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Internationalization of Italian Pasta Producer Medium-Sized Enterprises Exporting to China: Pastificio Di Martino Case Study

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全球化是一个非凡的过程，由于信息技术的最新巨大进步，不同国家的人、公司和政府之间的相互作用日益加强;从字面上看，它是一种革命性的趋势，其经济含义导致了人员、产品(商品、服务或思想)、技术、信息和资金的跨境自由流动。国际贸易、国际关系和全球化支持的国际条约的日益重要导致了国际化的兴起，即越来越多地参与国际市场的进程。一些公司从成立之初就一直在寻找海外市场，一些公司通过适当的进入模式逐步实现了海外市场。国际商业和全球化的参与者是跨国公司、全球公司、非政府组织和中小型企业。

中小企业是指规模和经营规模相对较小的企业，包括中小型企业。这类企业通常由少数人组成，就业和人员流动率不高，所以大部分的经营活动都是由业主直接管理的。中小企业是指职工人数不超过 250 人，年营业额不超过 5000 万欧元，年资产负债表总额不超过 4300 万欧元的企业。中小企业在增加就业、促进经济增长方面具有不可替代的作用，对国民经济和社会发展具有重要的战略意义。

对于一家愿意开展国际业务的公司来说，关键的第一步是选择如何进入外国市场。进入外国市场的方式有绿地投资、收购、合资、战略联盟、特许经营、许可证发放和出口。第一章主要论述了通过出口实现国际化的管理活动。出口是与外国市场进行贸易的最简单、最传统的方式。简而言之，它是指将国内商品或服务运往国外销售的行为。这类货物或服务的卖方是出口商，而买方是进口商。出口的优势是经济投资比较低;弱势是潜在的高成本的贸易壁垒(运输成本和关税)，有限的学习，难以以最好的方式回应客户的需求由于距离，和有限的控制商业化。出口主要有两种形式:直接出口和间接出口。间接出口是指企业由于各种原因不直接联系国外客户，而是通过国内的分销商、代理商或其他机构实现商品出口的行为。直接出口是指公司积极开展出口业务，直接联系国外客户实现货物出口。

本文第二章重点分析了出口的弊端。出口不可避免地要求本国公司与消费者、供应商以及总部和运营在与本国不同的国家的公司进行互动。这是一个双向过程，涉及不少于两个不同市场的地理、政治、社会和经济环境:国内市场和目标国家的市场。因此，国际化意味着面临地理距离，但也面临种族、宗教、语言、商业、法律的差异。总的来说，考虑到这些差异，不可避免地会影响到在国际上做生意的成本，这使得在海外冒险的过程比第一章中技术上描述的更加复杂。在我们所谓的全球市场经济中，公司经常被鼓励跨国经营。整个世界似乎是一个无缝、统一的市场。但世界远非如此统一。如果我们忽视各国在政治、文化和经济领域的差异，企业跨国经营注定要失败。战略

顾问 Pankaji Ghemawat 教授为企业在距离遥远的情况下成功开展国际业务提供了现实可行的工具。与传统的全球化相反，Ghemawat 认为世界实际上是“半全球化”的。根据他的框架，即 CAGE 框架，国家之间的差异可以通过四个维度来衡量:文化、行政、地理和经济维度(简称 CAGE，代表文化、行政、地理和经济的差距)。当公司在海外投资时，他们必须考虑文化、行政、地理和经济的差异。差异(或距离)越大，成功的挑战就越大。因此，“距离仍然很重要”。无论是大公司还是中型公司，主要都是通过经验来学习，从文化、行政、地理和经济的角度去了解一个外国市场是一个很好的方式。另一个重要的因素是接受适当的培训，以帮助避免在跨文化环境中最常见的一些错误。要想在国际贸易中取得成功(尤其是在出口方面)，你必须具备跨文化的理解力。在不同的文化环境中担任领导职位是很有挑战性的。你不能从一开始就做对，犯错误是不可避免的。坚持，从错误中学习，逐渐适应。认识到对你所在行业影响最大的距离因素，将有助于确定你的全球化战略中必须克服的障碍以及应该克服这些障碍的方式。

第三章着重探讨了意大利企业向中国出口食品时必须面对的文化、行政、地理和经济上的距离。如今，中国市场对外国公司的吸引力越来越大，尤其是随着中国消费者行为的改变。事实上，中国人的饮食习惯(尤其是中产阶级的饮食习惯)正在发生迅速的变化，因为他们消费能力的提高导致了一种新的生活方式的出现，这也影响了他们的饮食。这一趋势导致中国人民对意大利食品的消费增长非常快，进口食品大幅增加，使中国成为近年来意大利企业的重要商机。特别是意大利中小企业在中国销售产品的机会进一步增加，因为他们确保了中国人民更高的食品安全，特别是在 2008 年爆发了一些有毒婴儿奶粉丑闻之后。然而,在线 CAGE 比较器由格玛沃特创建缺乏一个共同的官方语言,殖民联系,贸易协定,区域块,和共同边界之间的物理距离 8467 公里,现有的意大利和中国,与中华人民共和国将在 145 个国家中排名第 139 位的总距离。这是同中国国土面积大小相适应的挑战，也是行政上、地理上、经济上、文化上必须面对的挑战。

在行政距离方面，2015 年修订的《中华人民共和国食品安全法》的严厉程度阻碍了意大利制造产品在中国市场的渗透，被舆论视为历史上最严厉的食品安全法之一。

地理距离对粮食出口的影响总是至关重要的，而且在某种程度上是不可能在未来消除的:尽管改进的运输方法无疑使来自世界各地的人们能够享受远离他们家乡生产的粮食，但一定程度的易腐烂性总是不可避免地涉及其中。随着时间的推移，食品(主要是奶制

品、蛋类、肉类、水果和蔬菜)的变质程度和脆弱性会更高，可能需要一种飞行运输方式，这种运输方式在时间上更快，但在经济上更贵。相反，干食品更容易处理，因为在运输过程中，唯一需要考虑的是湿度和阳光的照射、地板的接触、虫害的控制和通风，以便最大限度地保护环境。因此，从意大利到中国的干粮运输方式中，最合适也是最实际采用的是海运方式，即使运输时间较长(约一个月)，企业也可以以较低的成本运输大量的干粮。

至于经济距离,2018 年中国人均国内生产总值(GDP)已达到每股 9.633 美元(在对 34349 美元在意大利注册)和一个意大利的人类发展指数排名的 0.880 和 0.752 出口企业可以通过将目标对准中国最富裕的地区，而不是最偏远的地区，来弥补这一差距的影响。例如，广东、海南和福建等城市在思想开放和购买选择方面代表了中国人口中最富裕、最发达、最西化的部分;上海、浙江和江苏是中国的金融和经济中心，呈现出高度发达和外向型的特点，尤其倾向于奢侈品消费，包括意大利制造的农产品。此外，像北京和天津这样的北方城市也可以依靠消费者，这些消费者的品味和偏好看起来既传统又西化，这可能是因为他们与最重要的政府中心关系密切。

至于饮食文化的距离，西方世界和中国最明显的不同是，前者根据食物的种类使用不同的餐具，而中国人一般只使用筷子和勺子。在中国，用筷子指着别人或把筷子直立放在米饭上是非常不礼貌的。不仅最常食用的食物是不同的,而且这顿饭本身是不同的构思:中国人不把根据西式餐(前菜,主菜,等等),但是所有的部分都放在桌上的同时,没有任何预定义的秩序;此外，所有的欢宴者都吃同一个盘子里的食物(集体主义)，而不像在欧洲和美国那样每人分开吃(个人主义)。西餐的就餐环境比较安静，而中国的就餐环境比较嘈杂。至于座位安排，在中国，宴席上朝南的座位通常被认为是最重要的，而朝北的座位则相对不那么重要。

从产业的角度来看，出口营销适应策略在食品等技术含量较低的传统产业中被认为是一个更加引人注目的问题，因为在技术含量较低的产业中，产品与消费者的品味、习惯和风俗习惯的联系更为紧密，而这些又因市场而异。换句话说，母国和东道国在食品相关的生活方式方面的差异越大，市场营销人员就越有可能调整其出口营销策略，以满足目标市场的客户口味和偏好。

例如 2014 年才正式进入中国市场的意大利面食领军品牌 Barilla，为了克服中国人对意大利产品的不熟悉，从一开始就选择了一项重要的产品修改策略。这种适应策略包括迅速推出一款面向中国市场的开创性产品——意大利面。Pronto 意大利面作为一种

美味、正宗、方便的意大利菜，在短短五分钟内就能做好，是专门为缺乏意大利烹饪知识的中国现代忙碌消费者设计的。奶油芝士、辣番茄、奶油蘑菇和蔬菜是中国消费者可以选择和享用的四种口味的意大利午餐。面食 Pronto 在于一个快速的方法准备意大利面在一锅,没有沸腾和排水要求,拆除所有烹饪原则如此神圣的意大利普通消费者,但立即设法建立一个共享的销售在中国,即使登记销售增长在 2017 年翻了一番。由于经济和技术知识的局限性，中小企业显然无法采取这种适应战略。他们唯一可以选择的营销策略就是所谓的原产国效应。

此外，本文建议意大利中小企业可以依靠与其他意大利中型企业之间的战略经济合作，优惠出口融资的形式享受 SACE 和 SIMEST 贷款，从而成功出口。

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Introduction

Nowadays, the globalization phenomenon resembles more of a huge and irreversible trend whose economic implications have led developed countries' enterprises of all sizes to enthusiastically undertake the internationalization path on one side, and to almost feel obliged to increase their international involvement on the other side.

Yet, internationalization is never a homogeneous, fluid path for any enterprise to successfully undertake anywhere in the world. First and foremost, while large multinational enterprises (MNEs) have the economic resources to opt for highly sophisticated ways of entering target markets, small and medium-sized enterprises (SMEs) generally act way more cautiously, taking extra attention when it comes to the initial economic commitment. The most evident consequence of such necessity is that SMEs tend to adopt the export mode (at least at the beginning), and eventually later consider investing a larger amount of resources to opt for more complex entry modes, generally depending on their product success in the foreign land.

Chapter 1 mainly focuses on the management-related activities to internationalize through *export*, defined as the act of sending domestic goods or services to foreign countries for sale. Also, an excursus of current International Business (IB) literature entry modes has been traced, highlighting both the advantages and the disadvantages of each of them. The Uppsala Model and the Eclectic Theory have been proposed as the most important theories devoted to the choice of the mode of entry, before completely focusing on export strengths and weakness when it comes both to the direct and to the indirect pattern. The latter, in turn, has been explored in all of its forms, namely buyer, broker, export management company, export trading company, export consortia, and piggyback exporting.

Export weaknesses offer food for thought in Chapter 2: while export is recognized as the safest and less risk-involving way of entering a new and foreign market, the company's decreasing degree of control over commercialization, the cost of trade barriers, the limited learning, and consequent difficulties in responding to customers' needs in the best way due to distance represent a crucial problem on the whole. Export, by definition, requires companies to interact with customers, suppliers, and companies based and operating in countries that are different from their own; in other words, no less than two separate geographic, political, social, and economic, but also racial, religious, and linguistic environments of two separate markets are involved. For its part, globalization is as a huge as an imperfect phenomenon, spreading in the world's countries in an unbalanced way. Hence, no matter how the technological progress keeps facilitating communication and movements of people, the relation between distance and trade is still inverse.

Thus, the CAGE Framework by Pankaj Ghemawat (2001) is explored along Chapter 2, with the cultural, administrative, geographic, and economic distance individually analyzed to help identify and assess the impact of distance on various industries (the F&B industry, in particular, represents the thematic focus in Chapter 3). In practice, given a specific industrial sector, the more two countries differ in terms of differences in the attributes of economy and society, in terms of foreign laws and institutions which exporting companies must comply with, and of physical distance, the riskier the target market will reveal to be.

Within this context, gaining knowledge becomes essential in order to become familiar with the target market, with its distributors, and with its consumers (especially when it comes to SMEs targeting developing countries). Knowledge has in fact become the dominant source of competitive advantage, and turning such knowledge into effective action may be hard to accomplish not only for SMEs.

Is distance still shaping the international business? Ghemawat says yes. Starting from Chapter 3, area of interest of this master's degree thesis is China, an extremely challenging country for the Western part of the world mainly due to its highly traditional values and mindset, which make its market particularly hard to *charm* with products that are foreign to the Chinese purchasing culture. Moreover, although it is now considered an economic superpower, China still shows the features of a developing country, with unbalanced purchasing power depending on the target sub-national area, making it an even more challenging marketing environment for export operations to succeed.

Anyways, thanks to globalization, Chinese food habits and preferences are currently experiencing important changes, also fostered by the recently increasing purchasing power and fascination for new lifestyles and diets. This has made the Chinese market rather appealing for Italian food brands, resulting in the sharp increase of export of a wide range of food products. For this reason, an attempt has been made in order to apply the CAGE Framework to the food export operations going from Italy towards

China, before selecting pasta as the subject of some cross-cultural marketing considerations about the way Italian pasta is usually sponsored to the Chinese consumer. In the last part of the present thesis, theory about distance is empowered by a specific case study represented by Pastificio Di Martino, reported to be the pasta export leader in Campania (Italy). Its history and success both in national and in international contexts are traced as an anticipation to its current export activities in China, whose dynamics have been exhaustively clarified by Di Martino Far East Senior Export Manager, who shared his direct business experience in the People's Republic of China when interviewed.

1. Internationalization through export

1.1 The internationalization process

The world, as we know it, is the result of a fifty-year old irreversible trend that has shaken people in a way that they would not be as they are now otherwise: the so-termed *globalization*.

The Globalization 101 Project of the Levin Institute (2017) describes globalization as the extraordinary process of increasing interaction among people, companies, and governments of different nations thanks to the latest, huge advances in information technology; it literally is a revolutionary trend whose economic implications have led to the free movement of people, products (goods, services, or ideas), technology, information, and money across borders (International Monetary Fund, 2002). The General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) have been, and still are, the leading promoters of this process, mainly advocating the cross-border reduction of trade barriers and the opening of capital accounts.

The most immediate effects of such process have involved the reduction of transportation and communication costs, a distribution of wealth thanks to specialization and trade, and a better allocation of natural, financial, and human resources. Moreover, credits must be given to the economic globalization process for the global industrial restructuring and readjustment in the light of developments of science and technology (Gao, 2000). Unavoidable implications, however, entangle diversity reduction along with standardization of customers' tastes, power concentration in multinational enterprises (MNEs), increased global competition, and environmental issues.

It seems that the economic globalization has shaped current world in a way that, regardless of the benefits of localization (mainly proximity to the market, flexibility to adapt to specific consumers' demands, and quick response to those specific demands), it can now be referred to as an irreversible trend (Gao, 2000).

Motivations for an enterprise to go global can be categorized as proactive or reactive. Proactive motivations are the reasons why companies are willing to (and actually decide to) go global; therefore, this generally happens when a company develops a product that has a potentially competitive advantage in the global market. Reactive motivations are the reasons why companies feel obliged to go global; main causes can be summarized in overproduction, reaction to changes in the domestic market (saturated or declining), and the competitive scenario conditions (Caldas Lima & Kulur, 2008).

The increasing importance of international trade, international relationships, and international treaties sponsored by globalization has then led to the rising of *internationalization,* a phenomenon that has first been defined by Welch and Luostarinen (1988) as the process of increasing involvement in international market. Calof and Beamish (1995) more exhaustively meant it as the process of adapting the firms' operations (including strategy, structure, and resources) to the international environment. In any case, companies engage in international business to expand sales, to acquire resources, to minimize risks, or to exploit proprietary assets. By acting internationally, companies spot opportunities to expand business outside the local market with a vision of profit maximization. An excellent incentive is that all value-adding activities, including sourcing, manufacturing, and marketing, can be performed in international locations.

Trading globally gives both consumers and countries the opportunity to be exposed to new markets and products. Nations would be limited to the goods and services produced within their own borders without international trade (Eun & Resnik, 2017 in Bertinetti, 2017). Virtually, every type of product can be traded in the international market: food, beverages, clothes, stocks, currencies, and so on; services like tourism, banking, consulting, and transportation are also traded internationally.

Some firms seek foreign markets since inception, some eventually undertake gradual paths through suitable entry modes (cf. 1.1.1). In both cases, major actors of international business and globalization are multinational enterprises (MNEs), global companies, non-governmental organizations (NGOs), and small and medium-sized enterprises (SMEs).

MNEs approach foreign markets through subsidiaries, through outsourcing, or through the integration of global value chains or global production networks.

Global companies (or globally integrated companies) are companies that operate in the main markets of the world in an integrated and coordinated way. Coca-Cola, IKEA, Hilton Hotels, and Google are all examples of global companies in different industry sectors. Global companies design goods or services that are meant to be sold on a global

scale while integrating operations in different countries to source materials that integrate their production.
NGOs are voluntary, generally non-profit, and international organizations that independently operate in humanitarian, educational, health care, public policy, human rights, environmental, and other areas to operate changes according to their objectives. Greenpeace is a non-governmental environmental organization operating worldwide on climate change, deforestation, overfishing, commercial whaling, genetic engineering, and anti-nuclear issues. Although they are independent from the government by definition, NGOs are often paid by the government itself and cooperate with government departments.
Ultimately, the EU Recommendation 2003/361 states that SMEs are companies which employ fewer than 250 persons, whose annual turnover does not exceed 50 million euro and annual balance sheet total does not exceed 43 million euro. According to the study of Caldas Lima and Kulur (2006), specific proactive SMEs' motivations for international business are search for profit and market opportunities, competitive advantage, economies of scale, and tax benefits; reactive motivations are competitive pressure, excessive capacity, overproduction, and saturation or decline of home market.
It goes without saying that Web 2.0 gives even wider opportunities to companies that want to strengthen their international market presence and reach potential clients all over the world. Information and communication technologies simplify and encourage development for all kinds of enterprises (Kos-Labędowicz, 2013), particularly when it comes to SMEs which can enjoy entirely new ways to access markets and improve their presence, offering an entirely alternative path to the traditional internationalization process (Sinkovics, Sinkovics & Ruery-Jer, 2013). Marketing, market research, and online retailing are just a few examples of business operations that can be performed through social networks like Facebook, Twitter, and Instagram.

1.1.1 Foreign market entry modes

The first, critical step to be taken by a company willing to operate internationally consists in choosing *how* to enter a foreign market. Within the framework of a market entry strategy, *foreign market entry modes* refer to the institutional arrangements that actually allow the entry of firms' products, technologies, human capital, management capabilities ,and other resources into a foreign market (Root, 1987; Hill, Hwang & Kim, 1990).

The final choice among them is crucial both because it definitely drives firms' performance in terms of competitiveness, efficiency, and control (Brouthers, Brouthers & Werner, 2008), and because it is contingent upon the means that are available to the firm itself.

Critical issues such as control over a product's sales, its distribution, quality, brand value and positioning, along with the possibility to gain knowledge about the target market are contingent upon the entry alternatives, as they mainly differ in terms of degree of control, risk exposure, commitment of resources, and return on the investments they require. In particular, degree of control refers to the authority over operational and strategic decision making, know-how and strategic assets in general, while risk exposure is related to the commitment of resources that activities performed abroad imply, such as tangible (physical factory) and intangible (management know-how) assets that cannot be employed to alternative uses without costs. In addition, political and economic conditions of the foreign market cannot be ignored within the framework of risk exposure if a firm wants to survive in a new country (Blomstermo, 2006).

Lu, Karpova and Fiore (2009) efficiently synthesized three groups of factors that actually influence a firm's choice of entry channel, namely firm-specific factors (asset specificity, brand equity, and financial capability), country-specific factors (country risk, cultural distance, and government restrictions), and market specific factors (market potential and competition).

Ways of entering a foreign market are first classified as equity and non-equity modes, whose fundamental difference is that the former category involves an ownership stake, while the latter don't, as commitment to foreign markets is relatively smaller (Zámborský, 2016). The equity modes category includes wholly or partially owned subsidiaries (greenfield investments and acquisitions) and joint ventures, while the non-equity modes category includes strategic alliances, contractual agreements (licensing and franchising) and export. Thus, Ulrich, Hollensen and Boyd (2014) propose entry modes in decreasing order from a financial and control perspective as 1) high control modes (greenfield investments and acquisitions), 2) intermediate modes (joint ventures, strategic alliances, franchising, and licensing), and 3) low control modes (direct and indirect exporting).

Regardless of the classification, they are generally difficult to change once implemented (Swoboda & Foscht, 2012 in Elsner, 2012).
Each internationalization mode will be briefly exposed along the paragraph before completely focusing on export operation literature (cf. 1.2).
Greenfield investments are a type of foreign direct investment (FDI) resulting in the establishment of a brand new wholly owned subsidiary in a foreign country; although complex and rather costly, full control is provided to the investing firm in all aspects of the business (Irwin, 2012).
Acquisitions consist in the purchase of an already existing and operating foreign company. It goes without saying that an acquisition is worth assessing only when the value of the new entity is higher than the sum of the value of the independent entities prior to the merger. Access to resources, assets, and competencies is rather immediate, but risk of overpayment is just as much high, not to mention that different management styles and organizational cultures inevitably require cross-cultural integration skills to be integrated, avoiding eventual national pride collision of the former separated entities. In addition, whenever a company is acquired, its existing problems are acquired, too (Irwin, 2012).
Wholly or partially owned subsidiaries represent the modes of entry that provide the highest degree of control over operations, but also imply the highest degree of risk of equity and debt financing, along with great mobilization of resources and competencies.
A *joint venture* is a business entity owned jointly by more than one party that share ownership, returns, risks, and control. As each party still retains its distinct identity and is responsible for profits, losses, and costs, companies commonly adopt this type of entry mode for administrative requirements, skills, capability access, and risk sharing. Thus, partner and personnel selection, organization of training programs, and trust building are the core of the matter. Clearly, the greater the number of owners, the greater management problems, while partners' control over operations decreases. In any case, the new entity (or *venture*) will stay separated from the participants' other businesses.
The most common classification of joint ventures depends on the control perspective: a *shared joint venture* is made up of enterprises that exercise an equal role, while in a *dominant joint venture* just one enterprise is in charge of the management of the new entity (Killing, 1982).

Alliances combine capabilities of two or more companies with the aim of enhancing their competitive advantage and/or creating a new business without losing their respective strategic autonomy in the meantime. *Strategic* of the definition is justified by the sharing of strategic capabilities such as R&D, manufacturing, or marketing (Lasserre, 2012). The core problem in this case is that not only each partner has limited control, but also a strategic alliance cannot specifically anticipate what each party should do under every conceivable condition, thus trust has a critical role in the relationship. They are frequently agreed upon firms in industrialized nations with the purpose of creating new products or technologies, rather than distributing existing ones.

It's evident that an alliance formation is primarily affected by two factors: partner comfort and partner competence. Hamle, Doz and Prahalad (1989 in Zámborský, 2016) sums up pros and cons of strategic alliances in three fundamental statements: learning from partners is paramount, cooperation has limits and collaboration is competition in a different form.

Even firms with larger resources may feel like they need special or particular types of resources in order to be competitive in particular markets. For example, if firms from developed markets move into emerging markets, they may be in lack of the appropriate knowledge, the contacts for distribution, government approvals, or means to communicate with customers necessary to be successful (Kotabe & Aulakh, 2002).

Types of strategic alliances are coalition, co-specialization, and learning. A *coalition* involves partners (usually competitors, distributors, and suppliers belonging to the same industry) willing to share costs and expand their presence internationally. *Co-specializations* group together partners having unique yet complementary capabilities, distribution infrastructures, or brands to create a business, to develop new products, or to reinforce their competitiveness through specialization. *Learning alliances* concern partners that want to mutual expertise from each other and consequently develop new knowledge together.

During the twentieth century, strategic alliances and acquisitions have become increasingly popular modes of entering international markets (Kotabe, Srinivasan & Aulakh, 2002), as both of them can reduce barriers to entry and gain knowledge about the foreign culture, customers, governments, or technologies from the foreign alliance partner or the acquired organization perspective (Zámborský, 2016). However, in the case of significant cultural, political, physical, or economic differences between the home and the host country, an alliance may be preferable in light of its considerably lower investment (Kotabe & Aulakh, 2002): the problems of integrating the acquired firm into the acquiring firm are often substantial and many have been unsuccessful over time.

Franchising involves a domestic company (referred to as *franchiser*) selling rights over its intangible assets (patents, trademarks, copyrights) to foreign independent business owners or *franchisees*. Franchiser and franchisee act like a vertically integrated company, with the franchiser operationally assisting the business. The franchising system is often described as a specialized form of *licensing*, which consists in a *licenser* who grants exclusive or non-exclusive rights over intangible property to foreign companies (*licensees*) for a specified period and in a specified geographic area in exchange of royalties. Licensing often satisfies the desire for faster start-ups. Both franchising and licensing require reduced economic investment, while accessing to additional resources. Yet, loss of control and risk of having the trademark and its reputation ruined by an incompetent partner must not be underrated, along with the risk of disloyalty and lack of control over products' quality (Wach, 2014).

Ultimately, *exporting* is the simplest, most traditional, well-established, and «comfortable» way of trading with foreign markets. In brief, it refers to the act of sending domestic goods or services to foreign countries for sale. It is generally recognized as the safest and less risk-involving way of entering a new and foreign market, although the degree of control over operations (along with returns) drastically decreases in the meantime (cf. 1.2). This implies, for example, that export is quite inadequate in terms of marketing management control (Agarwal & Sridhar Ramaswami, 1990, in Fong, 2014).

Generally speaking, the choice of entry mode should be justified by profit expected by the firm, requiring some complex considerations concerning trade-offs among alternatives (Hollensen, 2012). Thus, it is not surprising that considerable research has been developed in the literature of strategic management and international business concerning *how* to enter a targeted country.

1.1.2 Entry modes selection: the Uppsala Model

The Uppsala Internationalization Model is a theory devoted to the internationalization process of the firms, conceived as a gradual, incremental, and learning oriented evolutionary approach through which a small national business enterprise eventually turns into a multinational enterprise. In practice, Swedish researchers Johanson and Vahlne (1977) identify four gradual, incremental, and evolutionary stages of international involvement of firms: companies practice no regular export activities in stage 1, export via independent representatives (agents) in stage 2, and establish an overseas sales subsidiary in stage 3, which is followed by the establishment of overseas manufacturing subsidiaries in stage 4, ultimately giving birth to an internationalization pattern referred to as *establishment chain*.

Moreover, the Model claims that the foreign market selection is contingent upon the psychic distance between the home market and the host market. Such *psychic distance* explained by Johanson and Vahlne as the overall amount of linguistic, cultural, educational, but also industrial and economic factors slowing down (or at worst impeding) the stream of information from a foreign market towards a given firm and vice versa (1977). It follows from this that firms first start internationalizing in markets they can quite easily understand, and gradually enter new markets with greater physic distance. In any case, the enterprise that goes abroad is subjected to a certain degree of foreignness, whose liability is dictated by the total amount of disadvantages that such firm experiences *a priori* when dealing with the host country because of its non-native status. In other words, foreign firms are often discriminated against domestic firms and must, in turn, deploy overwhelming resources and capabilities to offset the *liability of foreignness*, which measures the cost of doing business abroad (Zaheer, 1995). Clearly, the larger the physic distance, the larger the liability of foreignness, and the higher the cost of doing business abroad.

As managerial studies must keep up with the speediness of the global business world, in 1990 Johanson and Vahlne updated the Model on the basis of the realization that companies' behavior had changed and the validity of the establishment chain was in a rest. In fact, in current times, companies do not necessarily follow the incremental steps of the establishment chain, as most of them start to internationalize right after their inception, with each stage proceeding in a faster way in respect to the past. This is the case of *born-global companies*, which constitute a real challenge to the gradual and incremental internationalization view (Cavusgil & Kight, 2014). Born global firms are usually small and self-financed firms that, from their beginnings, undertake a substantial internationalization path due to a borderless world view and mindset, global technological competence, pro-activeness, unique product development, and quality focus, which is why they often operate in so-called *global niches* (at least at the beginning). Hence, according to the new model, the order in which companies enter foreign markets does not depend on the psychic distance between the internationalizing company and the exact targeted market anymore. Rather, while the business environment was meant as a market with many independent suppliers and customers in the past, it is now viewed as a web of relationships. The revised Uppsala Model clearly points out that a firm is embedded in an enabling and constraining business network that includes actors engaged in a wide variety of interdependent relationships. So, internationalization is defined as the outcome of firm actions to strengthen network positions with other companies and private people; it is a process having much more in common with entrepreneurship and characterized by high degrees of uncertainty. When knowledge about foreign markets can be gained from the relationship partners, both large and small firms have a chance, as experience and access to information are more important than size.

1.1.3 The Eclectic Theory

The Eclectic Paradigm (also known as OLI Model) was conceived by British economist John H. Dunning in 1988 in order to rationalize firms' decisions to internationalize their activities. Recognized as one of the most influential theories in the international business literature ever since its publication, it has been updated along it existence in order to retain its validity.

The theory basically claims that factors that contribute to the foreign entry mode selection by internationalizing firms are three: the OLI (ownership, location, and internalization) advantages, and the way they interact. In particular, the ownership advantage is a firm-specific advantage mainly represented by transferrable and exclusive intangible assets in the form of intellectual property, technology, copyrights, brand name, patents, and so on. The location advantage is a country-specific advantage that arises from a location's combination of sales opportunities and investment risk. It is mainly represented by the comparative cost of materials, labor, natural resources accessible by companies operating within that country's borders, and the cost of trade barriers between countries. The internalization advantage occurs when a company manages to benefit from the exploitation of the ownership advantage within the company rather than licensing, outsourcing, or selling it, in order to minimize the transaction costs associated with the inter-firm transfer of proprietary knowledge and capabilities. In practice, internalizing advantage largely depends on a firm's ownership advantage (Dunning, 2000). In other words, firms' behavior is contingent upon the possession of ownership-specific endowments, on their ability to utilize and internalize these advantages, and on the location advantages of foreign markets in comparison with home bases.

If we take the export form of entry mode into consideration, the OLI Model suggests that it basically can occur when ownership and internalization categories of advantages are satisfied. Ultimately, only if a business entity has such ownership, location, and internalization advantages, it can go international and engage in foreign investments (FDI).

Now that all foreign market entry modes have been introduced and companies' choice among them rationalized with the support of two of the greatest firm-specific internationalization theories, the focus of this thesis will shift to an insight into export literature.

1.2 Export performance literature

Nowadays, worldwide trading organizations find themselves to be part of a huge, dynamic, and volatile market environment that is always subjected to unforeseeable changes. Therefore, most companies decide to begin their international experience by exporting.

Export in international trade refers to the outflow and sale of products produced by a company based in one country to customers that reside in a different country. It is important to bear in mind that *products* not only refer to tangible items like goods, but also to activities provided in terms of services and to ideas, all of them meant to satisfy consumers' wants and needs (Kerin & Hartley, 2017 in Vescovi, 2017). As for the exportable and importable goods, the Revision 3 of the Standard International Trade Classification (SITC) issued in 1986 by the WTO groups them into two broad categories: 1) primary goods such as agricultural products (food and raw materials) and mining products (ores and other materials, fuels, and non-ferrous metals) and 2) manufactures. Examples of services that are usually traded are travel and transportation services. Taken together, all economic activities and trade subsist because of the production, distribution, and consumption of goods and services that provide a utility to consumers. The seller of such goods or services is generally referred to as an *exporter*, while the buyer is the *importer*. One thing that might sound interesting about exporting and importing is that sometimes a country will import and export the same product, as it happens with cars. The basics of an export strategy are similar for services and goods, but in general, services are generally easier to export because they don't have to pass through as many procedures such as customs, transportation, regulation, labeling, and so on (Business Development Bank of Canada, 2012).

As long as a good (rather than a service) is concerned, export operations can be decomposed into three major steps: export (departure), transit, and import (destination), with almost every decision depending on the good that is actually exported. In brief, the characteristics of the good (mainly size, shape, weight, and solidity) directly affect the range of tariff and non-tariff barriers that will occur at destination, the choice of the mode of transport (sea freight, road freight, rail freight, and air freight) and the choice of the packing method (Capela, 2008). Compliance with customs requirements is mandatory and the consequences of non-compliance can be very expensive, not only in terms of money but also in terms of time, which means that all traders should be concerned with understanding these procedures in detail.

It is quite obvious that, even though the degree of risk involved is not as high as the one that is involved with more sophisticated non-export foreign market entry modes, management of the overall operation is extremely delicate anyways. Risk management must focus on physical risk of loss or damage when moving internationally, credit risk (as to say the risk that the buyer will not pay for the goods), the exchange risk when invoicing in a foreign currency, and so on. Within the framework of risk management, insurance is the most common means of protection from financial loss.

To recap, exporting consists in sending goods or services out of a certain country in order to sell them in the importing country. Importing consists in bringing in foreign goods or services in order to sell them *in loco*. Although this might conceptually seem an easy task, these market movements are very unpredictable in many cases, and adapting to them is a real challenge for even the most flexible companies.

The most seductive advantage of exporting is that it requires minimal investment and is, for the most part, free of any major risks: it provides individuals and companies with a way of getting into international business without the commitment of significant financial resources and low initial investment, with a distinct possibility of reaching customers relatively quickly, achieve scale economies, alleviate excess capacity, and diversify markets at the same time.

Such comforts are counterbalanced by potentially high costs of trade barriers (transportation costs and tariffs), limited learning, difficulty to respond to customers' needs in the best way due to distance, and limited control over commercialization.

Barriers to exporting can be encountered at any moment through a firm's internationalization process, although their nature tend to differ depending on the stage. In 1997, professor Robert E. Morgan categorized barriers to export into four types. *Internal-domestic export barriers* are obstacles exclusively emerging within the domestic environment of the firm: this is the case of management of a firm's desire of satisfying domestic demand or resource constraints such as insufficient production capabilities, lack of managerial staff time, and inadequately trained staff for export activity. *Internal-foreign export barriers* include those barriers that are organizational by nature but foreign-oriented in their purpose: typical examples are logistical difficulties in transportation and shipping, payment problems and delays, difficulties in providing technical support and after sales activities, and limited knowledge of market intelligence to research foreign markets. *External-domestic export barriers* originated in a foreign environment but constrained to the domestic one involve the high cost of finance or limited venture capital to fund export involvement, excessive documentation requirements and procedural difficulties in explicating export transactions, and the firm management's lack of knowledge of government export assistance, incentive and promotion programs. Conclusively, *external-foreign export barriers* exclusively arisen from environments that are external to the exporting firm are distinctive foreign consumers preferences, unfamiliar business protocols and practices, difficulty in sourcing competent distributor or agent representation, lack of export market distribution channel structure and development, the imposition of tariff barriers and regulatory import controls by overseas governments, competitive intensity, exchange rate fluctuations, and limited hard currency for international trade.

All things considered, exporting still plays a vital role in the world and has countless benefits not only for firms, but also for countries, as it contributes to nations' prosperity, enhances economic growth and activities, increases the internal production, provides employment, stimulates industrial development, and improves capacity utilization and productivity (Moghaddam, Bin, Hamid & ALiakbar, 2012).

1.2.1 Direct and indirect export

Exporting happens in two major forms: direct and indirect. By definition, *indirect export* implies that commercialization activities in foreign markets are operated through the intermediation of a third party. This, in turn, sells the product to ultimate consumers or importing wholesalers. When selling through indirect export, the exporting company is automatically exonerated both from collecting money from the overseas customers and from coordinating shipping, which makes it the most suitable way to adopt by firms that are new players in the international market or want to keep focusing on the domestic business while exporting abroad. Additional merits of indirect export is the exporting firm's limited responsibility for product marketing problems and the possibility to test its product for export potential under certain conditions. What is disadvantageous is that profits are quite lower, along with the control over foreign sales and the opportunities to adapt offerings to foreign customers' evolving needs. In extreme cases, the intermediary can also sell similar and competitive products to the same customers instead of providing exclusive representation of just one type. In *direct exporting*, on the contrary, commercialization activities in foreign markets are conducted through the firm's own structures. It is the most ambitious and challenging way of exporting because companies have to handle every aspect of the process, with a significant commitment of time and attention, but it still is the best way to maximize control, profits and market presence. Anyway, companies usually only export directly after having exported indirectly for a while through gradual levels of commitment: occasional transactions, long-term contracts, foreign agent or distributor.

The most common indirect export intermediaries are buyer, broker, export management company, export trading company, consortium, and piggy back.

A *buyer* is an independent agent representing a number of foreign companies interested in purchasing specific products of the buyer's country. In brief, a buyer's functions include finding the local exporting companies, creating a portfolio of brands and managing the relationship between such exporting companies and the foreign ones he represents.

A *broker* is an independent agent whose main function is to put into contact a domestic company that wants to sell and a foreign company that wants to buy. In most cases, the broker works for the seller, but it can also represent the buyer anyways. Difference with a traditional export agent (read below) is that the broker usually represents a company just for a bunch of sporadic deals, without being employed on a long term basis (Capela, 2008).

An *export management company (EMC)* is a private company that operates as the exclusive export department for several allied and non-competing manufacturers, soliciting business operations on their behalf in terms of sales, advertising, ad promotion in foreign markets. EMCs generally take title to the exported goods and assume all the risks involved in the transaction.

An *export trading company (ETC)* is a large and independent firm that buys products from manufacturers in a certain country and sells them into foreign markets on its own account; not only it locates overseas trading partners and present the product, but it also performs a whole set of functional activities to enable international transactions, such as transportation, storage, insurance, bill, etc.; it is demand-driven, i.e. it identifies demand or needs in the foreign markets prior to approaching manufacturers.

Export consortia are voluntary, usually non-profit alliances for the internationalization of firms willing to export and promote their goods and services, but unable to do that alone because of their small size. SMEs can outsource to the consortium a whole set of activities that are strategic for the entry into foreign markets, while still retaining their financial, legal, managerial, and commercial autonomy. This way, risks and costs are considerably reduced, while knowledge accumulation and easy access to larger markets become a real chance (Russo, 2005).

Piggyback exporting is a method of foreign distribution through which one manufacturer (the so-called *carrier*) uses its foreign distribution facilities to sell another manufacturer's (the *rider*) products. Piggyback exporting operations allow for profitable cooperation when the companies that are involved sell related or complementary but non-competitive products.

Direct exporting is usually managed by an agent marketing the product and representing the company in a foreign market, or a distributor, who resells the products at a profit to consumers. More specifically, the agent is a company that acts as an intermediary but does not take title to the goods; agents can be appointed in each country in order to solicit order in the country in which they are operating, with payment for the goods still happening directly between the exporting company and the customers in the other country. On the contrary, distributors directly purchase goods from a company taking title of them and distributing them in the foreign market, and eventually service customers after sale for technical advice and assistance on the behalf of the original company. Wrong choice of distributor may affect the international success of the company (cf. 2.3.2).

Eventually, a company can set up an *overseas sales office* by renting a warehouse or setting up an office in another country in order to distribute the goods to customers (Capela, 2008).

It is quite clear that, as a company gains experience in doing business internationally, it might prefer direct export over the indirect. Companies that really feel like engaging in international markets as a crucial part of their success are more likely to consider direct exporting as the ultimate market entry tool, while indirect exporting is usually engaged by those companies that prefer to avoid financial risk as a threat to their real goals.

1.2.2 The field of export management

When in business (whether domestic or international) certain factors are within firms' (almost) exclusive control. These include things such as the availability of capital, finances, raw materials, personnel, and production and marketing capabilities. The job of a firm is to coordinate these *controllable forces* and consequently adapt to those forces that are beyond any control. *Uncontrollable forces* are social, economic, technological, competitive, and regulatory forces which companies have hard times in foreseeing. Examples are consumers' changing wants and needs, the evolving technology, competition, governmental restrictions, and so on (Kerin & Hartley, 2017 in Vescovi, 2017). In the exporting field, the need of monitoring such environmental forces both from the domestic and from the importing country makes it vital to refer to a firm's department specifically devoted and specialized in the entirety of foreign export-related operations (Johnson, 2002).

Today, just as in the case of more sophisticated non-export entry modes, exporting has become a highly skilled and professional operation to the point that companies are more and more opting for the establishment of *ad hoc* departments designed to preserve (and eventually enlarge) the product market share overseas.

Branch (2006) points out that the form of the export department is the result of the size of the company and the scale of its export business: as long as the company is relatively small and its export operations quite contained, one export manager and some clerks would be enough but, as the overseas trade grows, it becomes essential to have an adequate and cost effective export organization with qualified staff committed to exploit the export trade potential.

Reuvid and Sherlock (2011) divide the fundamental functions of an ordinary export department into two areas: marketing and shipping, which respectively refer to getting the order and filling it. The marketing area is responsible for sales, pricing, and other marketing functions devoted to the product, such as promotion and research; the shipping area is responsible for transportation and all resulting documents involved, packaging, tracking costs for distribution, and so on (Capela, 2008). Joint efforts of both areas allow the export department to ensure that the whole export operation goes smoothly, obtains the complete customer's satisfaction and produces a profit to the company. To do that, the department must study the needs of targeted markets, trends, and future developments together with possible methods of increasing overseas sales. In addition, the department has the task of ensuring that payments occur as prescribed in the export contract without delay by handling export documentations and daily shipments (Guerrero, 2018).

These specific functions clearly need full management control under the supervision of a sales manager and a shipping manager, directly responsible to an export manager. It is also possible that there is an export director, or that the export manager reports to a marketing director, as the size of the export office will always have a great effect on its organization (Capela, 2008).

Thus, management is the major force behind the beginning, development, sustenance, and prosperity phase in exporting, thanks to managers trained to carefully enter new markets, allocate financial resources, and pursue the efficient export marketing strategies. Basic skill-based characteristics of an export manager are export experience (gained through an abroad living or working period), foreign language proficiency in at least two languages (the more the better) both in written and in oral form, and international orientation (Moghaddam et al., 2012). Moreover, knowledge of international marketing, international law, and international finance, along with knowledge of technical mechanisms of internationalization and export, main transactions and negotiation techniques must be matured in the meantime. Even more important, the export manager must possess a deep cross-cultural knowledge of the destination market, in order to create *ad hoc* offers that sum up interests and needs of final foreign consumers. He/she must be able to project the net of product distribution in foreign and establish relations and partnerships with local. A company that relies on professional managers can plan its entry in a new market in an easier way and with greater possibilities of success than a company that does it randomly, as they manage to optimize time and resources and rationalize operational costs (Branch, 2006).

It is essential that the functions are distributed among highly specialized levels of responsibility. In particular, main duties of export manager are liaison with directors, negotiation of budgets and targets, market selection, product development, pricing policy, promotional strategy, channel management, staff selection and development, and control of major accounts. Sales manager is in charge of order negotiation, price calculation, order processing and progress. Shipping manager assists price calculation and transport negotiations, checks letters of credit, document production, payment collection (Reuvid & Sherlock, 2011).

It is clear that no company can afford to rely on inexperienced and low caliber personnel in the export field, otherwise standards will tend to be low, overseas product reputation poor, and the overall financial results probably very indifferent. Moreover, for the export department to function efficiently, close cooperation with other sections of the business is indispensable (Johnson, 2002).

1.3 Planning an export business

Any kind of internationalization path requires countless resources before, during, and after its implementation. Yet, while internationalization literature has assiduously focused on explaining the internationalization process itself, very few scholars have attempted to explain what happens prior the internationalization process.

If considered in all their complexity, export operations unquestionably require a preparing phase coming before their implementation that involves the overall components of the firm. The first studies serving the purpose of rationalizing enterprises' pre-internationalization behavior have been conducted by Wiedesheim-Paul, Olson and Welch (1978), according to whom the pre-export attitude for the start of an international process of firms primarily depends on factors such as pre-export information collection activities, characteristics of the decision-maker, the enterprise environment (or characteristics of the firm), and the extra-regional expansion of the firm.

In particular, characteristics of the decision maker refers to his/her international outlook (that is the extent to which he/she considers interesting events occurring outside his country), and to his/her perception and tolerance of the uncertainty coming when adopting the export approach. It must be pointed out that the perception of the decision-maker does not only depend on his/her individual characteristics *per se*, but also on the domestic environment and on the location of the firm, as these considerations affect the transportation cost of physical goods and the flow of information. The characteristics of a firm that can affect the pre-export behavior are its goals, product line, history and prior extra-regional expansion. In 2007, Tan et al. have assumed the 1978's Wiedesheim-Paul et al. position as the starting point for an updated perspective to the study of pre-internationalized firms. The review model claims that, nowadays, important for the involvement, commencement, and development of a non-exporting enterprise's internationalization are factors like internal and external stimuli, the attitudinal or psychological commitment, a firm's resources commitment, and lateral rigidity. In brief, internal stimuli are perfectly represented by interested and experienced managers as well as the decision-maker internationalization desire and goals, while external stimuli are solicited by the government support, higher competitiveness in the domestic market, and the globalization forces themselves. The decision maker attitudinal or psychological commitment (in terms of expectations and belief) starts from the moment when he/she becomes aware both of possible problems and of possible opportunities the firm is about to gain and starts contemplating the commitment of the firm's tangible and intangible resources. Ultimately, lateral rigidity is a force resulting from the firm's behavioral approach to risk and uncertainty that may cause a limited perception of opportunities and a biased perception of information, risking the internationalization process not to go smoothly.

In any case, entrepreneurs with low international orientation generally tend to adopt more international pre-export behavior, characterized by a slow and incremental expansion strategy. Moreover, evidence has suggested that decision-makers begin performing pre-internationalization activities before the actual inception of the firm, not in the exact moment of their inception (Crick & Jones, 2000).

Lasserre (2012) has efficiently revealed the form and contents of the strategy a company should outline before operating abroad, claiming that going global actually starts in the exact moment a firm sets up a proper global strategy. *Global strategy* refers to the strategic planning of an organization which targets countries that are different from its own. A global strategy can be basically decomposed into four major components that are: a global strategic ambition, a global strategic positioning, a global business system, and a global organization. In broad terms, *global strategic ambition* expresses the position (in terms of sales and assets) a company desires to reach after going beyond its borders; *global strategic positioning* refers to the selection of the country in which the company actually wants to compete; a *global business system* stands up whenever a company decides to distribute the elements of its value chain[1] across the world in order to reinforce its competitive advantage. In conclusion, organizations that are willing to (and have the capability to) support and implement the global ambition, the global positioning, and the global business system at the same time are the concretization of a *global organization.*

In the context of the global strategy, firms have to assess the attractiveness of a country as a market, first in absolute terms and then relative to another country. Analysis of the country attractiveness is immediately focused on such country's market, resources, and industry opportunities. In particular, market opportunities assessment measures the potential demand in the country for the products or services of the firm by looking at the market size and growth. Resources opportunities: natural, human, infrastructure and support industries resources. Industry opportunities assessment measures the easiness of competing in the country, which is directly contingent upon the competitive climate and the incentives granted by governments. In this regard, American professor Michael Porter (1998) has synthesized four forces whose subsistence actually makes a country attractive, known as the *Diamond of National Advantage* in the academic world: 1) factor conditions, 2) firm strategy, structure, and rivalry, 3) demand conditions, and 4) related and supporting industries.

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[1] *Value chain* has been first described by Porter in *Competitive Advantage: Creating and Sustaining Superior Performance* (1985) as the entirety of the activities a firm performs in order to provide a valuable product to the market. The major components of the value chain are innovative activities such as R&D, knowledge, creation and design; productive activities such as procurement, manufacturing, back office, operations, logistics; customer relationship activities such as marketing, sales, distribution, customer services. Taking advantage of the economic globalization, companies have progressively decomposed their value chain by spreading their activities all over the world.

Pointed out the reasons *why* a country could result seductive, the other side of the coin deserves equal, if not greater attention. *Country risk* refers to the (more or less hazardous) exposure to which a firm is subjected when performing in a certain country because of political, economic, or social variables. Political risks refer to the eventuality that a long time horizon business performance can financially suffer from changes in the government. Economic risks are affected by a country's financial conditions and its ability to repay debts; practical examples of competitive risk are the potential formation of cartels and networks, and rising corruption. Ultimately, Solvency II Directive 2009/138 defines the operational risk as «the risk of a change in value caused by the fact that actual losses, incurred for inadequate or failed internal processes, people and systems, or from external events (including legal risk), differ from the expected losses.»

What is interesting is that, in spite of the financial danger companies might face, they might still be willing to accept a certain level of risk if other aspects of attractiveness are present, as in the case of still developing countries.

When a company has finally established *where* to address its new foreign business commitment, the last, crucial pre-export decision consists in *when* to enter.[2]

Time of entry refers to how quickly a firm penetrates a new market in respect to its rivals. Such expression typically refers to a one-time event (Dykes & Kolev, 2016) and is directly dictated by the degree of opportunity a company wants to enjoy along with the type of risk it is willing to take. For market-based objectives it would be ideal to access a new market in the moment when the demand starts to become consistent and competition is still weak. For resource-based objectives, it is ideal to step up when rights of access are available (Lasserre, 2012).

In 1988, Lieberman and Montgomery claimed that a firm that enters a given market before its rivals (the so-called *first mover*) gains a competitive advantage in terms of technological leadership, buyer switching costs, and pre-emption of valuable assets. Yet, the relationship between entry timing and firm performance is sometimes dependent on the targeted country's culture. Thus, it is critical for managers to accurately assess the timing of entry into foreign markets (Dykes and Kolev, 2018).

[2] Out of theory, firms tend to undertake export operations without taking every single step of a complete global strategy into account. Reason is that their engagement is often the outcome of concrete business opportunities that show up.

1.3.1 The export market research

The implementation of a global strategy's components (*why*, *where*, and *when* to enter a foreign market) or just part of them, represents only the ultimate action of a previous huge data collecting operation (coming even before the pre-export operation) for deciding if a particular country is at least theoretically worth being considered. As a matter of fact, in most cases companies actually know very little about the culture, administration, geography, and economics of countries and markets different from their own, making it hard to guess if the launching of a particular product would be appreciated by target customers.

A *market research* consists in the systematic process of collecting, analyzing, and presenting objective, useful marketing information for assisting management in problem solving and decision making, with the ultimate goal of identifying, servicing, and satisfying the needs and desires of target customers (McQuarrie, 2006). Thus, the information collection operation, in turn, requires managers to make huge efforts in interpreting, rationalizing, and amalgamating them.

The most traditional and quite old-fashioned mode of collecting information is the *grand tour* approach, which has roots in the Seventeenth Century and consists in sending several executives to visit an appealing, targeted country in order to prepare a report about the personal experience, impressions and conversations held with professional people of that specific country. This method clearly offers the possibility to evaluate on spot what the specific issues of launching a certain product could be. Yet, just one tour would be hardly satisfying for a proper data collection and consequent analysis, making it a quite costly operation that just large companies could eventually afford (Lasserre, 2012).

A valid alternative to grand tours is represented by consulting (or consultancy) firms, as they offer the possibility to rely on the accurate, relevant and up-to-date advice of industry-specific high caliber experts with professional management and business skills.

Whether the exporting company chooses to conduct its own market research or to commission it to an external researcher, gathering readily available information and data is a step that should never be avoided even in the cases when business commitment is low.

In practice, an export market research may be conducted both when companies have already identified what specific market they want to investigate and when they want to find out which markets appear to be the most suitable for selling their products without missteps. Important to bear in mind is that an export market research is closely linked to the characteristics of a firm's product and to the market demand it could eventually stimulate, rather than to the market demand for the specific firm's brand.

Thus, the most important concerns of an export market research are: 1) the assessment of sales potentials in each selected market in terms of sales volume and margin, sensitivity of the market demand to the product price, whether the product requires any modification, suitable distribution channels, etc., and 2) distribution, as to say the identification, evaluation, and selection of foreign distributors and agents (Cavusgil, 1985). Because of their local market presence, distributors and agents are often the best source of valuable and timely information about market developments, as they have greater familiarity with customer needs and contact with governmental agencies. For many firms, these two tasks constitute the two greatest challenge when exporting (Zou, Daekwan & Cavusgil, 2009).

Cavusgil (1985) has outlined the ideal path for a thoughtful market research to be effective and avoid costly mistakes. First, a *preliminary screening* should be conducted in order to select the most attractive countries that will be put under scrutiny. Defining the overall demographic, political, economic, and cultural environment will allow the export marketers to start eliminating some foreign markets from further. Immediately following the preliminary screening is an *analysis of the industry market potential* in every selected foreign market, in order to assess the present and future demand for that specific industry within the selected markets. Factors involved in this stage are market access, product potential, and local distribution and production. In particular, market access refers to the limitations on trade in terms of tariff levels and quotas, documentation and import regulations, patents and trademarks, local standards, practices and other non-tariff barriers; product potential is directly contingent upon target customers' needs and desire, competitive offering, and attitudes toward products of foreign origin. Ultimately, local distribution and production mainly concerns the availability of intermediaries, regional and local transportation facilities, and availability of manpower. The last step of Cavusgil's method consists in the *analysis of company sales potential* on the basis of the earlier analysis of sales volume, landed cost, cost of internal distribution, and other determinants of profitability.

Frequent political and economic changes in many foreign markets may limit substantially the usefulness of projections for a country. Because of this problems, companies tend to supplement quantitative data with the subjective judgments of executives (Cavusgil, 1985). This bring us back to the importance of 1) distributors and agents as a source of information, 2) grand tours experience, 3) consulting firms thoughtful advice, and eventually 4) participating in overseas trade fairs.

Within the framework of export market research, efforts should be generally devoted to less than ten country markets if the company is new to exporting. Initially, one or two target countries may be even enough. Clearly, results from a research conducted on a specific market will never be applicable to another.

Regardless of the size, a systematic export market research should be always conducted as it can really make the difference between success and failure for companies that, otherwise, could tend to underrate the cultural, administrative, geographic, and economic distance existing between the home and the host country, as it will be showed in the following chapter.

2. Managing export through knowledge

2.1 Facets of distance

Export, by definition, requires companies to interact with consumers, suppliers, and companies based and operating in countries that are different from their own. It is a bi- or even multidirectional process that involves no less than two separate geographic, political, social, and economic environments of two separate markets: the home market and the market of the targeted country. Internationalization of an exporting enterprise means going across borders, with such borders to be interpreted not only geographically, but also in terms of racial, religious, linguistic, business, legal differences. These differences, considered on the whole, inevitably affect the cost of doing business internationally, making the process of venturing overseas even trickier than just technically described in Chapter 1.

Nowadays, people are generally committed to the idea that the world is a small, flat, and relatively homogeneous place by virtue of information technologies and global communications. Yet, as Indian-American economist Pankaj Ghemawat (2001) claims, «companies routinely exaggerate the attractiveness of foreign markets, and that can lead to expensive mistakes.» p. 139.

The starting point of Ghemawat's lifelong academic work is that globalization is expanding more slowly than generally acknowledged.[3] His work *Distance Still Matters: The Hard Reality of Global Expansion* mainly states that 1) the world still is in a state of semi-globalization, 2) distance is a multidimensional construct whose elements are not only geographic, but also cultural, administrative, and economic, and 3) each type of distance, in turn, affects each type of industry or business in a different way. Problem is that the immensity of foreign markets along with their consequent sales potential are so appealing that many companies tend to underrate the difficulties of expanding in new territories.

No matter how the technological progress keeps shortening communication and movements of people, the relationship between distance and trade is still inverse, such

[3] Much of Ghemawat's literature is ideologically opposed to the 2005 international best-selling book *The World Is Flat: A Brief History of the Twenty-first Century* by American journalist Thomas L. Friedman, whose starting assumption is that this "flattening", super-interconnected global market urges nowadays countries, companies and individuals to run faster in order to stay in place.

distance is still shaping businesses worldwide and companies must thoughtfully account for it not to fail from the start.

CAGE is the acronym for the four broad components of distance (cultural, administrative, geographic, and economic) that Ghemawat uses to refer to the framework he developed to help managers indentify and assess the impact of distance on various industries. The CAGE Framework provides wannabe international companies with a new way of thinking about locations, opportunities and risks, as much of its power is derived from being customized to the particular industry of the country being studied.

The CAGE Framework components will be individually explored through the following paragraphs in the most complete way possible.

2.1.1 Geographic distance

Geographic or physical distance is the part of the CAGE framework that most people immediately think of when they hear the word *distance*. Yet, geographic distance does not only stand for physical remoteness in kilometers or miles between two countries along the surface of the Earth, but also for lack of common borders, targeted country's lack of sea or river access, differences in time zones and climates, size, and within-country distance to borders. In addition, artificial attributes such as weak transportation or communication links are to be considered, although they can also be treated as economic attributes as well (Ghemawat, 2007).

The most obvious impact of longer physical distances is the rising of the cost of physical transportation, which probably is the reason why Ghemawat states that «the amount of trade that takes place between countries 5,000 miles apart is only 20% of the amount that would be predicted to take place if the same countries were 1,000 miles apart.» p. 140. But cost of communication is not free from any changes as well. This is the reason why, for example, FDI flows also tend to decrease as distance increases. Relevant for business to go smoothly in spite of geographic distance are distribution and quality of transport infrastructures, which allow firms to connect with national and international areas with the purpose of producing and distributing products (Ghemawat, 2001).

Geography-related assertions by Ghemawat have inspired interesting studies about limitations geographic distance actually imply not only for SMEs, but also for economically stronger companies. Rugman and Verbeke (2004) surprisingly reveal that MNEs' access to the global market (and their consequent market concentration) is actually geographically unbalanced: on a total amount of 500 large companies analyzed, only 9 have proven to be really global, with 20% of their sales incomes gained from each of the three regions of the NAFTA (USA, Canada, and Mexico), EU and Asia geographic triad; remaining companies have reported that 80,3% of their total sales is concentrated in their home region of such triad, revealing that their products are unanimously attractive (and accessible) everywhere in the world. This incomplete integration means semi-globalization, which ultimately implies that regional specificity still matters.

2.1.2 Cultural distance

Scholars have never been able to agree on a unanimous definition of culture. Famous expert of management and cross-cultural differences Geert Hofstede (1983) defined it as «the collective programming of the mind» (p.76) which distinguishes the members of one human group from another. Culture as conceived by Ghemawat to explain CAGE differences across countries more importantly refers to the attributes of a society that are sustained by interactions among people, rather than by the state.

Instead of the definition, however, some have found it much more useful to focus on the *content* of culture, summarized in 1) observable behavior, 2) declared values, beliefs, and preferences, and 3) basic assumptions and meanings that are often invisible, unconscious, and taken for granted (Lasserre, 2012). One soon realizes that the primary way in which a social group differentiates itself from others is one of the most difficult and complex approaches to understand, often even more complex to interpret than administrative and economic differences, as it is mostly built on unconscious sets of forces.

A company is said to be *blundered* if it makes a decision resulting in a costly or embarrassing situation that was foreseeable and avoidable because managers have failed to remember that communication and culture, values, attitudes, and tastes differ from country to country. Areas in which international business blunders usually occur have been grouped into seven categories: production, products or companies' names, marketing, translation, management, strategy, and *other* (Ricks, 2006).

In 1976, American anthropologist and cross-cultural researcher Edward T. Hall developed the so-called Cultural Iceberg Metaphor. Icebergs are famously disproportioned in terms of visibility, as their only observable part is the 10% on top, while the most dangerous section is the 90% that is below the sea and cannot be seen. Culture is similar: top of the iceberg symbolizes behaviors and practices that can be observed and understood within a short period of time, that is the most commonly recognized characteristics that can be seen, tasted, smelled, heard and touched, such as language, food, music, architecture, signs of affection, and so on. But what a culture is really made of is the part hidden below: the beliefs, values, and assumptions that actually drive the behaviors we can see. Not understanding the unobservable is what is problematic for managers or expatriates who must interact in multicultural situations for global success.[4]

In any case, according to the CAGE Framework cultural distance takes shape from the relationship between two countries speaking a different language, having different ethnicity and religions, observing different social norms, and so on. From a business point of view, culture does not only determine how people interact among themselves, but also with companies and institutions; thus, cultural distance may have a huge impact on the cost of doing business in a foreign country or region and, consequently, on trade. It is important to understand the culture that prevails in the country in which a domestic company plans to conduct a certain business, as 1) culture of the host country actually define the international business strategies exporting companies (regardless of their size) should adopt, and 2) success can possibly require adaptation to the host market.

Language certainly is the most noticeable among cultural elements. Ghemawat (2001) estimates that trade between countries that share a certain language can be three times greater than between countries without a common language. Other cultural attributes that shape demand are highly idiosyncratic or in some cases imperceptible in the sense of being performed unconsciously. For example, colors are closely linked to cultural prejudices in almost every country on Earth, while food industry is particularly sensitive to religious attributes.

In general, cultural elements that are clearly derived from the national, religious, or ethnic origin of citizens (as the ones that have been just enlisted) are referred to as national or ethnic culture.

In 1980 previously mentioned Geert Hofstede identified four (and later two more) broad dimensions of national culture that help explain how and why people from various

[4] It is worth mentioning American sociologist Milton J. Bennett's objection that the Cultural Iceberg Metaphor treats culture in a misleading way: comparing culture to an iceberg floating in the sea implies that culture not only is an actual thing, but also a threat to passersby (Bennett, 2013).

cultures behave as they do. His initial data were gathered from two questionnaire surveys with over 116,000 respondents from over 70 different countries around the world, making it the largest organizationally based study ever conducted.
The original four dimensions that Hofstede examined were power distance (or strength of social hierarchy), uncertainty avoidance, individualism and masculinity - four anthropological problem areas that different national societies handle differently. Power distance is «the extent to which less powerful members of institutions and organizations accept and expect that power is distributed unequally.» (p. 98). Thus, power distance index (PDI) directly depends on whether lower social classes of a certain country perceive that their own society is built on a clearly established and executed hierarchy, with no freedom of questioning authority and distributing power.
Uncertainty avoidance is defined by Hofstede as «the extent to which people feel threatened by ambiguous situations and have created beliefs and institutions that try to avoid this.» (p.145). Index mainly depends on the way citizens react to something unexpected or different from the way the *status quo* should be. In practice, high uncertainty avoidance is peculiar of societies that tend to observe codes of behavior, laws, and absolute truths of beliefs, while low avoidance societies feel more comfortable when living in free-flowing environments
Individualism is the tendency of people to look after themselves and their immediate family only. Hofstede measured this cultural difference in opposition to collectivism, that is the tendency of people to belong to groups and to look after each other in exchange for loyalty.
Masculinity is defined as «a situation in which the dominant values in society are success, money and things.» (p. 279). Hofstede measured this dimension on a bipolar continuum involving masculinity on one side and femininity on the other side. Femininity is adopted by Hofstede to describe «a situation in which the dominant values in society are caring for others and the quality of life.» (p.280). Countries with a high masculinity index place great importance on earnings, recognition, advancement, and challenge, with individuals encouraged to be independent decision makers; countries with a high femininity index tend to place greater importance on cooperation and friendly atmospheres, whit individuals encouraged to be group decision makers.
The last two dimensions of national culture were found later and in different studies than the first four. Time orientation is explained as dealing with society’s search for

virtue: long-term oriented societies tend to focus on the future, while short-term oriented cultures focus more on the past and present. Asian cultures primarily exhibit long-term orientation.

Based on research related to relative happiness around the world, Hofstede's most recent dimension (indulgence versus restraint) measures the freedom to satisfy one's natural needs and desires within a society. Indulgent societies encourage instant gratification of natural human needs, while restrained cultures regulate and control behavior based on social norms. Unlike countries like USA, UK, Australia, and Chile, societies in which individuals participate in fewer activities, express less happiness, and believe that their own destiny is not in their control include Egypt, Romania, and China (Luthans & Doh, 2015).

Countries described in terms of pairs of dimensions are meant to provide useful summaries for international managers. It has been proved that these pairs also have an impact on accounting practices, and human resources management of worldwide countries' societies (Nobes & Parker, 2012; Luthans & Doh, 2015). In terms of management, lesson is that it is important not to believe home culture can be imposed on host culture when building relationships. Besides, when it comes to management, companies are confronted with more than one type of foreign culture rather than just the national one, namely corporate, industrial, and professional culture. Corporate culture refers to the pervasive assumptions, values, and behavioral norms resulting from the history of the company, leadership imprinting, ownership structure, and size; it is mainly reflected in the way employees behave (i.e. collaboration rather than competition) and business is conducted. Industry culture is any rules derived from the accumulated professional norms of a particular industry, while professional culture is the outcome of the training and professional norms of the different professions practiced within a corporation (Lasserre, 2012).

Even communication must be contextualized depending on the culture it is expressed in. Edward T. Hall (1976) classified cultures as high context and low context. In a high context culture, there are many contextual elements that help people understand the rules; as a result, much is taken for granted. This can be very confusing for people who do not understand the unwritten rules of a culture that is different from their own. On the other hand, low context cultures take very little for granted. While this means that more explanation is needed, it also means that there's less chance of misunderstanding.

In practice, an high context culture emerges when what people say is not exactly what they mean. For example, in China (because of Confucian influences) and Japan, it is considered culturally rude to say *no*, so managers risk to receive a *yes* actually meaning *no* or *maybe* as an answer. In low context cultures answers generally present a high degree of honesty (Hall, 1976; Usunier & Lee, 2005).

Hutzschenreuter, Voll and Verbeke (2011) even highlighted the administrative implications that cultural distance may have on the international expansion of firms because of the potential high *dynamic adjustment costs* they may incur in. The 2009 revised Uppsala Model by Johanson and Vahlne focused on the *liability of outsidership* (cfr.1.1.2), rather than on the *liability of foreignness*, stating that it may be difficult for exporting enterprises to enter foreign networks because of their different nationality. Therefore, Hutzschenreuter, Voll and Verbeke (2011) observe that gaining managerial knowledge about the target country may be the most suitable way of overriding the consequences of cultural differences between the home and host country, as this way MNEs can create new and more suitable business models, adjusting the organizational coordination and structures, the decision-making routines and control approaches. To achieve this goal, expansion in culturally far countries must be done interacting with subsidiary team members, customer, and suppliers from the target market in order to reduce the aforementioned dynamic adjustment costs.

To conclude, all nationalities possess unique characteristics that must be understood. Culture is extremely important to be dealt as global companies now find themselves to be multicultural and, most of the time, cannot avoid to manage cross-cultural teams. Companies really have to develop a deep cultural sensibility and intercultural awareness, as prolonged contact between countries is likely to blunt at least some of the effects of cultural differences between them. Such contact can increase mutual familiarity, attract institutions and organizations required to support cross-border economic activity, and ease cultural adjustments (Ghemawat, 2007).

2.1.3 Administrative (or political) distance

Cultures have a piercing effect on administrative and economic institutions as well, affecting the course of trade among companies from different countries. Thus, just as business enterprises cannot ignore political and administrative conditions in which they were born and still operate, they cannot ignore the political and administrative scenarios of the countries in which they want to enter.

In particular, administrative attributes refer to laws, policies, and institutions that emerge from a specific political entity and are mandated or enforced by the government of that same specific political entity. International relationships between countries, including treaties and international organizations, are part of this field. The legal environment, in turn, principally depends on the political ideology of a country, which is usually revealed by the governmental activity. It follows that the width of administrative or political distance between countries mainly depends on whether their relationship is built on historical or colonial ties, on the presence of shared monetary or political association, and on political hostility (Ghemawat, 2001).

Specificity of the government policies adopted and possible institutional weakness must also be taken into account, as subsistence of all (or even some of) these circumstances can significantly affect business decisions and entry modes choices. Put into practice, some particular ideologies can limit companies' activities, impose some sort of relationship with the government itself, or impose some restrictions to competitive foreign companies for nationalism, domestic corporations or influential lobbies' sake (Perretti, 2005). Inefficient, incompetent, or excessive bureaucracy, lack of transparency, incoherent, incomplete, or even frequent modification of regulations, along with improper application of law, arguable judiciary, and corruption are other examples of administrative barriers that can slow time of trade, increase transaction costs, and lead to difficulties in obtaining permission to perform commercial activities (such as license, registration goods and services certification, and so on.).

Weak institutional infrastructure in a target country can also impede cross-border economic activity. For example, many companies reportedly avoid doing business in countries known for corruption, unreliable legal systems, or social conflicts. Some research suggests that these negative local conditions, if left unchecked, can depress trade and investment far more than any explicit administrative constraints. Conversely, when a country's institutional infrastructure is strong, the level of cross-border integration is likely to be higher (Ghemawat, 2007). Other reported stimuli are common currencies, that can increase trade of 340%, common membership in a regional trading bloc, that can increase trade by 330%, and preferential trading arrangements, common currency, and political union, which increase trade by more than 300% each. Besides, «provided that friendly ties have been preserved, a company is likely to trade ten times as much with a former colony than with a country to which it has no such ties.» (Frankel & Roses in Ghemawat, 2001).

In other words, if geographic distance is the outcome of natural barriers, administrative distance is shaped by artificial barriers between markets.

2.2.4 Economic distance

Unlike geographic distance, economic distance is not stationary in time and actually is the most changeable CAGE Framework element. According to the CAGE Framework, relative economic distance between trading countries can influence both bilateral trade and FDI, while similar economic profiles lead to more trade.

The wealth or per-capita income of consumers is the most important economic attribute that is taken into account by countries when establishing levels of international trade and types of foreign partners to deal with. Hence, economic distance arises from differences in consumers' income (as income levels shape nature of demand) or in costs and quality of natural, financial, and human resources; it also typically arises from differences in infrastructures, intermediate inputs, and information or knowledge.

The most visible consequence is that rich countries are more likely to conduct economic activities with countries whose economic size is more similar to their own than with poorer nations. But interesting is that «poor countries also trade more with rich countries than with other poor ones» (Ghemawat, 2001; p. 28).

Certain industries, however, exploit distance instead of treating it as a constraint to adjust, by profiting from a difference in the price between markets. This is the case of companies belonging to industries whose cost of components vary widely across countries (as in the case of garment and footwear industries), and labor costs are reported to be consistently cheaper. Arbitrage actually is *the* way by which differences can be exploited. Although the term is used by Ghemawat to refer to the exploitation of economic differences that are not derived directly from cultural, administrative or geographic differences, arbitrage strategies can be built around all four types of distances, even though one could argue that all arbitrage strategies that add value ultimately are *economic* (Dutta, 2008).

Economic distance between countries can be deduced through indicators such as the Gross National Product (GNP) or the degree of openness to international trade, and calculated using data from international organizations such as UNCTAD, OECD or the World Bank.

2.1.5 CAGE Framework at the industry level

The CAGE Framework is extremely useful when applied at the industry level, too. The task not only consists in identifying differences between countries, but also to understand which ones matter the most in the industry of interest.

Therefore, industries that find themselves to be rather sensitive to geographic distance are quite intuitive. Ghemawat explains that the geographic distance mainly affects the cost of transportation and communication. Therefore, products with low value-to-weight or bulk ratios (cement), that are fragile or perishable (glass, fruit), in which communications are vital (financial services), or that present significant local supervision and operational requirements are part of this category.

Cultural distance largely affects consumers' product preferences. Simple, yet important is that tastes are different and consumers in different countries rank the same products very differently. The cross-country statistical analysis has revealed that food is one of the most sensitive product category in terms of cultural distance, partly for ethnic and religious reasons, partly because food routine is principally affected by sense of belonging to a certain society. In addition, products having an high linguistic content (software or TV programming), carrying country-specific quality associations (wines), whose features vary in terms of size (cars), standards (electrical appliances) and packaging are not free from influence.

Governments are the entity having the major role on administrative and political distance, as it affects industries of products that must be protected from foreign competition. Such intervention involves goods that are perceived to be essential to citizens' everyday lives (food staples, electricity, and fuel), for which the government is a large supplier (mass transit transport), goods or services to which people believe they are entitled as a basic human right (health care), symbols of a country's modernity and competitiveness building national reputation (aerospace) or as vital to national security (telecommunications), natural resources, considered part of the national heritage to be protected from the exploitation of foreign companies (oil and gas), and products involving sunk costs (heavy industry).

Economic distance most affects industries or products for which demand varies with income levels (cars), economies of standardization or scale are important (mobile phones), in which labor and other cost differences matter (garments), distribution or business systems are different (insurance), or companies need to be responsive and agile (home appliance).

Similarities along the four dimensions between two countries suggest great potential for industries. By contrast, the more two countries differ, the riskier the targeted foreign market will reveal to be. From a micro-economic perspective, contribution of the framework at the industry level consists in calculation of potential costs for the supply side and of willingness to pay from the demand side. Also, from the supply side products whose cost structures are dominated by factors with absolute costs that vary internationally are the ones that are rather free from distance influence; from the demand side, industries that demand lots of variety, agility, or responsiveness are likely to satisfy citizens' willingness to pay. The CAGE framework helps managers by making distance visible so that they can also understand which type (or series) of barriers they have to face when interfacing with another country, the extent to which such differences are met, and eventually face local competition in a more conscious way. Taking the four dimensions of distance into account can dramatically change a company's assessment of the relative attractiveness of foreign markets (Ghemawat, 2007). Hence, firms necessarily need to conduct research to determine if an adequate market for its products even exists.[5] In this context, role of technology does not consist in eliminating distance, but in helping companies to understand it and to develop enough knowledge to get to know each other. Whether the analysis is at the industry or company level, the message in univocal: managers must always be conscious of distance in all its dimensions, developing a country portfolio analysis adjusted for distance, necessarily subjective (Ghemawat, 2001).

2.2 Export sensitivity to distance

The ultimate lesson provided by the CAGE Framework is that no company (no matter the size) should ever take any foreign purchase behavior for granted. Thus, the so-

[5] To facilitate quantitative analysis based on the CAGE framework, Ghemawat has developed an online tool called the CAGE Comparator (https://ghemawat.com/cage).

termed *clustering approach* has been applied to management in order to optimize the chance to approach distant markets and, consequently, ease commerce activities. The notion of *country clustering* refers to the process of grouping countries in a way that, from a specified point of view, those belonging to the same group (*cluster*) are very similar in respect to those belonging to other clusters.

Huntington (1997) grouped countries in eight modern *geo-politic clusters* that classified as Western (North America, Western Europe, and Australia), Orthodox (Central and Eastern Europe), African (Central and South Africa), Islamic (Middle East, North Africa, Indonesia, and part of Malaysia), Latin America, Hindu (India, Bangladesh, and Sri Lanka), Japanese, and Sinic (all Chinese communities, along with Vietnam and Korea).

Economic considerations have led professor Michael E. Porter (1990) claim that when geographic, cultural, and institutional proximity subsists companies have a great chance of enjoying interconnection, which, in turn, may increase productivity, innovation, better information exchange, and other advantages that would be difficult to gain otherwise. Such proximity gives rise to industrial environments, referred to as *business clusters*, that enjoy unusual competitive success in a particular field (i.e., the Silicon Valley).

Ultimately, worldwide clusters from cultural affinity (*cultural clusters*) have been identified by the GLOBE Project researchers with the objective to help global leaders communicate more effectively across cultural and geographic boundaries, build culturally sensitive web sites, and so on. Such clusters have been synthesized in Anglo, Nordic Europe, Germanic Europe, Eastern Europe, Latin Europe, Latin America, Middle East, Sub-Saharan Africa, Southern Asia, Confucian Asia (House et al., 2004).

Yet, Beugelsdijk and Mudambi (2013) observe that the international business literature focus exclusively on distance occurring *between borders*, overlooking the sub-national spatial heterogeneity which occurs *within borders*. In practice, they conceptualize sub-national variations in terms of cognitive, organizational, social, and institutional proximity that, in turn, may increase spatial and social interaction costs and affect the economic activities of MNEs whose subsidiaries need to be embedded in local business networks and access local resources. More than others, developing countries generally reveal several degrees of internal heterogeneity mainly in terms of population income and culture, geographical and climate attributes, but also international orientation, as heterogeneity and development seem to be closely related and may sometimes call for a geographically selective approach by foreign companies entering a certain developing country.[6] Other than CAGE distance between countries, internal cultural, administrative, geographic, ad economic distance may also consistently affect international trade.

Anyways, the clustering approach still stimulates recognition of diversity in world markets, which, in turn, incites enterprises to develop marketing practices for building local consumers' knowledge and efficient interactions, not only among business people with different national backgrounds, but also between targeted consumers and messages, and targeted consumers and products (Usunier & Lee, 2005). Thus, the four dimensions of distance can be overridden (or, more plausibly, softened) by knowledge between home enterprises and host companies, distributors, and ultimate consumers through the development of a cross-cultural approach that, by definition, already contains values of both the destination market and the home market. To do this, the international marketer needs to gain personal experience *in loco* after defining the country clusters where similar marketing policies can be followed. Surprising discoveries, requests, proposals, and solutions can arise from this kind of approach, letting companies reconsider their products in terms of size, packaging, price, distribution, communication, and positioning when dealing with new, far, and developing markets. This is what the real capability of being international consists of. But this is a goal difficult to achieve when SMEs decide to keep relying on export (Pontiggia & Vescovi, 2015).

It is universally recognized that distance is an obstacle having a negative relationship with export performance, as it might affect it in different ways: in addition to exporters' transportation costs of shipping from home to the destination (the greater the geographic distance, the greater the transportation costs), costs of dealing with institutionally unfamiliar markets must be taken into account, as they, in turn, make it more difficult for exporters to establish the necessary network of distributors abroad, protect property rights, enforce contracts, and ensure that law is complied. Communication misalignment might impose additional transaction costs on the exporters due to uncertainty and costs of advertising to capture the market share (Jienwatcharamongkhol, 2012). In addition, Lee (1998) has reported that a negative relation subsists between distance and trust, long-term commitment, and satisfaction with the relationship between the exporting and the importing party: a healthy

[6] A sub-national analysis of the People's Republic of China from the geographic and socio-economic point of view has been proposed in paragraphs 3.2.2 ad 3.2.3 of the present thesis.

communication climate is a prerequisite of strong relationship quality to obtain sharing and interpret information, while poor communication climates increase the chance of making wrong decisions and misjudging.

It follows from this that distance may affect the decision whether to export or not and may reduce the number both of firms and of available products in a particular market abroad. In any case, the impact of distance on export may vary depending on the exported product's characteristics (Jienwatcharamongkhol, 2012), thus only experience may allow companies to gain knowledge, absorb the values of the destination market, and then eventually adjust their product strategies to the distance issue.

Starting from Chapter 3, area of interest of this master's degree thesis is China, an extremely challenging country for the Western part of the world because its traditional values and mindsets are generally perceived as rather different and hard to «compromise». But also, although China is recognized a superpower and one of the greatest economic rivals by Westerners, it is still considered a developing country by the WTO. This aspect needs further consideration: although the WTO does not provide a clear definition of developing countries, they generally consist of newly industrialized countries, emerging markets, frontier markets, or least developed countries whose living standards and Human Developed Index (HDI) relative to other countries are low. Although China has recently experienced an unprecedented growth, evolving from a relatively poor country to one of world's largest economy, it still is a developing country with many poor counties and villages remaining underdeveloped. Booming has not involved a significant part of Chinese who still spend a high proportion of their incomes just on food, have a hard time finding good quality health care, and have to fight pollution, while welfare benefits are fewer and far between (Xinhua, 2018). This, on the whole, make China (like any other developing country) an even more challenging marketing environment for export operations. Thus, next paragraphs will try to explain how to soften export limitations in terms of direct experience in developing countries, in order to gain knowledge, override distance, and sell.

2.3 Gaining knowledge to improve export

Enterprises that have started business with indirect export in developing countries have realized that, at a certain point, this kind of approach is not enough to gain sufficient knowledge about the targeted market, as their results gradually start to freeze. Moreover, without any consequent organizational solution, companies even risk to lose the overall acquired knowledge as it is not put into practice (precluding any possibility to do that in future). Indirect learning is much less efficient than experiential processes, as it may lead to a state of inactivity (not to say passivity) that, in turn, increases financial risks (Pontiggia & Vescovi, 2015).

Terms like data, information, and knowledge are often used in an interchangeable way. Nevertheless, although these three concepts have some common sense, a distinction may be drawn: data simply exist in their raw form, lacking apparent meaning if not codified. Thus, information is the result that comes from the combination of data and meaning. Knowledge, in turn, is defined as information enriched with experience, context, interpretation, and reflection. What makes a real distinction between knowledge and information is that knowledge is endowed with purpose. In other words, information becomes knowledge when the individual applies information to solve a particular problem or provide a solution. Thus, knowledge is ultimately defined as the individual's synthesis of information and experiences that can be applied for a specific purpose (Levin, 2011).

At the managerial level, solution may consist in regular trips to the partners' country to become more familiar with the foreign firm's personnel and organization, learning the language of the overseas partner, and participating in cross-cultural training methods. It may be useful to let the importer or distributor manage relationships with retailers of the host market, letting them gain control over shelves disposition of the product. These tasks may be accomplished by creating a small and operative marketing structure (one or two managers and a few employees) with the assignment of understanding the local market, its rules, consumers' behavior, product usage, and the company's potential opportunities abroad. This may, in turn, stimulate the so-called *dynamic capabilities*, that is the capacity of an organization to explore and exploit international experiences in order to generate a future-oriented competitive advantage. (Villar, Alegre & Pla-Barber, 2014).

Moreover, Perri, Checchinato and Colapinto (2013) noticed that cultural distance between a firm's home and host country affects the occurrence of hidden costs, influencing the overall financial performance of a foreign market entry operation. In practice, *hidden costs* are those costs that emerge when the fulfillment of an unfamiliar market entry strategy gives rise to costs that were not previously estimated. Thus, the ability to successfully estimate the effects of such a huge implementation by decision makers is the most effective way to call off (or at least soften) hidden costs. Again, we are talking about an ability that generally arises through knowledge gained with direct international experience (Perri et al., 2013).

According to the Uppsala Model, exporting in mature markets is quite a straightforward operation for firms, since they can easily propose exactly the same practices developed in the domestic market to the targeted one. On the contrary, as far as unfamiliar and often unacquainted markets are concerned, firms prefer to gradually internationalize through exporting, later establishing agreements with agents and distributors in order to gather necessary information to penetrate the market, accumulate knowledge and eventually build their own sales organization *in loco* (Checchinato, Hu & Vescovi, 2014). More specifically, when firms face emerging markets, they have to cope with new and unexpected problems in order to distribute their products successfully. Trading with developing countries has obliged currently operating enterprises from all over the world to reconsider traditional paradigms of internationalization through exportation, since the traditional marketing means, along with the strategies commonly implemented in domestic markets (or traditional foreign targeted markets) appear not to be enough anymore. New approaches must take into consideration education of the market, of the consumer, and of commercial partners through communication and products policies developed in a specific way (Pontiggia & Vescovi, 2015).

2.3.1 Knowledge of markets

As Drucker (1995) points out, knowledge has become the dominant source of competitive advantage.

Market knowledge (or the entire, organized, and structured information about a specific market) is a resource that is critical to firm success (Inkpen & Dinur, 1998; Li & Calatone, 1998). Such knowledge principally concerns the company, the industry, competitors, customers, procedures, and processes and allows firms to work efficiently and effectively as it stimulates, in turn, workers propensity to create, integrate, and transfer knowledge within the organization. Managers of exporting firms must develop strategical market knowledge management processes if they want to be successful internationally (Villar et al., 2014).

Knowledge management consists of three sequential processes: 1) development of knowledge, 2) dissemination of knowledge, and 3) application of knowledge. Some market knowledge may be developed, disseminated, and applied in rapid succession, whilst other market knowledge (as in the case of customer preferences) can be developed and dissemination but not utilized for a certain period (Levin, 2011). Van Lohuizen and Kochen (1986) emphasized that knowledge development is a progressive process in which data are transformed into information, which is then transformed into knowledge. Since access to knowledge can be relatively easily gained in a variety of ways, organizational performance depends more on the ability to turn knowledge into effective action than to gain knowledge itself (Kanz & Prasarnphanich, 2003).[7]

Madhavaran and Hunt (2008) broadly summarized resources into seven basic areas, referred to as physical, human, financial, organizational, legal, relational, and informational resources, with market knowledge falling into the last category. Problems arise when managers do not see the connection between market knowledge management processes and financial outcomes. By applying market knowledge, firms can improve or maintain their marketing efficiency which, in turn, leads to superior financial performance relative to competitors.

Japanese theorist Nonaka (1998) developed the so-termed SECI (Socialization, Externalization, Combination, and Internalization) Model for converting information into market knowledge through four steps of action and reflection. In particular, the socialization phase consists in sharing experience (or tacit knowledge) with individuals in order to understand their way of being; the externalization phase consists in making sure that such tacit knowledge becomes explicit to interlocutors by using metaphors and analogies that are familiar to them; such explicit knowledge is then accumulated, edited, and systemized through the combination stage so that it can be internalized.

In practice, organizations can engage in SECI-styled conversion processes with both partner, customers, and suppliers in order to go beyond their restricted market knowledge and actually capitalize on the newly gained one.

[7] Examples of explicit market knowledge include marketing research reports, while implicit market knowledge more broadly refers to calls, stories heard at trade shows and fairs, feedback from product trials, and conversations. In the end, all knowledge is valuable and plays a major role when running a company.

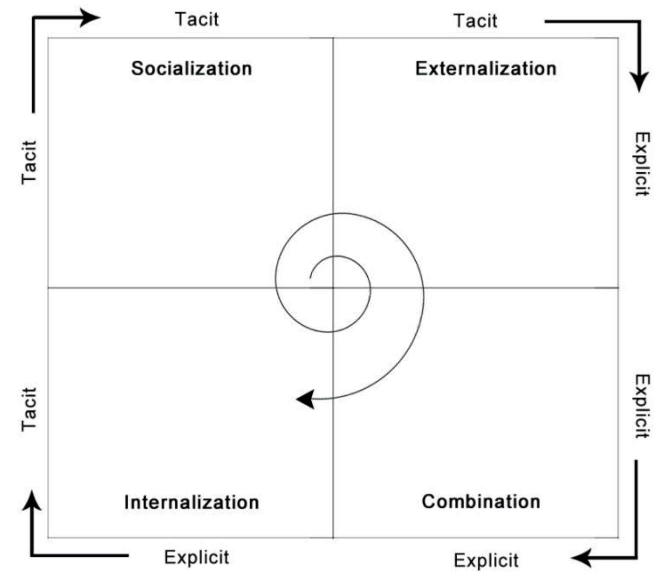

Figure 1: The SECI Model of knowledge dimensions

The internationalization path necessarily requires enterprises to become familiar with foreign markets through direct experience on a long time basis. Vescovi and Pontiggia (2015) assert that knowledge of the foreign market can be classified as *institutional* (culture, society, rules, laws and institutions), *business* (consumers, competitors, and markets), and *internationalization* (know-how, flexibility and adaptability to available resources) knowledge. Institutional and business knowledge allow firms to be vigilant to take opportunities, while internationalization knowledge is the most suitable when penetrating the market. At basic levels of performance, leaders understand obvious industry trends, products and customers. Middle-level performers see emerging trends. At high levels, leaders see how trends could create new customers, affect dealings with competitors, and cause potentially profitable changes. Success ultimately follows when an enterprise gets to now a market in all of the three ways.

Same argument stands when speaking about emerging markets. Nevertheless, as they are characterized by a high level of uncertainty and institutional voids (lack of marker information, efficient intermediary institutions, predictable governments actions, and an efficient bureaucracy, little or no market data, poorly developed distribution systems, and widespread product counterfeiting), distributing products represents a challenge in these markets.

As emerging markets are first and foremost markets with a high psychic distance, companies need to accumulate knowledge even before being fully involved.

2.3.2 Knowledge of distributors

Once the internationalization direction has been considered, one of the hugest decisions to be faced by firms is represented by the choice between distributing through the firms' own channels or relying on independent foreign distributors. The former approach clearly has the credit of allowing firms to control marketing activities and the overall decisions about the product, whereas the latter represents a low-cost market entry alternative.

According to the Uppsala Model, firms tend to begin internationalization by exporting, primarily establishing necessary and far-reaching agreements with agents and distributors. This way, they can easily and inexpensively gather the necessary information to penetrate the market and accumulate knowledge; only later some of them eventually decide to build their own sales organization in foreign markets (cf. 1.1.2).

Thus, the choice of distributors is one of the most important choices a manufacturer must face during the exporting phase. Studies on hidden costs conducted by Perri et al. (2013) confirm the importance of agents and distributors' mediation as, generally, firms only have two ways of approaching unexpected expenses successfully when going global: 1) they work hard to acquire sufficient experience on international markets through market analysis and interpretation, and 2) they relate to different types of local partners in order to quicken the process of local market knowledge collection.

Even more so, when firms face emerging markets, they have to deal with new and unexpected problems in order to distribute their products. Reason is that both foreign consumers and intermediaries are usually not able to judge and evaluate the products that are entering the market because of high physic distance and low market expertise. Hence, in the case of SMEs, relatively high psychic distance between exporting enterprises and emerging countries make the former rely heavily on local operators and distributors for business operations in the new market (Checchinato et al., 2014). Nevertheless, finding suitable intermediaries is much easier to be said than done.

As clarified in chapter 1, agents and distributors are those who collaborate directly with enterprises in a specific market. For SMEs, this type of intermediary is often part of a clear exporting strategy as it can facilitate the access to particularly complex developing countries, contributing to the brand value creation as well as to the product expansion.

According to Cavusgil, Yeoh and Mitri (1995), firms' criteria for distributors selection should consider their financial capabilities, commitment to the new business, and product-related knowledge in order to make the business grow, along with their marketing skills in order to reach all available customers.

Yet, the more functions are delegated, the higher the loss of control over brands and products. In addition, this kind of source could result problematic when dealing with emerging markets, as the transfer of knowledge between parties is hard due to the large cultural and social distance and high uncertainty. Large distance, in turn, is likely to increase the cost of knowledge transfer since the effort of encoding and decoding information is higher. Another problem may arise if distributors lack sufficient knowledge to promote products in the best way possible in the new market. To provide a few examples of misconduct, they sometimes are not concerned about local consumers' perception of new products, they are more short-term performance oriented as they already have a long waiting list of Western brands that want to enter the Chinese market, and their marketing skills are not sophisticated enough for handling more complex products and market niches (Pontiggia & Vescovi, 2015).

In other words, distributors in emerging markets do not really analyze and know compatriots' expectations and behaviors, representing a real barrier in the knowledge accumulation about foreign products' launching in the new market. Conducted researches about distributors revealed a short-term urge to have immediate economic results, while SMEs often opt for a long-term strategy as, this way, the required financial resources are lower.

Pontiggia and Vescovi (2015) refer to this kind of emerging markets' distributors' behavior as *shelf strategy behavior*: a sales oriented attitude without sufficient attention to marketing according to which the product is expected to show a completely autonomous sellout capacity; an opportunistic strategy of low investment, as marketing management would require a way deeper market knowledge, analysis and comprehension of the consumer behavior, of the competitors' strategies. And of the development of brand's value activities in a strategic partnership with the producer. In this cases, *the competence of the incompetent paradox* occurs: the importer asks the entering enterprise for help in terms of marketing polices to adopt on the market, relying on the foreign company's knowledge about the product, its experience on other markets, and hoping in a mere replication process of previous experiences that can eventually solve problems. This is evidently a paradox, as the local market has its own specific historical and cultural peculiarities that are unfamiliar to the entering enterprises.

As long as a short-term orientation dominates commercial relations (especially because of the fast development in which demand grows rapidly and requires a fast response), a big divide between the producer's and importer's orientations, expectations, and strategies will subsist: while the producer's company will be focused on constantly improving its offer on a medium-long time horizon, the importer will be focused on finding the *right* product among the huge amount of offer they can access, following a short-time horizon. He/she is not interested in knowing *why* the product is bought, but only *how many* products can be easily sold.

In this condition, market success can only be based on luck, thanks to some unexpected similarities with the domestic market or because the offer satisfies an unexpected desire of the consumers (Checchinato et al., 2014).

By their side, consumers are really willing to buy foreign products regardless of whether they are more expensive than the local ones, but they need to find a value justification for the purchase. Alternative solutions SMEs are implementing are the following: 1) they keep the importer with the key role of distribution relationship maker, contacting and supplying the distributors and retailers through the country, managing shelves and product availability in the stores; 2) they create a small parallel direct marketing structure counting one or two managers in charge of understanding the market, the consumer behavior, the use of the product, and the potential opportunities for the company. This new structure also contributes to the company-importer collaboration strategy, suggesting market solutions, product improvement or adaptation, communication strategies, and new actions.

Thus, implement becomes not a step by step internationalization process, following the theory based on traditional international markets, but a double entry mode based on simultaneous direct and indirect presence, assigning different roles to the two approaches. The new effort and challenge firms have to cope with is now the integration of the two structures (Pontiggia & Vescovi, 2015).

An ineffective foreign distributor can set a relatively inexpert company back in years, thus it is almost better to have no distributor at all than a bad one in a critical market (Cavusgil et al., 1995). To alleviate the risks, Cavusgil et al. (1995) suggest three possible solutions: 1) to visit the potential distributors' facilities before selecting one of them, 2) to ask for an eventual local marketing plan to understand their managerial competence, and 3) to arrange for a prior, trial agreement as termination after signing a contract could be rather costly.

2.3.3 Knowledge of consumers

When it comes to consumers, recent Pontiggia and Vescovi (2015) studies on mutual knowledge between SMEs and developing market are of huge importance when assessing the potential of an export operation. In particular, they claim that in this case knowledge must undertake a bidirectional path, as mutuality of knowledge between companies and target consumers is paramount when addressing companies' exporting operations towards new, far, unfamiliar, but also unacquainted markets. In effect, emerging countries often reveal themselves to be *unacquainted*, as consumers and customers' knowledge has not reached a sufficient level to understand and evaluate correctly the quality differences in the offerings proposed by competitors (as their behaviors and choices are not affected by previous experiences). On the contrary, *acquainted markets* are those generally developed, differentiated and segmented markets whose clients and consumers prove to be able to distinguish and evaluate the quality of a certain product or service.

The internationalization process (with all its difficulties about which we have discussed so much along these chapters) is invisible to potential consumers, that only see the product, the prize, the packaging and the promotion; in other words, the outcome of marketing strategies. Yet, knowledge must be mutual with markets educated enough to welcome foreign enterprises, too.

As SMEs' offer cannot satisfy mass markets with their product, they are usually oriented towards acquainted markets, creating niches when possible. In other words, SMEs that cannot rely on a well established brand usually rely on educated consumers and marketing policies, but they prefer acting as second movers in unacquainted B2C markets following the entry of larger enterprise, as unacquainted B2C markets require high investments of resources and most of the SMEs' goods or services are still too sophisticated to be launched in developing markets.

This kind of market entry strategy is referred to as *second mover strategy*, which mainly consists in accurately monitoring the cultural growth of the market and waiting for clients to be able to perceive and value all the differences.

If the first mover *builds* the market, the second mover *educates* the market through storytelling and cultural mediation, which creates brand preferences and potential modification of the product in terms of price, size, packaging, distribution, communication, and positioning. Huge five challenges that second movers must face are: 1) getting to know the foreign market before penetrating it, 2) choosing the right moment to enter that market, as too early may lead to incomprehension, too late may lead to higher competition, 3) competitiveness (even more than third movers, as their product is highly specialized, while second movers' products are more easily replaceable), 4) identifying the right strategy to provide for their lack of time, resources and experience, and 5) opening the market to third movers, functionally acting as supporters of smaller enterprises.

The third mover, on his side, *fine-tunes* the market: as markets grow, clients become more and more competent and demanding, with needs and requests that are more and more specific and personalized. The third mover performs a fine tune action of the market getting to understand unsatisfied specificities.

The shift is from mass markets for large enterprises, to acquainted markets for SMEs, to sophisticated markets for even smaller enterprises. A sophisticated market is a developed market within which clients and suppliers collaborate in defining products' characteristics.

Hence, reducing distance successfully can only be accomplished by a cross-cultural approach that encompasses both traditional values and values from the destination country, with importers and target customers also requiring a cross-cultural education, while the company decides whether to replicate or to dynamically adjust its product in a way that it meets the expectations and required quality of the target market.

In particular, product replication refers to the ordinary strategy of proposing an already existing product to a new market, whilst adaptation consists in modifying such product with the purpose of making it suitable to markets that are different from the exporting one. The main objective of adaptation clearly is to overcome cultural distance and competition, to facilitate requirements of law, and to contribute to market development (Linton, 2018).

To conclude, knowledge subsistence is particularly relevant for SMEs, which in many cases lack formal knowledge strategies. Purpose of next chapters is to give a contribution to Italian SMEs exporting pasta towards the Chinese non-acquainted market, facing the major cultural, administrative, geographical and economical distance-related problems along with all their concrete implications and possible (cross-cultural marketing) solutions.

3. Pasta, from Italy to China

3.1 The F&B industry

Food is one of the basic, most essential necessities of life and its eternal predominance in people's existence is as clear as it is incontrovertible. Potentially the most basic need among the basic needs (traditionally food, shelter, and clothing), it has also been declared as a human right in 1966 by the International Covenant on Economic, Social and Cultural Rights, as our body necessarily needs calories and nutrients (including protein, fat, and carbohydrates) everyday to grow, function, and repair not to incur in atrophy.[8]

Yet, from the moment when the Western post-World War II countries have reached a relative state of welfare, the perception of food in developed countries has slowly widened and food has been more and more associated to pleasure, social experience, and alternative ways of *tasting* new cultures, rather than to its mere essential contribution in terms of feeding (Kearney, 2010). Nowadays, the food and beverage (F&B) sector is probably the outcome of this trend, and is one of the most vibrant and kaleidoscopic industry in Western society.

The F&B sector includes all companies that are in charge of the processing of raw food materials, packaging, and distribution of the ultimate alimentary product. Except for pharmaceuticals, it generally includes any product that is meant for human consumption (both in terms of fresh and packaged food, and of alcoholic and non-alcoholic beverages). Jango-Cohen (2006) reports that food manufacturing historically arose during the Industrial Revolution in the 19th century, which led to the development of new technologies related to food milling, preservation, packaging, labeling, and transportation, this way allowing ordinary people (who could not employ domestic servants) to enjoy the availability of prepared and time-saving food for the first time. Successively, 20th century sophisticated computer-based control systems, as well as processing, packaging, logistics and distribution methods led to an overall improvement of food products' quality, safety, and costs; moreover, for the first time food was

[8] In *A Theory of Human Motivation* (1943), Abraham Maslow inserts food within the category of the physiological needs, which represent the bottom of his human-centered hierarchy of needs together with water, shelter, sleepiness, homeostasis, and sexual desire. Upper and less urgent categories of the pyramid are referred to as safety, love, esteem, and self-actualization needs.

available to people in all its variety regardless of the ongoing season and the locality in which they lived.

Since then, globalization and the dramatic increase of trade liberalization have greatly affected the world food trade: between 1961 and 1999, a 400% increase in worldwide food exports has been reported (Jango-Cohen, 2006).

Nowadays, the resulting industry is developed on a value chain whose stages progressively involve input companies (manufacturers of seed, fertilizer, machinery, animal health, and nutrition insurance companies), farmers (grower and producers of grains, fruit and vegetables, meat, dairy, oils, and fats), traders (handlers of agricultural produce, logistical services), food and beverage companies (primary and secondary processors: bakeries, meat, dairy, snacks, ready meals, and beverages), retailers (wholesalers, supermarkets, independents, discounters), and consumers (retail consumers, corporate consumers), which together make up one of the world's most dynamic sectors (Natural Capital Coalition, 2016).

Two aspects are worth highlighting: 1) the F&B industry can be divided in the major segments of production and distribution, with production including the processing and creation of food or drinks, and distribution involving the transportation of the finished product straight into the hands of consumers, and 2) the entire supply side is highly vulnerable as F&B companies directly depend on natural capital for raw materials, energy, land, water, and a stable climate as a base for their business. This dependency can be direct in the case of agricultural producers, or indirect for all companies whose value chain depends on agricultural products (KPMG, 2013).

At the same time, the demand side shows just as much vulnerability both in terms of wants and needs (that are ever-changing) and in terms of response (that should never be taken for granted), obliging producing companies to develop a complicate chain of marketing activities that must always keep up with the times. An example is provided by Yates, Jodlowski and Court (2017), who stress the importance of the recent food security and healthiness trend: people now want to know where the food comes from (with *quality* and *health* becoming increasingly synonymous), so the F&B operators must maintain the quality of their offer and make it clear on more informative nutritional labeling, while simultaneously increasing consumer engagement through personalized offers and constantly worrying about how healthy their brand is perceived by the outside world.

Other food preferences that are currently booming worldwide are the gourmet (or *haute cuisine*) trend, hyper-local foods and the vegan diet, all related to the *eat healthy* trend in a certain way. Moreover, as consumers travel more and more frequently in respect to the last century and their chance to taste and appreciate completely new flavors and foods grows exponentially, a new wave of global cuisines is emerging internationally (Yates, Jodlowski & Court, 2017). This sense of exploration is ultimately outlining both an approach of diversification of the food offering within nations and an outwards approach of addressing the business of national food products internationally through export and other entry modes by F&B firms. The F&B sector has been growing rapidly even across the Pacific Ocean region, where Italian food excellences (Parma ham and Parmiggiano Reggiano among others) are becoming very popular and particularly appreciated especially by Millennials (Italian Food, 2018).

Differences among national food cultures contribute to the distinctiveness of national markets that, in turn, provide huge opportunities for agri-business firms to exploit (Goudarz Azar, 2014).

European food industry, along with many other industrial sector, has increasingly internationalized over the last ten years and this has been mainly done by exporting food products to international markets. Paragraph 3.1.1 provides a general overview of the recent export dynamics characterizing the Italian F&B industry, before shifting the focus on its new growth patterns in the Chinese market.

3.1.1 Italian food export

In the name of the Law 135 approved on 25 September 2009, the *Made in Italy* trademark officially identifies any product that has been wholly planned, manufactured, and packed in Italy. From a commercial point of view, the most important implication of such law has been that the Made in Italy merchandise mark *per se* is now perceived as a separate and independent product category of its own by the international consumer, giving Italian exports a new promotional basis to rely upon especially when it comes to the design, fashion, food, manufacturing, craftsmanship, and engineering industries.

Traditionally, the four major Made in Italy manufacturing sectors are recognized to be the clothing, food, furniture, and automation areas. As Italian economist Marco Fortis (2005) claims, these sectors represent the competitive excellences that Italy has always relied upon whenever an economic crisis has arisen. As for the Italian F&B sector in particular, pasta, wine, oil, coffee, and pizza are the most commonly recognized Italian products overseas with optimum developing rate in emerging markets and stability in the developed ones. Tradition, but also quality is what characterizes the Italian F&B, which is the reason why Italy has been on top position among EU countries for PDO (Protected Destination of Origin) and PGI (Protected Geographical Indication) products during the last decade. Even more stimulating is that, in the medium and long term, the evolution of the global food demand is expected to perfectly fit the characteristics of the agro-alimentary products Made in Italy is currently producing: in other words, the recent trend of looking at food as an occasion to vary one's own daily food consumption, to satisfy more sophisticated needs such as quality and typicalness despite a potentially higher price, and to taste new food cultures at the same time is slowly broadening its range towards the middle classes of major developing countries, rather than just their élite (Borriello, 2018).

This promising demand explains the great export performance Italy is reporting in the latest years: according to Ismea (2018), in 2017 Italy reached the record of gaining 41 billion euro from export holding a 8% share on EU agro-alimentary export for the first time (almost 525 billion euro). In the last five years, Italian food exports have registered a 23% growth, more than the ones registered by the European Union (+16%). Our country actually is the first pasta and tomato sauce preserve exporter with a 65% share of the total EU exports; it also occupies the second position for wine after France and olive oil after Spain (respectively 27% and 23% out of the total EU exports), and the fourth position for cheese and dairy products with a 13% share right after Holland, Germany, and France.

Moreover, export growth prospects are particularly good when it comes to emerging economies: since 2008 (and in spite of the economic decline observed in the world because of the Great Recession) until 2014, export of Italian agro-alimentary products towards China have increased of 298%, registering a record level of 367 million euro only in 2014 (Coldiretti, 2015).

Such a success makes this sector the pride of Italian economy and the essence of Made in Italy that is appreciated and requested everywhere in the world. The international consumer seems to be in search of quality, certification, and tradition and feels that Italian agricultural and alimentary products perfectly fit these standards.

3.1.2 The demand for imported food in China

China is the largest F&B market in the Asian Pacific region (Yates, Jodlowski & Court, 2017) and just like the Italian one, the Chinese culture is oftentimes considered a food-centered culture: China has a strong culinary tradition which the Chinese people are very proud of and which is also appreciated all over the world. Thus, although foreign cuisines in China may be of great interest and represent a social goal in most cases, it is unlikely that Chinese people will ever eradicate their food traditions. In addition, some elsewhere well-established food is even quite unfamiliar to the average Chinese consumer: two emblematic examples are dairy products and coffee. This does not mean that these foods are not available in China (or that Chinese inhabitants do not like this kind of food at all), but that there is a need to teach them how to deal with certain foods (as in the case of coffee, cfr. 3.2.4) or that they are predisposed to be lactose intolerance, making the Chinese cuisine almost lacking any resemblance of cheese (Ceresa, 2004 in Grottarelli & Milano, 2004).

Historically, Chinese foreign trade activities started gradually (and relatively late in respect to the Western area of the world) from 1949 onwards, when China's trade institutions developed into a partially modern (but still inefficient) system. The drive to modernize the economy really began only in 1978 with the improvement of the efficiency in economic transactions thanks to Deng Xiaoping's decision to readjust the Chinese economy and adopt an open door policy, which lead to a sudden acceleration of foreign contacts and trade.

From a F&B point of view, the radical social and economic changes encouraged by Deng Xiaoping's policies resulted in a significant transformation in urban households' food purchases, resulting in a greater variety of food products consumed. Moreover, people become more mobile, traveling throughout the regions of China and to other countries, tasting more foreign foods. Such an economic modernization (and increasing purchasing power) has also led to the introduction of Western fast-food retailers, supermarkets (Carrefour, Metro, Wal-Mart) and restaurants of all kinds starting from 1990 (Grunert et al., 2010).

Nowadays, an important aspect for aspiring exporting firms to exploit is provided by del Giudice, Cicia, Grunert and Krystallis (2016), who highlight that most Chinese consumers actually mistrust Chinese food companies and are perennially concerned about food safety due to the fact that most Chinese enterprises have proven to ignore food hygiene and food safety requirements over time.[9] Moreover, although the Chinese market has a gastronomic tradition which is profoundly different from its Western counterpart, the emerging social class is actually expressing a growing demand for foreign food, which can also satisfy a certain desire of modernization and adoption of a Western life-style. Therefore, the food Chinese market is now consistently evolving, giving the possibility to Italian products to exploit such emerging inclination, as they perfectly respond to high standards of quality and food safety.

In practice, the 2018 ICE sector valuation reveals that the demand and import of alimentary products in China has been increasingly growing in the last three years: in 2017, Italy reached the sixth place among countries supplying China with agro-alimentary products with a market share of 6.06% and 230 million USD. In the same year, Italy was the first country exporting chocolate and prosciutto to China, the second exporter of olive oil, water and vinegar, the third exporter of pasta[10] and the forth of coffee.

3.2 An attempt of *CAGE frameworking* at the food industry level: Italian food export towards to China

Nowadays, China is one of the most dynamic and appealing markets in the world thanks to its recent economic development, which, in turn, is inevitably having some effects even on some of the most traditional aspects of the Chinese society, which now also includes major elements from other cultures. When it comes to the Chinese cuisine, the middle-class, along with its better economic conditions and more open-minded culture, seems to be directly responsible of the increasing the amount of Western elements next to the traditional ones (del Giudice et al., 2016). Italian cuisine is particularly appreciated by Chinese consumers who pay extra attention in the consumption of highly healthy alimentary products, as in the case of the Italian diet, involving certain products (such as olive oil) that are particularly renowned. Moreover, the Italian cuisine is not only appreciated for its healthy properties, but also because it is more and more

[9] A dramatic example is the 2008 melamine scandal involving dairy products, which caused the hospitalization of thousands of Chinese babies and the death of six of them after ingesting tainted baby formula.

[10] Only preceded by South Korea and Taiwan, whose soft wheat pasta production and consumption have been directly influenced by the Chinese culinary history (cfr. 3.3), resulting in a pasta type that is much more appealing and easily purchased by the Chinese average consumer when compared to the Italian type.

conceived as a lifestyle, as to say the symbol of an above-average social status, potentially assuring an increasing export turnover.

These growth prospective makes both Italian enterprises and Chinese distributors to invest in the sector. However, the decision about exporting to foreign markets is a complex process even more so in the cases when there is no particular similarity between the countries participating in the exchange of goods. The online CAGE Comparator by Ghemawat outlines the lack of a common official language, colonial linkages, trade agreements, regional blocks, and common borders with a physical distance of 8467 kilometers existing between Italy and China, with the People's Republic placed at the 139th position in a list of 145 countries in terms of overall distance. A challenge that is proportioned to the magnitude of the Chinese national territory and that must be faced on the administrative, geographic, economic and cultural front as well.

3.2.1 Administrative distance

The proliferation and increased stringency of food safety and agricultural health standards in developing countries may generally be a source of concern among companies exporting agro-food products, either because they lack the technical and administrative capacities needed for compliance or because these standards can be applied in a discriminatory or protectionist way by target governments. In addition, food safety and agricultural health standards, referred to as *sanitary and phytosanitary (SPS) measures* by the WTO, can highly differ between countries. For example, differences in climate, in the available technology (such as refrigeration or irradiation), and in the industrial and financial resources may consistently affect the incidence of food safety and agricultural standard required by the legal institutions of singular countries (Buzby, 2003). Thus, in the context of international agro-food trade, developing countries can incur in significant *costs of compliance* whenever changes are made in international standards or in those of their trading partners.

When it comes to developing countries, Roberts et al. (1999, in Jaffee & Henson, 2004) provide a useful classification scheme for technical trade barriers associated with agricultural and food products, dividing potential policy instruments into three categories, namely: 1) full or partial import bans on imports or inter-country commerce, 2) technical specifications concerning the product or process standards, and 3) information remedies, including packaging and labeling requirements on imported and domestically supplied foods.

Bans are the most trade-restricting measures. Total bans are typically used when there are great risks associated with certain plant and animal health problems and where no cost-effective eradication/mitigation measures are available. Partial bans may permit trade only in certain seasons or to/from certain countries or regions.

Both technical specifications and informational remedies' effects on trade will derive from the relative abilities of different suppliers to comply with these measures, the varied incidence of compliance costs and how each affects the relative competitiveness of different suppliers (apply both to imports and domestic supplies). Exporting pasta to China is currently subjected to the second and third type of restrictions.

As in much of the rest of the world's developing countries, the agro-alimentary sector in China is particularly subjected to sanitary highly restrictive norms, with the Government expected to act as a guarantee through periodic examinations and inspections during the overall production chain of products. After the 2008 melamine milk powder scandal (cfr. 3.1.2), on 28 February 2009 the Chinese National People's Congress, primarily responsible for implementing food safety laws, felt pressure to enact the Food Safety Law of the People's Republic of China, re-written in 2015 and now regarded by public opinion as one of the harshest food safety laws in history.

Chapter VI of the amended 2015 text is completely devoted to the import and export of food. In particular, the exporter (or his/her agent) is first required to apply to the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China (AQSIQ) website (http://ire.eciq.cn.) in order to complete the Application Form of Food Exporter/Agent and receive a record number and a query number so that goods can be exported. It is important to confirm beforehand that the exported products are allowed to be imported in China, that the original manufacturer complies administratively and that the product itself is compliant to all labeling and substantial requirements.

To prove such compliance, article 91 claims that the Entry-Exit Inspection and Quarantine Department of the state should inspect the safety of imported and exported food, which, in turn, must meet the national food safety standards of China and pass the aforementioned inspection conducted with an official certification (article 92).[11] According to article 96, an overseas food production enterprise that wants to export to China shall be registered with the entry-exit inspection and quarantine department of the state, which, in turn, must regularly announce the lists of the recorded foreign exporters, agents, and importers.[12] Article 97 requires the imported pre-packed foods to have labels and instructions in Chinese clearly shown on the packaging. Such labels must indicate the place of origin of the food, as well as the name, address, and contact of the domestic agent. Ultimately, importers have the responsibility of recording the names, specifications, quantities, dates of production, batch numbers of production or import, and shelf lives of the imported foods, as well as the names, addresses, and contact of the overseas exporters, and the dates of delivery (article 98).

In practice, the penetration in the Chinese market by Made in Italy products is obstructed by the harshness of such administrative controls; moreover, high transaction costs generated by the geographical distance between Italy and China and the volume of the Chinese market alone has given chance to homeland Chinese firms to imitate Italian food products and satisfy the demand of Italian product that Italian firms are not always able to satisfy.

This strategy is referred to as *Italian sounding phenomenon* in the existing literature, which highlights how it can inevitably affect the Italian F&B sector perception by foreign consumers and the whole Italian economy in a negative way. The Italian sounding phenomenon is in fact exercised by adopting Italian resembling names, colors, and images to imitate real Italian products that actually have nothing to do with the original Made in Italy quality, culture and tradition; intentions consist in giving the impression that a product is Italian when it is not, this way misleading consumers and gaining a competitive advantage in respect to the whole local competition (Pontiggia & Vescovi, 2015; Francioni & Albanesi, 2017). This practice more consistently concerns product categories where a country excels in expertise and tradition, as the Italian agro-food products. Selected examples provided by Conte (2017) involving Parmesan Parmigiano

[11] Once at the customs, the China Inspection and Quarantine Bureau (CIQ) is in charge of taking from three to six merchandise samples which will be subjected to meticulous examination. Such examination passed, CIQ releases a sanitary certificate and a declaration for the entrance of the merchandise on national territory.

[12] The complete list of authorized food importers, categorized on the basis of the specific type of food imported, can be openly consulted on the MOFCOM website (http://win.mofcom.gov.cn/en).

Reggiano are Brazilian Parmesao, Argentinian Regianito, American Parmesan, Chinese Parmeson, and so on. Conte claims that sometimes foreign denominations' Italian sonority is so efficient that part of these products can be even found in Italian stores.

According to Canali (2012), three main imitation categories particularly subject the Italian F&B industry to penalization: 1) non-registered Italian recipes' names, 2) markings representing the Italian tricolor, pictures of locations and famous Italian monuments, and 3) the use of Italian names for addressing both the product and the brand. From an economic perspective, the negative effects of this phenomenon do not affect only the individual product, but the supply system as a whole: Italian firms are unable to reach a position of competitiveness, because their positioning is undermined by the imitation activity, and as long as their investments do not generate income, they are unable to expand their market share. Besides, the predominance of imitations causes the inevitable deterioration of the image of quality that *Made in Italy* has so far gained, thus hampering the strategies of demand segmentation.

Despite its relevance, the phenomenon of Italian sounding has so far been underestimated and neither consumers nor producers seem to have perceived its importance: the majority of Chinese consumers is accustomed to buying Italian products without even questioning their real origin but also suppliers must be aware that by taking advantage of such information asymmetries, producers of imitations are able to reach favorable competitive positions and direct a good share of demand towards their surrogates; but even more concerning is that this conduct is not imputable as these products are not illegal as long as true information is reported on the labeling and governments do not intervene by legally regulating this aptitude (Conte, 2017).

3.2.2 Geographic distance

First and foremost, people's diets, tastes, and preferences can vary from one country to another according to climate differences, proximity or distance from the ocean or sea, and subsisting biodiversity in terms of flora and fauna. Opting for a very simple and intuitive example, it can be easily stated that people living in nations bordering the sea tend to eat greater amounts of fish food than people who live in continental regions.[13]

[13] As for pasta (cfr. 3.3), differences in tastes between the Chinese and Italian consumption have been inevitably dictated by differences in the local availability of grain (durum wheat in Italy, soft wheat in China), making two distinctive traditions of pasta arise and develop over the centuries until now.

Nowadays, globalization has the merit of making geographic factors less important today than they were sixty years ago, as the general improvement of tourism and infrastructures on a global scale has given the possibility to become more familiar and get more types of relatively exotic foods to a wider amount of people.
Yet, geographic distance effects on food export are still critical somehow and virtually impossible to eliminate in the future: even though improved methods of shipping unquestionably allow people from all over the world to enjoy foods produced far from their homes (this way making the global food trade industry keep growing year after year), Ghemawat (2001) has observed that despite lower transportation costs, trade flows continue to inversely correlate with geographical distance. As long as food is concerned, this inversion is even more emphasized, as a certain degree of perishability is always and inevitably involved. Food products that experience higher levels of deterioration and vulnerability with the passing of time (mainly dairy products, eggs, meat, fruit and vegetables), may need a by flight method of transport, which is faster in terms of time but economically more expensive. Fortunately, dried food are much easier to handle for both large and medium exporting companies whose main concerns may be restricted to humidity and sunlight exposition, floor contact, pest control, and ventilation in order to maximize conservation. Thus, Conte (2017) notices that in such cases, the most suitable and actually adopted method of transportation from Italy to China is by sea, which allows companies to transport large quantities at lower costs but with longer delivery times (approximately a month).
In addition to between-countries geographical distance, within-national-borders transportation may be equally difficult to manage. First of all, reaching big cities is logistically much easier than targeting underdeveloped and rural areas, above all in the case of developing countries having extremely huge dimensions like China. Nowadays, the Chinese transportation system is internally spread along its territory in an unbalanced way, as it tends to concentrate around the more economically developed areas. This way, the most favorite export destinations are represented by big inland cities like Beijing and Shanghai, along with the ones along the coastal areas and internal rivers, so that foreign companies do not have to opt for added transportation means other than boat once arrived in China.
At the same time, misconception of the Chinese market as a homogeneous entity may lead to difficulties in assessing the real market demand and consequently enact effective

marketing strategies. For instance, big cities' consumers exposure to tourists' or to other foreign subjects' influence makes internally developed areas much more stimulating for foreign exporting companies to target in terms of marketing, as, in general, such consumers' awareness and propensity towards foreign products (along with their purchasing power) is extremely higher than the ones showed off by rural citizens. In other words, the internal geographic distance may lead to high degrees of internal cultural and economic distance as well. In other words, consumers coming from different regions may reveal differences in terms of attitude, lifestyles, media use, and consumption patterns (Cui & Lui, 2000) and this, in turn, actually affects trade in a consistent way, as it is showed in the next paragraph.

3.2.3 Economic distance

Economic factors also affect what people eat. In developed countries, many people have enough money to buy a variety of nutritious; in developing countries, malnutrition is more common and a poor harvest, flood, or drought is more likely to cause famine, because governments are economically unable to import food (National Geographic, 2018).

Moreover, diets can even vary within a single country and economic distance explains part of this variation, too. The diets in urban and rural populations of developing countries are often quite different. People in urban areas eat more processed foods, while people who live in rural areas may have access to fresh milk, fruits, and vegetables. In particular, Busato (2011) has identified three macro markets (defined by different levels of economic development and consumer awareness) along the Chinese territory, as to say *growing markets* (South and East China), *emerging markets* (North, Central, and South West China), and *unexplored markets* (North West and North East China), with great economic disparity between segments.

The first group is efficiently subdivided in two areas: 1) the Southern one (Guangdong, Haian and Fujian) represent the most rich, developed, and Westernized part of the Chinese population in terms of open-mindedness and purchasing choices; 2) the Eastern one (Shanghai, Zhejiang and Jiangsu) makes up the financial and economic hub of the People's Republic of China, appearing as equally developed and outside-oriented, with a particularly high propensity towards the consumption of luxury goods, including Made in Italy agro-alimentary foods.

Emerging markets include 1) Northern cities like Beijing and Tianjin, which can rely upon consumers whose tastes and preferences appear to be equally traditional and Westernizing, probably because of their closeness to the most important governmental centers, 2) Central cities like Chengdu, Xi'an, Wuhan, and Guiyang, which are currently receiving consistent governmental financing in order to override the general poverty, and 3) South-Western provinces like Yunnan, Guizhou, and Sichuan, which are geographically quite hard to reach and therefore still unexpressed from an economic perspective. In general, emerging markets reveal the subsistence of bad distribution and logistics infrastructures, but consumers are reported to be gradually undergoing the path of Westernization represented by a slowly increasing consumption of exported products.

Ultimately, unexplored markets coincide with the North-Western areas of China whose inhabitants live in extremely poor and underdeveloped cities suffering extremely cold weather conditions. Such inhabitants are inevitably characterized by a blind devotion towards the most traditional aspects of the Chinese life style in terms of purchasing choices, which often consist in cheap local products bought in small locally based shops and store. In light of these huge limitations in terms of economic and cultural aptitude, these markets actually go out of the exporting companies' range of interest as geography has even impeded the development of suitable distribution channels (Busato, 2011).

In fact, regional market segments of China inevitably affect logistics and distribution networks, too, as they remain nationally fragmented and companies trying to distribute nationwide must use multiple channels, vendors, and distributors in order to optimize the network. Thus, companies targeting China must also analyze their potential distribution partners paying extra attention to their material movement within China, as the Chinese rural market still represents almost 50% of the whole population (Business Insider, 2015).

In spite of these external and internal differences, in 2018 the Chinese nominal gross domestic product (GDP) per capita has reached a share of 9.633 US$ (in respect to a 34,349 US$ registered in Italy) according to the International Monetary Fund and a human development index with a rank of 0.880 in Italy and 0.752 in China in the same year; a gap whose implications can be overridden by exporting companies by targeting the aforementioned richest parts of China in respect to the most rural ones.

As for taxes, the commercial trade from and towards China implies subsistence of the so-called value added tax (VAT), consumption tax and customs duty. When it comes to the VAT, imported products from foreign enterprises is subjected to the imposition of an added value, with a 17% tax rate that is equal to the tax rate that is applied to alimentary products that are produced within China; it will be paid after the customs clearance.
The consumption tax (CT) is expected to be paid by producers and importers of goods that are considered luxury (luxury items) or not essential like jewelry, tobaccos, alcohol, etc. This tax was previously applied to Made in Italy agro-alimentary food, too, but it has been progressively deleted excepting for wine, for which a 10% tax rate is still expected.
Ultimately, customs duties have encountered a considerable reduction following the entry of China in the WTO, yet combined with the VAT actually affect products' final price in a considerable way.

3.2.4 Cultural distance

Food has always played a part in the representation of human cultures along centuries and is now one of the forces driving globalization.
As far as an export performance is concerned, food culture distance between home and host countries is relevant to explore in order to adapt the following marketing strategy in the finest way by companies wanting to go internationally. Within this context, Azar (2011) postulates a conceptual framework according to which «a food company's export performance is influenced by the extent to which its export marketing strategy has been adapted, which *per se* is influenced by the food culture distance between the firm's home and export markets.» p. 20.
Actually, people from all over the world seem to consume food not only to meet their nutrient needs, but also to communicate, to celebrate special events or to affirm religious faith. In other words, food is produced, prepared and consumed under the inspiration of human culture. Thus, *food culture* is defined as a culinary order whose traits are prevalent among a certain group of people and dissimilarities in food cultures is one of the most important aspects of cultural distance (Azar, 2011). As long as people's eating habits are strongly influenced by national culture, *food culture distance* falls within the concept of psychic distance discussed in Chapter 1.
Both obvious and subtle rules exist in every food-related life style, such as who is responsible for cooking and serving, for whom the cooker actually cooks, where to eat,

what to eat, and in what kind of occasions; in brief, the overall behavior that is related to food consumption is constrained by culture (Ma, 2015).

Ma (2015) claims that studies on the food-related behavior in China are still scarce, maybe mainly because the food consumption patterns in East Asia do not appear to be easily analyzed by models originating in Western cultures. Yet, a need exists to better understand Chinese consumers by European food marketers in order to successfully influence such consumers' values, attitudes and purchase behavior.

The most recognized differences between the Western world and China is that the former use a variety of utensils while eating depending on the type of food, while Chinese generally use chopsticks and spoons only. In China, it is considered extremely rude to point at people with your chopsticks, or to rest your chopsticks standing upright in your rice. Not only the most commonly consumed food is different, but also the meal itself is differently conceived: Chinese people do not divide the meal according to the Western style (starter, main course, and so on), but all portions are served on the table at the same time, without any pre-established logical order of presentation; moreover, all conviviants eat from the same plate (collectivism), without any separation per person as it happens in Europe and America (individualism). More specifically, Chinese people emphasize ostentation of the food when they invite guests for dinner by preparing at least eight dishes; the eating environment in Western countries is relatively quiet, while it is perceptibly noisier in China. As for the seating arrangements, for instance, within the context of a Chinese feast the seat that faces the South is usually saved for the most powerful person, whereas the that faces the North is considered of less importance (Xiong, 2017).

In general, the most appreciated quality aspects by the Chinese food consumer are the ones related to health, price-quality relationship, novelty, tastiness and freshness, while the purchasing act itself is dictated by self-fulfillment, security, and social relationships aspirations (Grunert et al., 2010).

People usually have lunch between 11:30 AM and 1:00 PM. In small towns and rural areas of China, they go home for lunch; in the large and medium cities, due to the far distance and limited time, some people have their lunch at the canteen, while some other eat in nearby restaurants or fast-food shops (Ma, 2015).

A survey conducted by Ma (2015) in four Chinese cities has revealed that in 69.8% households mothers are usually responsible for food purchase, 20.7% of young children often ask parents to buy certain foods while a 49.9% of parents would take children's requests, as food freshness, sanitation, nutrition, and preference of children are the main factors considered for food purchase. Chinese people spend an average of two or three hours on cooking every day. Yet, along with socioeconomic and income increases, the lifestyle of people continues to change especially in urban areas, where people are unwilling to spend too much time in food preparation and cooking; the popularity of new technologies and new cooking instruments such as a microwave oven, electromagnetic cooker furnace and so on has made people reduce the time spent on cooking, saving more time for recreation.

From an industrial point of view, the export marketing adaptation strategy is treated as a more compelling issue in traditional industries with a low-technology orientation like the food industry one, as products in lower-tech industries are more connected to consumer tastes, habits, and customs, which differ from market to market (Azar, 2011). In other words, the more home and host countries differ in terms of food-related life style, the more marketers are expected to adapt their export marketing strategies in order to satisfy customer tastes and preferences in target markets.

Pontiggia and Vescovi (2015) prove this assumption with an emblematic case involving Italian coffee. Coffee is a typical example of cultural product: the Italian home coffee system and Italian people devotion it is daily subjected to is well-recognized around the world. When it come to coffee, Italian attitude turns out to be almost religious: coffee must be prepared using the exact amount of water and coffee powder and removed from fire in the exact moment it reaches the edge of the coffee machine. Yet, Chinese consumers not only lack the cult of coffee, but also the complete coffee-related technology: they do not have coffee makers, burners in Chinese kitchens have a diameter that is much larger than the Western ones, Chinese spoons are too big to enter a coffee cup, and so on, making it an almost impossible to sell Italian coffee in China. This challenge has not been won until Italian coffee enterprises understood that solution only consisted in instant coffee or canned coffee, which does not belong to the Italian tradition at all but actually managed to assure the growth in the exported coffee volume sales towards China.

In any case, the economic growth and transition towards a market economy in China can help explain the significant changes in its food consumption behavior. With increased income and improved market accessibility, Chinese consumers (especially those in urban areas) are progressively shifting their food consumption from grains to meat and other high value food products since the early 1990s. The magnitude of the Chinese dietary changes and the resulting opportunities of getting easier access to a massive and fast growing consumer markets have attracted the attention of an international business and academic audience. Considering that the Chinese population is very large, the potential demand for the product is extremely high, although the current per capita consumption.

3.3 A brief history of pasta

Pasta is unanimously celebrated as the most traditional and iconic Italian dried food. Known everywhere in the world, this gastronomic delight does not even need to undergo a translation process when it comes to the most spoken foreign languages as its Italian form sounds pretty familiar to the average global consumer.

All over the world, durum wheat has always been the preferred raw material for producing pasta and its characteristics (as well as quality) are the ones that actually determine the final product's texture, color, flavor, and appearance, making its use mandatory in Italy with the Italian law no. 580 in 1967 (Sissons, 2008).

From an industrial perspective, the most complete definition of pasta is provided by Serventi and Sabban (2002), who refer to *pasta products* as «the end product of a series of technical operations (on a domestic, artisanal, or industrial scale) applied to a mixture of soft wheat flour or durum wheat semolina with water or other substances, more or less liquid, making it possible to obtain a kneaded dough that is subsequently cut into small regular shapes, which are then cooked in a moist environment. This series of technical operations includes mixing of ingredients, kneading the resulting dough, cutting it into pieces, shaping them, possibly drying them, and possibly storing them. The pasta shapes are then boiled, poached, or steamed.» p. XVII.

Rather, in the collective imagination, the word *pasta* more simply refers to the traditional Italian noodles, which are different from all other types of noodles around the world. What most of the people seem not to know is that although pasta is celebrated as an Italian mouthwatering dish, its history is as long as it seems to be multicultural.

On the basis of the scarce historical and literary records that have reached us, someone has ascribed the paternity of pasta to Etruscans (X-I century BC), since the depiction of what has been interpreted as pasta-making tools has been found in Etruscan tombs, while the Roman poet Horace (I century BC) was the first to write about pasta with his mention of *laganum*, a possible ancestor of today's lasagna: the poet, tired of wandering through the Forum evening after evening, announces he is going back home where *porri et ciceris laganique catinum* (a bowl of leeks, chickpeas, and *lagane*) awaits him. Given Horace's ostentatiously simple tastes – this is also a first testimony of pasta as a common food (Zanini De Vita, 2009).

Scholars even dispelled the widespread myth that Marco Polo brought pasta to Venice from China in 1295, observing that Sicilians were eating homemade pasta long before he was born. This false assumption had been promoted through a 1938 article by a certain L. B. Maxwell appearing in the trade magazine *Macaroni Journal* (now *Pasta Journal*), published by an association of food industries with the goal of promoting pasta in the United States of America. It seems that this enduring myth rose from a misinterpretation of a famous passage in Polo's *Travels* in which the author mentions a tree from which something resembling pasta was obtained. Scholars now assume it could have been the sago palm, which produces a food with high content of starch that resembles (but is not) pasta. Nevertheless, this food almost certainly reminded the Venetian traveler of the pasta of his home country and uses the word pasta to describe it, clearly by already being familiar with both term and concept (National Geographic, 2018; Zanini De Vita, 2009).

Hence, in current times pasta products' origin is still left to speculation. What is sure is that pasta has a millennial history.[14]

According to Serventi and Sabban (2002), two are the main reasons why history of pasta is so hard to reconstruct: 1) the origin of the word simply refers to dough, whose components (flour plus water or eggs) have been around for more than two millenniums, which makes it hard both to establish a credible birth period and to differentiate pasta

[14] Wheat is one of the earliest cereals to have been domesticated, harvested, and consumed and the first malleable material from which humans have been proved to be able to make artificial foodstuffs, entirely distinct from the products of the natural environment. Thus, it is easy to hypothesize that pasta origin is can be traced back to the Neolithic era (8000 BC) in Italy (National Geographic, 2016).

from other ancient dishes that were made from the same ingredients; 2) pasta has long been a food for common people, which means that it initially did not receive the attention it would have received if someone had imagined it would have become one of the world's most accessible, popular, and universal foods.

Actually, many European and Asian countries also have a long and rich culinary tradition of pasta: there is historical evidence from Germany to Iran, from Greece to Russia, from Turkey to Poland, not to mention the countries of Central and Eastern Asia, the Western Mediterranean and the Middle. In other words, many diverse ethnicities have unconsciously cooperated to obtain the final product, which means that the origin of pasta is not *unicultural*.

Rather, Italy and China are considered the true homelands of pasta exclusively because they have been the only ones to develop two complementary culinary traditions that have spread throughout their respective worlds, gaining admiration and influence over the centuries. Pasta products and dishes, both in Italy and in China, are not merely a form of nourishment intended to satisfy a physiological need (Zanini De Vita, 2009).

In the common Western imaginary, Chinese pasta products are for the most part made of rice. In truth, in China, just as around the Mediterranean, the history of pasta products begins with wheat, with pasta made from other grains (as in the case of rice) only began much later. Nevertheless, the acclimatization of wheat occurred more slowly and with considerable difficulty in the Chinese territory if compared to the European course: when wheat arrived in China from the West, both the ancient Chinese agricultural system and the subsisting dietary customs were in obvious collision. Thus, at the very beginning of the II century BC, the loyal adviser of the Emperor Wu of the early Han dynasty Dong Zhongshu urged his sovereign to issue a decree with the aim of encouraging the cultivation of this cereal in the region of the capital, which was Chang'an. The peasants reluctantly had to obey the decree, not knowing how to cultivate, harvest and use such grain, thus Fan Shengzhi, author of the famous treatise on agriculture 氾勝之書（*Fàn Shèngzhī shū*, The Book of Fan Shengzhi), explained in great detail how to treat it in order to obtain a good harvest (for instance, he showed that the grins had to be sown in fall or winter, the driest seasons in China's continental climate, since they germinated in the best way with only a moderate amount of water). Later on, when the rotary mill was invented around the V century BC, it finally became possible to produce flour more consistently and quickly and the Chinese population effectively became pasta-eater (Serventi & Sabban, 2002).

In Italy, awareness of pasta products as a distinct category of foodstuff developed equally slowly, as for many years, pasta products were overshadowed by bread. This is probably the reason why Italian written sources make absolutely no mention of the existence of pasta, but once pasta was finally recognized as a distinct category, its growth knew no limits. It was the Middle Age when trade of artisanal dried pasta began and then started to be commercialized in the Mediterranean (Serveti & Sabban, 2002), although Muslim occupiers of Sicily actually had the merit of spreading pasta manufacturing and drying technique. By the twelfth century, pasta produced in Sicily and Sardinia was being exported to mainland Italian territory and Northern Europe, where it was marketed by the powerful maritime republics of Genoa and Pisa (Zanini De Vita, 2009).

Starting from the twelfth century, pasta also won a place in the finest kitchens, finding its way onto the dining tables of kings and princes, handmade by their personal cookers.[15]

Main contribution from the Fifteenth century consisted in the first tomato import operations from Peru, which led to the invention of tomato pasta through 1500, when pasta began to be widely consumed among the middle classes, so much that, in 1579, the *Arte dei Vermicellari* broke off from the corporation of the bakers to assume managerial autonomy, especially in the supply of grains.

This was also the time when Naples and the other provinces of the kingdom, including the towns along the Bay of Naples from Torre Annunziata to Gragnano, were pulsing with large and small pasta producer shops, each possessing a *gramola a stanga* and often also *a torchio*, a machine whose possession was imperative for being admitted to the *Arte dei Vermicellari*. From the sixteenth century on, the so-called *maccheroni* of Naples were considered the best pastas in Europe.

Neapolitans had been nicknamed *leaf-eaters* in the 1500s; starting from the 1700s, they started to be called *macaroni-eaters* instead. Religious restrictions had an unquestioned influence on the changing diet in the South: pasta was an ideal food for days when eating meat was forbidden (National Geographic, 2016).

[15] Within this context, the culinary art of fresh pasta seems to be arisen (National Geographic, 2018).

As the production of pasta became increasingly industrialized, especially in Naples and the surrounding region, the consumption of pasta extended to the lower classes of the population. The dried form of pasta became the basic staple of Naples and the symbol of the city by the beginning of 1800.
It was only 1933 when the first pasta making machine was officially patented. After that, the pasta production process has been subjected to profound modernization and industrialization, even though raw materials have remained unchanged since antiquity (AIDEPI, n.d.r.).
To conclude, comparing these two civilizations of pasta is instructive, because it shows that there has been no single path or development. In radically different environments, rather hostile in China's case and quite favorable in the Mediterranean, each civilization developed its own pace. China was far ahead of Italy in terms of time, but since it never had durum wheat, it remained a civilization of fresh pasta, mainly made through artisanal methods; Italy, in contrast, succeeded in understanding and mastering durum wheat, developing at the same time a highly diversified production of fresh pasta and a civilization of dry pasta both based on durum wheat and culminating in a highly specialized industry.
Today its preparation, essentially a household activity, is both easy and quick, and this probably explains why pasta is one of the most widespread pleasures of the world's table. Another reason for this simple food's popularity probably is its versatility: an immense body of recipes can be found in every corner of the planet, from the simplest dishes to intricate and sophisticated preparations suitable for every type of occasion. There is no limitation in terms of combinations of textures and flavors. Moreover, pasta is always affordable, even for the tightest household budgets.
The Western world, influenced by Italian cooking, for the most part prefers *pastasciutta*, namely pasta made with durum wheat semolina, manufactured industrially and served with thick sauces. In Asia, on the other hand, people prefer pasta made with soft wheat flour, served in broth with fresh vegetables, finely sliced meat, chunks of fish or shellfish. The preparation of pasta around the world is infinitely varied, from the Far East to the Far West.
Nowadays, globalization path has made Italian pasta the ubiquitous food *par excellence*.

3.3.1 Italian pasta industry overview

Despite its worldwide diffusion, pasta is globally celebrated as a typical Italian product as this country is the world's largest producer, consumer, and exporter of pasta with a 100% penetration in Italian families (and a sharp increase of export operations over the last decade). More than wine, cheese and cured meats, pasta contributes to spread the *Italianity* abroad as it is unanimously attributed to our country (Fortuna, 2013).

In 2014, a research conducted by Doxa revealed that 99% of Italian people actually consume pasta. In respect to other countries, pasta really dominates Italian tables, not only in special occasions.

As office manager of Gruppo Pasta AIDEPI Cristiano Laurenza (2018) claims, the almost sentimental relationship Italian people feel with pasta is dictated by tradition, as pasta represents an ancient inheritance coming straight from Middle age, but also by childhood amnesia: one out of two Italian people seems to be able to recall a pasta-related memory from his tender age, while eight out of ten cannot help but link pasta-related memories to parents and extended nuclear family. Yet, tradition and feelings alone are unlikely to ensure a sectorial constant success, thus innovation has always kept up with tradition in the industrial history of pasta.

During the 1960s, the Italian pasta industry was characterized by a great amount of small local producers operating in small geographic markets. From 1981 to 1997, however, the technological innovation along with the diffusion of big retailers who necessitated continuous restocking inevitably damaged the competitiveness of such cost-disadvantaged small scale plants which decreased from 238 to 149; the combined effect of the decreased number of producers and an increased demand of the pasta product led to the rise of some multinationals and the external growth of market leader Barilla, with five acquisitions between 1983 and 1986 (Benfratello, 2002).

Nowadays, Italian pasta industry is largely characterized by large, medium, and small family enterprises deeply rooted in the territory of origin and making up one of the most supporting yet economically challenging sectors of the country's economy. As UN.I.P.I. (2012) points out, pasta production represents an industrial activity with a relatively low profitability because of the high national competition on one side and low final prices to consumers on the other in respect to costs faced during the overall production

process.[16] It is a such strong competitiveness within national borders (and the resulting need to enlarge volumes) that makes most of them try to address the business abroad.
As for the national production, Zanini De Vita (2009) has discovered more than three hundred pasta shapes, considering both the factory-made and the handmade typology. Production of industrial pasta, in turn, may be divided in three broad categories: dried pasta, fresh pasta and frozen pasta, with more than 80% of actually operating pasta producing companies devoted to the production of dried pasta (Retail & Industria, 2018).
Another critical sub-classification may be outlined between industrial dried pasta by large enterprises and artisanal dried pasta by medium enterprises: artisanal pastas are extruded through bronze rollers, which results in a rough surface that allows a better sauce and oil adhesion and a higher tolerance to mishandling (as in the case of over-cooking). In brief, the main difference stands both in the quality of the grain and in the overall producing process, much slower and meticulous when it comes to artisanal pasta, while the process of cooking stays unvaried for the ultimate consumer. A series of huge yet not well-recognized differences that make SMEs have hard times in creating their own brand equity, as the proportion between industrial pasta and artisanal pasta sales extremely unbalanced: while the former reaches 98,5% of the market, the latter is limited to just the 1,5% of the overall sales. Competition is made difficult both by the company dimension and by the final price: industrial pastas are sold at a price that hardly ever exceeds the price of 1,5 Euro per kilogram, while artisanal ones can easily reach the price of 6 Euros per kilogram.
At the same time, the extremely large number of fresh pasta producer small enterprises (generally proposing more of a regional cooking and recipes within local geographic areas) represent a family-ran production whose competitiveness actually stays locally and is regularly overridden by large and medium industrial productions anyways: Italian industrial fresh pasta sales reached approximately +300% over the last twenty years and, although it is now difficult to sell in the mature market of Italy, it is selling very successfully in the leading pasta importing countries such as Great Britain, France, Spain, and Northern Europe.

[16] The final price of a pasta package includes the cost of semolina, the cost of work, the cost of the packaging, energy, control and quality guarantee systems, maintenance, risk management, commercialization, research, communication, and transportation of the final products, in a free market that supports price competitiveness rather than administrated prices. Ultimately, the great distribution may affect the price to public.

3.2.3 Pasta marketing trends in Italy

Having a marketing plan is the starting point for determining how and with what tools and resources companies' quantitative and qualitative goals will be achieved. In particular, the brand manager is in charge of applying marketing and communication strategies to a certain product (or product line) in order to increase the product value that consumers perceive in respect to competitors' products.

Simeone and Marotta (2010) claim that when it comes to food, in addition to segmentation (which is important to serve the needs of different customer segments with different mixes of prices and features), packaging attributes are important to communicate information related to the quality of food products, guaranteeing attributes (production system, working conditions, environmental standards, and many other aspects not strictly of a sensorial nature) not verifiable otherwise. Also, process attributes can play an important role in consumer choices (i.e., the indications of origin and the traditional production process, the use of organic agriculture, the defense of the environment and the presence of ethical requirements). These aspects are able to change consumers' perception towards a product, while a change in a single attribute has the ability to significantly change it and modify their willingness to pay.

Moreover, firms that want to be market-oriented need to innovate the design, test, launch, and rethink food products in order to maintain market leadership, above all when the market is overloaded (as it happens for pasta): in this case, updating or repositioning the existing product features (i.e. packaging) may attract new consumers (Simeone & Marotta, 2010). For instance, when Pietro Barilla substituted the plastic package with the iconic blue paper one in 1950, his pasta product had such a success that he decided to abandon bread production and focus only on pasta production in 1952. Now, his company is the uncontested Italian pasta producer leader (Gazzetta di Parma, 2018).

Another aspect worth outlining is that usually, consumers believe that main brands are of better quality and whether that is true or not is irrelevant to the outcome of the market; it is only important that consumers are convinced of this. In fact, if consumers perceive two products that are chemically or physically different to be identical, the two products are considered homogeneous for economic purposes (Simeone & Marotta, 2012).

Anyway, competition can be played on many fronts: product features, brand image, prices, discounts, advertising, product innovation or support services.

In general, studies on the *food price competition strategy* reveal highly unstable results from the point of view of profitability. Analysis have shown how price competition is not always a good strategy to attract customers, as the discount applied by a food brand increases the quantity demanded and sold by competitors at the same price. This way, when small companies (inevitably subjected to higher production costs) have to raise prices, larger companies can also raise prices, resetting the risk of losing significant market share (Simeone & Marotta, 2012).

In practice, Italian pasta market has registered real loyalty issues in recent years: 54% of Italian pasta consumers admit they have no favorite pasta brand (although Barilla is cited once every three times as the favorite), while only 14% actually buys its favorite brand exclusively; 69% buys the one in sales among a group of preferred brands; therefore, a consistent share of Italian people is still loyal, even if not to just one brand anymore, but to a cluster of brands whose preference is dictated by the economic advantage. A behavior that is affected by the extremely high *promotionability* of the category, which is surprising if we consider that Italian population display the greatest consumption, culture, and devotion to pasta (Food, 2017).

As Simeone and Marotta (2012) point out, price homogenization leads to loss of sensibility, while the decision process about food consumption is complex and often influenced by many factors that are different from quality; thus, producers should adopt more efficient communication strategies other than price discount in order to make target consumers aware about their product and enlarge sales.

In the pasta case, Fortuna (2013) efficiently observes how, in a mature market with a stable technology development like the Italian one, a food product assumes the characteristics of a commodity, as to say a basic product that seems undifferentiated to the average consumer: in this case, the buyer's ultimate choice is dictated by the final price (and discounts) rather than the effective product quality or brand leadership. At this point, improvement in the relationship with the market (i.e., identification of new distribution channels or new forms of interaction with consumers) rather than the traditional product orientation becomes critical for producing companies not to lose customers: in other words, *communication* and *marketing* become vital to differentiate one company's profile from another in terms that are different from *quality* and *price* (Fortuna, 2013).

With the media expansion, marketing has consistently changed over the last decade, for it used to be one dimensional (advertising and/or emails) in the past, while there are way more dimensions to reach customers now.

Nowadays, social networks like Facebook, Instagram, and Twitter are the ones that ensure daily and direct communication with the community, throughout the simple sharing of videos, pictures, and texts which, in turn, give the possibility to followers to show their appreciation or make suggestions through comments. Pasta lovers can share recipes and Italian immigrants and foreign pasta lovers can keep up with the new export target countries lists online. In addition to this, newsletters allow to address specific and personalized content to profiled consumers. Yet, having a Facebook page does not automatically mean having a web marketing plan.

When competition increases, sales strategies tend to focus more on price rather than on marketing, but some pasta enterprises have shown high capabilities and skills in building their brand identity and distinctive positioning just through communication.

Web marketing consultant Raffaele Conte (2015) points out that a pasta enterprise that has shown excellent marketing skills is the Neapolitan Pasta Garofalo, which has successfully tried to play with its own pasta shapes using smartness and irony, associating them both with local songs and with legendary movie titles that are internationally recognized. Thanks to this strategy, Pasta Garofalo has managed to engage in an active online relationship with its consumers, that are usually more likely to comment original contents in respect to the passivity that they usually show when they run into a more traditional pasta spot; at the same time, the traffic on Pasta Garofalo official Facebook site has increased along with the general brand identity perceived, as the brand logo is clearly showed on such posters.

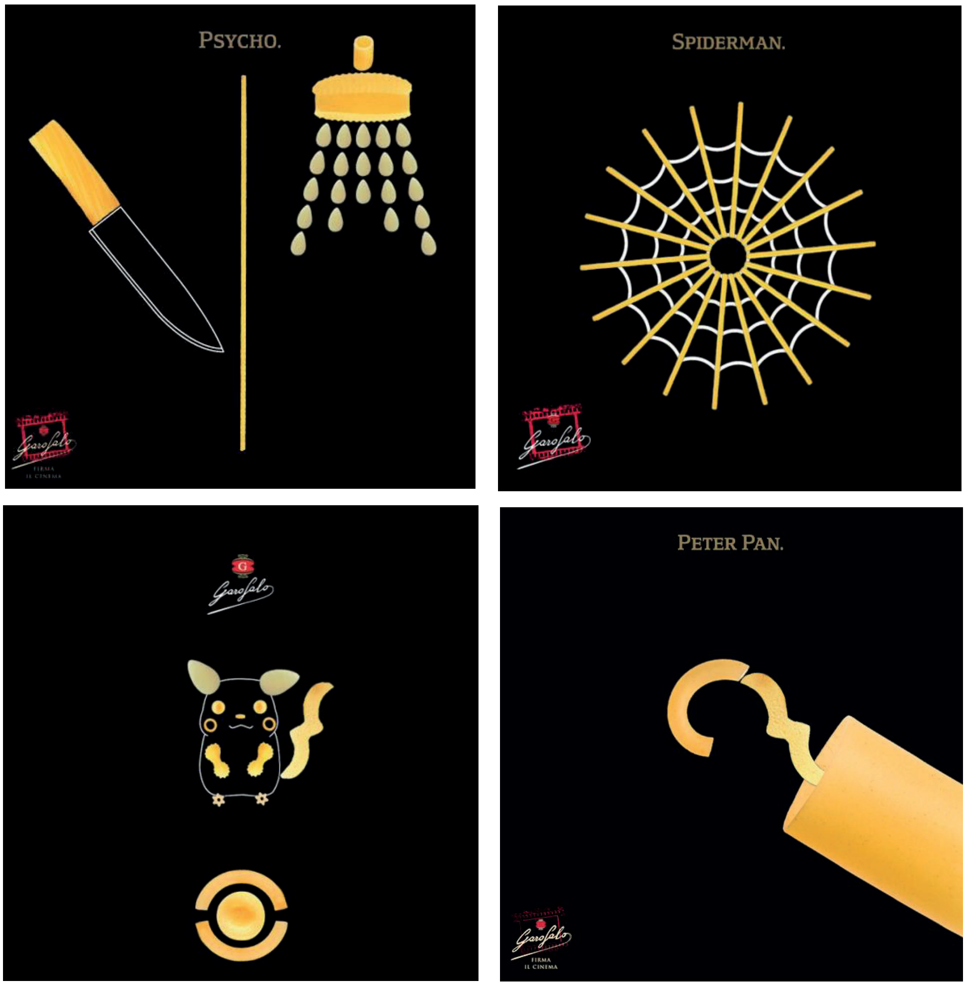

Figure 2, 3, 4, 5: Pasta Garofalo posters

Pasta Garofalo commercial manager Emilio Mansi (2013) suggested that cinema associations have revealed to be successful as movies perfectly link to both high and popular culture, which is extremely coherent with pasta consumption. This is the reason why this strategy is still exercised in 2018. Moreover, sport and territory of origin represent another important part of Pasta Garofalo communication strategies, succeeding in strengthening brand identity in a more consistent way: in 2016, Pasta Garofalo became the second main sponsor of Società Sportiva Calcio Napoli (Naples Football Sport Club), as SSC Napoli is the most supported football team in Campania.

In particular, Italian agro-alimentary SMEs often tend to stress their regional origin and local traditions; by using a specific geographic indication, it is possible to exploit existing positive associations that consumers are used to make with a particular place or region and the sensorial quality heritage linked to its culinary tradition. In 2018, leader brand Barilla has rather been sponsored by Swiss professional tennis player Roger Federer, needing a more international approach. When it comes to marketing, Italian big brands like Barilla, and Ferrero do not seem to pay extra attention on the gap between production and consumption as they must satisfy a wider range of consumers, with less attention paid to emphasize food provenance (Shuiling & Kapferer, 2004).

To conclude, from a commercial point of view, pasta still is intriguing and challenging to be marketed by Italian firms within national borders as it is subjected to strong competitiveness; nevertheless, pasta needs even stronger marketing and promotion activities abroad. as it consists in a product that must physically enter foreign supermarkets, homes, and kitchens, and be subjected to a cooking process that would actually take extra time and specific attention from unacquainted markets' consumers.

3.4 Italian pasta export to China

As explained until now, fashion, F&B, furniture, and mechanical engineering sectors are worldwide sponsored as the excellence of Made in Italy, which actually sustain Italian trade balance and export activities more than any other sector. When it specifically comes to the F&B sector, pasta is one of the most famous products abroad, enjoying a great international praise mainly thanks to the fame of the Mediterranean diet. By now, Italy still is the first producer of pasta in the world and the increasing production of recent years is due to the increasing of export (while the internal consumption remains permanently high).

Yet, even if Italy currently maintains its leader position both as a producer (3,36 million tons) and as an exporter (1,9 million tons), external competition should not be underrated. The most emblematic case is represented by Turkey, whose pasta production has recorded a 77% increase only in the last five years[17], moving from 850 thousand tons to 1,5 million tons produced. Although Italy still ensures the 67% of EU pasta production and a quarter of the entire world production, which means that one out of four pasta dishes eaten in the world and three out of four eaten in Europe are still made of Italian pasta (Repubblica, 2018), Italy must increase its action on the international battlefield not to lose its supremacy.

[17] Thanks to the great availability of durum grain *in loco*, traditionally addressed to the production of bulgur, but more consistently allocated to pasta production in recent years given the higher global demand of pasta products (Ranieri, 2015).

The most promising foreign market is now represented by the Far East and its recent opening towards non-Eastern world, while Europe stays stable or in slow growth. Within this context, China is quite interesting, yet challenging with its inclination towards the rice consumption. Not only many Chinese serve rice with almost every meal, but also the tradition of pasta in China has long contradicted the Italian market (cfr. 3.3). The number of pasta types largely in use by the Chinese population can be summarized in two broad categories: the one of 面 (miàn), as to say soft wheat products including noodles, and the one of rice 粉 (fěn), both playing an essential role in the Chinese cuisine.

Recent growth in the demand of Italian pasta is mainly attributed to the growing acceptance by younger Chinese of Western food options. Currently, there is no producer who makes Italian style pasta (hard wheat) in China, but Italian pasta can be relatively easily found in large urban centers, both in large malls and in small grocery stores indiscriminately. There is also a growing presence of small grocery stores that exclusively sell imported food stuffs, mainly in urban centers in China's most important cities.

Generally, pasta is displayed in the area of import products inside supermarkets such as Carrefour, Lotus or Tesco. However, in smaller malls, the most recognized formats like *penne*, *fusilli* or *spaghetti* are sometimes displayed in the same Chinese traditional pasta shelf, hopefully the indication that Chinese consumers are more or less consciously approving Italian-styled pasta in their everyday life.

3.4.1 Pasta replication or adaptation

More than other foreign markets, the Chinese one consistently requires Italian firms wanting to operate on a regular basis with China to rethink their nationally consolidated business models. In our case, subsistence of such need is even more compelling if we consider that the Italian pasta market in China is still in its nascent stage, which is evident by the relative lack of product and format diversity, along with the lack of expertise in managing the cooking phase and sauce combination, and the lack of familiarity with the Western cutlery, appearing as a still unacquainted market to be targeted by Italian firms exporting pasta. Italian pasta leader brand Barilla officially entered the Chinese market only in 2014, opting for an important strategy of modification of the product from the very beginning, in order to override the aforementioned unfamiliarity with the product, by launching a pioneering China market-specific adaptation under the name of *Pasta Pronto*.

Pasta Pronto has been sponsored as a great-tasting, authentic, and convenient Italian dish ready in only five minutes and expressly conceived for the modern, busy Chinese consumer that lacks any Italian culinary know-how. Creamy cheese, spicy tomato, creamy mushroom and vegetables are the four flavors among which the Chinese consumer can choose and enjoy his/her Italian lunch.

Figure 6: *Pasta Pronto* Barilla

Pasta Pronto consists in a fast method of preparing pasta in just one pan, with no boiling nor draining required, demolishing every culinary principle so sacred for the Italian average consumer, but that has immediately managed to establish a share of sales in the People's Republic of China, even registering a doubled sales growth in 2017 (Il Sole 24 Ore, 2018).

Medium-sized enterprises are clearly unable to follow industrial pasta multinationals' path and imitate their adaptation strategies, first because of their evident economic and technological know-how limitations, but also because artisanal pasta could never be adapted to appeal market-personalized tastes and preferences. The complex and sophisticated production process that artisanal pasta must undertake is what gives value to the production of medium-sized companies in respect to the larger, industrial ones. Yet, maintaining a standardization strategy in China (and in developing, unacquainted markets in general) reveals to be a complex operation as well, as difficulties in understanding the new product may lead the consumer to lose interest and the competition to diminish. In practice, Italian F&B medium-sized enterprises are the ones that are really in charge of exporting and sponsoring genuine national products along with their original peculiarities, more than large enterprises.

In order to achieve this goal, the so-termed *Country of Origin (COO) effect* could offer a strategic solution to medium-sized companies that urge to promote their product's image but cannot afford a huge deployment of financial resources.

3.4.2 The country of origin effect

As already stated along this chapter, the origin of goods (and food products in particular) has received increasing attention in recent years, oftentimes exercising a strong influence on consumers' choices while purchasing: when the country of origin, as to say the country in which a product is manufactured, designed, and assembled (Francioni & Albanesi, 2017) becomes the decisive parameter in the choice of a certain good, it gives rise to a phenomenon that is referred to as the *country of origin effect* in current literature.[18] In other words, some product categories, services or even brands seem to be more consistently purchased when associated to a specific country, exploiting the image of that country as the only (indirect yet already satisfying) quality indicator; this way, the origin becomes a quality mark, which has an indirect, positive effect on all the companies operating in the same territory.

Sometimes, the intensity of this effect has even succeeded in overriding the negative impression that public opinion has about specific countries when they are associated to a particular product category, as it happens for Iranian caviar, Afghan carpets and Cuban cigars (Vianelli & Marzano, 2012).

As for the Italian F&B industry, the strategic adoption of the *Italian COO effect* for the international marketing and communication plan purpose may determine the success of a certain Italian food product abroad (and accelerate its exports), conceptually tracing a relation among 1) territory of origin, 2) Italian style and 3) brand identity that must be sponsored as a synonym of quality from the beginning. This way, the COO appreciation may create a halo effect that may be appealing especially for the Italian MMEs which have limited resources and competences to set appropriate communication policies to reach foreign markets (Francioni & Albanesi, 2017).

In effect, Pontiggia and Vescovi (2015) observe that MMEs are the ones that really need to rely upon the COO effect, while large enterprises tend to follow a more globalized

[18] The first scholar to introduce the COO concept was Ernest Dichter, who developed his ideas concerning the importance exercised by the *made in* in the consumers' product evaluation process in his article *The World Customer* (1962).

path; leader enterprises actually *build* the country image that MMEs eventually *exploit* later on. Moreover, considering that small businesses produce entirely on the Italian market, affording high costs for maintenance and labor, while large companies have the economic power of outsourcing certain production steps, granting a competitive price and providing the same quality standards as the ones of SMEs, such halo effect at least helps SMEs in being competitive on the international playground as much as multinationals and in building relations with foreign markets (Francioni & Albanesi, 2017).

Nevertheless, in a developing and unacquainted market like China leader brands are still privileged over medium brands in every sector: the average consumer usually opts for the most recognized brands in order to reduce the anxiety of the product choice, preserving his/her social reputation and justifying the higher cost incurred in respect to local food products.[19]

Another problem arises when Chinese consumers seem to perceive a global and non-differentiated image of Europe, having hard times in distinguishing Spain from Portugal, or Greece from another European market. They even often perceive only a generalized Western feature and then, eventually, its *Europeanness*. This means that the first mover or market leader is usually the one that actually builds the country image. Thus, to provide some emblematic examples, Sweden is the country of furniture (IKEA) and Italy the country of chocolate (Ferrero) for the unacquainted Chinese customer (Pontiggia & Vescovi, 2015).

The only way suggested by Vescovi and Pontiggia (2015) to increase the reputation of such medium-sized multinational enterprises in the international non-acquainted markets is to rely upon strategic (economic) collaborations among them, without which failure would be probably incur and visibility in the foreign market hard to impress.

3.4.3 SACE and SIMEST loans in the form of preferential export financing

SACE (Servizi Assicurativi del Commercio Estero) is a state-owned Italian export credit agency founded in 1977 and currently headquartered in Rome (Italy). Its activities

[19] A research conducted by Cedrola and Battaglia in 2012 (in Bertoli & Resciniti, 2012) revealed that given the same price, Chinese firms prefer to buy Italian products rather than the Chinese ones, while the Chinese customer is willing to pay a larger amount for Made in Italy or Europe products for less price sensitive products.

fundamentally consist in providing financial support mainly in terms of credit insurance and investment protection.[20]

Together with SIMEST (Società Italiana per le Imprese Miste all'Estero), SACE officially constituted a hub for exports and internationalization of Italian enterprises willing to go global in 2016. In practice, SACE and SIMEST (under the formal institution named Polo dell'Export e Internazionalizzazione del Gruppo CDP) support exporting enterprises during the overall development process abroad through the provision of direct investments.

The foundation of such export hub has been inspired by the realization that Italian enterprises that accept to face the international challenge (along with the proportionally increased competitiveness) actually generate employment and richness in our country; nevertheless, this path can be extremely more challenging to undertake for those companies who have not reached a stable position in the global market yet, as it happens for the SMEs.

In 2016, Politecnico di Milano had already analyzed the extra-UE performance of preferential export financed firms by SIMEST during a range of ten years from 2006 to 2016, registering an extremely positive result in terms of employment, sales income, EBITDA (earnings before interest, taxes, depreciation, and amortization), and export.

In the two years immediately following 2016, SACE and SIMEST collaboration has focused on Italian pasta export performance by MMEs in a particular way, as their action range (which has already reached most European and American countries) is now addressed towards more culturally and geographically distant areas like the United Arab Emirates, Japan, and China, requiring large sums of money to proceed.

Artisanal pasta financing actually covers feasibility studies, technical support and participation to sector-related international fairs, which is fundamental for MMEs targeting countries that have already been proven to be favorable and proactive towards the pasta business anyways.

In Italy, Campania is reported to be the leader region in terms of pasta export, immediately followed by Emilia Romagna, Veneto and Lombardia. In 2018, SACE, together with Deutche Bank has initiated a 5 million financing operation in order to support Pastificio Di Martino)pasta export leader in Campania) in terms of increase of

[20] Current paragraph has been entirely developed on the basis of information provided by SACE and SIMEST CDP official site https://www.sace.it/.

production and export volumes, widening its commercialization activities of pasta products towards new market segments. Thanks to the hub, Made in Italy food sector is more and more strong and competitive on a global scale.
Next paragraphs will be devoted to the aforementioned Pastificio Di Martino, whose history and success both in national and in international contexts will be briefly traced as an anticipation to its current export activities in China, which will be broadly clarified through the support of Di Martino Commercial Export Office Manager Francesco Giordano.

3.5 Pastificio Di Martino

Pastificio Di Martino is a family-owned pasta-producer enterprise founded in 1912 in Gragnano (Naples). Its founder, Giuseppe Di Martino, started working in a pasta factory to provide money to his family when he was just 10, perfectly mastering the art of pasta in a few years. The expertise he reached both in pasta handling and in business management convinced his owner, having no children, to transfer the company's capital stock to him; *G. Di Martino* pasta factory came into being in 1912.[21]
In those days, Gragnano pasta already had a 500 years history whose course had been only possible by the favorable geographic and climate conditions of the town: the particularly low mineral content of the water coming from the surrounding mountains succeeded in giving pasta a very distinctive and lighter-to-the-palate flavor; the weather, both warm and windy thanks to the sea breeze, naturally dried pasta, which was exposed on the streets for this purpose. Thanks to this particular way of producing pasta, the city had already become a well-known industrial center in 1600 when Gragnano pasta started to be referred to as the *white gold* (Zanini De Vita, 2009). Now as it was then, Gragnano pasta is characterized by a wrinkled appearance that is typical of the bronze drawing, resulting in a long-lasting product that perfectly matches with any condiment. The entire production process (dough kneading, drawing, drying, cooling, stabilization, and packaging) of the product only happens *in loco*, giving birth to an artisanal pasta that is considered a niche product even in Italy.

[21] Company introduction has been developed thanks to the support of Pastificio Di Martino Far East export manager Francesco Guizzardi, together with information provided by Di Martino official site www.pastadimartino.com.

Anyways, thanks to Gragnano proximity to the sea, export has always played an important role in Pastificio Di Martino business activities. In 1915, its pasta is the first to cross the Panama Canal in order to satisfy the demand of Gragnano pasta by Italian immigrants based in America.

Pastificio Di Martino soon became a family-ran company, with all Di Martino brothers (usually referred to as the first generation of Di Martino pasta makers) joining the business.

Despite the difficulties, the company survived to the advent of fascism and to the death of many brothers over time, always keeping up with the technological innovation of machinery for the sake of production. Giuseppe Di Martino ran the factory right up to a few days before his death, in 1977.

Today, Giuseppe and Giovanna Di Martino, grandchildren of the founder and representatives of the third generation of Di Martino pasta makers, are «perpetuating their predecessors' vocation and passion, guided by the values of quality, craftsmanship, innovation and devotion to their territory and its culture.», as they claim on the company's official site.

Thanks to the unfailing determination of Giuseppe Di Martino, who, in the role of President of *Consorzio Gragnano Città della Pasta*[22], applied for the candidature, Gragnano pasta obtained the Protected Geographical Indication (PGI) certification mark in 2010, the first EU quality endorsement ever assigned to Italy.

Giuseppe Di Martino actually runs *Pastificio Di Martino Gaetano & F.lli S.P.A.*, which now includes Pastificio Di Martino and Pastificio dei Campi (both in Gragnano), together with Pasta Antonio Amato in Salerno. 140 people are employed on the whole and 110 million tons of pasta are produced each year, resulting in approximately 105 million euro invoiced. Among the group's companies, Pasta Amato is described as the most conventional company in terms of production process and business management, Pastificio dei Campi as the most focused on the quality of grain and resulting marketing, and Pastificio Di Martino as the most foreign market-oriented (with 95% of its total invoices coming from abroad).

What is interesting is that, although Pastificio Di Martino actually opts for an undifferentiated marketing approach both in national and in international markets (as it

[22] Such Consorzio represents 90% of Gragnano pasta makers' volumes and turnover with 800 tons produced every day in Gragnano.

loses a considerable degree of control over it when exporting abroad), a recent, brilliant co-marketing and co-branding operation between Dolce&Gabbana and Pastificio Di Martino has revealed to be extremely effective in all major countries it actually exports. Starting from 2017, a new Dolce&Gabbana and Di Martino pasta packaging have been designed *ad hoc* by the two Italian fashion stylists and spread both in Italy and in the rest of the world, showing elegant patterns that recall the majolica ornaments typical of the Mediterranean cost's localities. It's a real tribute to *Italianness,* celebrated by matching the two strongholds of Made in Italy (fashion and pasta) under the motto of *La famiglia, la pasta, l'Italia* on every pasta package.

By exploiting the advantages coming from the constitution of a consortium, and simultaneously adopting a marketing strategy that relies not only on the COO effect, but empowers it with a *luxury brand effect*, Pastificio Di Martino provides one of the most successful examples of Italian pasta export by a medium-sized enterprise having limited economic resources and degree of control over commercialization on the target country. For this reason, huge efforts have been made in order to gain the possibility of interviewing a representative of Pastificio Di Martino Export Office, so as to understand what are the main (distance-related) problems faced along its export performances towards China.

Figure 6: Traditional Pastificio Di Martino packaging

Figure 7: Dolce&Gabbana special edition

3.5.1 Interview

Interviewer: Arianna Moggio
Interviewee: Francesco Guizzardi, Pastificio Di Martino Far East senior export manager
Place of interview: Pastificio Di Martino administrative building, Pastorano (Caserta)
Date of Interview: 25 July 2018
Method of interview: private interview

Q.1: Internationalization of Pastificio Di Martino has a long history if it was the first pasta to cross the Panama Canal in 1915. How did it started from the beginning?

It all started with *natural exportations*: Gragnano location's proximity to the sea definitely facilitated intercontinental transports, along with the presence of Italian immigrants in America (all quite acquainted with the quality of Giuseppe Di Martino's pasta) persuaded the founder to expand the business across the ocean. Then, such closeness to sea gave the firm the possibility to increase this kind of natural exportation to wherever Di Martino pasta was requested: it was a matter of intermediaries (mainly from Argentina, Venezuela, and Brazil) asking Di Martino to launch his product in their countries of origin, not Di Martino sponsoring his product for the sake of export.

Only the third generation of pasta makers led by Giuseppe Di Martino (current CEO of the firm and grandson of the founder) adopted a *market-focused export approach* by actively selecting a potential market, thoroughly analyzing their potential demand, first privately and then in the name of the firm. This is how we widened our geographical range, which now does not involve only Europe and United States anymore.

Q.2: Nowadays, how many countries Pastificio Di Martino has business relations with and through which entry mode?

Di Martino pasta is currently exported to 36 countries. Directly following Italy, our most important markets are represented by Germany, France, Switzerland, England, Latin America, and United States, all countries that more than others have been influenced by the Italian culinary tradition, mainly because of immigration. But we are also in the United Arab Emirates, in Korea, in China, and Japan now.

As for the entry mode, our international presence and expansion will always, necessarily adopt the export format: the complex and strictly peculiar production of Gragnano pasta can only be processed *in loco*; if relocated, there would not be the so-called *white gold* anymore and there's no way Giuseppe Di Martino would change this for the sake of money, as quality and authenticity are the unquestioned top priorities of our firm. Moreover, in 2010 Gragnano pasta obtained the Protected Geographical Indication (PGI) certification mark, which provides us with a concrete instrument to better identify and promote our product, but also obliges our production to exclusively occur in Campania, specifically in Gragnano and nowhere else.

Q.3: When did you penetrate the Chinese market and which considerations made you think export activities could have been successfully conducted?

We started considering the Chinese market in a period when the European market seemed to be saturated for the Italian pasta exports; moreover, Giuseppe Di Martino was strongly convinced Italian pasta had no representatives in the People's Republic (Barilla only followed three years later). As was only to be expected, we started commercialization with China in 2011, but exports have experienced an acceleration only recently, mainly thanks to the increasing number of Italian pasta companies targeting China (which means more competitiveness, but also more recognition of the product from the Chinese consumer) and the Dolce&Gabbana ongoing collaboration.

Q.4: Pastificio Di Martino appears as an Italian brand spreading *Italianness* abroad with an ethnographic approach and minimum foreign adaptation. In China, on the other hand, people have their own culinary tradition which they are really fond of and that is very different from ours. How do you succeed in managing such strongly perceived food culture distance?

When it comes to pasta, Chinese people are really fond of the iconic bowl of steamed rice, which they consume almost every day; the most common alternative to this traditional dish consists in long-shaped soft durum pasta usually served in broth with fresh vegetables and meat cut in pieces. But we started exporting to Eastern countries strongly sure about one thing: regardless of the culinary tradition we choose to refer to, pasta is a food product whose versatility allows more cuisines to happily marry together. The greatest way to face a big cultural distance is to never try to fight it, but to make both cultures work together, each culinary cuisine reaching a compromise with the other. In practice, we don't want to educate the target market in a way that Arab, Japanese, or Chinese consumers would include our product in their daily food routine - even if we wanted to, we wouldn't achieve anything significant anyway. Reason is that if this happened, the Italian perception of our product would be lost over a short-medium term, and this is something Pastificio Di Martino wouldn't be willing to happen. Rather, we want foreign consumers to make use of our product as an Italian product, eventually adapting the condiment according to their food culture.

The restoration sector is making an amazing job in this sense: Di Martino pasta has been prepared according to the Italian style during the cooking phase, but served in a very Chinese way in terms of matching ingredients, and nobody from our company has argued a great job has not been made. On the contrary, this is the only product adaptation we feel like enthusiastically promote.

Moreover, although we wouldn't opt for any adaptation of the product, we promptly analyzed Chinese people preferences in terms of pasta formats and discovered that the longest pasta is the most sold in China without any trace of doubt; in other words, the spaghetti family is the winner. Thus, 6 out of 8 formats of pasta Di Martino currently sold in China are in the long form.

Q.5: How much are transportation and delivery of your product sensible to the geographical distance existing between Italy and China?

Geographic distance affects prices and prices determine the choice of transportation method, which, in turn, influences the time of delivery. In practice, great physical distances like the one existing between Italy and China are usually covered by boat, whose total costs are way lower than train transportation. Pastificio Di Martino reaches all non-EU countries by sea since 1912. Yet, the time of delivery inevitably ends up being way longer if compared with train speed. The result of this vicious circle is that approximately two months occur in order to deliver pasta Di Martino from Italy to China. Fortunately, our product is only traded in the dried form, with a three year shelf life and safe from any risk of perishability.

Q.6: If compared to the legal food system of other target countries, what's the most problematic aspect of the Food Law of the People's Republic of China to actually comply with when exporting?

Label-related requirements' compliance actually gives us a hard time. Chinese distributors explicitly require Pastificio Di Martino not only to draw labels in Italy, but also to take care of the printing and pasting process by ourselves. Reason is that if these operations were handled in China, the product could risk to lose its perceived authenticity, with the Chinese consumer suspecting the fakeness of the product. Chinese distributors know that their consumers fear fakeness more than anything else, especially when it comes to food products and we don't want to lose Chinese clients' trust. Problem is that with this added procedure up to us, time of delivery towards China results to be even longer.

Q.7: What distribution channels do you operate through in China?

We operate through four types of distribution channels in China, namely retail stores, big chains like Carrefour and Walmart, restoration, and e-commerce. I expect the last one to become the most important to rely upon soon, as the Chinese e-commerce is one of the greatest markets in the world. EMA e-commerce platform was the first we entered in, but we soon realized that Alibaba is the greatest way to sell and gain visibility through discounts and promotions. For instance, we have already made deals with Alibaba to be promoted in a great way for the 11/11 celebration (China Singles' Day), when Chinese people spend extremely large sums of money buying goods online - something like the Black Friday in America and Europe - representing a huge sale opportunity for our company.

Q.8: A problem that arises when dealing with distributors is that they sometimes reveal themselves not to be competent enough in managing a product they are not very familiarity with. Have you ever faced this kind of situation?
It's a recurring event, indeed! Chinese distributors manage our products badly. First of all, deposits do not respect the norms in terms of temperature and everything connected with the preservation of quality; moreover, we often find pasta broken in pieces in the package on the shelves for sale. This behavior not only results in a bad reputation for our brand, but is also hard to control. We can only scold them over and over again until they comply with our dispositions.

Q.9: What about Italian competition *in loco*?
Barilla is our first and biggest competitor on the market, not a trace of doubt. Its numbers and resources in the Chinese market are colossal. In addition to this, Barilla will count on a production basis in Shanghai in a very recent future, eliminating the delivery costs of the product. Yet Barilla's strategies are nothing like ours: the approach of the firm has always been focused on units sold, its production sometimes takes place in countries that are different from Italy as the lack of PGI allows the firm to adopt a non-ethnocentric approach. Its objective to gain global recognition has resulted in the choice of sponsors that could be recognized globally, such as Roger Federer. The only competitive aspect we could rely upon to confront Barilla on the Chinese market battlefield is quality, which is a very hard task if you consider that Chinese consumers do not really have an Italian pasta culture. Thus, we are actually increasing the visibility of our pasta thanks to the luxury brand effect fostered by the application of the Dolce&Gabbana brand on our packaging, which seems to be much more appealing in an unacquainted market as it is extremely more easily recognized.

Q.10: Given all the aforementioned export-related problems, what's their direct economic consequence on the final price?

In addition to the ordinary production costs, transport and administration-related costs make the final price of pasta Di Martino packages go from 18 to 24 Yuan, which is quite expensive if compared to an instant noodles package, generally sold at the price of 5 Yuan (8 Yuan when quality is particularly good). Our price is also more expensive than Barilla, whose pasta is generally sold at something like 12 Yuan. For this reason, in China (but also in Italy) the average Di Martino consumer is not represented by so-said *millennials*, as millennials of quite every country are not really fond of cooking and do not really pay extra attention to quality and origin. Gragnano pasta is a niche product both in Italy and in China, which makes it the choice of someone who already has a healthy consciousness, starting from the young adult part of population towards older generations: probably people with a job, caring more about quality than about cheapness, urban rather than rural when it comes to China.

Q.11: An important lesson learnt in China.

Where continuity is stronger than change (as in the case of the Chinese society), cultural compromise is a win-win situation. Also, never trust distributors!

3.5.2 Some *a posteriori* reflections

The internationalization path of Italian pasta producer medium-sized enterprises is an extremely hard journey to undertake if compared with the one of Italian large pasta companies in terms of economic unavailability, which 1) still impedes their commitment to foreign market entry modes other than export, and 2) generally obliges such firms to act as second players in a foreign market, specifically when such market has been already made familiar with the exported product by larger enterprises (but their strong competitive position has been inevitably established as well at that point). Moreover, subsistence of export makes it inevitable for Italian medium-sized enterprises to face a series of important differences between the home and the host market in a more consistent way if compared to larger enterprises that are economically able to opt for more sophisticated entry modes.

Pastificio Di Martino will be forever committed to the export mode not only because of the economic commitment itself, but also because of the characteristics of its own product. As it happens for most of the Italian pasta medium-sized enterprises, Pastificio Di Martino is not an industrial pasta producer; rather, it gives birth to an artisanal product whose sophisticated features can only be gained by using a specific type of local grain and production process (thus the PGI certification), making its pasta an example of niche product even in Italy, with a final price proportionally higher in respect to its industrial equivalent. Hence, the success of Pastificio Di Martino on the international ground has been maintained thanks to the strategic participation to a powerful local consortium and the undifferentiated yet successful marketing strategy of empowering the COO effect with the Dolce&Gabbana logo, that is having a more direct impact on foreign consumers in respect to the GPI certification and COO effect alone. In the specific case of the Chinese market, initial Di Martino low sales share has only been increased by the entry of Barilla on the market three years later, confirming that the first mover role should still be performed by larger enterprises, but it has also been showed how the cultural distance is perfectly manageable with a replication of the product rather than opting for the complete transformation of it, making pasta lose its Italian peculiarities as in the case of Barilla Pasta Pronto, strategically overriding the economic gap in the same time.

Conclusions

Although the current IB literature tends to refer to export as the most *comfortable* mode of entry in a foreign market, this thesis uncovers how, in practice, the only alleviation export operations seem to enjoy is limited to the initial economic commitment, which is consistently lower if compared to the *intermediate* and *high-control* entry modes (cfr. 1.1,1); in fact, the multi-faceted distance inevitably existing between home and host countries never fails to set traps to SMEs wanting to go global. Moreover, such traps (mainly explicable as cultural, administrative, geographic, and economic distance direct and indirect implications), may reveal to be so critical and hard to foresee that further economic commitment may be required at a later stage anyways, as in the case of the so-called *hidden costs*.

On the basis of a series of renowned Ca' Foscari publications by professors Checchinato, Perri, Pontiggia, and Vescovi, this thesis has come to the reasoned conclusion that, when it comes to export, both CAGE distance implications and potential hidden costs may be called off (or at least softened) through knowledge of the host market, knowledge of the distributors, and knowledge of consumers. Direct experience has been stated to be critical for reaching the purpose.

Theory turned in practice, the attempt of *CAGE frameworking* the food sector has revealed consistent differences affecting (and relating difficulties for SMEs to manage) agro-alimentary export operations from Italy to China even despite the fact that 1) the Italian F&B industry represents one of those sectors that have generally survived the world economic crisis and is one of the strongest industries of current Italian economy and 2) China's Italian food import volumes are reported to keep growing on an annual basis. Contrary to what public opinion could believe, purely operational efforts by Italian F&B companies are not eased by this mutual attractiveness, as the cultural unfamiliarity with Italian F&B products' features and usage, the huge geographic distance, mandatory compliance with the Food Safety Law of the People's Republic of China, and disproportioned economic purchasing power subsisting between Italy and China still affect export operations in a very consistent way.

Hence, Italian pasta products have been selected in order to see how the CAGE differences in terms of food are revealed and managed in practice by Italian pasta medium-sized enterprises. In spite of the extant lack of studies specifically devoted to the Made in Italy pasta industrial sector, this task has been successfully accomplished

thanks to the support of Pastificio Di Martino export office, whose staff has shared with us its direct experience *in loco*, stated to be as essential as theory in Chapter 2.
Italian pasta producer MMEs' export operations towards China still perceive significant CAGE distance in respect to fist mover, large leader brands, but has already performed successful strategies of establishment of consortia and COO effect application that are making their internationalization process easier in terms of economic commitment and sales quota.

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