gave an important contribute to this thesis, allowing me to analyze every critical aspect in detail, without any time limit. The information obtained from the interview with Ines Di Franco is complete and structured, and for this reason its findings are highly valuable in terms of data reliability and in the following data processing phase.

4.1.1 – Who is Ines Di Franco?

Ines Di Franco graduated in economics to then moving in Paris to attend a stage opportunity with a famous chef in a luxury restaurant. In France, Ines met the sommelier, and with her she started thinking about future business opportunities.

When the restaurant closed, Ines went back to Italy, and started working in the family business in Sicily (intermediation of meat products in the foreign markets). In those days, Ines developed a business idea with the sommelier she met in France: opening a boutique restaurant with products coming from small and selected producers from Italy. The idea started in the best way possible, and many customers were interested in purchasing the products after having them tasted in the restaurant. After five years, due to the 2012 crisis, the restaurant closed and Ines went back to Italy, decided to open her own company to exploit the knowledge developed in her past experiences in the food industry.

Supported by her sister, an expert in the marketing field, she created the actual Ventuno's boxes, a highly appreciated product in the Chinese market that, as we will see, is deeply linked with the "Made in Italy" and the branding activities behind the offer.

4.1.2 – Questions for the achievement of G1

In this paragraph, I will answer to the questions intended to achieve the goal G1, and all its sub-related goals (G1a, G1b, G1c and G1d).

For every question, I will describe the interviewee's answer, to then include my analysis in the following boxes, aimed at linking the answers to the existing goals and sub-goals.

Q1 – Did Ventuno approach the Chinese market in its start-up phase?

Yes, because Ventuno was included, due to the potentiality of its business model, in an Italian start-up accelerator program offered by G2, who supported the company in the definition of its business model and in the access to the capital market. In this context, Ventuno was selected by the Bank of China in a program aimed at supporting (both financially and operatively) the selected start-ups in the access to the Chinese market.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1a**. The company is still a start-up.*

Q2 – Was the company already organized when it approached China?

The company was born with the intent of reaching the Chinese market. Due to this, Ventuno is actually looking for its final and most efficient internal organization and its evolving toward it while it is operating in China. Supported by foreign entities in the access to China (as the Bank of China), Ventuno started operating with a very simple internal organization, adapting to the necessities and strengthening its organization according to the competences and the roles that it needed.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1a**. Indeed, the answer demonstrates that even dynamic, young and changing organizations can access China, adapting to the market and re-organizing the company in a second moment after the entry.*

Q3 – According to Ines, are start-ups more likely to sell in China through the CBEC (compared to the SMEs)?

According to Ines, entrepreneurs think of China as an extremely complex and too risky market. The main differences between start-ups and SMEs impacting in their success on the Chinese market are:

- The internal structure: SMEs are too rigid to operate in China. The Chinese market is characterized by many decisions that must be taken quickly and that could lead to changes in the organization of the companies. Start-ups decide faster and are more willing to adapt their structure to the obstacles they find, and for these reasons their less defined structure is, in the case of China, a winning characteristic.
- Planning horizon: SMEs are less likely to plan according to a medium-long perspective, seeking easy revenues in the shortest time possible. The Chinese market, instead, is a market that requires the foreign companies to structure a long-term strategy to succeed. Revenues are far from easy, and a long-term strategy is essential to emerge from the wide competition existing in that market.
- Digital propensity: the CBEC channel is one of the digital possibilities that the Italian SMEs tend to avoid because of a lack in their digital competences. Start-ups born in a digital environment, and for this reason they are more likely to use and spot the opportunities coming from the digital channels.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1a**.*

*In addition to this, the response covers also different topics of the goal **G3**. Ines described the internal organization in the principles that describe the concept of "Agile organization" (fast and efficient decisions based on people and not on processes,* *adapting capabilities) and, for this reason, we can consider that Q3 contributes to the achievement of **G3b**. Moreover, Ines listed some intrinsic characteristics that directly contributes to **G3c**: she talked about the propensity of the management of the company, in the case of the adoption of the digital channels and in the planning phase process. Also the sub-goal **G2b** is achieved.*

Q4 – Which are the obstacles you find considered exclusive for a start-up?

The obstacles are mainly on the product. Nowadays, foreign companies can count on many channels and partners to access China in a more facilitated way than in the past, shifting the focus of the company on the product itself. In the case of Ventuno, the biggest obstacles were related to the legal compliance of the food and beverage products required by the Chinese government: the product had to be registered to the Chinese food authority and the label had to be adapted to the country's regulation and provided in the Chinese language.

The product, in the case of Ventuno, creates an additional obstacle related to the logistics (transport and warehousing): perishable food products require a specialized and focused logistic network.

Considering the CBEC, the biggest obstacle that Ventuno found was in the communication: creating a proper and effective message (and a proper delivery system) is hard, especially for a start-up whose financial resources are often quite limited.

Due to all these reasons, the biggest challenge that start-ups have to face is related to the search of the right partner to outsource these activities, balancing the performances and the investment necessary to make it through the partner.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1b**. Ines, indeed, defined the obstacles as:*

- *Product-related: the complexity to accomplish all the legal aspects required by the Chinese government but also the logistics issues related to the transport of perishable products;*
- *Partner-related: because start-ups, due to their financial conditions, have to rely on partners that could provide them with effective and relatively cheap solutions.*

*The answer provided by Ines also contribute to the study and the achievement of the goal **G2**: she basically already answered to the question Q17, defining the pillars of the digital export model considered to be the most critical field to focus on (Legal aspects, Logistics, Communication). The answer could contribute to the achievement of **G2a**, but the criteria defined for this sub-goal imposes me to compare the result to the responses of the other companies, and for this reason the achievement of the sub-goal **G2a** is suspended until all the responses from all the companies will be collected.*

Q5 – Was the company able to overcome these obstacles?

Yes, the company actually overcame all the obstacles it found. All the critical aspects related to the products (legal, communication, logistics) were solved partnering up with the right companies. Ventuno, indeed, solved every issue in following ways:

- In the case of the physical channel, Ventuno relies on a local importer who takes care of all the legal aspects necessary to let the goods flow into the Chinese market. The goods are then sold to a local wholesaler, who directly sell Ventuno's products on its own channels taking care of all the related activities;
- In the case of the online channel (Ventuno relies on a niche marketplace, as we will see later), the communication activities are outsourced to a local partner;

In both cases, Ventuno relied on a partner to overcome all the obstacles considered to be critical on the feasibility of the Chinese project. Finding the right partner, as Ines said in the previous answer, is an obstacle as well: the Chinese market evolved thanks to the CBEC, and a market of service providers was created in favor of the foreign companies interested in selling to China. In the wide competition that exists between these companies as well, a start-up needs to find a partner that perfectly fits its requirements in terms of investment and performance guaranteed. The best solution is referring to a partner who targets foreign start-ups, but these companies are quite hard to find, as said by Ines (this was the partner-related obstacles). Ventuno solved this issue exploiting the network it has: the two Chinese investors that are actually investing into Ventuno, providing the company with their financial resources and their personal network, allowing Ventuno to access to the best local partner.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1b**, because Ventuno successfully overcame the obstacles.*

The answer provided by Ines highlights three important element in the start-up's behavior in the Chinese market:

- *Start-ups cannot survive on the Chinese market without a network of local partner, but this aspect can be considered in common with the SMEs;*
- *Local partnerships were, in the case of Ventuno, the key strategy to overcome all the obstacles faced in the Chinese market. The answer can be linked to the sub-goal **G2a**, being the outsourcing one of the most common solutions in the digital export strategy;*
- *The access to the best-in-class (in the start-up industry case) partners is exclusive, and the only way to overcome this barrier is relying on the indirect personal network of the company. Ventuno partnered up with the right partner because of the network provided by its investors. This fact directly contributes to the definition of the intrinsic features linked to a positive performance of the start-up in China. For this reason, the start-up network, considered wider than that of the traditional SMEs because of the large players in the start-up industry who support the company (investors, governments, accelerators, venture capital companies, etc.), can be considered in this study, achieving the sub-goal **G3c**.*

Q6 – Were the obstacles predictable?

Yes, all the obstacles of the Chinese market are predictable. A deep knowledge of the market, if supported by the right trusted local partner, could allow every start-up to overcome every obstacle. Possible difficulties can be identified, and the right solutions can be developed.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1b**. All the obstacles described by Ines were solved in the way described in Q5.*

Q7 – Did the company find a way to overcome the unexpected obstacles?

The latest example is the emergency "Coronavirus", which negatively impacted on the orders and on the economy in general. The lean organization Ventuno created around it allows the company to react quicker and better to every unexpected issue. Actually, Ventuno is creating an internal team to manage the Chinese market and the e-commerce related activities. This team will be in charge to solve future problematics thanks to the mix of competences of the members.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1b**.*

*Moreover, Ines included in her answer the lean organization approach, which directly contributes in the goal **G3** to the achievement of **G3b**. In addition, she also said something that will be useful in the following analysis through the digital export model: she told us that in the short term Ventuno will create a team to be fully in charge of managing all the digital export activities towards China. This is one of the decisional steps of the model, and for this reason the answer contributes to the goal **G2**, in particular in the achievement of **G2a**.*

Q8 – Is the Chinese channel self-sustaining in terms of revenues?

It is not easy for a start-up to have the revenues coming from the Chinese activities overcoming the costs. Actually, Ventuno's balance on the Chinese market is still negative, sustained by the two Chinese investors who are financially supporting the company. In the next months, Ventuno will rise its capital, updating its business plan: the next step of the company is reaching this ambitious goal, seeking for a financially positive performance in China.

Ines also told us that a start-up, in order to increase its chances to survive in China, cannot rely on the online market only, but it needs an offline strategy as well. This is necessary because, through the digital channels, it is easy to critically lose customers, while the offline channels follow different dynamics. According to her, a sustainable business needs both the online and the offline, and this translates into a higher level of expenses to simultaneously manage the two channels, that negatively impact on the balance in the short terms, but that should strengthen the company's position in the market in the medium-long term.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1c** because a positive balance will be reached by Ventuno in the medium-long term.*

*The loss from the Chinese market are today compensated by the private investments from the two Chinese investors. This information contributes to the definition of the financial pillar of the digital export model, thus to the goal **G2** and, more in details, its sub-goal **G2a**.*

Ines then told us something really interesting: according to her perspective, both the online and the offline channels should be created and managed to reduce the risk of failure, being the online dynamics highly volatile. This obviously negatively impacts on the company's performance in the short term, because this strategy requires large investments. She is simply referring to the omni-channel strategy, an interesting concept described in the chapter two, in which the two channels co-exist to deliver a unique shopping experience. Differently from what I described about this strategy, she is adding something more to the reason why a company should follow this path, and it is the risk reduction due to the differentiation of the channels. This concept impacts on many other sub-goals:

- *It impacts in the goal **G2**, sub-goal **G2a** because it describes the trade channels approach applied by Ventuno in China, enhanced by the coherence with Ventuno's digital export strategy in the case of the omni-channel strategy (question Q16);*
- *It impacts in the goal **G1**, sub-goal **G1d**, because Ventuno developed the two channels without impacting barrier to the business' growth, demonstrating that a start-up can enforce its business in China adding new channels or new products.*

Q9 – How does the Chinese project is financed?

Through two Chinese private investors who spotted in Ventuno an interesting business. Actually, they provide the largest majority of the financial resources necessary to the company.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1c**. The financial resources of the company, indeed, come from two investors who actually take part to the company's life and decisions. This fact allows the company to be more flexible and freer to operate on the market. The first goal is the growth of the company, intended to be remunerative for the investment they made in the long term. Ventuno is not obliged to remunerate the investors in the short term, and it can decide with them the following steps and the strategies.*

This is something that characterizes start-ups: the source of their financial resources is often public (governments and other entities) or private (investors who take part to the company's life). Differently from traditional SMEs, that rely on internal funds or capital obtained from banks, these sources allow the company to be more flexible and less dependent from the remuneration of the invested capital, giving more importance on the growth of the company. For this reason, the answer also contributes to the *achievement of **G1d**, but also identifies an intrinsic characteristic as those of the goals **G3c**.*

*Moreover, as the previous answer, Q9 contributes to **G2a**, supporting me in the definition of the company's digital export model.*

Q10 – Does the company's business plan consider failure of the Chinese market?

There is no definition of failure in the company's business plan, but Ventuno defended itself according to the differentiation strategy. In the previous answers. we described this strategy as a separation of the online and the offline channels, but more in general Ventuno applied a market differentiation (Japan and Dubai) to reduce the risk coming from the failure of a single market.

*Even if the answer does not satisfy the achievement criteria defined, the sub-goal **G1c** can be considered achieved because Ventuno proved that the strategy pursued (market differentiation) would allow the company to survive from an unexpected failure in the Chinese market.*

Q11 – Is the Chinese market scalable?

The Chinese market is highly scalable. Actually, Ventuno is evaluating the possibility to become a kind of intermediator between the Chinese market and the Italian small food and wine producers, exploiting the relationships with the local importer and adding a parallel business line to the premium boxes that are actually sold.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1d.** Ventuno provided a real example in which it was involved, discussing with me the next future development of its business model. Ines' answer contributes to the achievement of this goal because Ventuno, adding a parallel business line created from scratch, could scale the market up.*

Q12 – Did the company grow operating in China?

Ventuno grew in China expanding revenues and enlarging its structure. The growth due to the Chinese channel was a basic goal of the company, being China the main market in which Ventuno focused most of its effort since its birth.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1d**.*

Q13 – Is the Chinese market an opportunity compared to the domestic one?

Ines told me that she avoided Italy since the beginning, because she knew that her product was not suitable for the Italian market. The absence of a market in Italy, both for the product both for capital (there were not available financial resources to develop a product like that of Ines in Italy, because there was no interest and demand) brought her at focusing since the beginning to the eastern markets and in particular in China.

According to the criteria defined, the answer satisfies the achievement of the sub-goal ***G1d****. According to Ines, China is an opportunity because in Italy she noticed the absence of a market for her product (first reason of failure for a start-up) and the absence of interest by the investors (related to the second reason of failure for a start-up). In this case, China was more than an opportunity because, selling there, Ventuno avoided the most common reasons of failure for start-ups. For this reason, this question also contributes to the achievement of* ***G1a****.*

Q14 – Can the commitment level be easily increased or decreased?

Ines answered positively saying that a smart investment strategy, that doesn't expose the company to heavy structural investments, is the key to adjust the commitment level in the subsequent time windows.

According to the criteria defined, the answer satisfies the achievement of the sub-goal ***G1d.***

The answer can be also linked to the achievement of ***G1c****, because Ines demonstrated that investments can be planned and made in order to reduce their impact on the financial situation of the company.*

Q15 – Is there any external support provided to start-ups in China?

According to Ines, the governmental agreements between China and Italy created a friendly environment for the start-up's growth in the Chinese market. The Chinese governmental authorities and the Chinese investors facilitate the Italian company in their access to China. These dynamics are unique in the global market, and an Italian start-up, in its attempt to internationalize in China, should seriously take it into consideration, because without this external support the internationalization process would be more complex and riskier.

It's important to say that these channels, without a trusted network able to pull the company in, are not easily accessible by all the start-ups.

According to the criteria defined, the answer satisfies the achievement of the sub-goal ***G1d.***

The answer can be also linked to the achievement of the sub-goal ***G1a****, because highlights a preferential access process that is unique for the start-ups and supposed to not be the same for the Italian SMEs. The relationship between China and Italy, and the bilateral cooperation between them, represent today a de-facto entry strategy for the Italian start-ups only in the Chinese market.*

However, accessing the preferential entry channels is far from easy: Ines highlighted in her answer the importance of be introduced by someone else in these competitions *and programs: the internal network is thus essential, and can be seen as a unique start-up's characteristic that impacts on the company's performance compared to the traditional SMEs. This is true, because start-ups, in their birth and their development process, rely with many different players in the enterprise world: investors, incubators, innovation hubs, accelerators, mentoring sessions, pitches, institutional events, all these elements are common and typical in the start-up environment, and put the company in a favorable condition to create and taking care of the personal peers, that are useful and essential to access to the Chinese market and to be linked to the best-in-class local partners. For these reasons, the answer satisfies the achievement of the goal **G3c**.*

4.1.3 – Questions for the achievement of G3

In this paragraph, I will answer to the questions intended to achieve the goal G3, and all its sub-related goals (G3a, G3b and G3c).

Q21 – Was the internationalization to China a goal since the beginning?

In the case of Ventuno, the company was born with the goal of having China as the main market for its product. The company developed to be adapted to the Chinese market's peculiarities and necessities since its birth.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G3a.***

Q22 – Are the born global companies, according to you, more likely to succeed in China?

Born global companies (as Ventuno, according to the definition provided before, is) are more likely to succeed in China because of their mindset and their attitudes of thinking about global businesses since the beginning of their companies. In the case of Ines, the international experience she had was important to the development of a proper winning mindset and contributed to the success of Ventuno in the Chinese market.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G3a.***

Q23 – Is the "Agile organization" linked to a faster and better adaptation of the company to the local environment?

According to Ines, being Agile is the key to succeed in China: a flexible internal structure, a leaner decision process and a right mindset in terms of the role of the people and the technology in the business development, support the start-up in its operations abroad, allowing it to spot obstacles and opportunities reacting faster and better.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G3b.***

Q24 – Which are the characteristics considered to be exclusive for the start-ups, that can be linked to a better performance on the Chinese market?

Ines answered to this question listing two main elements:

- The team, whose competences and attitudes are essential to perform in the best way possible in the Chinese market;
- The internal network, that allows the start-up to access to all the preferential channels, partners and procedures that support the company in all the business activities;

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G3c,** because Ines listed new characteristics (that I already obtained analyzing her previous answers).*

4.1.4 – Achievement of G2

In this paragraph, I will apply the digital export model developed by the Osservatori Digitali, in order to:

- Map the start-up's strategy in the Chinese market;
- Achieve the related goals already defined in the previous chapter;
- Define the coherence between the Chinese market targeted by Ventuno and the strategy applied, relying on the information provided in the chapter two of this thesis.

First of all, before answering to the questions G16, G17, G18, G19 and G20, I have to plot the company's strategy.

Recalling the model and its pillars described in the previous chapter, in addition to the framework based on the model (useful to graphically represent the strategy), I will represent the company's decisions on each pillar based on the answers provided by Ines.

In the figure 4.1 we can observe the digital export strategy applied by Ventuno, based on the targeted question I made to assess every decision in each pillar. I decided to add, in the figure, the actual strategy (represented in red) and the strategy that Ventuno will pursuit within few years (represented in blue).

For each of the pillar I added a comment to better explain the company's approach in the considered cluster of decisions.

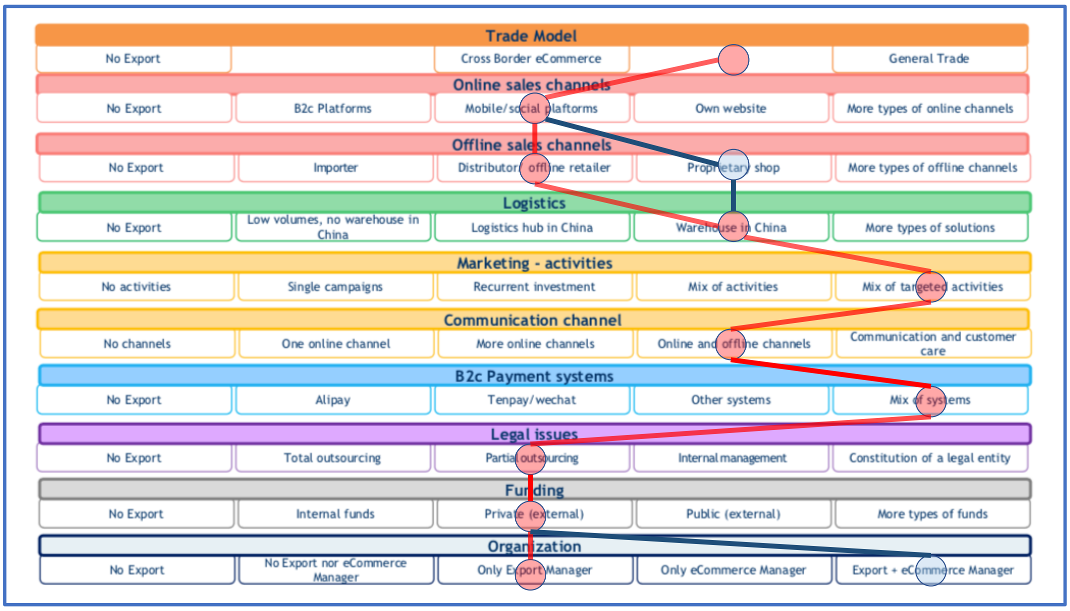

Figure 4.1 - Digital export model – VENTUNO

Trade model: Ventuno follows a mid-term approach between the two strategies described in the paragraph 2.3.7 (chapter two). The company, indeed, reaches China in two different ways, as we will see in this paragraph. For this reason, they are positioned between the "CBEC" and the "General Trade" fields.

Online sales channels: Ventuno partnered with a niche B2C platform called "Italian lifestyle", that sells the boxes on its website and, mostly, through WeChat. For this reason, they are positioned in the "Mobile/Social Platform" field.

Ventuno is planning to reach, in the next future, the Chinese customers through the famous mass B2C marketplaces JD Worldwide and Tmall Global.

Offline sales channels: Ventuno is actually relying with importers and distributors, aiming at opening an own shop in 2021. This fact reflects the CEO's vision of developing both the online and the offline channels, to reduce the risks of failure in the online market. For this reason, they are positioned in the "Distributor/Offline Retailer" field.

Logistics: the two channels require different solutions: in the online channel's case (Italian Lifestyle), Ventuno directly ships the goods to the customer from Italy when the order is placed while, for the offline channel's case, the boxes are stored in the distributor's warehouse. For this reason, they are positioned in the "Warehouse in China" field.

Marketing activities: product and pricing activities are managed internally, in order to exploit Ines sister's competences in the marketing field. The communication around the product, thus the media contents, are created be Ventuno and then adapted to Chinese market by the local partner (Italian Lifestyle). For this reason, they are positioned in the "Mix of Targeted Activities" field.

Communication channel: a local partner adapts the contents created by Ventuno to the Chinese market. Considering both cases (online and offline trading channels), the message reaches the customers through both the online (managed by both the marketplace and the distributor) and the offline (managed by the distributors) channels. For this reason, they are positioned in the “Online and Offline Channels” field.

B2C payment system: considering the niche marketplace “Italian lifestyle” in which Ventuno’s boxes are sold, this platform reaches the Chinese customers through WeChat, collecting payments from them adopting the internal mean of payment TenPay. In the case of the offline channel, Ventuno is not interested by the mean of payment applied by the distributor (that acquires the title of the goods), because it gets paid when the distributor places the order. For these reasons, they are positioned in the “Mix of Systems” field.

Legal issues: it’s partially outsourced, because Ventuno cooperate with the importer to manage all the legal requirements. For this reason, they are positioned in the “Partial Outsourcing” field.

Funding: in this case, the company is entirely funded by two private investors from China. For this reason, they are positioned in the “External (Private)” field.

Internal organization: the CEO is actually covering the export manager’s position, outsourcing the e-commerce manager’s activities to an external partner. In the next future, Ventuno aims at creating a team to internalize all these competences necessary to manage the e-commerce channel to China. For this reason, they are positioned in the “Only export manager” field.

Defined and mapped the strategy, we can now focus on the questions necessary to achieve the goal G2.

Q16 – Is the strategy applied by Ventuno coherent with the Chinese market?

In order to answer to this question I will try to link the most important characteristics of the Chinese market to the strategy pursuit by Ventuno: if, according to the information collected during the writing of the chapter two of this thesis, the company demonstrates that it took care of the most important decisions with coherence in the decisions taken during the whole internationalization process, this information will support me in achieving the goal **G2** and will give me the possibility to demonstrate that most of the strategical decisions in the Chinese market are already structured and given, and can be taken according to a common strategy that can be modelized.

As we saw, the CBEC became popular in China because the Chinese customers started to associate to the foreign products important characteristics as quality, safety and premium design. The government liberalized the international trade, simplifying procedures and reducing import duties on many item categories, including food products. In this context, Ines decided to create Ventuno, a start-up that delivers high quality Italian food in premium packages through both the online and the offline channels.

Ventuno decided to position itself in order to exploit all the trends involving the Chinese e-commerce market:

- Ventuno, supported by its partner “Italian Lifestyle”, reaches its customers through WeChat. Being the largest majority of the Chinese customers **mobile shoppers** Ventuno, in this way, ensures itself to capture the largest share of the market possible, being present on the most famous and appreciated social in China.
- Ventuno (and its partners) collects the payments with the most famous and **trusted payment systems** (in the online channel its partner uses TenPay, while in the offline channel other means of payments are used), being trust one of the most important dynamics that the Chinese customers look in the purchase process. The only way to achieve trust is to make the customer pay with the most common means of payments (TenPay, AliPay or other digital payment system), avoiding bank transfer or credit card payments that is what Ventuno indirectly does in both its B2C channels.
- **Contents** are an essential element in Ventuno’s offer and, as we saw, these are necessary to differentiate the product from that of the competitors. Keeping promotional marketing activities in-house directly creating the contents, adapting them thanks to the support of a local company is, as we saw, the right strategy to keep the brand’s image under the company’s control. This is exactly what Ventuno does.
- Ines said that the contemporarily development of the online and the offline channels is, according to her, the necessary strategy to reduce the risks from operating in such a dynamic environment as the digital market is. The whole company is thus moving toward the pursuing of an **omni-channel strategy**, and the technological attitude of the company is aligned with the concept of reducing the differences between online and offline. With the opening of its first shops within one year, Ventuno will expand its business exploiting one of the most interesting and characterizing trend in the Chinese market, pursuing the omni-channel strategy.

Ines’ vision to be physically present in China brought her at not considering the CBEC model only: Ventuno decided to rely also on importers and distributors, in order to make its boxes reaching the Chinese customers through physical stores or the distributor’s retails. This choice of pursuing both the **trade model strategies** simultaneously make Ventuno’s export strategy a mix between the Cross-Border E-Commerce and the General Trade strategy, considering that Ventuno doesn’t have a legal entity in China, but relies on local players to be present on the retail market. In this way, Ventuno capture the best out of the advantages of the two strategies:

- With the CBEC strategy, Ventuno ensures itself easier procedures and a smaller investment;
- With the type of General Trade strategy applied by the company, Ventuno ensures itself to not expose the company to the financial risk (it doesn’t open a legal entity in China, but exploit partner’s existing ones), reaching the physical retails at a lower cost than that of pursuing this strategy. With the opening of a physical store in China, this strategy will be considered pursuit, and Ventuno will apply both of them contemporarily, demonstrating that start-ups can do it in the medium term from their birth. And additional advantage that Ventuno captures

from this choice is the partial outsourcing of the legal requirements to its importers, avoiding high costs for consultancy or problem due to the custom;

Company's **Logistics** approach follows the two trade channel strategies described:

- In the CBEC channel, the goods are shipped to Italian lifestyle from Italy, exploiting the bonded warehouses that, as we saw, are the best solution to reduce the legal requirements in this strategy;
- In the kind of General trade strategy, the goods are purchased by the distributor and stored in its warehouse;

Let's analyze the choices about the **marketplaces**: these are the easiest way for a foreign company to access to the Chinese market. In the case of Ventuno, the mode of entry was different: being a start-up, the company exploited the existing relationships between Italy and China and their cooperation in the business environment to access China through facilitated channels supported by the players, the competences and the resources necessary to create a solid strategy. In a first moment indeed, Ventuno decided to focus on a niche B2C e-commerce platform, which is Italian Lifestyle, avoiding the mass marketplaces JD Worldwide and Tmall Global. This marketplace directly sells to the customers through WeChat, allowing Ventuno to be present in the mobile sales channels, without spending too much (as we saw, opening a store on the most important platforms is far from cheap) in a flagship online store. The choice to avoid the giant Chinese marketplaces is highly strategic: a niche marketplace, despite the lower volume of transactions, allows a company to focus on a specific niche of the market achieving growth, creating brand awareness and testing the market without financially exposing the company. The customer is already targeted by the platform, whose users are people supposed to be already interested in the product offered by Ventuno while, selling through Tmall Global or JD Worldwide, would had required to Ines huge investments in marketing and communication, being the competition higher and the customer not easily targetable. Despite this, as said by Ines, Ventuno will soon evaluate the opening of an official store on these marketplaces but, actually, its boxes are sold only through Italian Lifestyle.

Looking for coherence in the **marketing and communication** field, as I described in the chapter two, a Chinese shopper spot a new small food brand through:

- Online advertisement (59%);
- KOL and word of mouth (18%);
- Social media (9%);

Actually, Ines said that all these three communicative pillars are pursuit by Ventuno: through Italian Lifestyle the company delivers an attractive message on the online digital channels and on social medias (as WeChat) and, moreover, Ines recognizes the importance of the KOLs in the industry in which she works. For these reasons, Ventuno's marketing strategy seems to be, according to the theory provided, coherent with the needs of the Chinese market.

Trying to define **Ventuno's typical customer** we, in the chapter two, clustered the population on the basis of:

- Their income, considering that the largest majority of people interested in buying from smaller foreign brands are those with a medium purchase power (Value class and Mainstream class);
- Their age because, as we saw, millennials are now starting to demand from foreign food products through mobile and social channels, while the middle-aged population of China is increasing its interested in buying food online as much as their trust in the shipping process of the perishable products improves. In addition, the silver cluster is now becoming interested in buying Italian food, especially those who visited Italy in a previous trip, but their attitude to adopt the digital channels is still growing, and these are mostly reachable through the physical retails.

Ventuno's strategy and marketing approach is thus aligned with the customers' characteristics and needs defined in the second chapter.

A last step of coherence analysis involves the study of **the third-parties service providers** approached by Ventuno. In the chapter two, we defined four actors involved in the processing of the key activities:

- The exporting start-up;
- A distributor that facilitates or executes all the key activities;
- A platform that take care of the execution of all the key activities;
- A service provider, which can offer the execution of a single activity;

In the case of Ventuno, both the online and the offline channels are organized according to the defined possibilities in the second chapter:

- The distributor take care of all the key activities (store property, goods property, marketing, store development and management, logistics);
- The online platform acts as a service provider in the marketing adaptation, the store management and its development and for the whole logistic process;

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G2a:** there is an overall coherence between the theory and the strategies applied by Ventuno. In addition, the analysis satisfies the achievement of the goal **G1** (all its sub-goals), because demonstrates that the strategy applied by a start-up in China could be effective.*

Q17 – Is there any critical pillar out of the model? How did you manage it?

Ines already provided her answer in the question Q4, defining the legal issues, communication issues and logistics as the most impacting pillars in the case of Ventuno. All of these were solved partnering up with the most suitable partners.

*According to the criteria defined, the answer could satisfy the achievement of the sub-goal **G2a**, because this answer was already provided in the question Q4. The final analysis, comparing this answer to that of the other companies, as described in the achievement criteria for Q17, will be provided after all the interviews are completed. In addition, the analysis satisfies the achievement of the goal **G1** (all its sub-goals),*

because demonstrates that the strategy applied by a start-up in China could be effective.

Q18 – Can start-ups follow the digital export model as it is?

Ventuno, after a detailed analysis of this strategy, can follow the model as it is, considering the seven pillars.

According to the criteria defined, the answer satisfies the achievement of the sub-goal ***G2a.*** *In addition, the analysis satisfies the achievement of the goal* ***G1*** *(all its sub-goals), because demonstrates that the strategy applied by a start-up in China can be mapped (and thus, developed) adopting the models already existing, reducing the complexity of doing business in China.*

Q19 – Which are the differences in the strategy pursued by Ventuno compared to that of traditional SMEs?

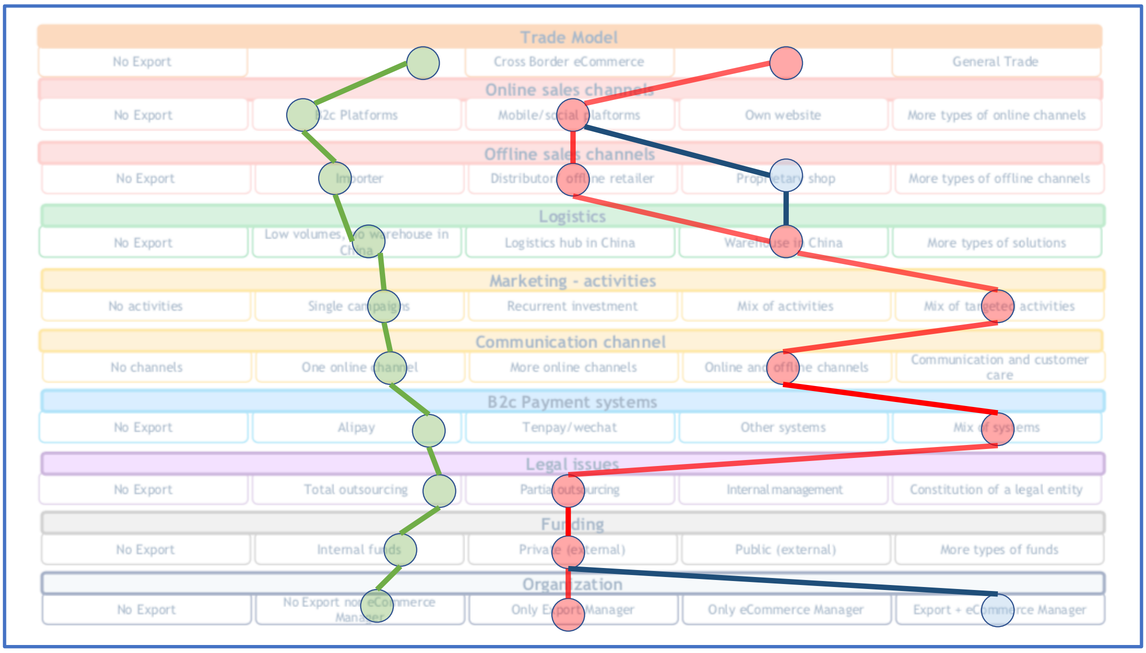

Figure 4.2 - Digital export model strategy - Italian SMEs (green) vs Ventuno (Red/Blue)

This framework highlights the company's commitment into the Chinese market, starting from the left side in which the export activity is null, arriving to the right side, in which company's commitment into the Chinese market is maximum, as maximum is the level in which all these pillars are integrated within company's operations. A company that is supposed to be successful in the Chinese market should be the closer possible to the right side of the model. This model actually gives us an instantaneous image of the start-up's strategy, including some of the soon-to-be choices that Ventuno will make within one year. It's important to say that a company can move and improve within the two borders: being the boxes a continuous of solutions, and being commitment gradually increasable and decreasable, company's map of the strategy could vary along the years, demonstrating that the Chinese market is scalable (sub-goal G1d).

Considering the average strategy of the Italian SMEs in the Chinese market (green lines), compared to that of Ventuno (red and blue – predictions – lines), we can instantaneously observe that Ventuno is more committed into the Chinese market than what all the Italian SMEs are (on average). The better position characterizes all the seven (eight, considering also the trade channel strategy as this framework does) pillars of the model, reflecting the higher propensity that start-ups are supposed to have to successfully operates in the Chinese market.

Moreover, the gradual incremental approach of commitment that all the start-ups and traditional companies apply, creates rooms for improvement in the strategy applied by Ventuno:

- The internalization of the legal activities, supposed to be possible in the following internal re-organization of the company;
- The differentiation of the funding sources, supposed to be possible because the company, being a start-up, is constantly improving its capital structure;
- The rise in the commitment in the online channel, assumed that an owned website could be a possible evolution of the company's digital approach to the market once the physical store will be opened (as scheduled, within one year);

All these elements seem to be a natural evolution of the company's strategy, strengthening Ventuno's position in the Chinese market and expanding the differences that exist between the SMEs' performances and those of our Italian start-ups.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G2b.** In addition, the analysis satisfies the achievement of the goal **G1** (all its sub-goals), because demonstrates that start-ups approaches China in a different way and this way could be related to a better performance.*

Q20 – Are these differences related to a better performance in China?

Considered the analysis provided in the question Q16, yes. Ventuno performs good in the Chinese market, even because the strategy they pursuits is coherent with the main peculiarities of this market. SMEs are not performing good in China, and their low commitment and low impacting strategy could be the main reason behind this bad performance. The differences provided in the figure 4.2 highlight:

- That Ventuno is able to reduce the risks of failure of the digital channels, operating on both the online and the offline. Many SMEs are more used to reach China through the physical channels only.
- That Ventuno better exploit the trends characterizing the Chinese population, as the mobile shopping and the importance of the social medias. SMEs relies only on the easiest channel available (the giant B2C platform), justified by a larger financial capability, but losing some important of opportunities;
- That Ventuno is moving toward the internalization of some critical competences: legal issues are actually only partially outsourced. SMEs opt for a fully

outsourcing, becoming totally dependent from the partner, without developing any in-house knowledge;

- That the marketing message is developed in Italy and adapted in China, delivered through many online and offline channels: without it, properly reaching the Chinese customer is almost impossible. The product and the marketing around it must be changed and simply changing market without doing any adaptation, as many SMEs do, could not bring at any positive result;
- That Ventuno is creating an internal team to be in charge of managing the export to China, including experts with the necessary competences and skills to operate in the best way possible. The largest majority of SMEs do not create a dedicated function, running the Chinese channel as a simply new market, without committing resources on it;

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G2b**. In addition, the analysis satisfies the achievement of the goal **G1** (all its sub-goals), because demonstrates that the strategy applied by the start-ups is related to a better performance.*

4.1.5 – Comments on the interviews

The interview with Ines Di Franco was quite interesting. She dedicated to me all the time I needed and demonstrated interested in my thesis and my study. Thanks to her, I have been able to obtain the largest information possible, useful to complete and structure this thesis.

Her company, Ventuno, is an interesting reality: she combined tradition and technological innovation in a product that was strategically tailored to the Chinese market, leveraging on the marketing activities to deliver the best product possible.

I had the chance to discuss with her about many other interesting topics, as the actual medical emergency Codiv-19 that impacted on her business as on many other others, and about the start-up environment in Italy. This information will not be included in this thesis because I had to focus this study only on what I needed.

In the figure 4.6, I provided the framework of the thesis completed with the achievements of each sub-goal and goal according to their definition provided in the chapter three, built on the answers obtained during this interview. That framework will be then studied and analyzed in the next chapter of this thesis.

COMPANY	MAIN ■□								
	G1 ■□				G2 ■□		G3 ■□		
QUESTIONS (Qi)	G1a	G1b	G1c	G1d	G2a	G2b	G3a	G3b	G3c
1. Did the company approach the Chinese market in its start-up phase?	■□								
2. Was the company already organized when it approached China?	■□								
3. Are start-up more likely to sell in China through the CBEC?	■□					■□		■□	■□
4. Which are the obstacles considered exclusive for the start-ups?.		■□			■□				
5. Was the company able to overcome these obstacles?		■□			■□				■□
6. Were these obstacles predictable?		■□							
7. Did the company find a way to overcome the unexpected obstacles?		■□			■□			■□	
8. Is the Chinese channel financially self-sustaining for the company?			■□	■□	■□				
9. How does the Chinese project is financed?			■□	■□	■□				■□
10. Does the company's plan consider the failure?			■□						
11. Is the Chinese market scalable?				■□					
12. Did the company grow operating in China?				■□					
13. Is the Chinese market an opportunity?	■□			■□					
14. Can the commitment level be easily increased or decreased?			■□	■□					
15. Is there any external support provided to start-ups in China?	■□			■□					■□
16. Is the strategy applied coherent with the Chinese market?		■□			■□				
17. Is there any critical pillars out of the model? How did you manage it?		■□			■□				
18. Can start-ups follow the digital export model (as it is or modified)?		■□			■□				
19. Which are the differences in the strategies pursued vs the SMEs?		■□				■□			
20. Are these differences related to a better performances in China?		■□				■□			
21. Was the internationalization to China a goal since the beginning?		■□					■□		
22. Are the born global companies more likely to succeed in China?		■□					■□		
23. Is the agile organization linked to a faster adaptation to the issues?		■□						■□	
24. Can you list other characteristics linked to a better performance?		■□							■□

Figure 4.3 - Ventuno - Answers and goals' achievement

4.2 – MUKAKO

Mukako is one of the most surprising Italian start-ups in China: the company became one of Alibaba's "Best cases" on Tmall Global, and for this reason it can be considered one of the most representative cases for the Italian B2C cross-border e-commerce industry.

Reaching Mukako was not easy: the company, that can count on 25 employees, manages different markets and different products from its headquarter in Milan. Due to the subsequently high workload of the company, the time for making my interview was limited, and for this reason I had to focalize the questions on the most significative information I needed.

Despite this I have been able, thanks to the two people that received me, to make an interesting interview, collecting all the information I needed in 20 minutes.

4.2.1 – Who is Maria Vittino?

Maria Vittino, the person I interviewed, is the Mukako's Marketing & communication coordinator. She is in charge of managing all the marketing and communication activities involving the company's products in all the markets in which Mukako operates. She was assisted by Luca Stocco, one of the members of the international customer service team.

4.2.2 – Questions for the achievement of G1

In this paragraph, I will answer to the questions intended to achieve the goal G1, and all its sub-related goals (G1a, G1b, G1c and G1d).

For every question, I will describe the interviewee's answer, to then include my analysis in the following boxes, aimed at linking the answers to the existing goals and sub-goals.

Q1 – Did Ventuno approach the Chinese market in its start-up phase?

Mukako approached the Chinese market when it was in its start-up phase.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1a**.*

Q2 – Was the company already organized when it approached China?

The internal organization and the team remained the same. They just added some roles and responsibilities to the people already operating in the team (functional approach). The organization was modified considering the external context: the Chinese market, according to Maria Vittino, is a market that needs to be approached locally. For this reason, Mukako de-localized the production process and other activities to trusted partners located in China, re-designing its external structure.

Mukako is actually working with a functional internal organization, without committing resources into a single market or a product (divisional approach). The divisional organization is a more structured and complex organization that can be applied by companies with a larger number of resources (both human and financial) and it seems to be the most suitable organizational structure to manage a market as complex as China is (Mukako could, in the future, apply). For this reason, according to the criteria defined, the answer satisfies the achievement of the sub-goal ***G1a.***

Moreover, Maria Vittino discussed about the importance of working locally with local partners: this is a topic that enforces the achievement of the sub-goal ***G2a*** *in the definition of the company's strategy.*

Q3 – According to Maria Vittino, are start-ups more likely to sell in China through the CBEC (compared to the SMEs)?

She says that many start-ups today are "Digitally native brands": this kind of business model allows the company to reduce the complexity of the processes according to a "lean organization" approach, making the company reacting quicker on market's changing dynamics. SMEs are quite far from this kind of business model and, for this reason, they could perform worse in a market that requires the companies to be quick and lean. Moreover, this model allows to reduce the costs of going abroad.

According to the criteria defined, the answer satisfies the achievement of the sub-goal ***G1a****.*

Maria Vittino identified, as the main reason why her company perform better in China than traditional SMEs, the business model characterizing Mukako and other companies, mainly start-ups: Digitally native brands. This business model is an interesting element to study, as it achieves the sub-goal ***G3c****, and translates into:*

- *An agile organizational approach (achieving the sub-goal* ***G3b****), that allows to have leaner decisional processes and to react quicker and better to the challenges of the Chinese market (achieving the sub-goal* ***G1b****)*
- *Lower costs of going abroad, that positively impact on the financial situation of the company (contributing to the achievement of the sub-goal* ***G1c****)*

The answer also contributes to highlight the differences between start-ups and SMEs, contributing to the achievement of the sub-goal ***G2b****.*

Q4 – Which are the obstacles you find considered exclusive for a start-up?

According to Maria Vittino, "Mukako is an Alibaba's Best Case" and, for this reason, she does not identify impacting difficulties faced during the internationalization in China. She then recognized that the Chinese market required a totally different business approach from the western countries.

She then added that a product, before being launched in China, should be tested and carefully modified, in order to be aligned with the requirements coming from the

Chinese customers: without this, a product that is highly appreciated in the western market could be a failure in China.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1b:***

*Maria Vittino identified the product adaptation to the Chinese people's requirements as the main obstacle that Mukako faced in China. This information can be linked to the concept of agile organization, being the flexibility of the processes and the ability of the company to change (in this case, the output and the related) easier than SMEs, typical of this organizational approach. For this reason, the answer satisfies the achievement of the sub-goal **G3b**.*

Q5 – Was the company able to overcome these obstacles?

Mukako relied, since the beginning, on Alibaba CBEC platform's Tmall Global in order reach the targeted customers they needed. With the support of Alibaba, Mukako was able to overcome all the obstacles, solving all the main difficulties referring to a single dominant player.

Considering the risk of launching a product that could not be appreciated by the Chinese customer, Maria Vittino said that Mukako has a different (an typical for start-ups) approach in the launch of new products: relying on the crowdfunding platforms, that allow the company to develop a product considering the feedbacks of the audience interested in the given product, Mukako is able to create goods that incorporate the most demanded features by the audience, avoiding the costs and the risk of misalignment in performing traditional market researches. Despite this, in the case of China, Mukako had to rely on local partner for conducting a market analysis: Kickstarted, indeed, is a western platform, and the feedbacks collected through it are mostly related to the westerns' tastes.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1b.***

*Maria Vittino identified, as a common resolutive strategy, that of partnering up with the best and the most strategical local partners, supposed to be able to provide the company with all the valuable services and to reduce the diversity between the Chinese and the domestic market: this is the localization strategy of the most strategical activities, an approach that Mukako applied in China. This ability to partnering up with valuable partners, as described in the case of Ventuno, can be considered typical for start-ups, because these companies work in environments in which the network of peers constantly expands (competitions, innovation districts, hubs, accelerators, co-working places, international investors and so on) and, for this reason, this ability can be included in these considered by the sub-goal **G3c.***

Q6 – Were the obstacles predictable?

Yes, the obstacles were all predictable: Mukako, according to Maria Vittino, was able to plan everything since the beginning (supported by Alibaba), solving all the issues in the planning phase with the help of Alibaba. The only thing that was uncertain was the reaction of the Chinese customer to Mukako's product: despite the feedbacks and the researches, which are based on a sample of customer, were positive, the performance of the company's product could have been different on a larger scale.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1b**.*

Q7 – Did the company find a way to overcome the unexpected obstacles?

The company is organized in order to solve all the issues thanks to the team's competences and the support of Alibaba. By the way, according to Maria Vittino, Mukako never faced an unexpected obstacle.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1b**.*

*The company is able to solve every complexity because of its highly skilled team. This information is useful and can be linked to the sub-goal **G3c**, because the heterogeneous teams that start-ups are able to create, made of brilliant and talented people with diversified competences, are linked to a better resolution of the problems.*

Q8 – Is the Chinese channel self-sustaining in terms of revenues?

Maria Vittino refuses to answer, because the information is not public.

This goal cannot be considered achieved, nether not achieved, being the information confidential.

Q9 – How does the Chinese project is financed?

Mukako's project involves many different investors: actually, the company is financed by private and public financial, and the Chinese project was supported with a part of these capital provided by the same investors. For this reason, the company did not collect financial sources specifically for the Chinese channel.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1c**.*

*This answer is linked to the strategy definition (digital export model) of the sub-goal **G2a**, but also highlights a difference between start-ups and SMEs, being the former dependent on many different financial external sources (private and public), while the latter rely on the internal ones.*

*This consideration allows us to include this ability of start-ups to access to financial sources more easily than SMEs in the achievement of the sub-goal **G3c**: if China is considered to be a market in which a start-up can achieve growth, the investors could* *be more willing to provide the company with the financial resources to achieve its internationalization goal.*

Q10 – Does the company's business plan considers a failure of the Chinese market?

Yes, Mukako applied a market differentiation, but these markets are not approached just to reduce the risks coming from the failure of the Chinese market. All the markets in which Mukako entered were carefully studied and strategically approached, and the company exploited them to get the maximum benefit possible, considering them as important as China. This market differentiation allows the company to be theoretically able to survive to an unexpected closure of the Chinese market.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1c**.*

*The market differentiation is a strategy that works in both sides: it allows to reduce the risk from the failure of a market on one side, guaranteeing higher revenues on the other side. This concept of entering in more profitable markets at the beginning of the start-up's life is a concept related to the born global companies (so, it achieves the sub-goal **G3a**) and seem to be a strategy that start-ups adopt to mitigate risks.*

Q11 – Is the Chinese market scalable?

In China trust is what drives purchases: when a company enters in China, especially when its products are far from cheap as in the case of Mukako, being un unknown brand is the main obstacle a company has to face. Once entered and once acquired a satisfying competitive position in the market, gained the trust from the target customers (in this case, parents who buy products for their kids), a company in China is put in a favorable condition to launch new product, differentiate its business and expand the internal markets in which it operates: in the case of Mukako, as said by Maria Vittino, if the company would launch a different product, it will be recognized as the company which sold Mutable (their first and most appreciated products), guaranteeing a better position than the companies that launch the same product.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1d.** Maria Vittino talked about trust, one of the most critical aspects described in the chapter two of this thesis. Engaging the customers in a positive relationship is the key to not just emerge from the competition, but also the increase the possibilities of growth and scalability coming from the Chinese market.*

Q12 – Did the company grow operating in China?

Yes: China is one of Mukako's main market, and for this reason the performance on this market allowed the company to grow in terms of employees and revenues.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1d**.*

Q13 – Is the Chinese market an opportunity compared to the domestic one?

China is a country that experienced an economic boost both in the production and in the consumption level: technology is highly advanced compared to that of Italy, and the new generations are acquiring purchasing power towards the foreign products, modifying the domestic demand. Moreover, people started taking care on their own healthcare and on that of their kids. Mukako leveraged on these features to make their most important product, Mutable, a successful product on the market.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1d**. Maria Vittino talked about the trends I have already defined in the chapter two, simply stating that Mukako decided to exploit all of these trends in the most profitable way possible.*

Q14 – Can the commitment level be easily increased or decreased?

Yes, once the company is on the market established as a trusted brand, it's easier to move toward most committing level.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1d.***

Q15 – Is there any external support provided to start-ups in China?

Start-ups can access to competitions launched by both private and public entities, both in China and in Italy. These events support the company in their internationalization process to China.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1d.***

4.2.3 – Questions for the achievement of G3

In this paragraph, I will answer to the questions intended to achieve the goal G3, and all its sub-related goals (G3a, G3b and G3c).

Q21 – Was the internationalization to China a goal since the beginning?

Yes. Mukako sells its products in many different markets, mainly through the CBEC's channels. The choice of selling through the digital channels was a choice to facilitate the access to many different markets in the simpler way possible, supported by the local partners and the ability to operate with all the related digital tools that a Digitally native brand can adopt and exploit better than traditional SMEs.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G3a.***

*The answer satisfies the achievement of the sub-goal **G2a**, because directly related to the trade channel strategy adopted (CBEC instead that the General trade strategy). Moreover, this almost entirely committed-to-digital approach differentiate the category of companies represented by Mukako to the traditional Italian SMEs, contributing to the achievement of the sub-goal **G2b.***

*In addition, the answer is supposed to directly contribute to the achievement of the whole goal **G1**, but in particular it support the achievement of the sub-goal **G1a,** because the CBEC strategy was, in the case of Mukako, a trade strategy to overcome the obstacles of entering in so many different markets in a time relatively short (3 years).*

Q22 – Are the born global companies, according to you, more likely to succeed in China?

According to Maria Vittino, being a Digitally native brand and thus, having a shorter process between the production and the selling phase, is most impacting. Mukako is de-facto born global, due to the two conditions that define this kind of company (time to reach foreign market and revenues from these markets) but according to her the most important factor impacting in the Chinese performance is the business model characterizing the Digitally native brands.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G3a.***

*Maria Vittino discussed also about the business model, supporting as one of the previous answers, the achievement of sub-goal **G3c**.*

*It also contributes as in the achievement of the goal **G1**, including some start-up's characteristics related to a better performance in China.*

Q23 – Is the "Agile organization" linked to a faster and better adaptation of the company to the local environment?

Yes. Being agile, as told in the previous answers, is linked to a quicker reaction to the complexity coming from the Chinese market, and a higher flexibility to adapt to the changes in the market's dynamics.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G3b.***

*It also contributes as in the achievement of the goal **G1**, including some start-up's characteristics related to a better performance in China.*

Q24 – Which are the characteristics considered to be exclusive for the start-ups, that can be linked to a better performance on the Chinese market?

According to Maria Vittino, start-ups have a higher attitude to delocalize the activities considered to be strategical. Applying this approach on a market as the Chinese one, characterized by one of the highest levels of complexity considering the differences between China and the western markets, is the best choice to make to get the maximum out this international experience. SMEs are less willing to do this: they rely on local partners only when necessary, as in the logistic process, without considering that the marketing message, as example, need to be adapted locally and this adaptation could be effective only with the support of a local partner.

According to the criteria defined, the answer satisfies the achievement of the sub-goal ***G3c.***

It also contributes in the achievement of the goal ***G1****, including some start-up's characteristics related to a better performance in China.*

4.2.4 – Achievement of G2

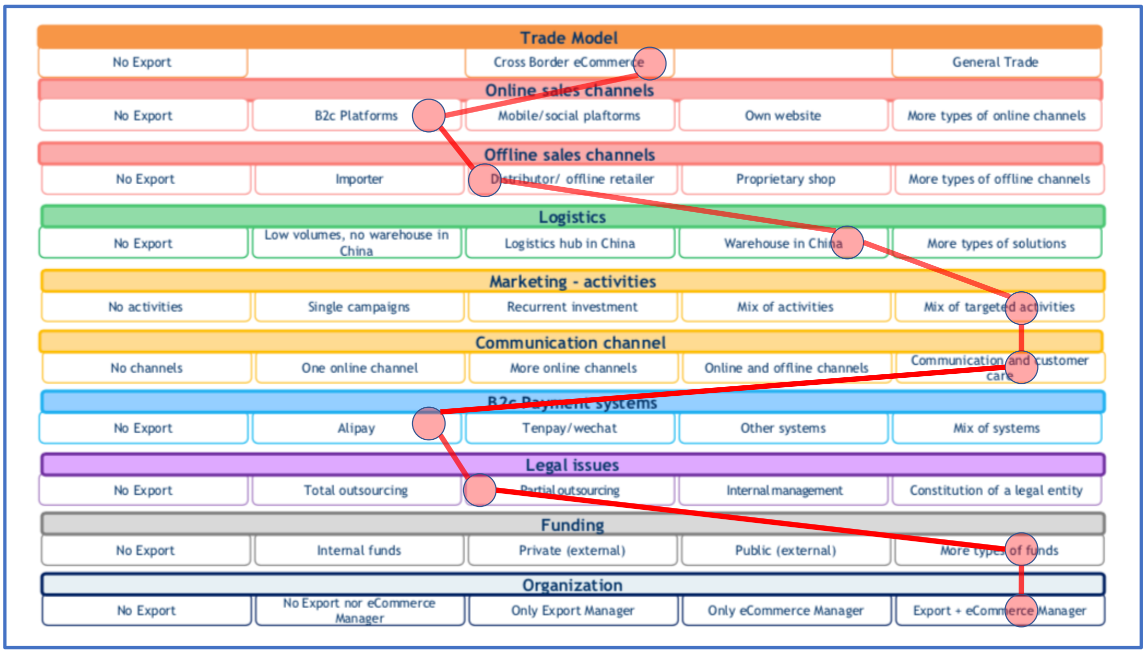

Figure 4.4 - Digital export model - Mukako

Trade model: The company applies a kind of Cross-Border e-commerce strategy: being the producer in China, the goods don't flow across the borders, and thus they do not require a bonded warehouse.

Online sales channels: Mukako is one of the Alibaba's best cases: the competitive position it gained over the time ensures the company to perform in the best way possible operating through Tmall Global, with which Mukako established a strong relationship based on valuable support and the provision of necessary services tailored according to the company's need. For these reasons, Mukako sells in China only through this B2C marketplace, justifying the choices with the high volumes the platform guarantees to the Italian start-up: WeChat is thus considered not necessary, because Alibaba already targeted Mukako's customers.

Offline sales channels: Most of the sales of Mukako are performed through the online channel (Tmall Global). The company recently started to build up its offline channel. closing partnerships with local distributors. Despite this, the focus of the company remains on the online channel.

Logistics: Production take place in China, and Mukako exploit the logistic network offered by Alibaba, considered to be the best in China.

Marketing activities: Mukako shares guidelines and contents, but the partner adapts the contents to the Chinese context. The value proposition of the product remains the same defined in Italy (quality, educational use, fun, etc.) and the same happens for the marketing asset (pics of the products, videos, etc.). The local partner simply re-adapt them making them valuable in the Chinese market, in order to exploit the local knowledge about needs and trends.

Communication channel: It happens mainly online, but recently the company signed an agreement to be displayed on the supermarket's totem in China (thus, on physical ads' channels). The company also manages an international customer service, in charge of managing the customer's requests, supported by a local partner in the Chinese case.

B2C payment system: Mukako sells through Alibaba's Tmall Global, and for this reason its main mean of payment is the Alibaba's system AliPay, one of the most popular and appreciated means of payments.

Legal issues: Production happens in China and Alibaba's supports the company in many of the legal issues. The right field is "partial outsourcing", because Mukako manages these issues internally, supported by Alibaba and by the local producer.

Funding: Mukako's capital composition is made from both public and private external sources.

Internal organization: being the company organized in functions, there is a team in charge of managing the e-commerce export towards all the international markets in which Mukako operates. Despite this, this team is not dedicated totally on China.

Defined and mapped the strategy, we can now focus on the questions necessary to achieve the goal G2.

Q16 – Is the strategy applied by Ventuno coherent with the Chinese market?

Considering the results obtained by the company, the strategy is coherent and successful. I will now focalize my analysis on the topics discusses in this thesis in the chapter two, identifying the key success factors in Mukako's strategical approach to the Chinese market.

There are two main key points in Mukako's success:

- Mukako exploited the trends characterizing the Chinese population creating a value proposition that met their needs. The Chinese people were indeed becoming more sensitive to quality, recognizing the foreign product to incorporate such an important feature, becoming less sensitive to price in the purchase of goods related to their kids' healthcare. In this situation, Mukako entered into the Chinese market with its perfect offer.
- The partnership between Mukako and Alibaba allowed the company to access to China and to emerge from the competition, solving all the issues and complexities faced during the internationalization process thanks to the support of such a strategical partner.

Let's see these two points more in details.

The market for maternity and infant care is, as we saw, a market that keeps growing as much as more people become more used to purchase through the digital channels. Moreover:

- The rise of the incomes allowed people to increase their purchasing power;
- In China, people are starting to have more than a children per couple, increasing the potential market for Mukako;
- National scandals about baby products increased, in the Chinese perspective, the awareness about the safety of the foreign goods, reducing the price sensitiveness related to these products;

In the case of Mukako, its offer perfectly fits all these opportunities coming from the Chinese market.

Mukako decided to reach all the couples (and mainly the mothers) through the giant Tmall Global, avoiding the mobile social platforms. This choice is strategically coherent, being the parents older than millennials and less used to use social medias.

Mothers still need to read feedbacks, comments and opinions before concluding a purchase, and all these activities can be accomplished on Tmall Global. This platform is actually the first digital space in which mothers get information and purchase the products and, for this reason, Mukako's choice to focusing only on this marketplace is strategically coherent, being the largest share of its potential customers already targeted on Tmall.

From the theory defined in the chapter two, we could highlight two important moves that could theoretically work for Mukako:

- Being present on a niche marketplace and advertising the products through dedicated forums and websites could potentially bring to Mukako positive results, considering the behavior of the Chinese mothers in their purchasing process. Clearly, Mukako decided to remain on Tmall Global only because this strategic decision is supposed to bring them more advantages than those from selling through other marketplaces.
- The physical offline channel is far from negligible: being the couples with kids older than millennials and thus less used to adopt digital channels, developing an offline channel could be useful to attract customers that do not shop through Tmall Global, but still rely on physical retails and supermarkets. Mukako is

moving toward this direction: it is establishing the first relationships with some local distributors, and it is actually advertising its products on the supermarkets' totems, probably in order to attract this less digitalized share of customers in the purchasing process;

The choice to partnering up with Alibaba is highly strategical and coherent with the Italian start-up industry.

First of all, Alibaba is directly involved in the governmental cooperation between Italy and China in the export industry. As we saw, this cooperation involved also the start-ups of both countries, enabling them to access to the other country's market following preferential routes. In addition to this, Alibaba is the first Chinese service provider: it enables companies to access to the most complete offer of services to accomplish all the key activities described in the chapter two. It also incorporates AliPay, the Chinese first mean of payment, enabling user to pay without leaving the platform environment, ensuring safety and trust. Moreover, Alibaba is able to guarantee:

- Marketing data and tools, to structure the marketing campaigns;
- An efficient logistic network based on the partnerships with other logistics providers, able to reach even the most dispersed areas of the country;
- A digital space in which sharing contents and delivering the marketing message;

According to the criteria defined, the answer satisfies the achievement of the sub-goal ***G2a.***

It also supports the achievement of the goal ***G1****.*

Q17 – Is there any critical pillar out of the model? How did you manage it?

The company didn't face any impacting difficulties: having partnered up with Alibaba allowed it to be prepared to every obstacle supposed to put a brake to the company's internationalization process.

According to the criteria defined, the answer satisfies the achievement of the sub-goal ***G2:*** *despite Mukako does not recognize any of these seven pillars as critically impacting in its internationalization process, the company performed great on each of these categories thanks to the support provided by Alibaba (united with the excellent ability of the company to be strategically ready and competent in any of the field required) and this can be seen as a way to manage the potential difficulties.*

It also supports the achievement of the goal ***G1****.*

Q18 – Can start-ups follow the digital export model as it is?

Yes, it can: the model can be applied without any modification to Mukako, enforcing its applicability area.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G2a.***

*It also supports the achievement of the goal **G1**.*

Q19 – Which are the differences in the strategy pursued by Ventuno compared to that of traditional SMEs?

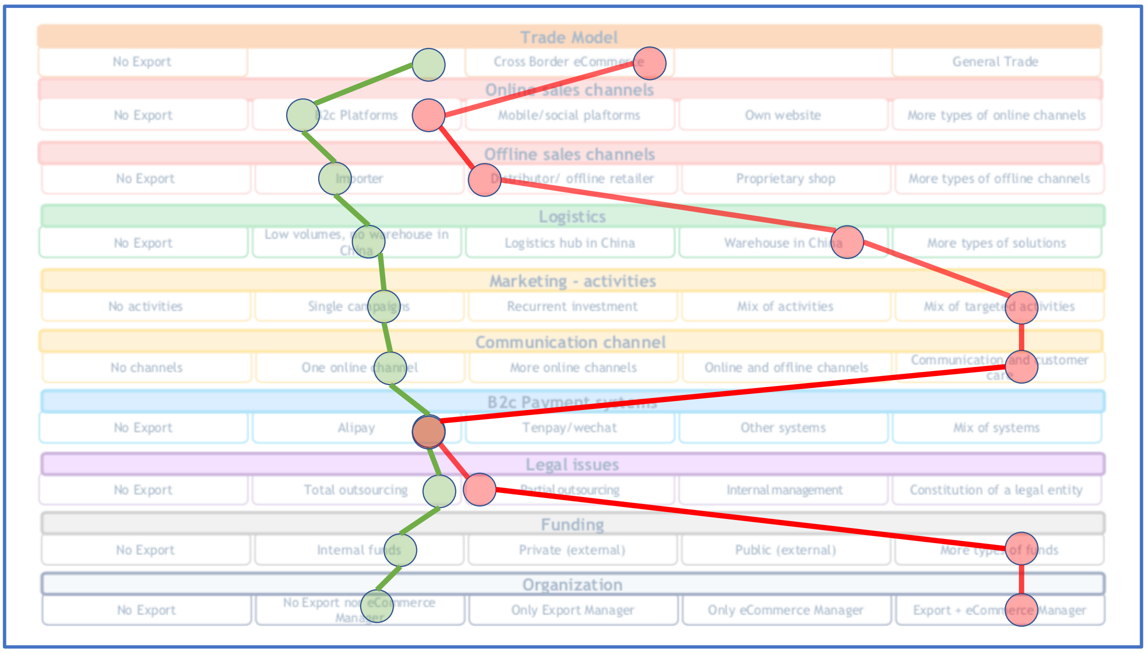

Figure 4.5 - Digital export model strategy - Italian SMEs (green) vs Mukako (Red)

From the figure 4.8 we can observe that the digital export strategy applied by Mukako and that applied by the traditional Italian SMEs differ a lot, but they have some points in common:

- Both the average of the traditional SMEs and Mukako sell through the B2C CBEC platforms only, avoiding the social and mobile platforms as WeChat.
- This platform is in most of the cases Alibaba's Tmall Global and allow the companies to collect the money through AliPay.

From the figure, we can then see that Mukako has a more committing approach in the:

- Marketing activities;
- Organization of the resources;
- Logistics;

The latter is justified by both higher volumes and by the fact that the goods do not flow from Italy to China, being produced locally, while the marketing and the organization of the company seems to be more linkable to a probably better performance.

Moreover, company's financial resources committed in the Chinese market are differently structured compared to that of the Italian traditional SMEs.

According to the criteria defined, the answer satisfies the achievement of the sub-goal ***G2b:*** *the strategy applied by Mukako is different and more committing.*

It also supports the achievement of the goal ***G1****.*

Q20 – Are these differences related to a better performance in China?

Despite the commonalities, Mukako's success in China is enormous compared to that of the traditional Italian SMEs: the reason behind this better performance is thus hidden in the differences that can be spotted in the figure 4.8 (of course, we have to consider the better management and the more strategical approach that Mukako had in the choices that are in common with the SMEs: the choice of selling through Tmall Global is yet common, but the results are different because of the different mindset and the different characteristics Mukako has and that I will try to list at the end of this thesis).

- Mukako values better the marketing and the communication activities to create brand awareness and adding value to the product. Marketing is important in China and SMEs do not focus their effort in these strategic activities, and in most of the cases they simply apply the western marketing they already use in China, causing a bad performance;
- Mukako committed its resources in order to build a team in charge of managing the e-commerce export activities, assumed to have specific and complete knowledge of the Chinese market, supported by local teams provided by local partners. Traditional SMEs lack of these competences;
- The ability to access to different financial sources allows the company to set as a goal the growth of the company instead that the return of the investment in the short time. This longer time perspective was, as we saw with Ventuno, a characteristic of start-ups that enables the company to achieve better performances.

According to the criteria defined, the answer satisfies the achievement of the sub-goal ***G2b.***

4.2.5 – Comments

The information obtain by Mukako is essential: Mukako is an Alibaba's best case and is one of the best Italian start-ups that sells in China through the CBEC channels. Their contribute will allow me to include in the results of this thesis one of the best Italian performer in the Chinese market.

MUKAKO	MAIN ■□								
	G1 ■□				G2 ■□		G3 ■□		
QUESTIONS (Qi)	G1a	G1b	G1c	G1d	G2a	G2b	G3a	G3b	G3c
1. Did the company approach the Chinese market in its start-up phase?	■□								
2. Was the company already organized when it approached China?	■□				■□				
3. Are start-up more likely to sell in China through the CBEC?	■□	■□	■□			■□		■□	■□
4. Which are the obstacles considered exclusive for the start-ups?.		■□						■□	
5. Was the company able to overcome these obstacles?		■□							■□
6. Were these obstacles predictable?		■□							
7. Did the company find a way to overcome the unexpected obstacles?		■□							■□
8. Is the Chinese channel financially self-sustaining for the company?									
9. How does the Chinese project is financed?			■□		■□	■□			■□
10. Does the company's plan consider the failure?			■□				■□		
11. Is the Chinese market scalable?				■□					
12. Did the company grow operating in China?				■□					
13. Is the Chinese market an opportunity?				■□					
14. Can the commitment level be easily increased or decreased?				■□					
15. Is there any external support provided to start-ups in China?				■□					
16. Is the strategy applied coherent with the Chinese market?	■□				■□				
17. Is there any critical pillars out of the model? How did you manage it?	■□				■□				
18. Can start-ups follow the digital export model (as it is or modified)?	■□				■□				
19. Which are the differences in the strategies pursued vs the SMEs?	■□					■□			
20. Are these differences related to a better performances in China?	■□					■□			
21. Was the internationalization to China a goal since the beginning?	■□				■□	■□	■□		
22. Are the born global companies more likely to succeed in China?	■□						■□		■□
23. Is the agile organization linked to a faster adaptation to the issues?	■□							■□	
24. Can you list other characteristics linked to a better performance?	■□								■□

Figure 4.6 - Answers and goals' achievement – Mukako

4.3 – ACBC

Unfortunately, I wrote this master thesis between December 2019 and April 2020. These days were characterized by one of the hardest emergencies ever faced by Italy as a country: a pandemic emergency called Covid-19. This emergency resulted in a national lockdown and in a shutdown of all the main activities within the Italian borders, allowing businesses to keep operate thanks to the smart-working.

In this context companies, especially those involved in the Chinese e-commerce (which are those discussed in this thesis), started facing one of the biggest difficulties ever faced, resulting in an unexpected workload and a high complexity, but also in a period characterized by one of the highest uncertainty about the future.

ACBC was the last company I needed to complete my study, according to the modalities I planned in the chapter three. Unfortunately, the interview was scheduled in the first days of March 2020, but the situation created by the Covid-19 in Italy drastically changed, and the company found itself in a condition in which conceding time for an interview was not possible.

Due to this, ACBC will not be analyzed in this thesis but its description and the introduction about the company will be kept as it was written, hoping to have the chance, once the emergency will be concluded, to interview them and to integrate their responses on the results of this study.

4.4 – WONDERFUL ITALY

The interview with Wonderful Italy, as told in the following chapter, will cover the achievement of the goals G1 and G3 only. These findings will be useful to strengthen the achievement of these two goals, enforcing the assumption of this thesis.

4.4.1 – Who is Karin Venneri

Karin Venneri is one of the most important figures in the start-up that work in the tourism industry. She is a serial entrepreneur. Indeed, after some experiences in the consultancy sector, she focused all her efforts in the tourism industry:

- In 2014, she founded 1000 Italy, a mobile app that suggests to tourists activities and places to see in the nearby;

- In 2016, she founded Edgar, a customizable concierge app for B&B, hotels and property managers that allow its user to manage the relationship with their guests offering services directly bookable through the app;
- In 2019, she founded Overbooking, a company which allows hosts to manage their overbooking looking at available room to accommodate the guests in other hotels, apartments or B&B;

She worked for Destination Italia for 3 years as project leader (guiding the business unit responsible for managing the B2C channel) and then as chief marketing officer-CMO. From 2019, she started working for Wonderful Italy, in the position of strategy & sales director.

In addition to this, Karin Venneri is today the president of the so called "Associazione Start-up turismo", a network that creates synergies among start-ups, incubators, investors and other actors involved in the tourism field, creating value for the whole ecosystem.

For these reasons, interviewing Karin Venneri is for a me a great opportunity, because her mindset and her knowledge about start-ups and the business dynamics could support me in achieving the goals I set for this thesis. Her perspective about the Chinese market and the link between China and the Italian start-ups will be extremely useful to assess the goals G1 and G3.

4.4.2 – Transcripts of the questions for the achievement of G1 and G3

Due to the fact that Wonderful Italy's Chinese channel is actually under construction and still not-functioning, the questions that will be asked to Karin Venneri will be selected from those defined in the framework, in order to extract the most useful knowledge out of her huge experience, avoiding those questions linked to the most operational answers.

Q3 – According to you, are start-ups more likely to succeed in the Chinese market compared to the traditional SMEs?

According to Karin Venneri, start-ups are more likely to succeed in the Chinese market because of two reasons.

The first reason is the company's culture. This is similar among the largest majority of start-ups. These companies, indeed, are often created by young and motivated entrepreneurs, who are born in a globalized and open world. In the case of Italy, thanks to the European Union with the single market, the openness and facilitated circulation of people and goods among borders and the Erasmus programs, entrepreneurs live today in an open and always more international world. This translates into a new way of doing business, in which the foreign country is not seen as another and different reality, but as a new market and a great opportunity. Traditional SMEs tend to be less likely to internationalize because, according to their perspective, the internationalization appears more complex and riskier, and the culture coming from the past generational mindsets make the established enterprises less agile and propense to risk in the foreign market;

The second reason is about technology. China is a highly dynamic and changing market, in which technology is developing at very high rates. In order to operate in China, a market in which technology drives the changes, being flexible and more likely to adapt to the technological environment is essential to survive. Start-ups, considering this, are theoretically more propense to this technology adaptability, while SMEs rely on a consolidated technology and a more rigid structure that tend to prevent them to adapt properly, and tend to avoid the processes re-design.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1a**.*

*In addition to this, the response covers also different topics of the goal **G3**. In particular, Karin Venneri described the approach to technology referring to the principles of the "agile organization" discussed in the sub-goal **G3b**, thus the answer can achieve that sub-goal. Another point is about the propensity of the younger and most innovative entrepreneurs in doing businesses abroad: this propensity is the main driver to have a born-global company and, for this reason, the answer achieves the sub-goal **G3a**.*

Q4 – Which are the main obstacles that an Italian start-up faces in China?

According to Karin Venneri, the main obstacles start-up could face in China is the investment needed, which is a sunk cost: the business development activities focused on the adaptation of the product to the market requirements, the fixed costs to start operating in China and the consultancy about the market and the Chinese culture heavily impact on a start-up's balance that, without a proper financial support from its investors, could not be motivated in reaching such a complex market. Wonderful Italy is funded by Oltre Venture, an impact investing fund that is actually the company's main shareholder. The fund is interested in achieving the growth of the company, justifying the investment of going abroad (to China) with the large potential that China has considering the large customer base that composes its market.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1b**.*

She also highlighted the importance of having an investor that is willing to risk financial resources in a complex and risky project as that of China.

*This fact can be linked to the achievement of the sub-goal **G1c**, being related to the company's ability to collect the financial capital to allocate it to the Chinese market.*

Q6 – Were the obstacles predictable?

According to Karin Venneri, everything in the Chinese market can be predicted and planned: the key point is the trust. A start-up will rely its strategy on many partners or service providers and these players will be in charge of running part of the company's operations as they were part of the company itself. Finding the right partner and creating a strong relationship with them based on trust is one of the key points to be successful and to be able to overcome the obstacles.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1b**.*

Q8 – Is the Chinese channel self-sustaining in terms of revenues?

According to Karin Venneri, the internationalization to China, due to the sunk costs and the large investments, will lead to a positive ROI in the medium term. Start-ups cannot count on high profits in a relatively short time. For this reason, Karin Venneri highlights again the importance of having the main investors favorable to the Chinese project, in order to count on a financial resource aimed at sustaining the starting of the company's operations abroad, despite the net profit will be negative in the medium term.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1c**.*

From this answer and that provided in Q4, Karin Venneri said us something interesting. If the investors are willing to support the start-up in the internationalization to China, the company will be able to sustain the large expenses required at the beginning of the project: without the right investors within its shareholders, a start-up could find it difficult in gaining the capital necessary to sustain the Chinese channel.

Private external investors could evaluate the project as too risky and they could not be willing to accept a payback time in terms of years (and subjected to uncertainty). The only tangible way that start-ups seem to have as an alternative to the internal support *from its shareholders is relying on the public or private institutions that act as facilitators especially for start-ups interested or potentially profitable in the Chinese market.*

Q9 – How does the Chinese project is financed?

In the case if Wonderful Italy, the budget has not been allocated yet. When the company will be ready the investors, if favorable, will allocate part of the necessary financial resource to the Chinese market, and the company will try to participate to some of the call launched by institutions and facilitators in this field. One of the most important is the Italian agency called ICE, that acts as a facilitator in the financial market and in the access to the foreign markets. Actually, the main problem is the difficulty in accessing these kinds of facilitators, because in most of the cases the calls are destinated to companies that are part of a given network.

According to the criteria defined, the answer satisfies the achievement of the sub-goal ***G1c****.*

The answer also satisfies the achievement of the sub-goal ***G1d****, because it highlights the existence of facilitators and entities in charge of support start-ups in the access to the Chinese market.*

Q11 – Is the Chinese market scalable?

According to Karin Venneri, the Chinese market is scalable, because China is moving toward a market characterized by capitalistic dynamics.

According to the criteria defined, the answer satisfies the achievement of the sub-goal ***G1d****.*

Q13 – Is the Chinese market an opportunity compared to the domestic one?

According to Karin Venneri, the Chinese market could be more profitable for given categories of start-ups than what the domestic market actually is. The large customer base, the players born to facilitate the access in China and the market dynamics that, if properly studied and exploited, could lead to a positive performance, are reasons to prefer China as a main market, or to consider it as one of the target markets.

According to the criteria defined, the answer satisfies the achievement of the sub-goal ***G1d****.*

The answer also contributes to the achievement of the sub-goal ***G1a****, because the fact that some categories of start-ups could be in need of expanding to China reflects one* *of the resolutive actions to the main reason why start-ups fail: the absence of a market for their product.*

Q15 – Is there any external support provided to start-ups in China?

According to Karin Venneri, dedicated networks, institution involved in the digital trade facilitation, incubators and accelerators (and so on) are a precious resource to access the Chinese market in an easier way, and this kind of players focus mainly on start-ups instead than SMEs. The main issue behind these players is that, often, the calls and the opportunities are not offered to the whole national start-up environment, but are dedicated to network's niches: that is why the network, for a start-up interested in reaching China (but not only for this market), is an essential characteristic.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G1d**.*

*The answer also highlights one additional characteristic that seems to be necessary for a start-up: the network. Developing a network of peers is a strategic pillar that many start-ups, due to the environments in which they born, grow and operate (incubators, accelerators, co-working, etc.), should pursuit to be successful. This need can be linked to the achievement of the sub-goal **G3c**, because necessary to access, according to Karin Venneri, to the players involved in the facilitation of business between China and Italy.*

Q22 – Are the born global companies, according to you, more likely to succeed in China?

According to Karin Venneri, companies that born as born global are more likely to reach foreign markets than the others. A necessary characteristic for a born global that could be useful even for a start-up that is not a born global but that is still interested in reaching a foreign market, is having a foreign investors within its shareholders: if a person (or a company) from abroad spotted a profitable opportunity in your start-up and decided to invest capital in it, it will be more willing to authorize (and support) an internationalization project as that of China.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G3b**.*

Karin Venneri also highlighted an important fact about the start-up's shareholders: having an investor coming from a different country could put the company in a more favorable condition to be financially supported in the internationalization projects.

This finding can be linked to the achievement of two other sub-goals:

- ***G1c**, because it refers to the composition of the shareholders, directly involved in the financial support of the company;*
- ***G3c**, because this characteristic seems to be directly related to a propensity of going abroad counting on the financial support provided by the foreign shareholder and investor;*

Q23 – Is the "Agile organization" linked to a faster and better adaptation of the company to the local environment?

Karin Venneri is a manager who strongly believes in the agile's pillars. According to her, being and apply the agile organization is a smart way to proceed slowly but effectively, adapting to the environment in which the company operates. Being agile allows a start-up to deal with projects characterized by high levels of complexity, as the Chinese market.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G3a**.*

Q24 – Which are the characteristics considered to be exclusive for the start-ups, that can be linked to a better performance on the Chinese market?

Karin Venneri said that every business story needs luck, but the most important and tangible characteristic is the team: people are essential and, combined with the most innovative technologies, they can delivery positive results.

*According to the criteria defined, the answer satisfies the achievement of the sub-goal **G3c**.*

Karin Venneri highlighted three additional characteristics:

- *Luck, that can be translated into a positive match between the company's characteristics and its strategy to the Chinese context that, being uncertain and complex, is far from easy;*
- *The team, considered essential due to the heterogeneous competences that could be employed in the Chinese project;*

Wonderful Italy – Karin Venneri	MAIN								
	G1 ■□				G2		G3 ■□		
QUESTIONS (Qi)	G1a	G1b	G1c	G1d			G3a	G3b	G3c
3. Are start-up more likely to sell in China through the CBEC?	■□						■□	■□	
4. Which are the obstacles considered exclusive for the start-ups?.		■□	■□						
6. Were these obstacles predictable?		■□							
8. Is the Chinese channel financially self-sustaining for the company?			■□						
9. How does the Chinese project is financed?			■□	■□					
11. Is the Chinese market scalable?				■□					
13. Is the Chinese market an opportunity?	■□			■□					
15. Is there any external support provided to start-ups in China?				■□					■□
22. Are the born global companies more likely to succeed in China?		■□						■□	■□
23. Is the agile organization linked to a faster adaptation to the issues?							■□		
24. Can you list other characteristics linked to a better performance?									■□

Figure 4.7 - Answers and good's achievement - Wonderful Italy (Karin Venneri)

CHAPTER 5 – ANALYSIS OF THE RESULTS

In order to complete this study, the data obtained from the answers provided by Ines Di Franco, Maria Vittino and Karin Venneri must be studied to assess the overall picture.

In this phase of my thesis I will describe all the findings in each of the sub-goal defined in the chapter three: these findings will help me in enforcing and supporting my study in the demonstration of the upper goals, pursuing a bottom-up approach.

In the chapter four, after every question, I already provided a comment to each answer aimed at linking that answer to the related goal (according to the achievement criteria defined in the chapter three) it was supposed to achieve. In these comments I also provided a description of the specific finding that the given answer was able to deliver.

In the following paragraphs I will describe every sub-goal according to the related findings, to then sum them up to describe the upper goals they intend to achieve, concluding with the definition of the last main goal. In doing so I will:

- Exploit the findings obtained from the interviews;
- Exploit the digital export model's chart created from the interviews;
- Exploit the achievement framework that summarize the bottom-up strategy that I am going to pursuit;

5.1 – Goal 1: Demonstrating that China is a suitable market for the italian start-ups

This goal was probably the most important out of this thesis, and its complexity required me to create and run an analysis based on four different sub-goals.

5.1.1 – Achievement of the sub-goal G1a: demonstrating that the interviewed companies approached China when they were start-ups

The interviewed companies approached the Chinese market during their start-up phase. From the interviews, I noticed that:

- All the sample admitted that the internal organization is important (or essential, considering that it is also a pillar of the digital export model) but a start-up, that tries to access to the foreign market, could avoid to waste time in planning complex organizational approaches that should be supposed to work for the whole channel's life, and adjust itself during the internationalization. This is possible because start-ups are flexible and reactive organism, simple organization with unstructured processes.

  This ability to adapt to changing environment should be taken as strength, and start-ups should internationalize knowing that their internal structure will change to let the company perfectly fit to the market context.

- Start-ups, in their access to China, can rely on a preferential channel provided by institutional and specific players in the start-up market. First, the cooperation between the Italian and the Chinese governments, who promote facilitated and supported access to the domestic market by the foreign players, creating a favorable environment that can be exploited only by the start-ups. The governments often launch competition and calls for development projects, selecting the most promising start-up to finance and supporting them in their access to China. The governmental cooperation allowed other players (agencies, incubators, accelerators, etc.) and the investors to act as facilitators in the digital export to China**.**

  In this context, Italian start-ups could find a favorable environment in which private and public entities provide the company with all the necessary support (financial and operative) needed to reach China.

- We saw that the main reasons why start-ups fail are the absence of a market for their products or services and the lack of financial resources to sustain their operations. In this situation, the Chinese market could strengthen the position of the start-up solving these two issues: from the interviews, I noticed that all the companies reached China because they understood that their product had a greater potential there, not only because of the larger customer base that characterize the Chinese market. Some products that are not (or not so much) demanded in Italy could have been highly appreciated in China, and the companies should keep this in mind while thinking about the possibility to internationalize or not. Again, also the financial market could be closed for an Italian company in Italy, while it could be opened in China, strengthen by the governmental agreements between the two countries. For some companies in the start-up phase, collecting capital in China could be easier than doing it in Italy.

  In conclusion, a product not demanded in Italy could be appreciated in China, and the financial capital that cannot be obtained by the Italian sources could be more easily accessible in the Chinese market. Start-ups should know it, because selling to China could help them in mitigating the risk of failure.

- Apparently, start-ups should be more likely to succeed in China than the traditional SMEs. From the interviews I obtained a list of characteristics that differentiates the traditional SMEs (that, as we saw, underperform in China) from the Italian start-ups. The most important elements are listed here:
  - The most discussed difference was about the way in which the companies are organized. From the interviews I noticed that all the companies recognized that being an agile organization is a characteristic that allow the start-up to be more reactive and adaptive to a complex environment as that of China;
  - Start-ups are supposed to be more long-term oriented than SMEs, allowing them to create and pursuit a strategy based on growth and

gradual commitment in the long term instead than a failing approach aimed at obtaining positive results in the short term;

- The internal culture and the higher digital propensity characterizing start-ups (differently from the traditional SMEs) put them in a more favorable condition than SMEs;

Start-ups should theoretically be more effective than SMEs, and their attitude of being lean and international should push them at approaching China.

- In order to able to mitigate the risk coming from the failure of a single market, the internationalized company should be able to enter in as many market as it can (considering the costs, the resources that can be committed to a specific market and the profitability of the market itself). Cross-border e-commerce is the best tool that start-ups can use according to this strategy.
  The reduced costs (compared to that of being physically present on a market) and the digital nature of this activity, in line with the digital propensity characterizing the largest majority of start-ups, should motivate a start-up in risking something to achieve growth in China, and in the other international market, expanding its customer base and increasing its revenues.

5.1.2 – Achievement of the sub-goal G1b: defining the obstacles that start-ups found and how they overcame them

From the interviews, I found that:

- The biggest difficulty that Italian start-ups face while they approach the Chinese market are related to the product: according to the trends and the dynamics existing in the Chinese market, this must be developed (or adapted) with coherence with the requirements of the local customers. All the activities around the product are thus essential, but one of the most strategical one is the marketing and the communication. Performing effective market researches and applying a successful marketing strategy is a key factor to succeed in China.

  Today, most of the choices about the common strategic pillars and the possible strategies are already defined, and the real obstacles left on the start-up's hand is the product itself: focusing on the product adaption to the tastes and the needs of the Chinese customers is the right way to proceed, and the only real obstacle that start-ups should carefully study.

- The Chinese market requires a set of strategic and essential activities whose complexity cannot be managed by a single small company as a start-up: the only way to overcome this need of competences and to avoid the large costs for their internalization is establishing partnerships with local players. Partners are, according to the whole sample, the best way that Italian companies have to reach China: they allow to overcome any obstacles, providing effective solutions based on the experience and on a deep knowledge of the market and its dynamics. Finding the right partner is the best way to succeed. It is not necessary for a start-up to find the best-in-class partner of the country, but finding a partner that fits well with the company, that is willing to commit resources on the relationship, could allow the company to grow, solve the complexity and to be able to predict the possible future and uncertain events.

Italian start-ups should know that, in the case of an internationalization to China, they would not be alone: a large network of partners developed within the Chinese borders to facilitate the cross-border trade to the foreign companies. Today, there are networks for any need and budget, and in many cases an intermediate player facilitates the establishing of these partnerships at the beginning of the project.

5.1.3 – Achievement of the sub-goal G1c: demonstrating that even start-ups could financially sustain the Chinese project

From the interviews, I found that:

- The Chinese market approached through the CBEC is not remunerative in the short terms. Firms must know that the revenues will overcome the costs in the long term and that a constant flow of financial resources should be guaranteed to not make the whole project failing. Companies can try to apply an investment strategy that minimizes the sunk costs to guarantee the disinvestment in the case of necessity or they can rely on structural approaches (setting up leaner business model, as the "digitally native brands") that naturally absorbs fewer financial resources.

  Start-ups must know that the Chinese project will absorb a large share of the financial capital: the Chinese market is a reality that need to be approached applying a long-term perspective and, even if the company is able to reduce the commitment of its investments or the overall sunk costs, in the short term the balance of the project will be negative, requiring a constant financial support.

- This need of financial resources to maintain the Chinese channel operative is something possible only if the investors (shareholders) are willing to financially contribute to the initiative. These investors must be aware of the risks of financing such a risky operation, and their first goal should be the growth of the company, to achieve the remuneration in the long term, instead than a profitable ROI within few months. Having the investors willing to contribute allows the company to operate on the market without deadlines and let the company apply a long-term strategy that should be, theoretically, more effective. The investors that took part to the company's decision and life are common in the start-up system, making these companies operating in a favorable financial condition. SMEs relies on financial sources as bank debts, characterized by a low flexibility and by deadlines that, if not reached, could lead the whole project to fail, without allowing the SME to set corrective actions.

Start-ups must know that the structure of their capital could be crucial for the success of the project: having international investors or investors that take part to the company's life are more likely to finance riskier international project, guaranteeing flexibility and allowing the company to apply an effective long-term strategy. In the case of China, having a Chinese investor within the shareholders (possible thanks to all the initiatives set up by the governments) can be related to a facilitated and supported access to the Chinese market.

- Enhanced by the CBEC's techniques and by the players who facilitate the access to the foreign markets (government, institutions, accelerators, agencies, etc.), start-ups can enter into more than a single international market. This strategy allows the company to mitigate the risk of failure of a single market but also to generate revenues from the easiest markets to re-invest them in the Chinese market, considered to be that with the higher potential but also the one with the highest complexity.

  Start-ups should know that risk mitigation can be obtained applying a market differentiation strategy. This strategy, if pursued seeking for high profitability from the less complex markets, could allow the start-up to generate revenues to be invested into the Chinese market.

5.1.4 – Achievement of the sub-goal G1d: defining the possibilities of growth for the Italian start-ups in China

From the interviews I found that:

- Digitally native brands apply a pure digital strategy, relying only on the digital CBEC's channel only, because of their business model that requires them to pursuit this strategy to achieve costs saving and other model related benefits. Despite this, a start-up could decide to move the first steps toward the establishment of an omni-channel strategy, setting up a physical channel. Between a pure digital and a local retail strategy there is a continuum of solutions that start-ups could pursuit. Some of the companies in the sample relied on partners as importers or distributors, setting up profitable relationships to be present on the physical channels without committing critical resources.

  These partnerships can be supported by the facilitators involved in the Italy-China cooperation and highlight how a company, even the smaller, can decide to set up physical channels to manage them contemporarily with the online digital channel, demonstrating that this type of growth can be achieved by start-ups: Being digitally and physical present in the Chinese market is thus possible.

- Start-ups should be aware that the Chinese market, compared to Italy, could potentially be a winning choice because:

- As we saw, it could allow to solve the two main reasons why start-ups fail (absence of a market for the products or services, lack of financial resources);
- The customer base and the dynamics affecting the local demand are complex to estimate, but if understood and exploited, these could delivery highly profitable results;
- The trends and the market's characteristics described in the chapter two of this thesis allow a company to create a proper and complete strategies that starting from the product development to the service level capture the best out of these trends, creating profitability and brand awareness;

Start-ups should evaluate, since the beginning of their life, the possibility to reach China to mitigate the risk of failure and to try to profitably exploit the trends and the dynamics characterizing the Chinese market.

- From the interviews, I understood that the Chinese market is highly scalable by the Italian start-ups. The sample provided examples and reasons why they were able to grow in China: the discussed about the fact that the financial sources are more interested in the growth than the profits in the short terms, allowing the company to pursuit a long terms strategy increasing gradually commitment and scaling the market. They also referred to the support provided by the partners and the facilitators, that positively contributes to the effective scalability. Other reasons I obtained from the interviews involved cultural factors: the capitalistic dynamics that are now dominating the Chinese market and the importance of the trust gained from the customer audience are factors that contributes to the scalability of the business in China and thus on the growth.

Start-ups must know that the Chinese market can be scaled even by the smaller company, if the dynamics and the possibilities offered by this market are properly exploited.

5.1.5 – Achievement of the goal G1

Analyzed the interviews and obtained the most important findings, we can now proceed with the achievement of the upper goal G1.

As I said, the achievement criteria will follow a bottom-up approach: if the related sub-goals will be considered achieved, according to the criteria already defined in the chapter three (supported by the sections of the frameworks related to the goal G1, provided in the figure 5.1), then the goal G1 will be considered achieved as well, becoming part of the achievement of the main goal provided in the following paragraphs.

The framework will support me in the visual achievement of the goal, but the findings will allow me to link this goal to the assumptions related, trying to provide an objective explanation of why this goal is considered achieved.

In the figure 5.1 we can observe the achievement (based on the questions already described) of the goal G1.

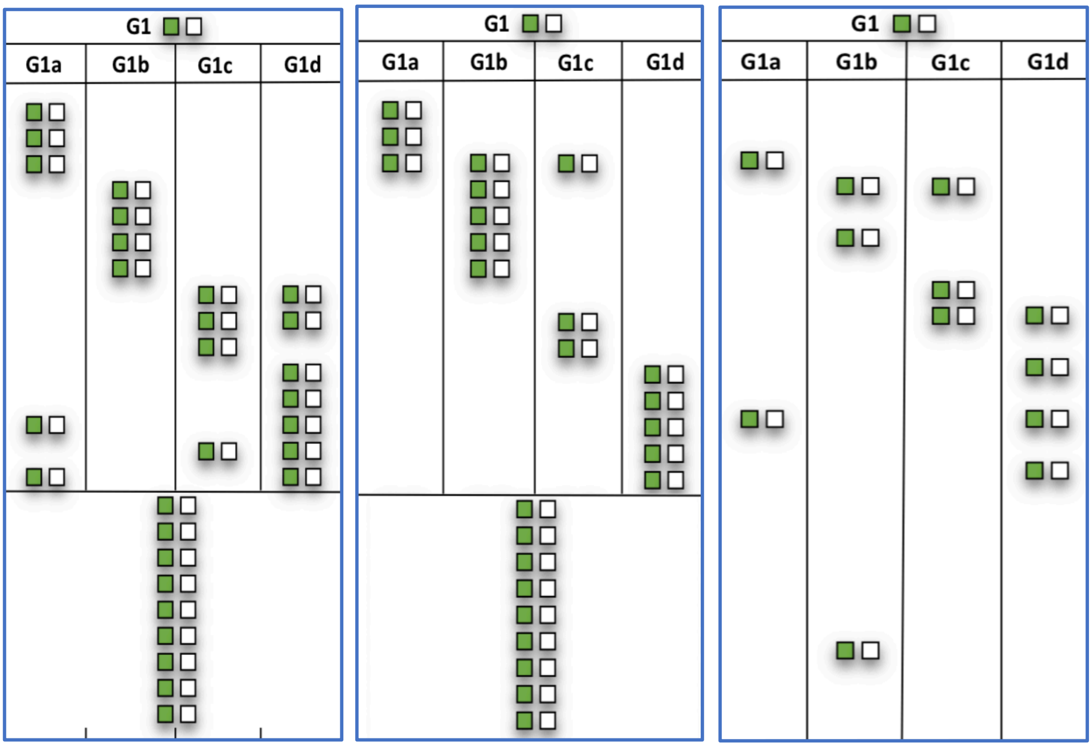

Figure 5.2 - Achievement frameworks of the goal G1

From the figure 5.1 we can observe that all the answers obtained from the interviews in all the four related sub-goals, contribute positively to the achievement of the goal G1.

According to these frameworks and the criteria provided, the goal G1 could be thus considered as achieved but, in order to provide an objective explanation of the achievement, I think that reporting the most important findings is necessary to enforce this process.

Goal 1: "Demonstrating that China is a suitable market for the Italian start-ups"

The Chinese market is suitable for the Italian start-ups. This happen because of many drivers obtained from the interviews. Some of these are related to the characteristics that differentiate the approach and the performance of these companies compared to that of the traditional SMEs:

- *Start-ups are leaner and simpler organizations, that are able to adapt and evolve in a market that is complex as that of China;*
- *Start-ups can count on preferential channels provided by the two governments, and on a series of players that act as facilitators, linking the companies to a network of local players considered to be crucial to solve all the issues and obstacles that they could face in the Chinese project;*
- *Start-ups could be better off selling to China: they could increase their possibilities of survival, expanding revenues and creating new markets abroad.*

Cross-border e-commerce increased their possibilities allowing to create a new channel without the need of heavy structural investments;

- *The long-term perspective, the capital structure, the internal culture and other factors that differentiate them from the traditional SMEs are thus linked, according to these interviews, to a possible better performance in China;*
- *Strategies and obstacles are already defined and mapped: everything can be predicted and solved, thanks to the relationships with valuable partners that start-ups, due to the network they are able to develop, create;*

According to all the evidences provided, by both the visual framework and the objective findings coming from the interviews, the goal G1 is considered to be achieved: China is a market that is particularly suitable for our Italian start-ups, and the cross-border e-commerce is the channel that allow our most innovative companies to reach that market easier, faster and without committing critical financial resources. Due to this, China will be considered a more suitable market for our Italian start-ups instead than for our Italian traditional SMEs, being the performance of the latter bad and strategically obsolete.

5.2 – Goal 3: Defining a set of characteristics that successful start-ups that export in China have in common

This goal was aimed at supporting me in the achievement of the goal G1.

My objective was to create a list of intrinsic characteristics assumed to be unique for the start-up type, to enforce the assumption that start-ups perform better than SMEs in China, and to create a useful list of internal drivers that future and actual entrepreneurs can use to internally develop them before approaching the Chinese market.

In doing so, I created three sub-goals: two of these were aimed at testing two characteristics that I was considering as essential for a successful start-up in China (being a born global company and applying an agile organization approach), while the last goal was aimed at collecting from all the questions those characteristics that seemed to be related to a better performance and that were typical for the start-up system.

5.2.1 – Achievement of the sub-goal G3a: demonstrating that the born global companies are more likely to operate and survive in the Chinese market

The findings demonstrated that being a born global is, according to the answers provided by the sample, a characteristic that impact positively on the performance in China. Start-ups are young companies, created and managed by a team of people who are born in an era in which the world is always more globalized. These companies since their birth think about the foreign markets as target markets for their businesses, while some of them are born to be international, because of a set of different reasons (lack of market in Italy, higher demand abroad, etc.). Having an international perspective makes the Italian start-ups more likely than traditional SMEs to succeed in China, because these companies are more willing to change and adapt according to the cultural mindset that characterizes a culturally distant country as China is.

Start-ups must be aware that the international mindset the younger entrepreneurs have is a source of advantages compared to the traditional SMEs, less internationalized and more committed to the domestic market. Due to this, start-ups should born or adapt to the principles of the born global companies, seeking for positive results in the international market.

5.2.2 – Achievement of the sub-goal G3b: demonstrating that an agile organization allows the company to react better on the Chinese market

The findings demonstrated that being an agile organization is probably the most important intrinsic characteristics that can be related to a positive performance in the Chinese market. Being agile, as all the companies in the sample was, allowed them to decide quicker and adapting faster to the changing environment: it is an approach to deal with unexpected issues in the best way possible.

Being agile means being more adaptive thanks to a different approach on the processes, making the people behind them more important, allowing the company to work with projects characterized by high levels of complexity and to answer quickly to the dynamics involving the Chinese market.

Start-ups should evaluate to build their companies according to these organizational approaches, being it essential, according to the sample, for a successfully strategy in China.

5.2.3 – Achievement of the sub-goal G3c: identification of the other characteristics that can be considered relevant for the start-up's performance in China

During the interviews, I found many interesting elements considered to be unique for the start-up's system and that was linked to a positive performance in the Chinese market:

- **Time horizon**: start-ups tend to plan more applying a long-term time perspective, required to apply effective strategies in a market that is not profitable in the short term;
- **Digital propensity**: start-ups are created by young entrepreneurs, who are born in the European Union, where borders within nations seem to be the lower possible. People today grow up with a mindset oriented to the international business, allowing them to spot new opportunities coming from outside the country and to exploit them;

- **Network:** start-ups born and grow in context in which many players and entities cooperate together. A start-up is not a stand-alone entity and, especially in the first stages of its life, it cooperates with other start-ups, other companies, institutions, accelerators, universities, incubators and experts. They are exposed to the possibility of creating a large network of peers, extremely useful to achieve the goals they set, to be linked to the best partners, to access to preferential channels and programs and, in general, this condition put the start-ups in a more favorable condition than the traditional SMEs;
- **Investors**: start-ups have different shareholders than SMEs, because these investors directly participate to the company's life and in the most important decisions. This fact allows start-ups to be, in the case of an authorization from the funders for going abroad, freer and more flexible to use the financial resource over a wider time horizon than SMEs. Moreover, the investors interested in funding start-ups are more willing to risk financial resources funding project of internationalization, because of their high potential for the growth of the company;
- **Team**: start-ups are managed by teams that are heterogenous in competences, allowing the company to be able to internally manages and solve all the issues. Whenever a competence cannot be internalized, start-ups delocalize the activity or the competence to a partner locally based;
- **Business model**: start-ups business models are leaner and less cost absorbing. These models allow to achieve flexibility and cost saving, without avoiding the possibility to going abroad. For some categories of SMEs going abroad is a prohibitive project, because of their business models;
- **Attitude to delocalization**: start-ups base most of their activities locally to local partners. This attitude allows these company to allocate the most important activities to the local players with the right competences, achieving better results.
- **Culture**: the internal culture that characterizes start-ups is oriented toward the international business and the organization of the competences of the most skilled and talented people;
- **Technology**: start-ups are technology friendly, and technology is a requirement that cannot be ignored in the Chinese market. They are more likely to adopt and adapt to the changing environment and the continuous improvements affecting technologies, making them able to be aligned to the latest innovations;

Start-ups, according to these findings, should be theoretically more likely to be successful in the Chinese market.

5.2.4 – Achievement of the goal G3

Following the same procedure than that used for the goal G1, the goal G3 will be considered achieved evaluating the part of framework resulted from the interviews (figure 5.2), integrating it with the findings from the interviews.

Figure 5.3 - Achievement frameworks of the goal G3

The goal G3, according to the answers obtained from the interviews, can be considered achieved: I have been able to identify a list of characteristics that can be considered unique for the start-ups and that are related to a better performance in the Chinese market.

This result can be observed in the figure 5.2, in which I highlighted the positive contribute of every answer provided to the achievement of every sub-goal.

As before, the simple visualization of the result could not be enough, because the achievement criteria are subjective. An objective explanation is thus necessary, in order to enforce the achievement of this goal.

Goal 3: Defining a set of characteristics that successful start-ups that export in China have in common

The most successful start-ups that export toward China have some characteristics in common. These intrinsic characteristics can be considered exclusive for the start-up system (is thus different finding a traditional SME which incorporates them, even if it is not impossible) and are related to the success of the company in the internationalization process and in the digital export to China.

These characteristics contribute to the enforcement of the achievement of the goal G1 but also on the achievement of the main goal, creating a profile of the start-up assumed to have all the necessary characteristics that are useful to operate in China.

The resulted profile is the following: in order to be prepared and successful to sell in China a company should start from its business model. Orienting the whole company toward the born global companies or the digitally native brands, a start-up ensures itself to be able to pursuit, within a very short time since its birth, a strategy to reach the Chinese channel. Then the focus shifts to the internal organization of the company, and the key point is the lean organization. This model seems to be the necessary standard that today's start-up must respect in order to be successful especially in the case of China, because of the need of being flexible and reactive to the Chinese market that is complex.

Then, a start-up should focus on the internal development of the other important characteristics, already defined.

5.3 – Goal 2: Comparing the model to that of traditional SMEs, as defined by Osservatori Digitali, looking for substantial differences in the operative strategy

This goal required me to use the model developed by Osservatori Digitali described in the chapter three. I tested the model, graphically representing the start-ups' strategies on a framework (based on the model) and I compared them to the average strategy of the Italian traditional SMEs.

In doing so, in order to not provide a visual analysis without explanations, I decided to compare the strategies studied with the peculiarities and the characteristics of the Chinese market, that I described in details in the chapter two of this thesis: I studied every company's decision considering the information collected in the Chinese market analysis, looking for substantial coherence in the choices taken.

This approach allowed me to give to these results an objective explanation, to then be able to say that start-ups' average strategy fits more with the dynamics and the characteristics of the Chinese market.

In the figure 5.3 I resumed all the information collected during this thesis, highlighting the most important elements that are considered essential to complete my study.

In studying the chart, we must consider that the SMEs' average strategies was build considering a sample of many SMEs, while the average start-ups' strategy that I built considered the approaches applied by two successful start-ups only: this is the main limitation that this model actually has, but I will discuss about it in the conclusions (chapter six).

What's important to know is that these two start-ups can be considered similar to many other Italian start-ups operating in Italy: their characteristics, their life-stages and the channels they can access are not exclusive for these two companies, and their strategies simply match the requirements coming from the Chinese market and the given industry: due to this, their average can be considered valuable for a larger sample of start-ups that would operate in China and, for this reason, the model can be qualitatively extended to a wider sample.

In the figure 5.3 I represented all the findings obtained from the achievement of the sub-goal G2. This model is an important output of this thesis and it could be useful for future planification of the internationalization to China by start-ups.

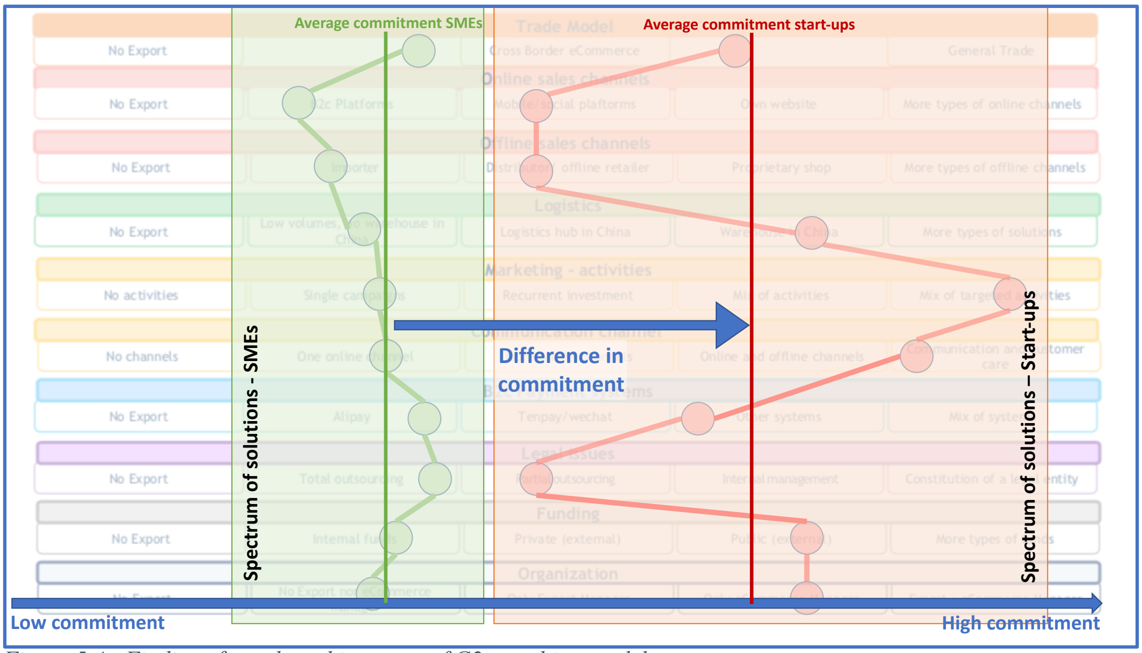

Figure 5.4 - Findings from the achievement of G2: resulting model

The model obtained from the achievement of G2 has been built plotting the average strategy of the traditional SMEs on the left (obtained from Giuffrida, 2019), and the average strategy of the sample considered (made of two firms, Ventuno and Mukako) on the right.

The model was then considered as a continuum of solutions on the x-axis, describing the commitment of the company in the Chinese market. Commitment can be seen as the extent by which companies approach the Chinese market, committing resources and aligning their approaches to the peculiarities and the dynamics that dominate China's online purchases. Theoretically, the higher is the commitment, the more focused and effective is the strategy applied by the company, being China a market that must be approached locally following the local requirements.

For both the categories, I defined a spectrum of solutions, that is the continuum of strategic choices that a SME or a start-up could probably make according to the average strategy of its category, considering their strategy and an interval of confidence, being these choices obtained from an average of different solutions.

Within this spectrum, I identified a vertical straight line representing the category's average commitment, simply finding the average commitment level of the 10 strategic pillars composing the model. The distance between these two straight lines is the difference in the commitment level of the average SME and the average start-up that sell in China and, within this difference, we could qualitative find the difference in performance within SMEs and start-ups, that could verify our assumption that start-ups tend to perform better in China than traditional SMEs.

Resuming, the main finding I obtained from this thesis, based on the goal G2, is the following:

Recalling the context from which we started from, Italy was one of the worst performers in Europe considering the digital export toward China, with just the 10% of the Italian companies exporting abroad through the CBEC's channel, and even a lower percentage that oriented its digital exports toward China. Actually, the largest majority of companies in Italy are SMEs. Their performance is thus quite negative, and the main reason, without considering the structural obstacles of these companies (low digital and international mindset, etc.) is the strategy they apply: this is characterized by choices that are not valuable, being these low committing choice, differently from what the Chinese market demands.

Start-ups, on the other hand, approach the market in the right way, with a higher level of commitment and an overall coherence within their choices and the dynamics affecting the Chinese market. The performance of the companies interviewed are extremely positive and their strategy is characterized by a higher commitment, while SMEs perform generally worse with a strategy characterized by a low level of commitment.

This difference in commitment between these two categories, represented in my model in the figure 5.3, is the reason why start-ups that sells in China are actually performing better than what SMEs are doing: start-ups focus more on the Chinese market, creating a strategy that is coherent and fit well with a market which complexity is probably the higher in all the existing foreign markets, while SMEs approach the market superficially, without committing resources and without focusing enough on the market's necessities and on how they could change and adapt to satisfy them.

This difference in strategy and in performance should be taken as a stimulus from both the categories:

- ***Start-ups interested in selling to China must be aware that their strategy should be characterized by the highest commitment level possible: being them more likely to sell in China due to a series of characteristics and findings obtained from the goals G1 and G3, crafting a successful strategy should not be difficult, and this finding should enhance the Italian start-ups at considering China as a suitable market for their product, through the CBEC's channels;***
- ***SMEs interested in being successful in China could graphically see, from the model, the reason why their category is not performing well on this market. SMEs could try to craft a successful strategy that goes similar to that applied by start-ups, being aware that start-ups naturally incorporate a series of characteristics that do not exist in the traditional SMEs. This company's focus should then be applied on two parallel fronts: at first, a SME should work on the internal development of the competences and the culture (mindset,***

attitudes, etc.) necessary to be successful on the Chinese market, to then craft a strategy according to the findings obtained from this thesis;

Additional findings that are useful to complete the picture regarding this model are obtained from the results of the interviews (the main framework of this thesis), that are shown in the figure 5.4.

Figure 5.5 - Achievement framework of the goal G2

Considering the sub-goal G2a (**Defining the strategies applied by the successful start-ups in China**), achieved thanks to the findings already described, I noticed that:

- Outsourcing the most strategical activities to a local partner is the right choice to overcome all the obstacles, because we delegate to companies with the necessary competences the resolution of the main and most impacting problems: this enforce the concept already defined that partners are essential and companies should be aware about the importance of the delocalization;
- Online and offline channels should be both developed, being possible for a company developing an offline channel thanks to the low-committing solutions, as those that we can observe in the model (importers, distributors, etc.). This approach allows both to mitigate the risk from a failure in the online channel (a marketing bad idea could damage the brand forever, affecting trust that in the online channel can be considered as volatile) and both to make the company

being present offline without committing resources or without structural investments. In the long term, this situation could evolve into the omni-channel strategy, an approach that could become a standard dynamic in China.

- The internal organization of the company and the structure of the capital sources are, as we saw, important element to be considered in the strategy.

Considering instead the sub-goal **G1b** (demonstrating that start-ups and SMEs follow different digital export strategies), achieved thanks to the findings already described, I found that SMEs strategies are different because:

- SMEs tend to apply a short-term (or a medium-term) strategy in the Chinese market, seeking for revenues in a short time without committing resources: their main goal is profitability as soon as possible and, in order to reach this objective, they don't invest enough capital on the project and thus the do not gain positive results (because the market requires a totally different approach);
- SMEs are not digitalized, and their international mindset is weaker than that of the start-ups. They also are often rigid and complex organization, that do not apply any agile approach to make their models leaner and reactive;

Due to all that has been said, I consider (due to the criteria defined but also due to an objective analysis of the results) the goal G2 as achieved.

5.4 – Achievement of the main goal of this thesis

All the findings described in the previous paragraphs support the achievement of the **main goal** of this thesis:

"*Providing a guide and a set of useful information for all those start-ups interested in selling to China, based on the assumption that these companies are more likely to operate and succeed in the Chinese market than traditional SMEs, whose performance until today is negative."*

The study, the analysis of the context and of the market, the structure of the thesis from its assumptions and its goals, the definition of the sub-goals and the interviews, the transcripts of the interviews and the findings related and, finally, the analysis of the results, brought me at considering this thesis valuable for an academic purpose.

All the goals and the objective have been verified according to a structured and described criteria. The main goal is this thesis is thus considered achieved.

CHAPTER 6 – CONCLUSIONS

The aim of this research was to explore the Cross-Border E-Commerce activities of the Italian start-ups in China. As described in the figure 3.4 (p. 176), I started with an analysis of the Chinese situation, highlighting the growing importance of China, its growing CAGRs and the opportunities for western countries. Then, I decided to compare the Italian situation considering the CBEC in China; interestingly, the largest majority of companies (about 90%) do not even export online, and an even a smaller share sell in China through CBEC channels. Therefore, Italy is missing a chance to be aligned to the western countries' standards, wasting the opportunity coming from a proper exploitation of the "Made in Italy" abroad.

Analyzed the context, I noticed that the enterprise system in Italy was characterized by a few large groups, some start-ups and many small-medium enterprises (SMEs). The data about export considers only the performance abroad of SMEs, without taking into account the role of start-ups. However, this category of companies could be more likely to succeed in the Chinese market. Therefore, interested in testing this fact, I started from the following assumption:

Italian start-ups could incorporate a set of characteristics that could make them more likely to apply a digital export strategy toward China with positive results.

According to my assumption, if start-ups recognized that China is a market that they could positively sustain in terms of operations and costs, these companies could become the next driving force in the Italian digital export. In this way, they could overcome the role of SMEs, which until today have reported negative results.

In order to carry out my analysis, I defined my sample of start-ups, the goals and the process used to collect data; semi-structured interviews were conducted with the managers of three different start-ups. I structured a framework and decided to use an existing model that describes the digital export strategy, to plot and compare the different strategies. Everything was set to achieve the main goal of this thesis: demonstrate that start-ups can perform better than SMEs in China, due to a set of characteristics that these companies have compared to SMEs and due to substantial differences in the strategies applied. I also decided to make this thesis a possible guide for future entrepreneurs interested in selling online to China, so I collected and explained in detail all the information I was able to find about the Chinese market. This thesis can be thus considered as a complete guide that, starting from a brief about the Chinese economy and the characteristic of the Chinese market (from the perspective of an Italian start-up), arrives to the definition of the profile of a successful start-up in China and describes the standard strategy to be successful on the market.

In order to reach my main goal, I created three goals and some related sub-goals which I used to structure the interviews. For each sub-goal I defined a set of questions and the achievement criteria for each question. All the three goals I set to complete my study were positively achieved and therefore, I demonstrated that the assumption I made was valuable. China demonstrated to be a suitable market for Italian start-ups: these companies grow with a higher confidence in the available digital tools than traditional

SMEs, and they have a totally different conception about the international markets. Start-ups are agile, more adaptive and quicker in taking decisions. Compared to SMEs,

start-ups are able to plan better in the long-term, relying on financial sources allocated to the company's growth, allowing them to be flexier than the SMEs.

These attitudes and this peculiarity about the financial capital they rely on, which allows them to be more flexible and long-term oriented on the international market, bring them to apply strategies characterized by a higher level of commitment. This commitment perfectly matches with the requirements of the Chinese market. China is a market that needs to be approached locally, with local means and with a product that is demanded by the wide Chinese audience. Commitment is the key to be successful in the Chinese market; the resulting model of my analysis (figure 5.3) highlights how start-ups' strategies are more commitment-based than SMEs', and this characteristic could explain the reason why Start-ups have obtained better performances in China.

6.1 – Main results of the analysis

The available literature does not consider the case of start-ups and online digital export to China. These companies are ignored because their operations in China are considered negligible compared to the largest majority of SMEs dominating the Italian market. This thesis aims at calling the attention of the academic world engaged in the theme of online export, on start-ups that, if properly supported and informed, could be more profitable than the traditional SMEs in the foreign market.

This thesis tested the Digital Export Model by Osservatori Digitali: this model has been built combining the data obtained from a sample of many SMEs, without considering start-ups. There was no theoretical coherence about the results of applying this model to a SMEs or to a company in its start-up phase. The model has been applied on two different start-ups, knowing that the pillars could have been different for this category of companies. The research highlighted that the model fits with start-ups as well: pillars and choices can be the same as those used for SMEs. For these reasons, this thesis contributes to extend the applicability of the model on start-ups, confirming the high quality of this model.

Start-ups are, considering the results of this research, theoretically more likely to perform better than the traditional SMEs in China: these companies, indeed, differ from the SMEs whose performance in China is bad and seem to be more reactive on the Chinese market. This research defines the characteristics that are assumed to be related to a better performance in the eastern country and that are considered to be unique for the start-up system.

Following semi-structured interviews, this research collected the most valuable characteristics for some successful start-ups and influencing personalities in the Italian start-up's industry and processed them to create a kind of profile that a start-up should built to be successful in China. The results achieved demonstrated that these characteristics exist and that these are related to a better performance in the Chinese market.

Start-ups are indeed agile organizations, highly adaptive and quicker to react and take decision in a market that requires flexibility. The environment in which these companies born, raise and establish allow them to access to an exclusive network of peers and contact useful to partner-up with the most suitable local players (that support the start-ups in the problem resolution, providing them with local knowledge). The unique network they are able to create around them is also related to a more effective access to the capital resources: the international investors that are mainly Chinese (due to the cooperation between the Italian and the Chinese government) exploited the facilitated flow of foreign direct investments between the two countries, acquiring shares of the Italian start-up companies (assumed to be highly profitable in the Chinese market by the Chinese perspective), providing them with the necessary financial resources. This capital flow solves one of the main criticalities of funding such a risky project as that of going in China: Italian private capital sources are less willing to finance risky projects with long term returns, creating a lack of capital available in the domestic market. Start-ups can thus count on flexible financial resources, allocated to the growth of the company (assumed to be more profitable) instead that to the return in the short term, allowing the start-up to operate flexier and better in the Chinese market, pursuing more effective long-term strategies.

Moreover, the results highlight that start-ups are more likely to exploit the available digital channels, to build coherent and effective CBEC's strategies. They are more propense to think internationally, to be digitally based and to delocalize the necessary competences, achieving better results. Their strategies, as demonstrated applying the digital export model and comparing the results with the strategies of the traditional SMEs, are more effective because of the higher commitment that characterizes their approach. Commitment is thus considered, according to the results of this research, as the strategical key point characterizing the start-ups' strategies.

In conclusion, this research contributes to define a set of characteristics that start-ups should develop when they decide to engage in e-commerce with China. Most importantly, it also introduces a methodology to analyze the results coming from the Digital Export Model to evaluate the quality of start-up's strategies based on their level of commitment.

6.2– Limits of the research

This thesis brings a significant contribution to the literature about start-ups and digital export. Despite this, academics should keep in mind the main limit of the present research is that, due to the lack of information available about start-ups, the study has been performed on a small sample.

6.3 – Recommendations

Future researches could take the scope of this thesis as the point of departure to develop important contributions. In particular, the resulting model of this thesis can be tested on a larger number of start-ups; in this way, researchers could enforce its applicability and look for coherence between their results and those obtained in this thesis. Finally, along the qualitative approach, this research could be complemented with a quantitative analysis of the contribution of the Italian start-ups in the digital export to China. This would not only be significant for academic purposes, but it could also be important for pushing more companies to sell abroad through CBEC's channels.

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