

The internationalization strategy of the Italian manufacturing SMEs. The case of Imperia

Student: Luca Codotto

Supervisor: Dr. Emiel Wubben

Co-reader: Dr. Geoffrey Hagelaar

Participating company: Imperia S.p.A. 

Managing director: Mr. Enrico Ancona

Department of Management Studies

Wageningen University

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Student: Luca Codotto

Student number: 820701-159-070

University: Wageningen University

Department: Management Studies

Profile: Strategic management

Code: MST-80430

Supervisor: Dr. E. Wubben

Co-reader: Dr. G. Hagelaar

Company: Imperia S.p.A.

Managing director: Mr. E. Ancona

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Preface

The present research constitutes a thesis that is finalized to achieve the Master in Management Studies at Wageningen University.

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Management summary

The decision to internationalize is of crucial importance for manufacturing companies today, because the intense worldwide competition in both domestic and foreign markets forces firms to be internationally competitive. Within this global context, the Italian manufacturing SMEs struggle to maintain the competitive positions they built in the international markets. The field of investigation of this study is the internationalization strategy of the Italian manufacturing SMEs. The original opportunity to start the research comes from the willingness by the Italian SME Imperia, partner of the project, to develop its activity in the European market. Imperia is market leader in the manufacturing business of the pasta machines.

The research objective is to identify strategic possibilities for the internationalization of Imperia in the European market, by investigating the distinctive characteristics of the way the Italian manufacturing SMEs do internationalize. An empirical analysis at national level is carried out after a more general review on the internationalization of the manufacturing companies. The insights from both the theoretical section and the country-based section constitute the learning source for Imperia.

The conclusions on the internationalization of the Italian manufacturing SMEs can be summarized as follows. A first distinctive characteristic is the high propensity for export as entry mode, in reason of firm's size-related limitations. Export permits SMEs to exploit the advantages of niche strategy. Adverse conditions in the international markets, as unfavourable exchange rates and aggressive competition from low cost producers, hinder the export activity, especially in the traditional sectors of the Made in Italy. The change from a price-based to a more quality-oriented strategy and the development of customer service are prospected as possible solution. Second, the Italian manufacturing SMEs prefer cooperative contractual agreements to non cooperative solutions, due to the difficulty to afford large investments alone. Third, production investments abroad are still limitedly adopted, while joint ventures are preferred to FDI due to the presence of local partners helping to minimize costs and risks. Fourth, the advantages from being part of an industrial district for the internationalization are the production of exclusive goods at high international demand, scale economies from informal face-to-face exchange of information, high product quality improved by tight competition and cooperative relationships, reduction of perceived risk and need of information in exporting. These externalities can also be achieved by firms involved in business groups with different forms than industrial districts, as it is the case of Imperia.

A theoretical framework is built to investigate the case study. Beside the insights from the literature study, other data sources are firm's internal information on export turnover and external data on GDP and consumption of pasta per country. Face-to-face interviews are used as well. They address managers of Imperia, experts on the internationalization of the Italian SMEs and international customers of Imperia. The markets of UK, Germany, Netherlands, France and Poland are studied, in reason of the strategic importance they represent for Imperia.

The discussion of the results from the case study leads to draw suggestions for the internationalization of Imperia in the European market on the following three issues:

1. Entry mode decisions: direct export through distributors is confirmed as the best entry mode in UK, Germany, France and Netherlands, mainly due to size-related limitations and Made in Italy reputation. The use of agents might be suitable for Poland and to enter the East European countries for the first time. The joint employment of agents by Imperia and by other

producers of complementary Made in Italy goods, the definition of clear selling conditions and the use of incentives for agents are proposed to make this strategy succeed. A prospected acquisition of the Italian competitor might be helpful to exploit price-sensitive markets (Germany and Poland), or markets where the competitor's brand results more affirmed (Germany and France). The acquired machines, at low quality and price, might be used to counter the Chinese competitor and to target the large organized distribution, without the danger to lose Imperia's brand reputation. A non equity-based cooperation with the Chinese competitor (e.g. a cooperation on price or a division of the market) might help to secure the market leadership of Imperia.

2. Marketing mix decisions:

Product: in spite of a high market demand for standard and low quality items, the qualitative superiority of all the products, which differentiates Imperia from competitors, has to be enhanced, especially for what concerns design and innovation. The high reputation of the Imperia brand has to be maintained where the brand is already strong (UK) and consolidated where the brand has lower reputation (Germany and France). The simultaneous use of the non-brand item and of "Made in" labels is strategic in this regard. The learning from the experience in UK suggests to search for new large wholesalers and to improve the relationships with the existing customers also in other markets, especially in Germany and France which are perceived at high potential.

Pricing: the building of cooperative relationships with customers is recommended to increase the control over them, by suggesting them to limit the price building-up and to avoid extreme price discounts. A further price reduction of the low quality machine (not below the prime costs) and a pushing policy addressed to the markets at high demand of the item (all the analyzed markets but UK) and at intense competition (Germany) are proposed, in order to fight the lower priced rivals in the market. The maintenance of the qualitative superiority of products is crucial in this strategy. Although successful today, the low quality machine should not represent the core product to succeed in Europe in the future. Rather, as the empirical findings suggest, in the long term it will be essential to increase the sales of items at higher marginality.

Placing: a declared case of re-importing stimulates the need to develop cooperative relationships with customers. The success in UK suggests to take the relationships with the English customers as a benchmark, to understand how to exploit the potential of customers in other markets. An exclusive strategy, with the use of few large wholesalers per country, is ideally indicated. Nevertheless, three different placing strategies, tailored to country-specific situations, are proposed, as the use of retailers for selected countries and products.

Promotion: the adoption of a customer-oriented approach is strongly recommended, by regularly informing customers on the products in portfolio and by updating them on innovation and promotion. Participatory observation suggests the need of periodic visits to the most strategic customers and the adoption, by Imperia, of a proactive attitude, to develop cooperative initiatives with customers. The learning from the industrial districts suits Imperia, for what concerns the participation to trade fairs together with other producers of Made in Italy complementary goods. The development of the top quality item, coming from the experience of the Italian manufacturing SMEs, might be achieved by making promotions on it, in combination with cheaper products in portfolio.

3. The fields of activity at country-level where Imperia has margin of improvement, in customers' opinions, turn out to be customer service, cooperative agreements and product quality, although the quality of Imperia products is considered very good by all the interviewed customers.

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Chapter 1 Introduction

This introductory chapter describes the design of the research. The methodological model used to write this section is the book of Verschuren and Doorewaard, 2005, *Designing a research project*. According to it, a project design involves:

- A conceptual design (par. 1.1), which defines what the research project wants to achieve. It consists of context and problem statement (1.1.1), research objective (1.1.2), research framework (1.1.3), research issues (1.1.4) and definition of concepts (1.1.5).
- A technical design (par. 1.2), which explains how the research is implemented. It includes research material (1.2.1) and strategy (1.2.2) (Verschuren, 2005).

1.1 Conceptual design

1.1.1 Context and problem statement

The decision to internationalize is of crucial importance for manufacturing companies today: the intense worldwide competition hinders safe paths of development within domestic markets and stimulates more enterprises to penetrate foreign markets (Root, 1998). Moreover, the internationalization process has become an affordable challenge for small-medium firms, due to their growing importance in industrialized countries and to technological improvements (Johansson, 2000). Within this global context, the Italian manufacturing companies struggle to maintain the competitive positions they built in the international markets in specific productive sectors, which fall below the denomination of Made in Italy (Fortis, 1998). The field of investigation of this thesis is the internationalization strategy of the Italian manufacturing small-medium enterprises, named as SMEs in the following.

The academic issues which contribute to inspect strategic possibilities of internationalization for the Italian manufacturing SMEs are diverse. First of all, these economic subjects are distinguished by unique characteristics which influence their internationalization process, as specific management styles, export of particular product categories and adoption of niche strategies to penetrate foreign markets. An investigation on their internationalization, from both a qualitative and a quantitative perspectives, is carried out with up-to-date information. Second, authors attribute particular importance to the expansion abroad of the industrial districts, productive systems of small-sized firms, highly concentrated and specialized in particular business sectors (Becattini, 2000). Since firms belonging to the industrial districts benefit from externalities which positively impact their international decisions, these advantages are inspected. Third, it is verified if such externalities are reproducible also for firms not belonging to the industrial districts.

The opportunity to investigate these themes comes from the presence of Imperia, Italian manufacturing firm, as partner of the project. Located in Torino, North-Western Italy, the company was incorporated in 1932. As it has gradually evolved, it has become an established brand for the production of durable household products. Over the years, the product range has expanded to include more than 60 items. The core business is represented by the pasta machines for domestic and professional use. Today Imperia is leader in the market of the pasta machines. Its products, which are Made in Italy labelled, are sold worldwide. The firm is not part of an industrial district.

This thesis starts from the awareness of the administration of Imperia that the internationalization process is a necessary step to keep on succeeding: there is the conviction that the activity abroad can express more than what has been done so far, because the international market, the European one in particular, has represented an underestimated potential to grow.

Standing this problem statement, the challenge is to study the phenomenon of internationalization of the manufacturing SMEs at national level and to use the learning from it to improve the internationalization strategy of Imperia. The reason to consider the manufacturing small-medium business in Italy is linked to the nature of Imperia. In fact, today the company clearly fits the EU standards which define the SMEs (cfr. par. 1.1.5 below). Moreover, the business of Imperia is limited in its growth because of the nature of its core product (a durable machinery for the domestic production of pasta), therefore the company will probably keep on being a SME in the future.

These reflections on the small size of the firm and on the specificity of its business lead to consider a methodological aspect: indeed there is a gap, in terms of level of analysis, between the behaviour of the national manufacturing SMEs and the specific strategy adopted by Imperia. The reason lies in the difficulty of identifying a manufacturing sector that is comparable with the one of Imperia and that has a literature source. In fact the pasta machines business is unique and limited at the same time: the total turnover of the market is internally estimated around € 40 million and the competitive environment involves only three mayor players all over the world. Therefore the findings at national level will fit the case study by integrating in the investigation the specificities of Imperia. Being aware of these peculiarities will consent to assess how Imperia can learn from the international experiences of the Italian manufacturing SMEs.

Summarizing, the boundaries of the research context are represented by the internationalization strategies of the Italian manufacturing SMEs. The problem statement consists in the willingness of the Italian pasta machine producer Imperia to explore strategic possibilities of expanding its activity in the European market.

From this starting point, the definition of the research objective makes clear what goal has to be fulfilled.

1.1.2 Research objective

The objective of the project is defined as follows: to identify strategic possibilities for the internationalization of Imperia in the European market, by investigating the distinctive characteristics of the way the Italian manufacturing SMEs do internationalize.

The adopted research approach is theory oriented in the first part of the thesis (literature review in Figure 1.1) and practice oriented in the following of the research (case study and conclusions). In fact, on one side the aim is to contribute towards the completeness in the field of research of the internationalization of the Italian manufacturing SMEs. On the other side the goal is to draw useful considerations and suggestions in response to a need of a company.

The research is positioned in the design phase of the intervention cycle (Verschuren, 2005) because, given a certain problem and its causes, strategic alternatives are searched to internationalize.

1.1.3 Research framework

The research framework (Verschuren, 2005) offers an effective visual representation of how the research objective is realized. It is depicted in Figure 1.1: numbers and letters correspond to the respective research questions, mentioned in the next sub-par. 1.1.4.

The project is divided in four main sections:

- Literature review: the starting point of the research (Chapter 2) provides the theoretical background on the topic internationalization strategy, according to its usefulness for the investigation at manufacturing SMEs level. It represents the basis for every future development of the project. In second instance this broad theme is restricted to the context of the Italian manufacturing SMEs (Chapter 3).
- Theoretical framework: in grey in the figure, it functions as connection between the literature review and the case study. It consists in the selection and operationalization of the significant findings from the literature review which suit the case study analysis (Chapter 4).
- Case study: the assessment of the firm's strategy on the base of the insights from the literature review leads to results (Chapter 5) and to the analysis of them (Chapter 6).
- Conclusions: in this final part the conclusions of the research and the recommendations for the internationalization of Imperia in the European market are summarized (Chapter 7).

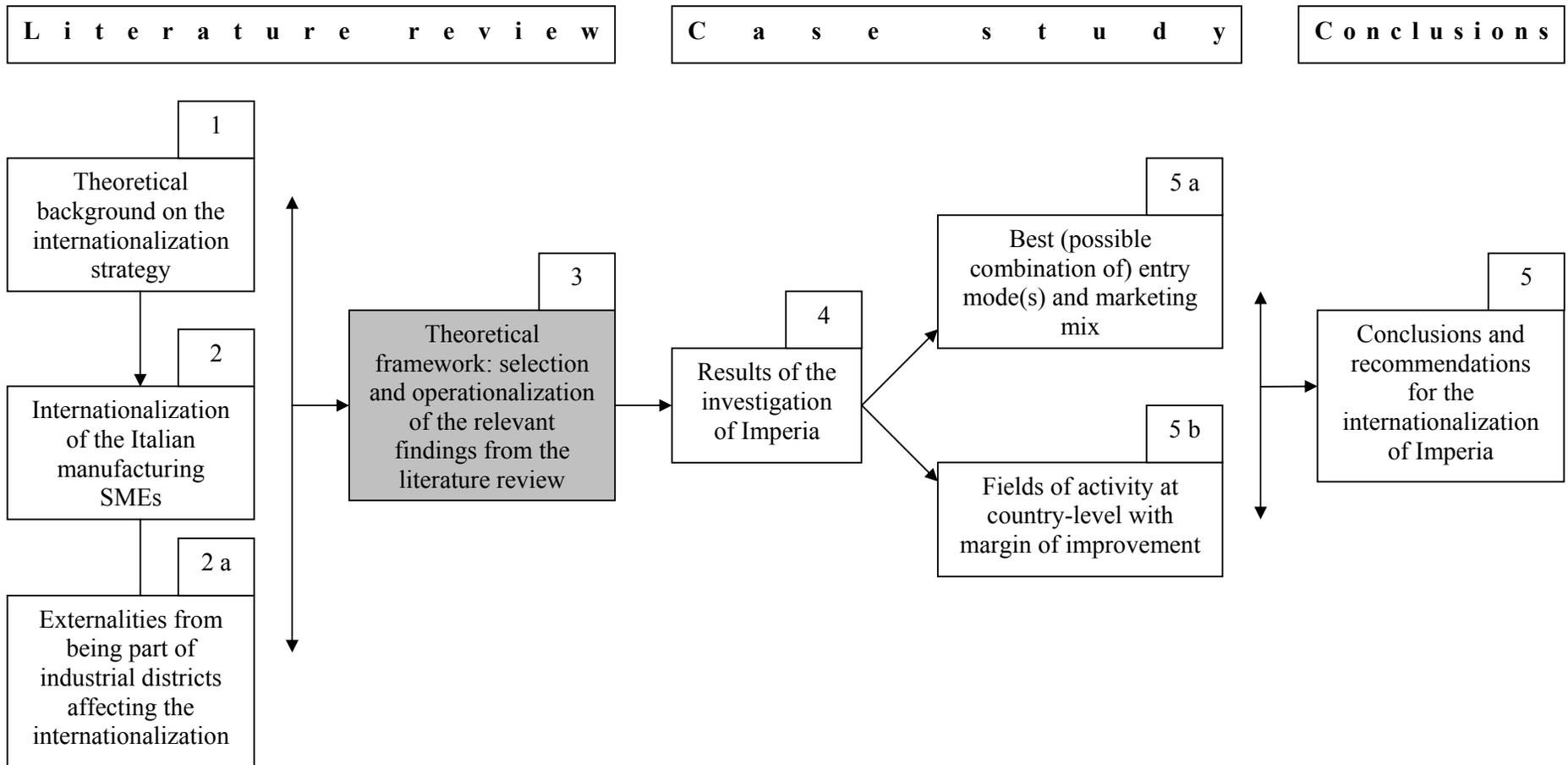


Figure 1.1 Research framework (Verschuren, 2005)

1.1.4 Research issue

The research issue is a description of the research questions which need to be answered in order to achieve the defined objective (Verschuren, 2005). General and sub-questions are marked with numbers and letters identifying the correspondent boxes in Figure 1.1.

General research question 1

What insights from the theoretical background on the topic internationalization strategy are critical for the analysis of the manufacturing SMEs?

General research question 2

What are the distinctive characteristics of the internationalization of the Italian manufacturing SMEs?

Sub-question 2 a

What externalities from being part of an industrial district positively affect the internationalization strategy?

General research question 3

What findings from the literature review are relevant to investigate the internationalization strategy of Imperia and how are they operationalized?

General research question 4

What are the results of the investigation of Imperia?

General research question 5

What recommendations can be provided for the internationalization strategy of Imperia in the European market?

Sub-question 5 a

What is the best (possible combination of) entry mode(s) and marketing mix for Imperia?

Sub-question 5 b

What are the fields of activity at country-level where Imperia has margin of improvement?

1.1.5 Definition of concepts

Some key concepts are often used in this research. The following list provides their definition:

- Internationalization strategy: it is the strategy adopted by a company to enter an international country/market. When a firm goes international, the strategic decision includes the entry mode (to penetrate a foreign target country) and the marketing plan (to penetrate a foreign target market) (Root, 1998). Chapter 2 presents a literature review on international entry modes and marketing mix elements.
- SMEs: according to the Recommendation 2003/361/EC, the European Commission defines as SMEs those companies whose headcount or turnover fall below certain limits. Three categories of firms are classified under the name of SMEs: medium, small and micro firms. Related values are showed in Table 1.1. Large enterprises are the ones whose limits fall above the limits of medium firms.

Table 1.1 European institutional definition of SMEs¹

Company	Headcount	Turnover (million €)
Medium	<250	<50
Small	<50	<10
Micro	<10	<2

- Manufacturing sector: it identifies the sector of economic activity where the prime materials are processed into end products. The prime materials are physical resources directly derived from nature (Badino, 2003). The manufacturing sector belongs to the concept of industry, which is traditionally composed also of agricultural manufacturing activities, extractive industry and constructions (ISTAT², 2001).

1.2 Technical research design

1.2.1 Research material

The relevant information are enclosed in several data sources, for which different methods of data generations are used, in order to get a deeper insight into the examined issues (source and method triangulation, Verschuren, 2005):

- Literature: it is essential to complete the literature review and to build the theoretical framework. At this regard, Chapter 2 is mainly based on management manuals on internationalization strategy: Root (1998) is a valuable source, but also Hollensen (2001) and Johanson (2000) are extensively cited. Chapter 3 relies on up-to-date books and articles from international academic journals on manufacturing SMEs, Made in Italy and industrial districts. Literature becomes accessible through content analysis.
- Documents: two large groups of documents are used: the first one constitutes the base for Chapter 3 and consists of institutional reports on the internationalization of the Italian manufacturing SMEs. The main study is represented by the General Census of Industry and Services, elaborated by ISTAT in 2001. The second source is needed for Chapter 5 and includes Imperia's internal and external documents, to investigate the internationalization strategy of the firm. Internal sources consist of strategic reports and data on turnover, external sources are country-data on the consumption of pasta and on GDP. They are assessed again through content analysis.
- People: three strategic samples of interviewees are selected, in order to maximize the validity of the results. First, managers of Imperia who deals with export activity. Second, experts on the internationalization of the Italian SMEs. Third, foreign customers of Imperia. Beside interviewing, participatory observation is a useful method of data generation.
- Media: the Internet is a reliable source for information contained in institutional web sites, as the ones of the European Union, the International Monetary Fund, the Italian industrial districts.

¹ http://ec.europa.eu/enterprise/enterprise_policy/sme_definition/index_en.htm.

² ISTAT is the Italian National Institute of Statistics.

1.2.2 Research strategy

The first two parts of the project (literature review and theoretical framework) are designed as a desk research: in fact the goal is to study selected issues on internationalization strategy, restrict the field of investigation to the Italian manufacturing SMEs and derive the critical aspects to prepare the analysis of the business case. Thus the use of existing material is essential to proceed. Conversely the research strategy that most suits the third part is a case study, as long as the try is *“to gain a profound insight into one or several objects or processes that are restricted in time and space”* (Verschuren, 2005, p. 163). The project is carried out as single case study, whose guidelines result from the literature review. A qualitative approach that understands phenomena from a point of view internal to the company is preferred. In fact, to better deepen the dynamics in Imperia, the initial two weeks are spent in the company to gather information. Typical of the definition of case study is also the use of labour-intensive methods of data generation, as face-to-face interviews consisting of open questions. This technique results more indicated than a written questionnaire, due to its higher flexibility and to its appropriateness to investigate issues in depth. Interviews are performed after the building of the theoretical framework and they are addressed to managers of Imperia, experts on the internationalization of the Italian SMEs and international customers of Imperia. The following par. 4.3 provides an accurate description of the methodology adopted for the case study.

Chapter 2 The theoretical background on internationalization strategy

2.1 Introduction

This chapter is designed to answer the general research question 1. Indeed it represents a review of the theoretical background on the topic internationalization strategy. Because internationalization is a broad theme, the most relevant insights are selected to provide the basis for the next development of the research, that is the analysis of the manufacturing SMEs. The learning from this section, together with the one from Chapter 3 on the Italian case, constitutes the theoretical framework which is suitable for the analysis of Imperia.

The approach taken here to investigate the theme of internationalization is qualitative and it is not country-specific: strategic aspects are described, while data and considerations at national level are set aside. Conversely, Chapter 3 is entirely dedicated to the internationalization of the Italian manufacturing SMEs, from both qualitative and quantitative points of view.

The structure of the chapter is organized hereinafter. Par. 2.2 starts with an opening discussion on the current importance of internationalization in the manufacturing business. Next, par. 2.3 orderly summarizes the motives which drive firm's international decisions. When a company has decided to go international, it has to choose the best (possible combination of) entry mode(s): par. 2.4 introduces both advantages and disadvantages of export, contractual agreements, production investments and strategic alliances. The chapter continues with listing the factors influencing the choice of entry mode (par. 2.5). Once a firm is sure about the mode to enter a foreign country, the best way to penetrate the market of that country has to be set: par. 2.6 discusses the marketing strategies on product, pricing, placing and promotion. The conclusive par. 2.7 summarizes the findings which are critical for the analysis of the manufacturing SMEs, formally answering the general research question 1.

2.2 The importance of internationalization in the manufacturing business

This paragraph briefly summarizes the reasons why internationalization is an important issue for manufacturing companies nowadays. It introduces the journey through the knowledge surrounding the subject.

The emphasis on the topic internationalization is determined by the worldwide competitive situation, which is not peculiar to the manufacturing sector only: as global communication rises up and trade barriers are lowered, new opportunities of entry and growth in foreign markets appear. For instance, traditionally multi-domestic markets, where local consumers' preferences strongly differ from one another's and from those in other countries, are increasingly turning into global market, where consumers' preferences are similar across countries. So the manufacturers gain advantages in coordinating activities not locally anymore, but among countries or at global level (Johansson, 2000).

The context is a world dominated by global and dynamic competition, where no market position lasts if attention to global customer's satisfaction and constant innovation are missing. As result, no markets can be defined as purely domestic anymore, because no markets are forever safe from foreign competition (Root, 1998). For instance, a local market where only national players operate can be penetrated by foreign entrants from the same business. The main learning for companies is that intense competition, in both domestic and foreign markets, forces them to be internationally competitive. Moreover, before the 1990s, the global business has been mainly in the hands of few multinational giants. Conversely, today the internationalization is an affordable

challenge for SMEs, due to their growth in developed economies and to technological improvements (Johansson, 2000).

Nevertheless, the entry process in foreign countries is not a compulsory choice at every costs. Not all the companies should go international, but they should think internationally in a world of global competition: whether they decide to enter foreign markets or to keep on operating in the home markets, they always face the presence of local competitors and the strategic entry of international competitors (Root, 1998).

Finally, looking at the European context, the creation of the EU in 1992 has steadily led to a fully integrated marketplace, counting 27 countries in 2007 and a potential of roughly 460 million consumers (http://www.europa.eu/abc/keyfigures/index_en.htm). Moreover the introduction, in 2002, of the Euro as single currency has been adopted by 13 countries so far (http://ec.europa.eu/internal_market/index_en.htm). From an economic perspective, the main goal is the free movement of people, goods, services and capital among the EU countries. As means, tariff barriers and custom duties are scrapped and uniformed; border controls abolished; national price controls eliminated; a common EU passport is created; a single loading document consents commercial vehicles to ship. As a result, doing business across borders is much easier and cheaper and it stimulates new opportunities of internationalization (Johansson, 2000).

In sum, today worldwide competition in both domestic and foreign markets forces manufacturing firms to be internationally competitive. This context implies that no market is forever safe from foreign competition. Therefore, although internationalization is not a compulsory choice at every costs, firms should think internationally even when they operate in domestic markets. Global communication and lower trade barriers make internationalization an affordable challenge for the SMEs. The creation of the EU and the introduction of the Euro constitute a further incentive to do business across national borders.

The next par. 2.3 details more in depth the motives that push manufacturing companies to internationalize.

2.3 The motives to go international

The different reasons behind the choice of a manufacturing firm to go international can be grouped in two main categories (Hollensen, 2001):

1. Proactive motives: they are based on the interest, coming from the firm's inside, to exploit unique competences and incentives to change strategic behaviour. They are listed as follows:
 - Profit and growth goals: the new entrant company, especially if SME, is usually willing to get profit and market share from immediate sales in the foreign country. A strategic reason to internationalize, more oriented towards long term goals, is searched later, after some success abroad (change from sales approach to entry strategy approach, Root, 1998).
 - Managerial urge: internationalization often reflects the desire of managers to continuously grow and expand the market, or to be part of an international company, or simply to travel international. Their international attitude can be determined by previous educational or professional experiences.
 - Technology competence/unique product: the awareness of disposing of unique technology or products is a powerful stimulus to enter foreign countries.

- Foreign market opportunities/market information: specific factors in the foreign countries' economies, as growth or opening to international trade, or internal marketing knowledge are reasons to internationalize.
 - Economies of scale: increasing the production for international markets can help in reducing the costs of production for domestic sales and make the firm more competitive at home and abroad.
 - Tax benefit: deferral of tax allows companies to offer their products at lower costs in foreign markets or to accumulate higher profits.
2. Reactive motives: outsider players, factors and situations represent elements of pressure or threats for the firm, that adjusts its strategy consequently. They are identified by:
- Competitive pressures: knowing that competitors are internationalizing provides a strong incentive to go international. Examples are the domestic entry of foreign competitors and the international entry of domestic competitors.
 - Small and saturated domestic markets: when the home market has a small potential or is saturated in terms of market share, companies are motivated to internationalize. In this regard, developing countries often need products for which the demand in industrialized countries is already declining. Furthermore, saturation suggests that unused productive and managerial resources exist within the firm: production slack stimulates the searching for new market opportunities and managerial slack can be used to provide and use market information.
 - Overproduction: when the firm's domestic sales are below expectation, the inventory can be above the desired levels: in this occasion, the expansion in international markets can help to solve the situation and to broadly distribute the fixed costs. However, if the intervention is just finalized to take the inventory back to its optimal level by cutting the prices in the short term, the firm ceases to export as soon as the internal demand increases: by doing this, the firm could face difficulties in internationalizing again in the future, because its customers could not be interested in temporary or sporadic business relationships.
 - Unsolicited foreign orders: an unexpected demand of products by a new international customer can make companies aware of opportunities in foreign countries.
 - Extended sales of seasonal products: when the seasonality in demand conditions is different in domestic market from international markets, firms can make use of it to expand their international activities.
 - Geographical, cultural and psychological distance: these factors play an important role in the international decisions of firms. Most of the European companies act out of their home market because neighbouring countries are very close. On the other side, sometimes the physical proximity between countries does not correspond to the same cultural and psychological closeness.

In conclusion, the motives which push firms to go international can be internal-driven (proactive motives) and external-driven (reactive motives). Most of the ones listed here suit the business case of Chapter 5.

2.4 The entry modes of internationalization

International companies can adopt different modes to enter foreign countries. The goal of this paragraph is to summarize the key characteristics of the existing entry modes, presenting both advantages and disadvantages.

The main literature sources are the manuals of Root (1998) and Johansson (2000), because they offer a complete overview of the modes adopted by firms to enter international markets, integrating theories to business cases. Given that these two authors classify the entry modes in different ways, which can lead to some confusion in the distinction between production investments and strategic alliances, a new categorization is proposed in Figure 2.1: it represents the four main categories (export, contractual agreements, production investments and strategic alliances) and the associated modalities. The decision to adopt such a frame comes from this consideration: Root (1998) considers sole ventures and strategic alliances as investment entry modes. However, the international entry through foreign branch/subsidiary, classified by Root as direct export, is an investment entry mode as well! To avoid any doubt, the present research separates the more specific production investments from strategic alliances and places the option of a commercial foreign branch/subsidiary below direct export.

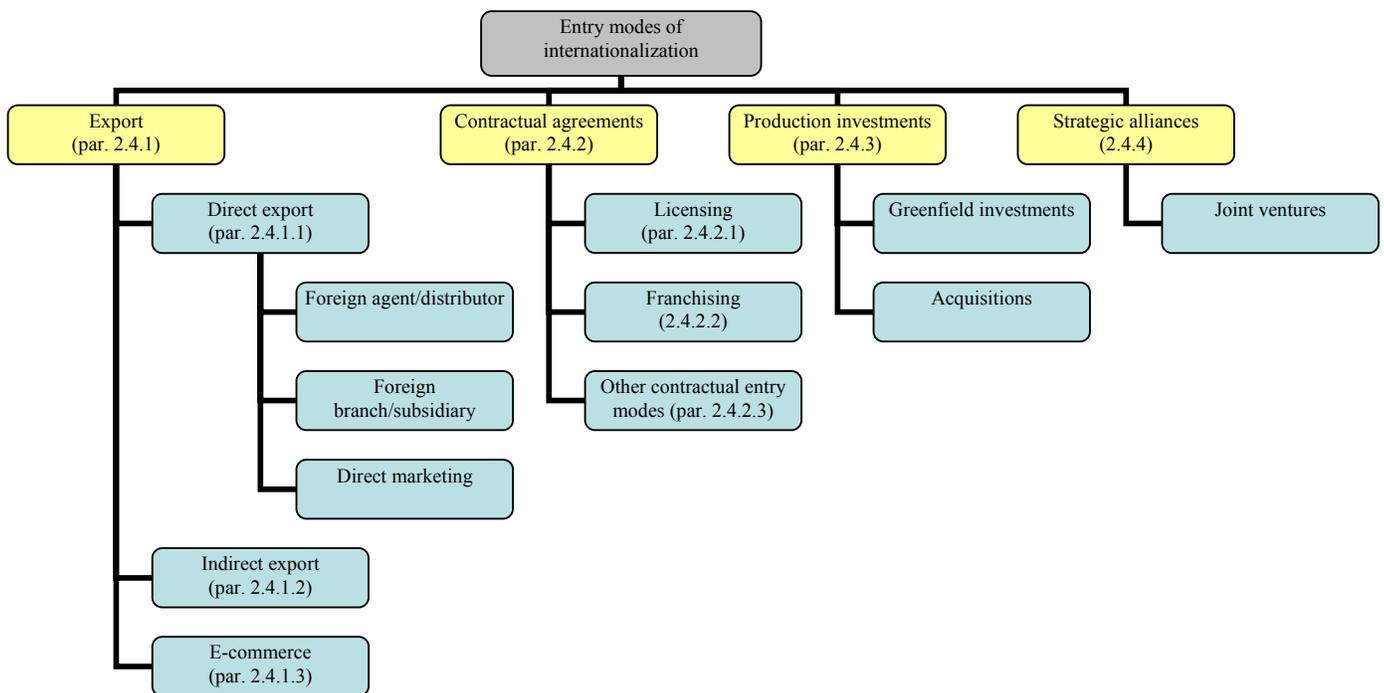


Figure 2.1 Entry modes of internationalization

No entry mode is better than others in an absolute sense. The decision taken always presents advantages on certain aspects and disadvantages on others. Therefore the end result of the decision making process requires a trade-off between different factors, such as profitability, resource commitment, risk, control and time dimension (Root, 1998, Johansson, 2000). The following Figure 2.2 depicts the possible paths of evolution of the different entry modes in a decision making process. The figure is useful to summarize the characteristics of each form in

terms of time horizon, risk and control. The indicated paths of development are ideal, since an initial entrant can directly opt for a joint venture or another equity-based mode.

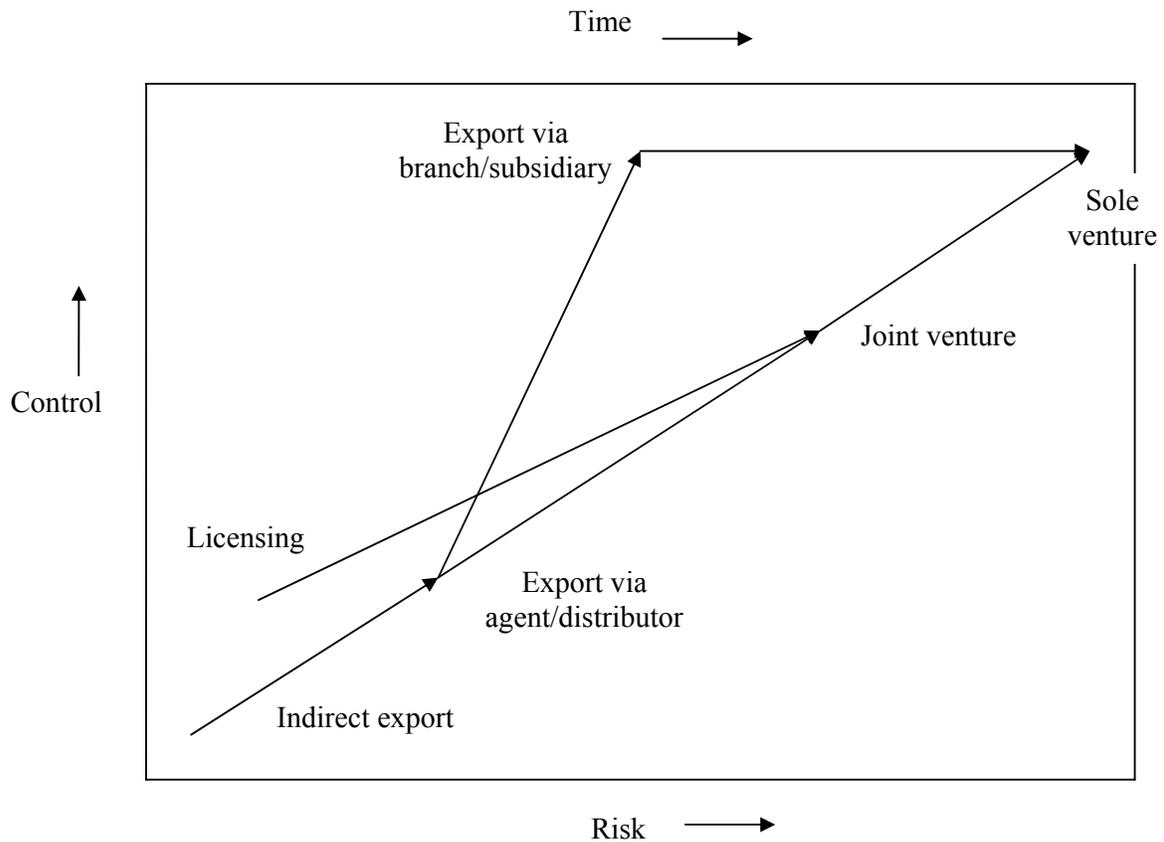


Figure 2.2 Evolution of the decisions on the proper entry mode (Root, 1998)

2.4.1 Export

The first international entry mode to be introduced is export. The concept of export is closely related to physical products. It involves the manufacturing of a company’s final or intermediate product outside the target country and the following transfer to that country.

Export is convenient when trade barriers, including tariffs, quotas and transportation costs, are low. Tariffs are often higher for end products, but lower for parts and components, so in some cases a solution is to export products which are not completely assembled. Tariffs are lower even when products have a certain level of local content or when import involves production for re-export.

Export is generally considered as a good entry mode for manufacturing firms who go international for the first time and thus lack confidence, information and experience. There are different advantages from this choice: no incremental investments in fixed capital, low start-up costs, few risks, profits on current sales. Moreover firms can benefit from this first international experience to test the new field of operation, develop strategic capabilities, obtain knowledge about foreign markets and ability to compete in them. That is why exporting activity is viewed as an international learning experience (Johanson, 1977). Figure 2.3 gives a representation of it: it shows that the perceived risk decreases as the knowledge of the foreign country increases, in

function of the time spent in exporting. When managers have accumulated more confidence and knowledge through direct experience, then they can consider entry modes which allow greater control (and also resource commitment and thus risk): in fact export is usually characterized by a low grade of control over operations.

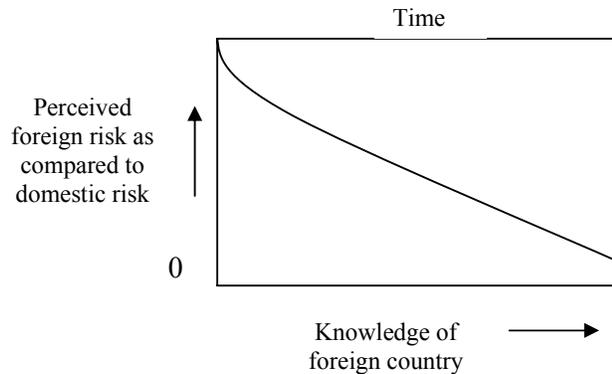


Figure 2.3 Exporting as a learning experience (Root, 1998)

According to the learning experience model, firms can follow a waterfall strategy: they first export step by step to the country markets perceived as closer, then to other mature and high growth markets, finally to less developed markets. Exporters find it natural to look for culturally or psychologically similar countries as potential partners, sometimes underestimating the risk of such a superficial choice: indeed most of the export expansion paths begin in countries where the intercultural synergies can be maximized. The explanation is mainly the desire to limit the transaction costs. While the learning curve goes to the right, companies gradually enter more countries perceived as culturally distant. Geographical proximity is only a part of the notion of cultural distance, that includes also individualism, uncertainty avoidance, masculinity, power distance and time perspective (Hofstede, 1983). Usually preferred by managers, the waterfall strategy allows an ordered expansion, the use of the same managers for different countries and it requires limited resources. However, in fast-moving markets this behaviour can be too slow. On the other side, the sprinkler strategy is the opposite model of the waterfall strategy. Exporters try to enter several country markets simultaneously or within a limited period of time. Adopted in response to global hypercompetition, this expansion model has the advantage to quickly penetrate markets and to generate first-moving advantage. The drawbacks are in terms of higher resource commitment and risk.

Traditionally managers adopt one of the two export entry modes, the direct or the indirect one: the distinction lies respectively in the absence and presence of an intermediary, an independent export agency in the home country. The next two sections describe their characteristics. In the end of the paragraph e-commerce is introduced, as long as it has become a parallel form of export for tangible products via the Internet channel.

2.4.1.1 Direct export

In the majority of the cases, direct export is based on the use of target country middlemen. It allows the manufacturer to play an active role in the penetration of the foreign market, by offering the following advantages: control over the foreign marketing plan, concentration of marketing efforts on the product line, information feedback from the target market which helps,

for instance, product adaptation and responsive pricing, protection of intangible properties as patents and trademarks.

However, this modality requires the company to carry on the responsibility for the marketing efforts, which increases start-up costs, risks and need of information (for example, about learning procedures and documentation of export operations, as shipments and payments).

Within direct exporting, the chain of subjects linking the exporter to the final buyers of its product in the target country (channel) can employ two categories of intermediaries (Root, 1998):

- Foreign agent/distributor: both the agent and the distributor are target country middlemen who market the exporter's products in it.
The former represents the manufacturer in the target country. He orders the manufacturer the goods, which are shipped directly to him, and he just sells them to other middlemen or final buyers, sometimes providing technical services. As simple salesman, he has no title on the manufacturer's products and his functions are limited: he seldom holds inventory or makes credit to customers. Therefore it is easier to control his behaviour. Last, his percentage on turnover is generally low.
The foreign distributor is an independent merchant who sales the manufacturer's goods as the agent. By contrast, he takes title of the products and performs more functions, as stocking inventories, extending customer credit, order processing, physical delivery, promotions, product maintenance and repair. This explains why his profit margin is higher and why he is more difficult to control.
In general, the option of using a foreign agent/distributor is usually preferred to enter a foreign market for the first time.
- Foreign branch/subsidiary: it refers to the exporter's own operating unit in the target country. By adopting this mode, the manufacturer has more central control over the channel, better if he calls directly on final buyers (full control) than if he calls on wholesalers and retailers (partial control). He can better benefit of it when the market potential is large. On the other side, a branch/subsidiary requires higher commitment, resources and equity investments in marketing institutions located in the target country: in fact, a substantial part of costs is fixed and is represented by office and storage facilities and permanent working capital (while in the agency/distributor channel costs are variable and linked to the sales volume). As result, the associated risks are higher than in the case of foreign agent/distributor.

A less usual form of direct export is direct marketing: the exporter directly contacts its final buyers in the target market. By doing so, he maximizes the control over the marketing channel. For instance, he can make use of mail-ordering or representatives working out of the home country. Telemarketing is a new but rapidly expanding mode which is particularly useful for small businesses and for initial entry.

In general, the shorter the channel used by the manufacturer, the greater his control but also his resource commitment and risk. Moreover, the exporter can use different channel types to penetrate one or more market. For instance, he can use a foreign agent to reach local or small distributors, and sell directly to multinational or large customers. Or he can use an agent to sell to the original-equipment market, and use a distributor to cover the replacement market.

2.4.1.2 Indirect export

The exporting operations are undertaken by an economic actor located in the exporter's home country (an international trading company, an export merchant, a resident foreign buyer, an

export commission house, an allied manufacturer, an export management company). He has the function of getting the product to the foreign market. Consequently the manufacturer has a marginal role in the marketing of his product abroad (Root, 1998).

Particular indirect modes are piggybacking, the use of transportation and distribution facilities of already exported products, and consortia, adopted by small exporters banding together to sell related or unrelated products abroad.

A positive aspect is that overhead and administrative costs in managing the affairs do not weight on the exporter. Moreover, he does not need great knowledge of the foreign market, therefore indirect export can be a good solution for a new, inexperienced company. Then, if the export management company is too successful, the producer can decide to break the contract and internalize the exporting function.

On the other hand, indirect export implies the producer does not have his own international entry strategy and the control over operations is limited. Skills and know-how developed through experience are accumulated outside the firm, not in it.

2.4.1.3 E-commerce

Electronic commercial activities enabled by the Internet represent another entry mode of internationalization for companies and they have exploded in the last 10 years. Internet constitutes a new, consumer-oriented distribution channel, that permits easy gathering of information and purchasing, pre- and post-sales services and loyalty building.

The market potential is estimated of about 150 million users in 2003 (<http://europa.eu/rapid>³). In 2006, the EU b2c market shows € 130 billion total turnover, 50% out of which is represented by sales of physical goods (<http://www.osservatori.dig.polimi.it>⁴).

Data on the structure of the EU players are a bit older: in 2001 EU retailers sell on-line only 7% of their products out of national borders, partly due to differences among e-markets in EU. They are less experienced than US competitors in creating innovative e-commerce businesses. EU consumers still lack of confidence in using credit card over the Net (Hollensen, 2001). Internet technology is much more developed in Northern EU than in the Southern part.

At country level, Sweden has developed a relatively advanced on-line market, but its absolute market size is small. Germany and UK are in the opposite situation, with lower levels of on-line retail penetration, but with big size of economy, and so they represent the most important EU e-markets. Italy and Spain have the least developed on-line retailing, even with a good market potential, while other continental countries are in an intermediate situation (Hollensen, 2001). About Italy, in 2007 the operators in b2c exchanges are expected to make € 5.3 billion turnover (+30% compared to 2006). Almost € 1 billion out of this is from exporting activity (+22% compared to 2006) and is mainly due to sales from the tourist sector (49% on the total export turnover). The weight of the physical products is still 5% of the total, suggesting that especially the opportunities for Made in Italy productions are far from being fully exploited. The situation points out that Italian data score lower than the statistics for EU countries: e-market is estimated of € 50 billion in UK, € 30 billion in Germany and € 16 billion in France. However the yearly growth rate of e-commerce in Italy is much higher than the EU average, showing high margins of improvement every year (<http://www.osservatori.dig.polimi.it>).

³ <http://europa.eu/rapid> is the institutional web-site of the European Union.

⁴ <http://www.osservatori.dig.polimi.it> is the web-site of the Observatory on ICT and Strategy, research branch of the Management School of Polytechnic in Milan. The Observatory was born in 1998 with the goal to study the b2c commerce.

2.4.2 Contractual agreements

Next to export, the second major category of entry mode to be discussed is represented by contractual agreements.

They identify long-term non equity associations between an international company and an entity in the target country, involving the transfer of intangible assets from the former to the latter. They differ from export because of the transfer of non physical products, although they may also create export opportunities. The absence of equity investments makes them different from investment entry modes (par. 2.5.3).

Here the different forms of contractual agreement are presented, starting with the most common, international licensing and franchising, and concluding with other minor modalities. Again, Root (1998) and Johansson (2000) are the main sources.

2.4.2.1 Licensing

Licensing identifies a contractual arrangement whereby a domestic company (licensor) makes available its intangible assets to a foreign company (licensee) for a defined period of time, in return for royalties, fees and/or other forms of payment. The transfer usually includes also technical services.

Licensing shows important advantages on export entry modes. First of all, the transfer of intangible assets is not subject to import restrictions: in fact, by licensing, the manufacturer circumvents tariffs increasing the costs and quotas limiting the quantity of export to the target market. For example, because of these restrictions the penetration of market in Communist countries often depends on licensing. In second instance, when export is no longer profitable because of too strong competition, licensing can be preferred. Third, the swing from export to licensing can be determined by a prolonged depreciation of the target country's currency. Fourth, licensing enables manufacturers to continue exporting by replacing the shipment of final products with the shipment of intermediate products to a licensee firm. Last, substituting export with licensing can solve the problem of high transportation costs.

Compared to entry by equity investments, licensing presents lower political risks: host governments prefer it as a way to get technology. Moreover, licensing is immune to expropriation, because the licensor does not own physical assets in the target country.

For a new entrant, it reduces the need of market researches and knowledge. It is also possible to induce the licensee to strongly support the product in the market, because he can develop new skills in the host country.

In case the manufacturer's product requires substantial physical adaptation to meet the needs of the target market, licensing permits to transfer much of the adaptation costs to the foreign licensee.

As a low commitment entry mode, licensing can be preferred by small manufacturers to direct export and equity investments, if the sales potential is particularly low or uncertain.

Besides to benefits, licensing presents also some limitations.

A prerequisite to use the entry mode resides in the possess of a technology, trademark, brand or company name which is attractive for the potential licensee.

The main disadvantage is the lack of control of the licensor over the marketing plan in the target country: the licensor remains dependent on the licensee's market performance. This disadvantage can be alleviated by developing a close working relationship with the licensee.

Compared to exporting and equity investing, income from licensing has absolute size: royalties rates seldom exceed 5% of gross revenues. Furthermore income is limited to the duration of the licensing agreement, usually 5 to 10 years. However, income is not confined only to royalties and the duration of the contract can be extended.

A commonly ignored drawback is the risk of creating a competitor in third markets or even in the licensor's home market: the licensee can use the licensor's technology to become his competitor and this commercial risk can be very high. Licensor can minimize it by contractually prohibiting the licensee to sell in countries where he is active, or by discontinuing the use of the licensed technology after the contract expires. However, these initiatives can be forbidden by the host government. Moreover, legal actions taken against a foreign licensee for contract violations are costly, time consuming and uncertain of success. Therefore the risk of creating a competitor has to be carefully assessed before starting the relationship. The same applies to the opportunity of using licensing as a way to explore the foreign market to make experience and gain knowledge to later entry in it.

The licensing agreement usually gives the licensee the exclusive right to use the licensed technology or trademark in the country. Hence, with respect to these assets, the licensor cannot use an alternative entry mode over the agreement. On the other side, the contract can allow the licensor to terminate the relationship for inadequate performance, or to acquire equity in the licensee, transforming the original arrangement in a joint venture.

Another drawback is linked to the nature of the intangible asset. This can be a patent (a public document issued by a government that grants to its owner the temporary right to exclude others from making, using, or selling the invention), a trademark (a name, device or symbol used by a producer to identify his product and distinguish it from others), a technology, a know how, a trade secret, a company or brand name. A company can license only under secure legal protection of its industrial property rights in the target country. The point is that the registration of the intangible asset in the home country does not ensure protection in foreign countries: patents and trademarks have only national validity. Furthermore, there is no single international authority that confers industrial property rights on a global basis.

2.4.2.2 Franchising

Franchising is a form of licensing in which a company (franchisor) licenses a business system as well as other property rights to another company (franchisee) in the target country. The former obtains fees, royalties and other compensation forms. The franchisee operates under the franchisor's trade name and follows policies and directives given by the franchisor.

This contract provides different advantages, as rapid expansion in the foreign market at low capital expenses, standardized marketing with a distinctive image, low political risk. Franchising differs from licensing mainly in a greater emphasis on control over the franchisee's operations: the franchisor has the right to inspect all aspects of the franchisee's operations. In addition, the contract is flexible, since the franchisor can terminate it after a trial period of one or two years. It is particularly attractive if a company cannot export a product to a target country, it does not want to make costly investments as producer there, and its production process can be easily transferred to an independent subject in the target country: in these situations products can be created with low levels of capital and skills. Furthermore, franchising is often used as transitional entry mode: the low risk can encourage the start of the franchising relationship to gain experience in the target country, then the contract can be replaced with joint or sole ventures, which confer more control.

The weaknesses are lack of full control over the franchisee's operations, the possibility of creating competitors, and the restrictions imposed by governments on the contractual terms. The franchisor has also to offer continuing support to the franchisee, in terms of logistic, training, financing, technical, accounting, merchandizing and promotional services. Moreover, the

franchising package has to be adapted to the political, economic and socio-cultural environment of the target country.

2.4.2.3 Other contractual entry modes

Original equipment manufacturing represents a mix of export, licensing and strategic alliance. It originates when a company enters a foreign market by selling its unbranded products or components to another company in the target country. Subsequently the latter markets the final products under its own brand name. Firms can consider this alternative entry mode when they face difficulties in finding access to distribution channels. For the supplier there is little or no expense in marketing its products and he can change strategy if the market potential is high.

Contract manufacturing is an arrangement where an international firm sources a product from an independent manufacturer in a foreign country and then markets that product in the target country or elsewhere. Contract manufacturing requires small commitment of financial and management resources, it allows for control over marketing and after-sales services and quick entry into the target country, avoids local ownership problems. It is especially attractive when the target market is too small to justify investment entry and export entry is too costly or is blocked by restrictions. Nevertheless it may be difficult to find a suitable local manufacturer, technical assistance can be required to help him and there is the risk of creating a future competitor.

Turnkey construction contracts are contracts where a company brings a foreign project up to the point of operation before that is turned over to the owner. An extension of the contract (turnkey plus) can obligate the contractor to provide services after the construction is completed, in order to prepare the owner to operate the project. Negotiations between parties are complex, time-consuming and expensive. Many turnkey contracts are with host governments and so they are exposed to political risks.

Management contracts give a company the right to manage the day-to-day operations of an enterprise in a foreign country. Management control is only limited to ongoing operations, thus the rights to make new capital investments, assume long term debts, decide on dividend policy are excluded. Management contracts are usually adopted within other arrangements, for instance to supplement joint venture agreements (cfr. par. 2.4.4). They are low risk entry modes, but income is also limited to fees for a fixed period of time, thus the company cannot build a permanent market position in the target country.

2.4.3 Production investments

Third, following contractual agreements, production investments are here described.

The peculiarity of production investments, which distinguishes them from strategic alliances, is the full ownership and control, by international companies, of production units in the target country. Therefore the latter are regarded as wholly owned manufacturing subsidiaries. Because of the full ownership and control exercised by entering companies, production investments are also called sole ventures.

The most common form of production investment is represented by foreign direct investments (FDI in the following), which show many positive implications. First, FDI entail the transfer of entire enterprises and so of managerial, technical, marketing, financial and other skills: therefore this entry enables companies to maximize the control and to exploit their competitive advantage in the target market. Second, local production means that price escalation can be drastically

reduced: this is because the entering company employs cheaper local inputs of labour, raw materials and energy, which can lower manufacturing costs. Investors can also save transportation and customs duties, decreasing the costs of supplying the foreign market; furthermore they can lower local turnover taxes, avoid quotas limitations and obtain high and uniform quality of supply in the target country. Last, FDI permit to create marketing advantages, by more easily adapting products to local preferences and purchasing power, by offering quicker and more reliable delivery of products, better after-sales service, direct distribution, local-company image; moreover, they increase the resources devoted to marketing operations, because of the higher risk involved in the investment.

For manufacturing companies, the rate of success of a first investment abroad is proved to be positively related to a prior export experience in the target country. In particular, a first export entry using foreign agents/distributors and then own sales subsidiaries/branches is likely to make the next investment more successful. Equity investment in foreign production is seldom used by manufacturers new to international business, because it requires a deep understanding of investment climate, market, competition and production in the target country. Then, after a first investment entry in a target country, a new investment entrance in other countries without prior entry experience becomes less risky.

On the other hand, investment entry requires high resource commitment, for instance capital, information and managerial need, which means high exposure to risk, commercial as well as political. Likewise, start-up costs are high, payback period is long and the possibility of disinvestment in the event of failure or strategic change is difficult. A potential problem can rise for products whose quality tends to be judged by consumers in reason of the “Made in” label (the indication of where a product has been produced): in fact, sometimes consumers reject a product when they realize it has been manufactured in a developing country.

In view of these constraints, strategic planning for investment becomes exceptionally important. Furthermore, companies can shift lower skills operations overseas and keep more advanced operations in the home country.

When entering a foreign country by production investments, the international company can establish the wholly owned subsidiary from scratch (greenfield investment) or acquire an existing local company (acquisition). As it is explained in the following, an advantage of the first over the second can also turn into a disadvantage. For instance, through acquisition the investor gets an enterprise with existing products and markets, thus the process of exploitation of the target market is faster than in case of new establishment. For the same reason, the payback period is shorter, as long as immediate income is created for the investor. But the success (or failure) is critically determined by the selection of the acquired company. Moreover, an acquisition is mainly an acquisition of people, with related managerial and technical skills: getting these resources, which can be scarce or not available, is the added value of this entry mode; of course this advantage is lost if the staff leaves the company after the acquisition. Another benefit that can become a drawback is the acquisition of new product lines, because they have to be similar to, or compatible with, the investor’s ones. Finally, for acquisitions the risk of official rejection is higher: indeed host governments, even in industrial countries, view acquisitions of local companies by foreign investors in a less favourable light than new ventures started by foreign investors.

2.4.4 Strategic alliances

The review on international entry modes is concluded by a part on strategic alliances. These cooperative arrangements are set up between firms, sometimes competitors, across borders. They are based on the sharing of assets, technology and information between partners. Strategic alliances can be equity- or non equity-based: the most common form of the former is the international joint venture, where ownership and control are shared between the foreign company and one or more local partners. Non equity-based collaborations consist of partnerships, agreements to share, contractual participations in projects. In this sub-paragraph joint ventures are introduced as the most adopted form of strategic alliance.

Joint venture occurs when the foreign company shares capital and other resources with a local company or a public actor in a common endeavour. Depending on the equity share of the international company, joint ventures can be classified as majority, minority, or 50-50 ventures.

Joint ventures are discussed by Root (1998) in contrast to sole ventures (production investments), showing opposite advantages and disadvantages. For instance, joint venture brings benefits to the foreign partner through the local partner's contributions, in terms of local capital reducing investments and risk exposure of the foreign partner, knowledge of the host country and business practices in it, personal contacts with local actors, management, production and marketing skills, and local prestige. Among these positive aspects, the key advantage is the knowledge of the local partner about the environment and his skills in dealing with it. This is particularly important in case of culturally distant countries. Basically, each partner enters a joint venture to gain the skills and the resources possessed by the other. Then, skills and resources of the local partner can be exploited when combined with those of the foreign partner. Sometimes the selection of a joint venture instead of a sole venture entry is determined by the prohibition or discouragement of the second one by governments in developing countries; analogue situation is ordinary in Communist countries, where sole ventures are never allowed.

Drawbacks of joint ventures when compared with sole ventures are stated as follows: the international company has less control over the agreement, especially if it is in a position of equity minority: therefore the most direct way to avoid the loss or dilution of management control is through majority ownership. In contrast, a sole venture enables the company to carry out its own strategy in the target country and to gain all the profits. Furthermore, a joint venture can raise conflicts of interests between the two partners: hence, the most critical decision when starting a joint venture regards the choice of the local partner; then when the relationship has begun, mutual trust and understanding are the core factors of success. Finally, the transfer of technology in joint ventures is often problematic, because know how risks to be diluted by sharing information.

2.5 The factors influencing the choice of entry mode

Now that the theoretical knowledge on the alternative entry modes has been provided, it is important to select the most appropriate one(s). At this purpose, a wide range of variables influences the choice. Depending on the specific situation, some of them favour and some others limit a certain entry mode. They are here presented according to the distinction in internal and external factors (Root, 1998). The list provided by Root is extensive on one side, because it includes a large variety of factors, but it is very general on the other side: it provides rules of thumb, with the indication that the best entry mode has always to be evaluated in a situational analysis. Therefore, in the theoretical framework of Chapter 4 some of the following factors are selected to choose the best entry mode, in reason of their relevance for the business of Imperia.

External factors: they are divided in four categories (Root, 1998):

1. Target country market factors:
 - Size: small markets favour entry modes with low breakeven sales volumes (indirect and agent/distributor export, licensing and other contractual arrangements), while markets with high sales potential justify entry modes with high breakeven sales volumes (branch/subsidiary export and equity investment in local production).
 - Competitive structure: atomistic markets (many non dominant competitors) favour export, oligopolistic (few dominant competitors) and monopolistic markets (one dominant firm) require entry via equity investment in production. When competition is judged as too strong, licensing or other contractual modes are preferred.
 - Marketing infrastructure: when good local agents or distributors are absent or are already used by other exporters, a branch/subsidiary entry mode is suggested.
2. Target country production factors: when raw materials, labour, energy, other productive factors and infrastructures, as transportation and communication facilities, are available at high quality and low costs, local production is encouraged. The opposite situation is suitable for export.
3. Target country environmental factors:
 - Trade policy: negative values in the balance of payment lead to import restrictions, as high tariffs, quotas and other barriers, which discourage export in favour of other entry modes. Similarly, a restrictive foreign investment policy is an obstacle for equity investments, sole ventures and acquisitions in favour respectively of other primary modes, joint ventures and new establishments. Moreover, depreciation of the exchange rate of the national currency in relation to a foreign currency makes equity investment in that country profitable but export inconvenient.
 - Geographical distance: high transportation costs due to long distances discourage export in favour of other modes.
 - Economy form: equity entry is suitable for market economies but it is not possible in centrally planned socialist economies, where export, licensing and other contractual modes are necessary.
 - Economy dynamics: high rate of investment, high growth rate of gross national product and personal income and high change in employment justify entry modes with an high breakeven point.
 - Socio-cultural factors: distance determined by striking language, cultural values, social structure and lifestyle favours non equity entry modes which limit a company's commitment in the target country.
 - Political risks: political instability or threat of expropriation favour non equity investments.
4. Home country factors:
 - Size: big sized markets favour the growth of companies at home and their following internationalization via equity entry modes. Vice versa, companies in small market countries are more attracted to export.
 - Competitive structure: in oligopolistic contexts, production investment entry modes are considered a good answer to export or licensing adopted by competitors. In atomistic markets, companies are used to go international via export and licensing.

- Production factors: high production costs in the home country relatively to the target country encourage production investments, licensing and contractual manufacturing.
- Trade policy: when home governments offer tax and other incentives to export but they are restrictive on FDI, companies find easier to internationalize via export and contractual entry modes.

Internal factors: they are identified as (Root, 1998):

1. Product factors: highly differentiated products often give high margins on sales, which permits to absorb transportation costs, import duties and competition in the target country: thus export entry is indicated for high product differentiation. Conversely, contract manufacture and equity investment are suitable for standardized products, which compete largely on price. Products requiring considerable adaptation or pre- and post-purchase services are better marketed via branch/subsidiary exporting and local production modes. Licensing is appropriate for industrial products with high technological content.
2. Resource/commitment factors: the more abundant the resources, the more numerous the entry mode options. High availability of resources and willingness to commit them favour equity entry modes.

Summarizing, the factors influencing the choice of entry mode are divided by Root (1998) in external factors (target country market, productive and environmental factors and home country factors) and internal factors (product and resource/commitment factors). In reason of their relevance for the company under study, several factors are selected in the theoretical framework in Chapter 4, in order to assess the best entry mode for the firm.

2.6 The marketing mix plan

Once a firm has decided how to enter a foreign country, the next issue is how to penetrate the market of that country, by designing global policies on product, pricing, placing and promotion. The theoretical background for this part is represented by the classical definition of marketing mix (Kotler, 2003), properly adjusted for the entry in international markets. The traditional four elements are discussed by focusing on selected aspects, as it has been done for the entry modes. In fact, issues as branding strategies, “Made in” products, high quality building strategy, distribution channel processes and promotion through trade fairs turn out as particularly useful in the investigation of the manufacturing SMEs. Indeed these themes are relevant in the study of the Italian experience of internationalization (Chapter 3) and in the business case analysis (Chapter 5).

The book of Hollensen (2001) represents an ideal source of knowledge here, since it views the internationalization strategy from a specific marketing perspective. Root (1998) is used to integrate it.

2.6.1 Product

The first dimension of the marketing mix plan is represented by product. Product-related decisions do not involve only core physical properties, but also additional elements, as branding, packaging and after-sales services. The attention in this paragraph is on branding strategies, in reason of their importance for the next development of the research.

International firms have a range of possibilities in deciding about their branding policies, represented in Figure 2.4.

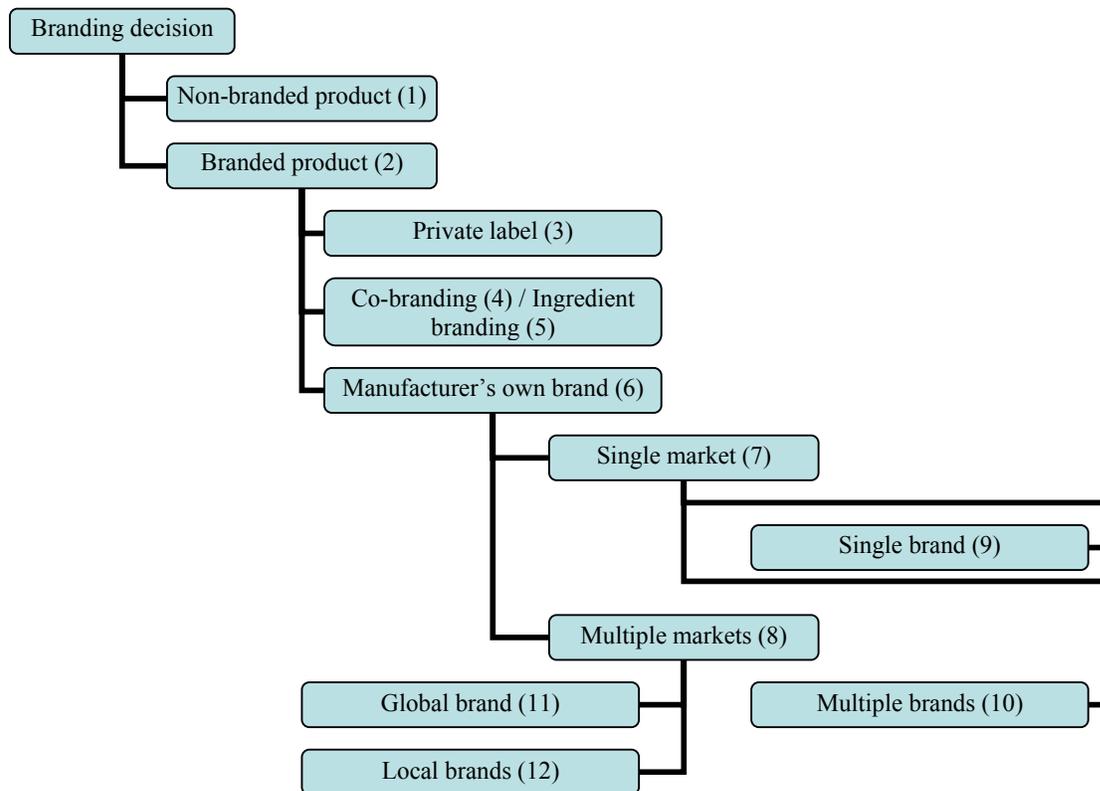


Figure 2.4 Branding decisions (Hollensen, 2001)

For simplicity, the correspondent numbers in the figure are reported in the following section, that describes advantages and disadvantages of each option.

First, the use of branding (2) differentiates a product from its competitors, creates identification and awareness, stimulates brand loyalty, guarantees a certain level of quality and satisfaction and is usually compensated by a premium pricing, but involves high costs. Vice versa, a non-branded strategy (1) is less expensive but can lead to severe price competition and lack of marketing identity.

When choosing to adopt a brand, the second choice is between private label, co-branding/ingredient branding, or manufacturer's own brand.

With private labelling (3) the firm externalizes the control of the brand, by producing a good that another company (usually a retailer) will market with its own brand. This strategy is suitable for SMEs with limited financial resources and competences in downstream functions, or for firms who need access to the shelves of retail chains. It can also results in new export businesses for SMEs without international experience and it can be an opportunity to absorb excess production capacity. Drawbacks for manufacturers are the same as for non-branded policies, plus a loss of control over the promotion of their goods and the possibility that private brands cannibalize their brand name products. On the side of retailers, private labels provide better profit margins and

strengthen the retailers' image with customers. Today the quality gap between private label and brand name products is narrower than in the past. The practice of private labelling is much more developed in Northern than in Southern European countries (Hollensen, 2001).

Co-branding (4) is a form of cooperation between two or more brands with significant customer recognition, usually for complementary products. It can develop synergies for participants, by sharing the costs and creating higher value than the value they would generate on their own. For instance, combined powers can more easily gain access to retailers' shelves. Conversely, consumers can become confused. Ingredient branding (5) applies when the promotion of a key component brand of a product is initiated by the ingredient supplier of that component: simultaneously, also the manufacturer of the main product benefits from the recognized ingredient brand. To be successful, the ingredient supplier has to offer a product with a substantial advantage over existing products. As said, he carries out promotion costs.

If the manufacturer decides to develop his own brand (6), he can gain the above mentioned benefits of branding strategies, with consequent better bargaining power and control of distribution. However, it can be difficult for SMEs to promote their unknown brands.

At third level of decision, there are two alternative paths of own brand strategy: indeed companies can enter single (7) or multiple foreign markets (8).

When penetrating a single market, a single brand (9) has a higher impact on consumers, eliminating confusion, attracting their attention on it and convincing them that each product has the same quality or meets certain standards. This solution is good for products with good reputation. Its main limitations are in the assumption of market homogeneity and in limited shelf space for one brand. The other choice is to market several brands on a single market (10): it creates competitive spirit and gains more retail shelf space. Moreover, it is convenient in case of heterogeneous market consisting of different segments, but entails high marketing and inventory costs.

A company entering multiple target markets simultaneously can use the same global brand (11). This option is indicated when a product has good reputation or is known for its quality: in such a situation, it is wise to extend the brand name to other items in the products line. So advertising costs and brand confusion are reduced and marketing efficiency and uniform world wide image are achieved. However, also here market homogeneity is assumed and there is the risk of getting a negative connotation for all the products under the global brand. The alternative is the adoption of several local brands (12). They allow responsiveness through local identification and variation of quality and quantity across markets, that is not possible with global branding. On the other hand, marketing and inventory costs are higher for many different brands than for a unique brand.

Other interesting issues on product strategies are briefly described here. First, product newness has two dimensions: newness to the market (consumers or channel members) and newness to the company. Both of them increase the risk of market failure for the product. Second, the concept of product life cycle provides useful inputs to formulate product strategies. For instance, young products usually require investments to finance their growth, while others in maturity phase generate more cash than they need. Third, the increasing awareness of the importance of environmental preservation on a global scale is becoming a critical variable in purchasing decisions of some consumers' segments and in governmental policy making. As consequence, managers are paying more attention to the environmental impact of their strategic decisions on products. Last, with product quality becoming the cornerstone of global competition, companies are increasingly conscious about the importance of standard performance certification, as ISO 9000, as part of a total quality management approach.

2.6.2 Pricing

This second section summarizes the range of the pricing decisions which can be adopted by an international firm.

In domestic markets, price setting is a quite straightforward decision: it mainly consists in estimating production, management and marketing costs and in adding an appropriate profit margin to them. In contrast, in international markets pricing strategies are much more complex, because of the influence of new external factors. For instance, the choice of entry mode affects pricing policy, as a manufacturer with a subsidiary in a foreign country has a high level of control over the price setting in that country. Since tariff levels vary from country to country, there is an incentive for exporters to somewhat vary the price among different countries. An increase or a decrease in target market's currency value permits to respectively increase or decrease the prices of the exported products. Moreover the customers' ability to pay and the nature of competition can affect the pricing decisions of international firms.

Price escalation⁵ is also of critical importance: indeed exporters should pay attention to the effects on price at final consumption, not only on price they charge to importers: the reason is that price paid by consumers plays a key role in determining the foreign demand of a product. At this regard, there are several strategies to counter price escalation (Hollensen, 2001):

- Rationalizing the distribution process, by reducing the number of links in it through integration or avoidance of some channel members.
- Lowering the export price from the factory, thus reducing the multiplier effect of all the mark-ups.
- Establishing a local production within the foreign market, to eliminate some costs.
- Pressurizing channel members to accept lower profit margins, that is easier if they are dependent on the manufacturer for much of their turnover.

Pricing decisions include setting the initial price as well as changing the established price of products from time to time. The next two sections make this distinction clear.

Entry pricing strategies

When a product is new to the target market or is in the introductory phase of its life cycle, companies can choose between the following pioneer strategies (Hollensen, 2001):

- Skimming pricing: it consists first in setting a high price to earn quick profits in the short time, before competitors respond with substitute products at lower price; then in gradually lowering the price to target more segments of consumers and make more of the product available. By adopting this solution, the firm trades off a low market share against a high margin. Skimming is a low risk strategy aiming at a quick return with minimum marketing effort, but it cannot build a long run market position because of the competitors' responses. Patent protection can slow down the competitive reaction. The success depends on product uniqueness, the willingness to pay the high price by market segments and the ability and speed of the competitive reaction. It can be a good strategy for a SME who has limited production capacity to serve the target market, cannot finance the cost of long-run market development and sees market potential as highly uncertain. Dangers are described as it follows: firms with low market share are vulnerable to aggressive local competition; maintenance of high quality products

⁵ Price escalation is the increase in price of products along the supply chain (Hollensen, 2001).

requires a lot of resources and a visible local presence, which can be difficult in distant markets; skimming can develop grey markets⁶.

- Penetration pricing: it stimulates market growth and gets market shares by deliberately offering products at a relatively low price. In this way the firm builds a dominant market position which can be defended against competitors. It is willing to accept losses in early years as investments to develop the market. This behaviour is indicated in presence of mass markets, price-sensitive consumers, intensive local competition, production and marketing capacity to support volume sales and reduction of unit costs through scale economies. The strategy fails if competitors reduce prices to a correspondingly low level. Furthermore a low price can make the product not credible to consumers anymore.
- Market pricing: if similar products already exists in the target market, it is possible to set the final customer price basing on competitive prices. It is a suggested strategy for commodity-like products, mildly differentiated in the eyes of buyers. Company has a little pricing discretion because price is a critical variable in purchasing decisions.
- High quality building strategy: for highly differentiated products, companies are inclined to create a high quality image, which suits a comparatively high price. This is because consumers identify price as a good indicator of quality. Such a strategy can be unprofitable until the high quality image of the product is established in the market. It is necessary to persuade the target segments of the high product quality and to make them willing to pay a premium price for that. It is a mistake for companies to believe that its high quality image in the home market can be easily transferred to a foreign market without marketing efforts in it.
- In an oligopolistic market with few mayor competitors a new entrant is better to focus on non-price marketing efforts, as product improvement, promotion and distribution, since competitors can quickly match its price strategy.
- Buying international market entry: price is fixed below the costs hold by the firm, to undercut competitors. It is a dangerous strategy, because it invites price retaliation by competitors, with resulting losses for everyone, antidumping and other forms of protection by the host government. It can become unprofitable in the short as in the long run.

Since manufacturing companies often use channels with independent intermediaries (agents, distributors, wholesalers and retailers) to reach final consumers, their pricing policies might not be applied downstream the supply chain. For instance, resellers can discredit a high quality product or a consolidated brand in consumers' minds by applying wild discount policies. Therefore it is important to convince the closest customers that they will gain more by following the manufacturer's pricing strategy than setting prices on their own.

Price changes

Prices are changed when a new product has been launched or when changes occur in overall market conditions. The degree of flexibility enjoyed by managers in modifying pricing policies tends to be higher for new products than for existing products: in fact the latter are less unique, face stronger competition and target a broader segment of the market. Moreover, price changes usually follow changes in stages of product's life cycle: as product matures, more pressure is put on price, to keep the product competitive despite increased competition and less possibility of differentiation. Sometimes, in modifying pricing strategies, related decisions have also to be

⁶ The grey market phenomenon represents the importing and selling of products through market distribution channels which are not authorized by the manufacturer (Hollensen, 2001). It will be discussed again in par. 2.7.3.

considered: for instance, if an increase in price is required, increased promotional efforts are wise, at least in the beginning.

Prices can change across products and countries. With across-product pricing, products in portfolio can be differentiated by pricing them appropriately to indicate, for instance, the economic, the standard and the top line version. Or products can be strategically priced to protect against competitors or to gain market share from existing competitors: for example, products with less competition can be priced higher to support other items in portfolio. Vice versa, pricing some products very low can induce some target segments to try them. Price bundling allows to set a comprehensive price for customers who simultaneously buy several items within the product line. The buy in-follow on strategy consists in pricing low a certain product to stimulate the purchase of it (buy-in) and in the sequent sale of some linked products or services at a relatively high price (follow-on).

In coordinating prices between different countries, companies can choose between price standardization and differentiation: the former involves the setting of a price for a product as it leaves the factory and the application of that price in all the markets where it is sold. It is a low risk strategy, with no attempts to respond to local condition and to maximize profits. The second allows agents, distributors and local subsidiaries to set the most appropriate price for local conditions. At this other extreme, no attempt is made to coordinate prices from country to country. Weaknesses are the lack of control of the headquarter over the set prices, the differences in prices in adjacent markets, which can have a bad impact on the image of the company, and the creation of grey markets. Europe has been a price differentiation paradise as long as national markets have been separated. Now the buying power of international retail groups and the phenomenon of grey markets have pushed companies to standardize prices across countries.

2.6.3 *Placing*

Third, when entering foreign markets, managers have to decide where to place their products. This paragraph describes the main placing strategies of international firms.

A first important choice regards the structure of the distribution channel: there are three alternative distribution networks, which imply different length⁷ and width⁸ of the channel:

- Intensive coverage (wide and long channel): the product is distributed through the highest number of different types of intermediary and the highest number of individual intermediaries of each type. Long channels tend to be associated with convenience goods (goods of large consumption, frequently purchased because indispensable) and mass distribution, that results in increased prices at final consumption (price escalation). Table 2.1 represents the factors influencing the channel width for the three forms of market coverage: it is clear that the choice of distribution is tightly related to the type of product to be placed.
- Selective coverage: a number of intermediaries for each area to be penetrated is chosen. The length and width of this channel present intermediate characteristics between the other two extreme solutions.
- Exclusive coverage (short and narrow channel): only one intermediary in the market is selected. This option is indicated for products with opposite attributes to intensive distribution, as Table 2.1 shows.

⁷ The channel length is determined by the number of individual intermediaries of each type (Hollensen, 2001)

⁸ The channel width is determined by the number of different types of intermediaries (Hollensen, 2001)

Table 2.1 Factors influencing channel width (Hollensen, 2001)

		Channel width		
		Intensive distribution	Selective distribution	Exclusive distribution
Factor	Product type	Convenience products	↔	Speciality products
	Product life cycle stage	Mature products	↔	New products
	Product price	Low price products	↔	High price products
	Brand loyalty	Brand preferred products	↔	Brand insisted products
	Purchase frequency	Frequently purchased products	↔	Infrequently purchased products
	Product uniqueness	Common products	↔	Distinctive products
	Selling requirement	Self service products	↔	Personal selling products
	Technical complexity	Non technical products	↔	Technical products
	Service requirements	Limited service products	↔	Extensive service products

Once defined the channel structure, channel control is of critical concern to international marketers, to establish well known brands and a consistent image of quality and service worldwide. Control over the channel is defined as the ability to influence decisions and actions of other channel members. A high degree of control is provided by the use of the firm's own sales force in international markets. In fact the use of intermediaries leads to loss of control over the marketing of the firm's products. Furthermore, there is a trade-off between the degree of control over the channel and the financial resources required to exercise it.

Another way to exercise control is integration, a process of incorporation of all the channel members into one channel system under the same leadership and set of goals. Integration can be of two types:

- Vertical, when control regards the channel members at different levels of the channel (i.e. manufacturer, wholesalers and retailers)
- Horizontal, when control is over the channel members at the same level of the channel (i.e. only wholesalers or retailers).

Vertical integration can take two forms, forward (towards the end of the channel) and backward (towards the beginning of the channel). It derives that:

- Manufacturers can make forward integration, when seeking control of business of wholesalers and retailers.
- Wholesalers can make both backward integration, when seeking control of business of manufacturers, and forward integration, when seeking control of business of retailers.
- Retailers can make backward integration, when seeking control of business of manufacturers and wholesalers.

Integration is achieved through acquisition or tight cooperative relationships: the first one implies ownership, while the second one has become essential for efficient and effective channel operations.

In par. 2.6.2 the grey market phenomenon has been introduced: it represents the importing and the selling of products through market distribution channels which are not authorized by the manufacturer. It occurs when the manufacturer uses significantly different market prices for the same products in different countries, when the value of currencies fluctuates across countries and when a distributor has an oversupply of a certain product. The result is the purchase of branded goods at a low price in one market and the sale of them at higher price in another market. The solutions can be a legal action, often expensive and time consuming, the introduction of a differentiated product for each market, the minimization of price differential between markets, the cooperation with customers or the restriction of discount schedules offered for large orders.

2.6.4 Promotion

As part of the last marketing mix element, the five promotional channels (advertising, public relations, sales promotions, direct marketing and personal selling) are presented in this subparagraph, according to the classification given by Hollensen (2001).

Promotion in international marketing identifies all the forms of cross-cultural communication initiated by sellers and addressed to channel members to provide them the information they need to make purchasing decisions. Usually the seller is the initiator of the communication process but, when seller and buyer have already established a relationship, the move is first made by the buyer (reversed marketing).

Managers need to have clear ideas of who they should address with promotion, if their direct customers, final consumers, other channel members or a larger audience. Moreover, when entering a foreign market for the first time, they should understand that consumers in that market are likely to know little or nothing about the company and its specific products, however well known they may be in the home market. But foreign consumers have already formed judgements about managers' country and products: typically, some countries are celebrated and others have a bad reputation for certain products. These "Made-in" images are a mixture of facts and conventional stereotypes. Consumers will confront them with the products, resulting in benefits or detriments to the promotional effort. Usually people have favourable national self-images but less good opinions of other countries. The learning for international managers is that knowledge of "Made-in" images can be very helpful in planning promotional strategies for foreign markets.

Advertising

As one-way method of communication, advertising is considered one of the most visible form of promotion and the most important part of the communication mix for consumer goods, since a large number of small-volume customers can be reached through mass media. Advertising aims both to increase the sales from existing customers and to get new customers.

Here the different media are briefly introduced: television is expensive but commonly used to reach broad national markets; in most developed countries the medium has large geographical coverage but it is one of the most regulated (time of television advertising is restricted in EU countries). Radio is lower cost broadcasting activity than television, it is often transmitted on a local basis and so national campaigns have to be built area by area. Daily newspapers are accessible to population within all urban areas of the world; they tend to be predominantly regional and thus they are used as primary media by local advertisers. Magazines have narrower readership than newspapers and they serve to reach specific segments of consumers for selected businesses: for instance, they are quite effective for technical and industrial products. Cinemas are usual places to show advertising commercials before the movies, especially in developing countries. Outdoors advertising includes posters, billboards, shop signs and transit advertising; their use is frequent in urban areas. Television, radio and widely distributed printed media are

used to promote consumer-products, while specialized print media are more indicated for industrial-products.

Public relations

Public relations constitute a cheap and very effective word-of-mouth advertising. Traditionally it is regarded as a channel for mass promotion but, in a more market-oriented sense, the commercial message is usually directed towards an influential, though relatively small, target audience of editors and journalists who work for newspaper and magazines, or towards broadcasting aimed at firm's customers and stakeholders. Examples are sponsorship of events, press releases of news, announcements of promotional campaigns.

Sales promotion

Sales promotion regards any short-term effort intended to supplement or strengthen other forms of promotion. It is primarily directed to consumers and retailers. It includes price discounts, catalogues, brochures, letters, samples, gifts, point-of-purchase displays, exhibitions, shows, demonstrations and seminars. Sometimes these sales aids are used to improve the performance of the company's salesmen abroad.

Direct marketing

Direct marketing covers direct mailing, telephone selling and e-marketing. Direct mailing offers a flexible, selective and cheap means of reaching foreign customers. Its effective use is subject to the preparation of a suitable mailing list (marketing database). As direct mailing, telemarketing is used for both consumer market and business-to-business purposes. It can be used to obtain orders and to conduct fast and low-costs market researches. The possibilities offered by the World Wide Web as commercial tool to export have already been introduced in par. 2.5.1. Here the Internet is regarded as valuable and inexpensive device to communicate internally and with customers and other business overseas, to make market research, to market and promote products and corporate image through websites. The potential of the Internet can be exploited especially by SMEs to reduce market entry costs and to develop niche strategies which target specific customers (Stonehouse, 2004).

Personal selling

It is a face-to-face, two way communication process, with immediate feedback and less noise (from competitors communication) than advertising. It is an effective but also expensive way to sell products. It can be used in the final stage of the communication process between buyer and seller, after direct mailing and phone calling, to turn hot customer candidates in real customers. When international companies employ foreign agents or distributors, personal selling in the target market is usually left to them. There are three kinds of intermediaries:

- People operating in a foreign country for a home company: they have good knowledge of the firm's products, history and policies but not of the foreign market. They are the most expensive solution for a company.
- People operating in the home country for a foreign company: they are the most used, because of their market and cultural knowledge, language skills and familiarity with local business traditions. They need product training and it can be difficult to ensure their loyalty.
- People operating in a foreign country for a foreign company: they have linguistic abilities and cultural sensitivity. Drawbacks are similar to the previous ones.

Another form of personal selling is represented by international trade fairs. They are concentrated events where manufacturers and distributors display and describe their products and services to current and potential customers, suppliers, other business associates and the press. The main advantage is that buyers and sellers from different countries are brought together at one place and time. Traditionally trade fairs have been regarded as a personal selling tool, but today they are mainly an excellent environment for non-selling activities as information exchange, relationship building and channel partner assessment: for instance exhibitors can consolidate relationships with old customers or start new contacts; they can gather vital information quickly, easily and cheaply about their competitive environment and learn from it; they can generate awareness of their product brands and company names. On the other side, customers can examine and compare products of different firms. Also SMEs without extensive sales force have the opportunity to present their products to important buying companies on the same face-to-face basis as their larger rivals. The choice of the appropriate fair is a critical decision. Moreover, considering the high costs in terms of subscription and time of preparation, participation to trade fairs is indicated for firms looking for involvement in long-term business relationships, not for short-term sales.

Personal selling is considered to be the most effective promotion channel, as measured by the ratio of sales made to the number of sales contacts. However the costs per sales contact can be very high, because of the costs to participate to trade fairs and to finance sales representatives abroad.

2.7 Conclusions

This conclusive section answers the general research question 1, that is reported here:

1 What insights from the theoretical background on the topic internationalization strategy are critical for the analysis of the manufacturing SMEs?

Today worldwide competition in both domestic and foreign markets forces manufacturing firms to be internationally competitive. This context implies that no market is forever safe from foreign competition. Therefore, firms should think internationally even when they operate in domestic markets. Global communication and lower trade barriers make internationalization an affordable challenge for SMEs. The creation of the EU and the introduction of the Euro constitute a further incentive to do business across national borders (par. 2.2).

When a firm enters a foreign country, it can adopt the following entry modes of internationalization:

- Export: it involves the manufacturing of a product outside the target country and the following transfer of it to that country (par. 2.4.1). It is classified in:
 - Direct export: based on the use of target country middlemen, it permits to play an active role in the penetration of the country, but involves higher costs and responsibilities (par. 2.4.1.1).
 - Indirect export: an economic actor located in the exporter's home country deals with export. It leads to lower costs in managing the affairs abroad but also to a marginal role in marketing the product and to a lower development of skills and knowledge of the foreign market (par. 2.4.1.2).
 - E-commerce: it allows easy information gathering, added services and loyalty building. The opportunities of e-commerce for Made in Italy goods are far from being fully exploited (par. 2.4.1.3).

- Contractual agreements: they are long term non-equity associations between an international company and an entity in the target country, involving the transfer of intangible assets from the former to the latter (par. 2.4.2). The most common forms are:
 - Licensing: a company (licensor) makes available its intangible assets to a foreign company (licensee) for a defined period of time, in return of a payment (par. 2.4.2.1).
 - Franchising: a company (franchisor) licenses a business system or other property rights to a foreign company (franchisee), in return of a payment (par. 2.4.2.2).
- Production investments: they consist of the full ownership and control, by an international company, of production units in the target country. They maximize the control in the foreign country, reduce price escalation and build local-company image (par. 2.4.3). They can be:
 - Greenfield investments: the establishment of a subsidiary from scratch.
 - Acquisitions: the purchase of an existing local company.
- Strategic alliances: they are cooperative arrangements between firms across borders, based on the sharing of assets, technology and information. They can be equity or non equity based. The most common equity-based alliances are joint ventures, where ownership and control are shared between the foreign company and one or more local partners. Joint ventures represent a sharing of skills beyond assets, through the local partner's contributions (par. 2.4.4).

The factors influencing the choice of entry mode can be divided in external factors (target country market, productive and environmental factors and home country factors) and internal factors (product and resource/commitment factors). The choice of entry mode has to be evaluated according to the specific characteristics of the business case under study (par. 2.5).

When a firm enters a foreign market, it can adopt the following strategies of marketing mix:

- Product: a own branding strategy enhances differentiation, identification, awareness, loyalty, quality, bargaining power and premium price, but also costs. A non-brand strategy is less expensive than a branding strategy but can lead to severe price competition and lack of marketing identity. The quality of private labelled products is getting closer to the one of brand named products (par. 2.6.1).
- Pricing: a high quality building strategy is suggested for products at high differentiation, quality and strong image. Consumers see price as an indicator of quality and they are willing to pay a premium price for it. Across-product pricing leads to product differentiation. In the European market, the buying power of international distributors and the grey market phenomenon push firms to standardize prices, which is a low risk strategy but without attempts to respond to local condition and to maximize profit (par. 2.6.2).
- Placing: an exclusive coverage of the distribution channel suits products at high speciality, uniqueness, newness, high price, high brand loyalty, infrequently purchase, high technology content, personal selling and extensive service. Control over the channel is increased by the use of own sale force in international markets and by forward integration. The latter is achieved through acquisition or cooperative relationships among channel members (par. 2.6.3).
- Promotion: it includes advertising, public relations, sales promotions, direct marketing and personal selling. The knowledge of "Made in" images can help in planning promotional strategies in foreign markets (par. 2.6.4).

The findings from Chapter 2 constitute an helpful learning for Imperia, the company under study, and indeed they are part of the theoretical framework built in Chapter 4. However, in reason of their low specificity, they need to be integrated by empirical insights at country level, which are the subject of the next Chapter 3.

Chapter 3 The internationalization of the Italian manufacturing SMEs

3.1 Introduction

After the review of selected issues on internationalization strategy in Chapter 2, the focus of the research moves now to the internationalization of the Italian manufacturing SMEs.

As the company under study is an Italian manufacturing SME producing Made in Italy goods, the goal here is to generalize distinctive characteristics of the internationalization of the manufacturing SMEs at country level (answer to general question 2). The insights will be translated in a theoretical framework (Chapter 4) that will be useful to formulate questions for the analysis of the business case (Chapters 5 and 6). In fact, after making clear the reasons why certain strategies are adopted, the empirical findings will be used as a further source of learning for Imperia, next to the more general insights from Chapter 2.

The structure of the chapter is organized as follows.

Par. 3.2 concentrates the analysis on the Italian manufacturing SMEs. In first instance this economic subject is described in its main characteristics, as to number of firms, employment, size, geographical distribution and sector. In second instance, a definition of Made in Italy is provided, because the products so labelled often identify the goods produced by the Italian manufacturing SMEs.

Par. 3.3 discusses the experience of internationalization at national level. Indeed the Italian manufacturing SMEs present some specific characteristics in their internationalization strategies, as to management styles, entry modes and other aspects as niche strategies. These themes are extensively investigated (answer to general question 2). The paragraph is closed by presenting the insights on a particular business sector, the one of the pasta machines, which is the main subject of Chapter 5.

Following the more general sections on the Italian manufacturing SMEs and on their internationalization, par. 3.4 introduces the Italian industrial districts, phenomenon which is typical of the Italian economic development. As for the manufacturing SMEs in par. 3.2, the industrial districts are first defined, again with the help of quantitative information. Then, the externalities which have a positive impact on the internationalization strategy are inspected (answer to sub-question 2a). It is also verified if these advantages are reproducible for firms not belonging to industrial districts, that is the case of Imperia.

In a parallel way to Chapter 2, the last par. 3.5 recaps the significant findings of the analysis.

Information sources in this chapter are distinguished in quantitative and qualitative. On one side, the main quantitative source is the Eighth General Census of Industry and Services, carried out by the Italian National Institute of Statistics (ISTAT). Although this study is dated 2001, it represents the most recent institutional research on the Italian economy⁹. Moreover it allows the interpretation of complete and reliable information. The majority of data and figures here presented are taken from it¹⁰. On the other side, qualitative sources can be distinguished in three categories: researches on the internationalization of the Italian manufacturing SMEs, taken from

⁹ The fact the research has been carried out in 2001 leaves a gap of seven years of changes in the Italian economy, although data have been published only in 2005. The relevance of this gap is countered by the mentioned advantages of the study.

¹⁰ Firms-related values are rounded for excess at the third last digit. Employees-related values are rounded for excess at the third last digit and they are in conformity to the Recommendation 2003/361/EC of the EU Commission (cf. par. 1.1.5). Turnover-related values are rounded for excess at the second last digit. Percentages are expressed in integer and rounded for excess values, except the ones on turnover where a higher level of precision is required (approximation for excess at the first decimal value).

international academic journals and books; theories from the Italian school of thought on the industrial districts; more recent institutional studies on the internationalization of the Italian manufacturing SMEs.

3.2 The Italian manufacturing SMEs

3.2.1 A comprehensive picture

This paragraph furnishes an overview of the Italian manufacturing SMEs, introducing their structure in terms of number of firms, employment, size, geographical distribution and sector.

The screening of data generates an immediate understanding of the role played by the Italian manufacturing SMEs in the Italian economy. Table 3.1 shows their relevance in terms of firms (13% of the total firms in Italy), quite a significant amount when considering that they almost cover the entire manufacturing industry. Furthermore, the percentage of employees in manufacturing SMEs represents a higher 24% of the national employment, which confirms the weight of this sector on the whole.

Table 3.1 The role of manufacturing SMEs in the Italian economy (ISTAT, 2001)

Variable	Italian economy	Manufacturing SMEs	% of manufacturing SMEs on Italian economy
Firms	4.084.000	541.400	13%
Employees (.000)	15.713	3.776	24%

The structure of the entire Italian manufacturing sector per firm's size is illustrated in Table 3.2. In terms of number of firms, the typology of SME constitutes a dominant entity, representing almost 100% of all the manufacturing firms in Italy. Besides to this, more than 80% of the manufacturing companies are micro firms with 0 to 9 employees. However, while the percentage of large companies on the total is almost irrelevant, the employment in them has a consistent weight on the whole (23%): here small companies employ the highest percentage of people (32%), followed by micro, large and medium firms with similar amounts. The employees in manufacturing SMEs count for 77% of the total employment in the Italian manufacturing industry. The reason is in the presence of few but large-sized manufacturing companies, as multinationals, employing a large amount of people, which compensates for their small number.

Table 3.2 Manufacturing firms and employees per firm's size (ISTAT, 2001)¹¹

Firm's size (number of employees)	Firms	% on the total	Employees (.000)	% on the total
Micro (0-9)	447.900	83%	1.182	24%
Small (10-49)	82.600	15%	1.552	32%
Medium (50-249)	10.900	2%	1.042	21%
Large (\geq 250)	1.500	0%	1.119	23%
Total	542.900	100%	4.895	100%

The Italian manufacturing industry is renowned for the prevalence of micro-firms, which is a structural phenomenon mentioned as "dwarfism". A more recent ICE¹² study on EUROSTAT

¹¹ Data on turnover per firm's size are not available.

¹² ICE is the Italian National Institute for the Foreign Trade, in direct collaboration with the Italian Ministry for the International Trade.

data (ICE, 2004, in Bruno Biancone, 1999) compares the size structure of the Italian manufacturing sector to other European countries: the relevance of SMEs in the Italian productive system is proved by higher values (in terms of number of firms, employees and turnover) than UK, Germany, France, Spain and Romania. The next par. 3.3 will show that firm's size influences the decisions of internationalization and that the old paradigm of "small is good", in vogue in the 1970s (Bruno Biancone, 1999), does not work anymore in the new international context.

No data are available on the geographical distribution of the manufacturing SMEs. Here the situation of the Italian manufacturing companies per macro-area is reported (see Table 3.3). More than a half of the manufacturing firms are located in Northern Italy, historically the first industrialized region of the country. South and Centre follow with similar percentages.

Table 3.3 Italian manufacturing firms per macro-area (ISTAT, 2001)¹³

Area	Firms	% on the total
North	301.200	55%
Centre	113.000	21%
South	128.600	24%
Italy	542.900	100%

In Table 3.4 the first five sectors of the manufacturing industry are classified in rank of firms and employees. It results that the largest industry is the production of metal and metal products. Other traditional product categories, typically recognized as Made in Italy, occupy the following positions. The divergence of rank in mechanics, which is low as to number of firms but high as to employees, might be motivated by the large size of the companies in this business.

Table 3.4 Italian manufacturing sectors per number of firms and employees (ISTAT, 2001)

Sector	% of firms on the Italian manuf. industry	Sector	% of employees on the Italian manuf. industry (.000)
Metal	18%	Metals	17%
Textiles and clothing	13%	Textiles and clothing	13%
Food, drinks and tobacco	12%	Mechanics	12%
Electric and optical	10%	Electric and optical	9%
Wood	9%	Food, drinks and tobacco	9%

In sum, the Italian manufacturing SMEs represent a significant part of the Italian economy (13% of firms and 24% of employees) and cover almost the whole of the manufacturing firms. The most relevant feature is the small size of companies in the manufacturing industry (more than 80% are micro firms), which will turn out to be a constraint for the internationalization process (cfr par. 3.3). More than a half of the manufacturing SMEs are located in Northern Italy, the first industrialized region of the country, and they are specialized in typical Made in Italy product categories.

The next sub-paragraph discusses the Made in Italy, concept that identifies a large part of the goods produced by the Italian manufacturing SMEs.

¹³ Data on employment per macro-area are not available.

3.2.2 *The Made in Italy*

Buying a Japanese camera, a German sedan or an Italian garment means an implicit guarantee of quality for consumers, due to the good reputation of these national products (Mariotti, 2003). Institutional and academic researches often mention the export flows of the Italian manufacturing SMEs with reference to Made in Italy. However Italy is not generally known as a nation whose firms have a competitive advantage in many industries (Porter, 1998). For instance, traditional high-tech products do not belong to Made in Italy (Mariotti, 2003). Rather, the expression Made in Italy identifies only specific categories of Italian manufacturing goods, mainly produced by SMEs localized within industrial districts or other productive systems (Fortis, 1998): thus, industrial districts or not, typical of the Made in Italy is the production of particular goods, belonging to one of the following four macro-categories (Fortis, 2005):

- Personal care goods (e.g. Armani, Gucci, Prada)
- Home furniture (e.g. Alessi, Guzzini, Bialetti)
- Food (e.g. Parma ham, Parmesan Cheese, Modena balsamic vinegar)
- Mechanics (e.g. Ferrari, Aprilia, Riello)

The link with Table 3.4 results straightforward and substantiates the relevance of the Made in Italy within the Italian manufacturing sector.

Other features are the intense circulation of knowledge within productive clusters of firms and the generation of innovation among local producers. Furthermore, to be targeted are the specific needs of niche segments of intermediate and final consumers (Becattini, 1998). Par. 3.3 on internationalization will discuss more extensively the concept of niche strategy.

The main strength of the Made in Italy lies in its power as label: indeed the Italian manufacturing products benefit from a label of origin that is internationally known and reproduced, whose commercial value is comparable to the own brand's one (Fortis, 2005). It is relevant to observe that the Made in Italy label does not indicate that a labelled manufacture has been completely produced in Italy: indeed, according to the EU legislation, a product is considered as made in the country where the last substantial transformation has taken place (Picchi, 2005). The important implication is that the Made in Italy can be applied to Italian goods whose phases of the production process have been outsourced, typically by FDI. However it is equally essential to assess if these products, compared to products wholly manufactured in Italy, have the same impact on the buying decisions of final consumers.

In order to safeguard goods which are entirely produced in Italy, in 2005 the Italian Government introduced the "100% Italy" label (Venturini, 2005). This label can be applied on the "*end products whose invention, design, project, processing and packaging take place entirely on the Italian territory, using prime materials, even if imported, and intermediate products [...] entirely produced in Italy*" (Law 30 May 2005, no 3463, <http://www.senato.it>¹⁴).

From a quantitative point of view, on the base of ISTAT data, in 2001 the share of Made in Italy on the whole manufacturing sector is estimated of 76% in regard to the number of firms, of 65% in regard to employees (Edison Foundation, 2001¹⁵, in Fortis, 2005). Moreover, Italy is the first world exporter for most of the sub-categories of the above stated Made in Italy sectors, which represent together 57% of the whole Italian manufacturing export (Edison Foundation, 2001, in Fortis, 2005).

¹⁴ <http://www.senato.it> is the web-site of Senate of Italian Republic.

¹⁵ The Edison Foundation is one of the most important Italian research institutes specialized on local productive systems and industrial districts.

Here are recapitulated the remarkable points. The Made in Italy represents a dominant part of the Italian manufacturing sector (>2/3 of the firms in it) and it identifies the goods mainly produced by SMEs which do not necessarily belong to industrial districts. The product categories are personal care goods, home furniture, food and mechanics. Brand power and niche strategy constitute factors of success. The Made in Italy label can also be applied to goods whose production phases are located abroad. In order to overwhelm this lack, the “100% Italy” label is designed for the products entirely produced in Italy.

3.3 The internationalization strategy

This paragraph is the most extensive section of Chapter 3 and it is designed to answer the general research question 2. Indeed the distinctive characteristics of the internationalization of the Italian manufacturing SMEs are inspected, in regard to management styles (par. 3.3.1) and entry modes (par. 3.3.2). The last part (par. 3.3.3) presents the insights on a particular business sector, the one of the pasta machines, which is the main subject of Chapters 5 and 6.

3.3.1 The influence of management style on internationalization

The Italian entrepreneurs of the manufacturing SMEs are distinguished by a specific management style. This first sub-paragraph describes the positive characteristics of it and the negative ones, because the way firms are run significantly affects the strategic decisions of internationalization.

Typical characteristic of the Italian manufacturing SMEs is a widespread but limited entrepreneurship, which is dependent from production and commercially oriented to home country. Especially micro and small firms are characterized by a model of entrepreneur as “defender”, who is experienced in his specific, technical area of activity but who has limited business education (Bruno Biancone, 1999).

Italian entrepreneurs are resourceful in improvising: they are imaginative innovators in process technology, able to adjust to changes, circumvent constraints and adapt to new rules of the game, which leads to positive results on internationalization (Porter, 1998). However the international process is hindered because the entrepreneurs favour the management of internal activities, to reach the efficiency of current operations. They also find difficult to market the product on a large scale. At this regard, scarce linguistic skills represent an obstacle to any internationalization (Bruno Biancone, 1999).

As cultural consequence of strong family ties, family ownership and management is a typical Italian phenomenon: this is often associated to high degrees of individualism, long term orientation and affection to the firm, industry or region (Porter, 1998), but also to scarce dynamism (Bruno Biancone, 1999). For instance, the entrepreneurs tend to have low propensity to search for new productive combinations which imply radical changes in technology, innovation, structure and operative methods. Their actions are modelled by a specific business idea that systematically excludes other options. This brings weak tendencies for firm’s growth and development (Bruno Biancone, 1999).

Manufacturing SMEs count on informal communication flows and unstructured organizations. This results in productive specialization, creativity, fast decision making process, direct contact with markets and customers and adaptability to better respond to customers’ needs (Bruno Biancone, 1999; Mariotti, 2003). Despite this flexibility, Italian entrepreneurs seek for control and independence and they are involved in virtually all the firm’ s activities (Porter, 1998). Usually the smaller the firm’s size, the stronger the role of the owner and the influence of his

goals, experiences, competences and knowledge on the (international) development of the company (Bruno Biancone, 1999).

In sum, authors describe the managerial characteristics of the Italian manufacturing SMEs in terms of improvisation, individualism, affection to the working place, productive specializations, creativity, fast decision making, flexible structures and responsiveness to customers' needs. However, these elements of strength, which are at the origin of the international competitive advantage, are matched by typical weaknesses, as limited business education, focus on internal activities and current operations, poor linguistic skills, scarce dynamism and involvement in virtually all the firm's activities.

3.3.2 *Entry modes*

Entry modes are presented in the same order of Chapter 2 (export, contractual agreements, production investments and strategic alliances), for the sake of clarity.

3.3.2.1 *Export*

This first sub-paragraph starts with strategic considerations and integrates them with recent data on turnover.

The main motivation to export for the Italian manufacturing SMEs is to be searched in firm's size. Indeed the literature on the Italian experience has highly argued the relationship between firm's size and:

- Export propensity (the probability of being exporter): different authors (Bonaccorsi, 1992; Sterlacchini, 1998; Becchetti, 2001; De Toni, 2001) are inclined to consider export propensity as positively dependent on firm's size: reaching a minimum efficient size is a precondition for entering foreign markets (Bonaccorsi, 1992).
- Export intensity (the percentage of export on total turnover): academic findings are contrasting. On one hand, some researchers (Sterlacchini, 2001; Majocchi, 2005) find a positive relationship between firm's size and export intensity. On the other hand, some scholars (Bonaccorsi, 1992) point out that firm's size and export intensity are not correlated, overturning some widely held assumptions in the international literature on export: the high export intensity of Made in Italy products by SMEs is an example that supports this position.
- Export performance (the turnover from export activity): this variable is significantly affected by the intensity of the expenditures on innovation (Bonaccorsi, 1992; Sterlacchini, 2001; Basile, 2003), especially on design, engineering and trial production (Sterlacchini, 1998). In this regard, to be important for SMEs is product innovation, which suggests that entrepreneurs should better improve product quality than reducing costs and cutting prices (Sterlacchini, 2001).

The small size of the Italian manufacturing companies is associated to scarce financial, managerial and technological resources, risk aversion and lack of information and contacts with foreign markets (Bruno Biancone, 1999; Manuelli, 1999). For this reason firms overcome size-related limitations by adopting export activities based on niche strategy. Niche strategy consists in targeting small segments (niches) of the market and in becoming specialist in some products, end uses, customer groups, quality levels or channels (Rao, 1998). For manufacturing SMEs it represents an effective way to penetrate foreign markets, also because large firms find difficult to operate in specific segments and to offer personalized solutions (Mariotti, 2003). Niche strategy suits particularly the Italian case, whose companies avoid standardized products and operate

successfully in small segments with their own style or customized product variety (Porter, 1998). Manufacturing SMEs often focus on a certain phase of the production process, pointing at a specific segment of customers with a restricted product line, in selected geographical areas (Bruno Biancone, 1999). Targeting small high-income segments permits to get profitable margins, mostly if the product belongs to the traditional sectors of the Made in Italy: it was the case of the clothing industry in the 1990s, when SMEs realized cooperative agreements in rich niche markets, as Japan. Vice versa, strong import dynamics caused a loss of price competitiveness to the Italian SMEs, especially in medium and low quality product segments (Berra, 1994). Niche and small-sized firms show very high export intensity ratios and appear to be among the leaders in their market segments on a global scale. Furthermore, coupled with broad geographic scope and precocity in entering foreign markets, these companies frequently rely on social and business network relationships (Zucchella, 2007). Niche markets for SMEs can be small in terms of volumes and served customers but geographically wide reaching (Zucchella, 2001, in Majocchi, 2007). For these reasons, export represents the most common entry mode for Italian manufacturing SMEs.

Historically, the typical feature of the Italian manufacturing industry is not the scarce propensity toward internationalization but the strong preference for export activity (Randaccio Sanna, 1997), a tendency which is also confirmed for the specific businesses of Made in Italy (Rolfo, 1992; Berra, 1994). For instance, the traditional and more competitive manufacturing sectors show a higher export/FDI ratio than the other science-based, scale-intensive and less competitive ones (Manuelli, 1999). It has to be considered that export is a risky activity when firms have just few international customers. Nevertheless, the composition of the country-portfolio of the Italian manufacturing SMEs has been improved with time, becoming more equilibrated (Bonaccorsi, 1997).

Also the discussion of quantitative data on export turnover considers the relationship with firm's size. Table 3.5 confirms that the export turnover of the Italian manufacturing companies is directly related to firm's size: in fact, although numerically SMEs represent nearly the whole of the Italian manufacturing companies (cfr. Table 3.2), their exporting activity exceeds just 50% of the total manufacturing export. The largest part of the turnover comes from large firms, because of the high percentage of exporting firms in this category and the considerable amount of sales due to scale economies. Medium, small and micro companies follow. These conclusions are also confirmed out of the manufacturing sector, where large companies, numerically 1% of the total Italian firms, make more than 40% of the national export turnover (ICE, 2006). Furthermore, a positive correlation between firm's size and the number of supplied foreign markets is registered, because of the higher amount of resources available in large firms.

Table 3.5 Export turnover of Italian manufacturing industry per firm's size (ICE, 2006)

Micro (0-9)	Small (10-49)	Medium (50-249)	Large (≥250)	Total (%)	Total (million €)
5.2%	16.7%	30.4%	47.7%	100%	247.430
52.3%					

Looking at the evolution of data in the period 2000-2005 brings more interesting considerations. The total turnover from the manufacturing sector registers a growth of 16.5% (ICE, 2006): this rate is mostly determined by the increase of medium and large companies, while micro and small firms show lower growth rates, a trend that is also current in the whole Italian economy. Thus the situation emerging from the ICE elaboration indicates that firm's size increases the probability of success in international markets. In fact, growing the export turnover, large firms achieve the best results, especially in the most important markets, Europe and Eastern Asia, and limit the loss

in North America, where the Euro-Dollar exchange penalizes Italian export (ICE, 2006). About this last aspect, the depreciation of the US Dollar and the Chinese Renminbi, whose value is closely linked to the former, determines a loss in competitiveness of the Italian productions and, at the same time, favours Chinese export. The entity of the problem is increased by the fact that, before the Euro system, the Italian export benefited from a significant devaluation of the Lira since 1992 to exploit the international competitiveness of its products (Fortis, 2005; IPI, 2006). Such external factor favoured the internationalization of the Italian manufacturing firms, stimulating especially the export activity of the SMEs (Basile, 2003). Beside the fluctuation of currencies, the small size of the Italian manufacturing companies represents a real limitation also in relation to the following aspects (Becattini, 1998, MAP, 2005¹⁶; IPI, 2006):

- The low bargaining power with the international large distribution, always more oriented to reduce costs and purchase Asian lower quality products. This problem exists also towards foreign industrial companies which prefer cheaper intermediate products from suppliers in Eastern Europe or Asia to the Italian ones.
- The difficulty to develop strongly recognized brands, which allow the implementation of commercial strategies in high-value product categories, in opposition to the increasing price-based competition from Asia. Italian manufacturers are trying to abandon lower margin productions and to concentrate on goods at higher quality, design and service content: in this way they can consolidate competitive advantages in segments where competitors at lower labour costs can more difficultly out-compete them.
- The obstacle to pursue an effective internationalization process, especially to penetrate fast growing countries at high potential, as the Chinese one.
- The difficulty to dedicate more resources to R&D, in order to improve the innovation rate.

Moreover, an analysis of the most recent data (ICE, 2006) observes that the central role traditionally attributed to the sectors of Made in Italy does not find a full confirmation in up to date numbers (see Table 3.6). First of all, Italian export depends on manufacturing goods for 96.5%, a considerable percentage. However, typical sectors of Made in Italy, as textiles, clothing and food, express a minor weight than the one showed in terms of firms and employees (cfr. Table 3.4). Apart from mechanics, a big part of the manufacturing export is represented by other, less traditional product categories.

Table 3.6 Export turnover of Italian manufacturing industry per sector (ICE, 2006)

Sector	% on total export turnover
Manufacturing industry	96.5%
Mechanics	20.3%
Metals	11.4%
Transportation devices	10.8%
Chemicals and pharmaceuticals	9.9%
ICT, electrical and precision products	9.1%
Textiles and clothing	8.3%
Food, drinks and tobacco	5.4%

¹⁶ MAP (Italian Ministry of Productive Activities) elaborates an official document as sum of the conclusions from the Second Conference on International Trading (2005).

Today, as possible remedy to the current phenomena, the increasing export activity has to be supported by the change from a price-based to a more quality-oriented strategy and by customized services (market analysis, promotion, client selection) tailored to firm-specific needs, which can distinguish them in a unique way (De Chiara, 2002).

Summarizing, export represents the most common entry mode for the Italian manufacturing SMEs. The main reason is that firm's small size hinders the international activity (especially export propensity), being associated to scarce financial, managerial and technological resources, risk aversion and lack of information and contacts with foreign markets. In order to overcome these size-related limitations, niche strategies are adopted.

Although SMEs numerically represent the whole Italian manufacturing companies, their exporting activity just exceeds 50% of the total manufacturing export and shows lower growth rates than the export of large firms. This is because the latter present higher export propensity and performance. However, there are also other factors playing an important role: the depreciation of the US Dollar and the Chinese Renmimbi, the low bargaining power with the international large distribution and the difficulty to develop strongly recognized brands. Besides, the export of the manufacturing SMEs finds the major difficulties in the traditional sectors of Made in Italy, just those product categories where Italian firms are more specialized in. As possible solution, the change from a price-based to a more quality-oriented strategy and the development of customer services are prospected.

3.3.2.2 Contractual agreements

Contractual agreements as local partnerships represent a way to overcome the crisis of the Made in Italy export linked to price-based competitive disadvantages (Berra, 1994). As cooperative relationships, contractual agreements tend to be favoured by manufacturing SMEs in comparison to non cooperative forms, in contrast to the tendency for large firms. This is also true for other equity-based entry modes, as FDI and joint ventures, respectively in case of production and commercial agreements. The reason why SMEs prefer to penetrate international markets in partnership with local operators is that they cannot afford large investments to open new factories, establish new commercial branches and acquire already existing companies (Berra, 1994). However, since the danger to be copied is high for Made in Italy products, cooperative agreements have to be handed carefully, in case of technology transfers or joint ventures, particularly with Chinese partners (Mariotti, 2003).

3.3.2.3 Production investments

Some authors indicate that the relationship size-international propensity (the probability to go international) is directly proportional in case of FDI (Berra, 1994; Bruno Biancone, 1999). Moreover, when manufacturing SMEs operating in traditional Made in Italy sectors internationalize through FDI, a negative relationship is found between FDI and firm's returns at an early stage of internationalization. On the other hand, the relation becomes positive when FDI are associated to high export levels, which suggests that the experience gap is the main limitation for the international expansion through FDI only (Majocchi, 2003). In the following section the reasons favouring and hindering the adoption of production investments by Italian manufacturing SMEs are presented.

For Italian manufacturing SMEs the strategic choice of outsourcing the production abroad is mainly due to cost saving reasons, because the high intensity of labour factors determines a

competitive advantage for the countries with low labour costs (Fortis, 1998). In this way it is possible to move the production of goods at lower added value to the countries at lower labour costs, maintaining the business under Italian control and being closer to the huge final markets of emergent countries, as China, India and Russia (MAP, 2005). Apart from cheaper human labour, productive factors include also prime materials, components and semi-products, energy, technology and specialist competences, knowledge and information (Mariotti, 2003). Other driving motivations are the difficulty to find labour force in some Italian regions, the good level of specialization of foreign workers, the administrative costs in Italy, whose burden is indirectly proportional to firm's size, and the governmental incentives to invest in some developing countries (Fortis, 1998).

Yet the traditional constraints of the Italian SMEs, as limited financial resources and managerial competences, discourage the outsourcing of the production process in foreign countries. Lack of experience and information asymmetry play a significant role as well (Mutinelli, 1997). Furthermore consumers are doubtful of goods produced abroad, especially in case of Italian products whose charm is linked to the reputation of Made in Italy (Mariotti, 2003). Another weakness is that a massive delocalization of SMEs is not realistic because it would twist the specific advantages from the concentration of firms within industrial districts (MAP, 2005, cfr. sub-par. 3.4.2).

The degree of productive internationalization of Italy, in the form of FDI, is lower compared to other developed EU countries (Bruno Biancone, 1999; Manuelli, 1999). However the Italian SMEs have recently increased their FDI, even if small sized, particularly in fast growing economies as in Central-Eastern Europe and Asia (ICE, 2006). The former region (Russia included) is one of the few areas where the Italian manufacturing SMEs do not loose competitiveness. The latter one is targeted especially by medium firms specialized in the Made in Italy sectors (ICE, 2006). Conversely, 20 years ago Italian FDI were more often commercial and finalized to penetrate markets of industrialized areas as Europe and USA (Berra, 1994). A strategic suggestion consist in favouring the international growth of medium-large companies, which dispose of more adequate resources and are able to open plants abroad without closing the existing ones in Italy (MAP, 2005).

In conclusion, the factors against production investments (limited resources, competences, experience and information, doubtfulness of consumers for goods produced abroad, loss of advantages from being part of industrial districts) prevail on the positive ones (mainly lower production costs). Therefore FDI are limitedly used entry modes by the Italian manufacturing SMEs (Porter, 1998).

3.3.2.4 Strategic alliances

The propensity to choose joint ventures rather than FDI is negatively related to firm's size. Indeed, since manufacturing SMEs are particularly exposed to high risks and costs inherent in FDI, joint ventures are preferred to wholly-owned subsidiaries due to the presence of local partners helping to minimize these risks and costs (Mutinelli, 1997). Joint ventures better fit firms which dispose of a certain bargaining power, innovative technology and control of a market niche. In particular, SMEs are able to exploit the cooperative relationships coming from joint ventures in developing countries, because of their technological and organizational flexibility which suits the market conditions of these countries (Bruno Biancone, 1999).

3.3.3 A specific business sector

Since Imperia, Italian SME producing pasta machines for domestic and semi-professional use, is regarded as case study in Chapter 5, it is useful to conclude this chapter on internationalization by creating a linkage with the next part of the research.

A single article in the journal *Small Business Economics* (Rolfo, 1992) has been written on the internationalization of the manufacturing business of the pasta machines. In evaluating this information source, the awareness of two aspects has to be reminded. First, the article is dated 1992. Second, the sample of SMEs includes also producers of large pasta machines for industrial use. However certain considerations fit typical aspects of the case of Imperia, such as: the decentralization of the production process, the limitation of the labour force, the innovation shift towards electronics (varying according to international customers) (Rolfo, 1992). Furthermore the sector is characterized by the prevalence of the so-called “Smithian enterprise”, whose small size does not hinder its competitiveness (Dosi, 1988).

Also the article’s findings on internationalization show tendencies which are met again in the case study. For instance, export emerges as prevalent strategy to penetrate international markets. It shows high rates of growth, with the most important markets being Africa, Western Europe and Asia. Italian producers make an intense effort to organize a worldwide commercial network. Export corresponds to 45% of entire sales, with a high standard deviation among the firms in the sample. Final products require an increasing service content, in terms of sales finance, marketing, promotion, commercial and after-sale services. The cultural value of pasta, which is linked to the Italian food tradition, plays an important role: indeed the export of the Mediterranean diet has a pushing effect for the export of the pasta machines (Rolfo, 1992).

For what concerns other entry modes, about 10% of the firms in the sample stipulates non-equity contractual agreements to market the machines in Europe and America and confirms the difficulty to organize direct representation abroad and the need to cooperate with local trading operators: for instance there are also cases of licensing contracts with partners in developing countries. Few agreements with industrialized countries may indicate difficulties in competing against companies endowed with higher or comparable levels of technology. Last, FDI, joint ventures, mergers and acquisitions do not represent successful entry modes of internationalization, in reason of firms’ small size (Rolfo, 1992).

The conclusions of par. 3.3 represent the formal answer to the general research question 2.

2 What are the distinctive characteristics of the internationalization of the Italian manufacturing SMEs?

These characteristics can be summarized in the following points:

- The decisions in international markets are affected by typical characteristics of management style, both positive (improvisation, individualism, affection to the working place, productive specializations, creativity, fast decision making, flexible structures and responsiveness to customers’ needs) and negative (limited business education, focus on internal activities and current operations, poor linguistic skills, scarce dynamism and involvement in virtually all the firm’s activities) (par. 3.3.1).
- Due to firm’s size-related limitations (scarce financial, managerial and technological resources, risk aversion and lack of information and contacts with foreign markets), the internationalization process takes place mainly in form of export entry mode. In this way SMEs can exploit the advantages of niche strategy. In the period 2000-2005 the export of manufacturing micro and small firms shows lower growth rates than medium and large firms, due to adverse conditions in international markets (unfavourable

exchange rates, low bargaining power towards large distributors, hard affirmation of strong brands). The main difficulties are registered in the traditional sectors of the Made in Italy. The change from a price-based to a more quality-oriented strategy and the development of customer services are prospected as possible solution (par. 3.3.2.1)

- SMEs show higher propensity for cooperative contractual agreements than for non cooperative solutions, due to the difficulty to afford large investments alone. Since the danger to be copied is high for Made in Italy products, cooperative agreements have to be handled carefully, particularly with Chinese partners (par. 3.3.2.2).
- Although production investments abroad have recently increased, especially in Central-Eastern Europe and Asia by medium firms, they are still limitedly adopted, due to scarce financial resources and managerial competences, lack of experience and information asymmetry, mistrust of consumers for Made in Italy goods produced abroad and loss of the advantages from being part of the industrial districts (par. 3.3.2.3).
- Joint ventures are preferred to FDI due to the presence of local partners helping to minimize costs and risks. They better fit firms with a certain bargaining power, innovative technology and control of a market niche (par. 3.3.2.4).

Now that the investigation of the Italian manufacturing SMEs is completed, the analysis moves to the theme of the Italian industrial districts.

3.4 The Italian industrial districts

3.4.1 A comprehensive picture

The industrial districts, typical economic subject of the development of the Italian economy, are introduced because firms belonging to them benefit of particular externalities in the process of internationalization. In this starting sub-paragraph a normative and an academic definitions of industrial district are first given. Second, as for manufacturing SMEs, quantitative information is provided to understand the phenomenon.

The Italian industrial districts have been recognized by the Italian legislation for the first time with the Law 5 October 1991, no. 317 (Law for the definition of the industrial districts on the national territory). This law has conferred practical and political relevance to the industrial districts, which have been considered only subjects for academic researches before 1991 (Becattini, 1998). This original law has been substituted by The Law 11 May 1999, no. 140 (Norms on productive activities) has substituted the original one. The article 6 has introduced a more precise definition, including the new parameters given by the EU Commission in matter of firm's size.

“Local productive systems are defined as homogeneous productive contexts, distinguished by a high concentration of firms, mainly of small and medium size, and by a specific internal organization. [...] Industrial districts are defined as local productive systems, distinguished by a high concentration of industrial firms and by the productive specialization of systems of firms” (http://www.distretti.org/Distretti/normative/1140_art6_comma8.rtf).

After this legal statement, the definition given by academics is now discussed.

The concept of industrial districts is used for the first time by the English economist Marshall, to indicate the local concentration of small companies belonging to specialized industries (Marshall, 1922). This original definition is resumed to investigate the distinctive economic

development of some Italian regions starting from the 1960s. The father of the Italian school on industrial districts is considered to be Becattini, whose publications on the topic¹⁷ are numerous. Other eminent academics of the school are Brusco, Conti, Fortis, Rullani, Sforzi and Viesti. Italian industrial district is defined as a socio-territorial entity where a local community and a system of industrial firms are reciprocally integrated. These firms, mainly SMEs belonging to the same industrial sector, are highly specialized in products, parts of product or phases of production process, which are typical of the district (Becattini, 2000). This academic definition resumes the main characteristics given for industrial district in the legal statement, although the link between territory and local community is more emphasized (because it is at the origin of the competitive advantage, see sub-par. 3.4.2).

The competitive advantage of industrial districts is determined by the aggregation of several elements. First relevant factor of success of industrial districts is represented by the tacit knowledge for long time embodied in the local productive systems. This knowledge is intended together as practical know-how and as technical-scientific expertise. As out-of-school learning process, it is not easily and rapidly transferable, imitable and reproducible (Becattini, 1998; Porter, 1998). Furthermore, behind the tacit knowledge there are systems of values, which contribute to the sense of belonging to the district. They are built up and transmitted by institutions as the family, the religious community, the school and the media (Becattini, 1997). In a world characterized by global competition and increasing degree of production and consumption technologies, this variety of cultural roots and historical experiences in the Italian industrial districts represents an element of strength (Becattini, 1998).

Second, the concentration, within the industrial district, of companies operating in the same business stimulates relationships of cooperation-competition. On one side firms benefit from being close to each other, because of shared costs, accumulation of productive knowledge, development of long lasting relationships and transmission of innovation (Becattini, 1998). Moreover physical proximity of suppliers and customers creates a dense network of relations which reduce transaction costs (Brusco, 1986). On the other side, small entrepreneurs develop an obsessive individualism, leading to strong rivalries (Becattini, 1998; Porter, 1998). However, the competition among actors in the district continuously generates collaborative relationships among them, sometimes in a unconscious way: for instance, when producers and their customers and suppliers exchange special requests, considerations and criticisms, all of them believe to think only at their own interest, but in the reality they contribute to the improvement of the whole district (Becattini, 1998).

Third, productive specialization in industrial districts leads to scale and learning economies which reduce unit costs and increase productivity. Competitiveness is also enhanced because labour is divided among independent firms which are however linked to each other. This distribution of productive capacity consents to realize high level of flexibility: for instance, it is possible to rapidly vary volume and quality of products at lower costs than for standardized goods and to find, within the district, the most suitable answer to customers' requirements (Becattini, 1991).

Coming to data analysis, a specific section of the ISTAT Census 2001 is dedicated to the Italian industrial districts. The snapshot recognizes 156 areas, identifiable with the characteristics of industrial districts. These regions employ nearly 5 million people. Out of them, almost 2 million work in the manufacturing industry. The industrial districts show, on average, higher general employment, manufacturing employment, productive units and manufacturing productive units, when compared to data of other industrial areas in Italy (cfr. Table 3.7).

¹⁷ Many publications are also in English, see <http://www.dse.unifi.it/becattini/frame.htm>, below the link *Bibliography*.

Table 3.7 Employment and productive units in industrial districts (ISTAT, 2001)¹⁸

Indicators	Industrial districts	Other Italian industrial areas
Number of employees	39	33
Number of manufacturing employees	15	7
Productive units	9	8
Manufacturing productive units	2	1

The goods produced in the industrial districts mainly belong to the industrial sectors where the Made in Italy manufactures got their international celebrity from (cfr par. 3.2.2). These sectors are reported in Table 3.8.

Table 3.8 Industrial districts per sector (ISTAT, 2001)

Sector	Industrial districts	% on the total
Textiles and clothing	45	29%
Mechanics	38	24%
Home furniture	32	21%
Leather and shoes	20	13%
Food	7	5%
Jewellery and musical instruments	6	4%
Paper	4	2%
Plastics and rubbers	4	2%
Total	156	100%

From the original ISTAT data, the Institute for the Industrial Promotion (IPI)¹⁹ elaborates the map in Figure 3.1, where industrial districts are shown in their national distribution per sector.

¹⁸ Data on average calculated on 100 inhabitants.

¹⁹ A supporting agency for the Italian Ministry of Economic Development.

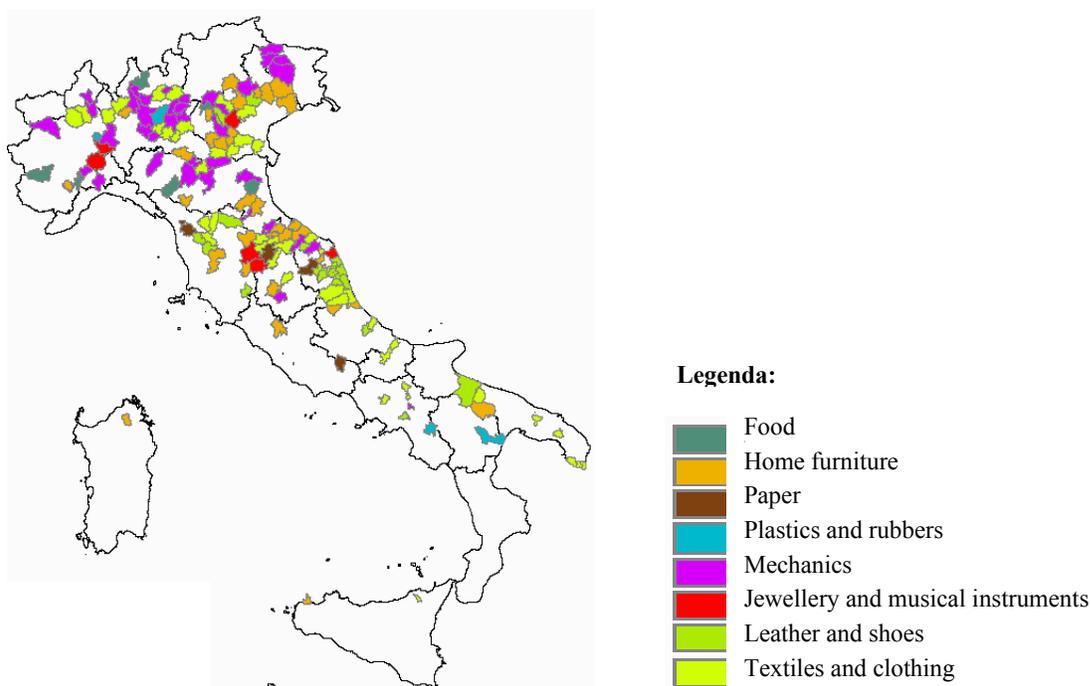


Figure 3.1 Geographical distribution of Italian industrial districts per sector (IPI, 2002)

Table 3.9 sheds more light on the situation per macro-areas: the Central Italy presents the highest concentration of industrial districts, followed by the North-East, that is historically considered the key location of development for the industrial districts. The North-West, the first industrialized area of the country, for long dominated by large firms, shows almost the same concentration, but the highest percentage of employment. Finally the South, although still in a marginal position compared to the rest of Italy, represents today the emergent area of the districtual industrialization: in opposition to other regions, it has benefited in the last 10 years by increasing both the number of industrial districts and the rate of employment in them.

Table 3.9 Industrial districts and employees per macro-area (ISTAT, 2001)²⁰

Area	Industrial districts	% on the total	Manufacturing employees (.000)	% on the total
North-West	39	25%	799	41%
North-East	42	27%	655	34%
Centre	49	31%	384	20%
South	26	17%	90	5%
Italy	156	100%	1.928	100%

Coming to the size of manufacturing firms located in industrial districts (Table 3.10), almost 80% of firms are classified as micro firms. It is relevant to notice that manufacturing SMEs roughly represent the totality of the manufacturing firms within industrial districts. Conversely, SMEs employ a lower 91% of the manufacturing employees in industrial districts, fact that can be explained by the higher number of employees in large firms.

²⁰ Data on manufacturing firms in industrial districts per macro-area are not available.

Table 3.10 Manufacturing firms and employees in industrial districts per firm's size (ISTAT, 2001)

Firm's size (number of employees)	Firms	% on the total	Employees (.000)	% on the total
Micro (0-9)	166.900	79%	477	25%
Small (10-49)	39.500	19%	749	39%
Medium (50-249)	5.500	2%	518	27%
Large (>250)	400	0%	184	9%
Total	212.300	100%	1.928	100%

After the analysis of several structural aspects of the industrial districts, an investigation on recent export data permits to point out the role of the districts within the national economy. As Table 3.11 shows, the evolution of the export of selected product categories can be divided in two periods:

- From 1995 to 2000 the weight of the districtual export on the total increases for all the sectors, exploiting the advantage given by the devaluation of the Italian Lira.
- From 2000 to 2005 the percentage of the Made in Italy products and of the total manufactures from the industrial districts decreases, with a particular relevance in the textiles and clothing sector. Exceptions are represented by the food and the home furniture industries, where districts keep on carrying on Italian export. The main causes of this phenomenon are found in the appreciation of the Euro currency and in the loss of competitiveness due to aggressive import behaviour from the countries at lower labour costs, which hurt the districtual export more than the export from other productive systems. Another interpretation of this trend is that industrial districts, as ordinary business phenomena, have their life cycle: in the considered period they are in a maturity phase, thus the adoption of revitalization strategies is necessary to avoid their crisis and allow their development (Ricciardi, 2007).

Table 3.11 The role of the industrial districts on the Italian export per related sector from 1995 to 2005 (ICE, 2006)²¹

Sector	% on national export per related sector		
	1995	2000	2005
Food	20.8%	20.8%	22%
Textiles and clothing	48.1%	52.6%	47.6%
Home furniture	37.3%	38.1%	38.6%
Mechanics	26.8%	27.7%	27.8%
Total Made in Italy	36.4%	38.1%	35.6%
Total manufactures	29.7%	30%	29%

Summarizing, the Italian industrial districts are socio-territorial entities where a local community and a system of industrial firms are reciprocally integrated. These firms include a large majority of SMEs, with almost 80% on the total being micro companies. Industrial districts are mainly specialized in the production of traditional Made in Italy goods. Their competitive advantage is essentially determined by tacit knowledge, relationships of cooperation-competition and high productive competitiveness. In the period 2000-2005 the percentage of export from the industrial districts on the national export has decreased, especially for Made in Italy and manufacturing

²¹ The ISTAT Census 2001 does not show data on industrial districts' turnover. ICE study considers the original number of industrial districts identified by ISTAT in 2001, plus other 12 new areas, all in Southern Italy, which have been added to update the situation in 2001.

products. The main reasons are the appreciation of the Euro currency and the loss of competitiveness due to an aggressive import behaviour from the countries at lower labour costs.

3.4.2 The advantages of the industrial districts as to the internationalization

Imperia, the company under investigation in Chapters 5 and 6, is a successful example of manufacturing SME exporting Made in Italy goods, even without typically belonging to any industrial district. This sub-paragraph answers the sub-question 2 a, inspecting the advantages of being part of such a region and the way these externalities impact the internationalization process. Authors underline as these two topics have not been fully investigated (Bonaccorsi, 1992; Becchetti, 2000).

Since 1950s, the Italian industrial districts have marketed goods finalized to satisfy certain needs, as the personal care, the interest for households and for other traditional Made in Italy produces. The competitive advantage has been built upon the lack of supply of these product categories in the international markets. The target has been represented by specific categories of users (consumers and producers) of medium-high income, which large firms have found difficult to penetrate. Italian producers have exploited this advantage as first movers, focusing on product quality and leaving a secondary role to price competition (Becattini, 1998).

For what concerns export, the performance of SMEs is improved by their geographical agglomeration within industrial districts, especially for traditional (e.g. textile, clothing and shoes) and specialized (e.g. mechanics) sectors (Becchetti, 2000). Three factors positively affect export performance: first, economies of scale coming from informal face-to-face exchanges of information about export markets, which can overcome fixed information costs and lack of information. For instance, the number of manufacturing firms interacting each with others and exchanging export services affects the quality of information and export intensity more than the absolute number of employees in the area. Second, tighter competition, fostered by geographical proximity, improves product quality. Third, cooperation among districtual firms in form of export consortia has also a strong impact on export (Becchetti, 2000).

Within industrial districts the decision to export is made by SMEs on the base of the collective experience of the group of firms which they belong to: indeed new firms in a district with a substantial export experience will start to export early in their organizational life. At this purpose, again intensive interpersonal communication has the effect to reduce the perceived risk of exporting and the need for information gathering and processing: in fact face-to-face contacts with other entrepreneurs are considered as the most reliable and the least expensive information source. Therefore export is sometimes the result of subjective and even irrational decision making process (Bonaccorsi, 1992).

Still on export, an important finding is that SMEs can benefit from significant advantages by belonging to industrial districts, but it is relevant to consider as the same externalities can be also achieved through formal integration with other firms in different configurations. In general the affiliation of a firm to an industrial or a business group enhances its financial and commercial capabilities and thus increases its opportunities for exporting (Sterlacchini, 2001).

For what concerns production investments, the scarce propensity to undertake initiatives as FDI in countries at lower labour costs is linked to the difficulty of transferring, adapting and exploiting elsewhere the sources of the local competitive advantage, as the tacit know-how that is embodied in the district (Manuelli, 1999). Indeed, what is specific to the Italian districtual reality is that the practical knowledge within the manufacturing process constitutes part of the added value produced by firms. In contrast, in other productive systems, as the Anglo-Saxon one,

there is a clear distinction between activities at added value (as ideation, design and organization), which remain in the home country, and operative and executive activities, which are delocalized. In Italy the delocalization process is more problematic, because of the potential loss of knowledge in industrial districts (Chiarvesio, 2003). Therefore it is important to carefully select which activities to maintain and which to move: the indication is to handle internally the managerial activities and to externalize the production phases, of course being the delocalization possible.

The conclusions of the present sub-paragraph constitute the answer to the sub-question 2a.

2a. What externalities from being part of an industrial district positively affect the internationalization strategy?

These externalities can be summarized in the following points:

- The production of exclusive goods, belonging to the traditional Made in Italy categories, for which there is an international demand by niche segments of users at medium-high income.
- The effects of the geographical agglomeration, which are scale economies from informal face-to-face exchange of information, high product quality improved by tight competition and cooperative relationships in form of export consortia.
- Phenomena of imitation within the district, which stimulate the export activity by reducing the perceived risk and the need of information.

Apart from industrial districts, these advantages can also be achieved by firms involved in business groups with different configurations.

Italian industrial districts favour export to FDI, because it is difficult to transfer the embodied know-how. However, in case of productive delocalization, managerial activities are better run internally.

3.5 Conclusions

This final section summarizes the conclusions of Chapter 3 and answers the general research question 2 and the sub-question 2a, which are respectively:

2. What are the distinctive characteristics of the internationalization of the Italian manufacturing SMEs?

2a. What externalities from being part of an industrial district positively affect the internationalization strategy?

The first theme of chapter has been the internationalization of the Italian manufacturing SMEs. These companies constitutes a significant part of the Italian economy and cover almost the whole of the manufacturing firms. Out of them, micro firms represent more than the 80%, aspect that significantly affects the internationalization process (par. 3.2.1). In this regard, the distinctive characteristics of the international strategies of the Italian manufacturing SMEs can be reviewed in the following points (answer to general research question 2):

- The decisions in international markets are affected by typical characteristics of management style, both positive (improvisation, individualism, affection to the working place, productive specializations, creativity, fast decision making, flexible structures

and responsiveness to customers' needs) and negative (limited business education, focus on internal activities and current operations, poor linguistic skills, scarce dynamism and involvement in virtually all the firm's activities) (par. 3.3.1).

- Due to firm's size-related limitations (scarce financial, managerial and technological resources, risk aversion and lack of information and contacts with foreign markets), the internationalization process takes place mainly in form of export entry mode. In this way SMEs can exploit the advantages of niche strategy. In the period 2000-2005 the export of manufacturing micro and small firms shows lower growth rates than medium and large firms, due to adverse conditions in international markets (unfavourable exchange rates, low bargaining power towards large distributors, hard affirmation of strong brands). The main difficulties are registered in the traditional sectors of the Made in Italy. The change from a price-based to a more quality-oriented strategy and the development of customer services are prospected as possible solution (par. 3.3.2.1).
- SMEs show higher propensity for cooperative contractual agreements than for non cooperative solutions, due to the difficulty to afford large investments alone. Since the danger to be copied is high for Made in Italy products, cooperative agreements have to be handled carefully, particularly with Chinese partners (par. 3.3.2.2).
- Although production investments abroad have recently increased, especially in Central-Eastern Europe and Asia by medium firms, they are still limitedly adopted, due to scarce financial resources and managerial competences, lack of experience and information asymmetry, mistrust of consumers for Made in Italy goods produced abroad and loss of the advantages from being part of the industrial districts (par. 3.3.2.3).
- Joint ventures are preferred to FDI due to the presence of local partners helping to minimize costs and risks. They better fit firms with a certain bargaining power, innovative technology and control of a market niche (par. 3.3.2.4).

The second theme of the chapter has been the Italian industrial district, socio-territorial entity where a local community and a system of industrial firms are reciprocally integrated. The firms in the industrial district include a large majority of SMEs, with almost 80% on the total being micro companies. The industrial district is mainly specialized in the production of traditional Made in Italy goods (par. 3.4.1). The externalities from being part of such a region, for what concerns the internationalization process, are listed here (answer to sub-question 2a):

- The production of exclusive goods, belonging to the traditional Made in Italy categories, for which there is an international demand by niche segments of users at medium-high income.
- The effects of the geographical agglomeration, which are scale economies from informal face-to-face exchange of information, high product quality improved by tight competition and cooperative relationships in form of export consortia.
- Phenomena of imitation within the district, which stimulate the export activity by reducing the perceived risk and the need of information (par. 3.4.2).

These advantages can also be achieved by firms involved in business groups with different configurations. Italian industrial districts favour export to FDI, because it is difficult to transfer the embodied know-how. However, in case of productive delocalization, managerial activities are better run internally (par. 3.4.2).

The insights of this chapter, together with the ones of Chapter 2, constitute the theoretical framework (built in the next Chapter 4) and are used as source of learning for the internationalization of Imperia.

Chapter 4 Theoretical framework and methodology

4.1 Introduction

This chapter is designed to create a connection between the literature review and the case study. The purpose is to respond the general research question 3, that is answered in two steps:

- Par. 4.2 presents the theoretical framework, that is built by integrating the relevant findings from Chapters 2 and 3. The framework provides the guidelines to investigate the business case of Imperia, because the issues in it represent a source of learning for the company.
- Par. 4.3 is about methodology and explains the way the theoretical framework is operationalized into questions for the interviews.

4.2 Theoretical framework

The theoretical framework is constituted by a selection of the most significant findings of the literature review which suit the case study. Indeed the more general results from Chapter 2 are integrated with the empirical, country-based results from Chapter 3. The reason is that the learning at both these two levels is useful to improve the internationalization strategy of Imperia. The findings are grouped into two major categories, which are entry mode decisions (par. 4.2.1) and marketing mix decisions (par. 4.2.2). About the former, it turns out that particular prominence is given to export, because of three reasons:

- Export is the preferred entry mode by Italian manufacturing SMEs, especially if these are specialized in Made in Italy products (par. 3.3.3.1).
- Early researches confirm this propensity to be dominant also in the Italian manufacturing sector of the pasta machines (par. 3.3.4).
- Export is the only entry mode Imperia has ever adopted.

The theoretical framework is presented in the following. Each statement is introduced together with the indication of the paragraph where it can be found in the literature review.

4.2.1 Entry mode decisions

Export

Export is convenient when trade barriers (tariffs, quotas and transportation costs) are low (par. 2.4.1) and when products are highly differentiated and give high margins on sales (par. 2.5). When confidence and knowledge have increased through direct export experience, it is possible to consider entry modes which allow higher control. Exporters find it natural to look for culturally or psychologically similar countries as potential partners, sometimes underestimating the risk of such a superficial choice (par. 2.4.1).

Direct export permits to play an active role in the penetration of the foreign country, as information feedback from international customers, that helps product adaptation and responsive pricing. In contrast to agent, distributor has title on products, performs more functions (stocking inventory, extending customers credit, order processing, physical delivery, promotions, product maintenance and repair), but gets higher margin and is more difficult to control. Foreign branch/subsidiary increases control but implies equity investments and higher resources and risks. The shorter the channel, the higher the control but also the resource commitment and the risk (par. 2.4.1.1).

Indirect export leads to lower costs in managing affairs abroad but also to marginal role in marketing products and to lower development of skills and knowledge of the foreign market (par. 2.4.1.2).

The use of e-commerce as consumer-oriented distribution channel has exploded in the last 10 years. It allows easy information gathering, added services and loyalty building. Italian e-commerce is the least developed in Europe but it shows the highest yearly growth rate. The opportunities for the Made in Italy are far from being fully exploited (par. 2.4.1.3).

The managerial factors of success for the Italian manufacturing SMEs are represented by improvisation, individualism, affection to the firm, the industry or the region, productive specialization, creativity, fast decision making, flexible structures and responsiveness to customers' needs (par. 3.3.1).

Belonging to an industrial district or to a different industrial configuration generates positive externalities in export activity, as: target of niche segments of users at medium-high income with exclusive goods, scale economies from internal face-to-face exchange of information, product quality improved by tight competition, cooperative relationships in forms of export consortia, phenomena of imitation which reduce the perceived risk and the need of information (par. 3.4.2).

The Italian manufacturing SMEs favour export as entry mode, in reason of scarce financial, managerial and technological resources, risk aversion and lack of information and contacts with foreign markets. Firms can overcome these firm's size related limitations by exploiting niche strategies, targeting small and high-income segments of users with branded products at high quality, design and service content, increasing the number of international customers and supplying numerous markets (par. 3.3.2.1).

The export of the Italian manufacturing SMEs suffers especially in the traditional sectors of the Made in Italy. The main reasons are the unfavourable exchange rate (appreciation of the Euro, depreciation of the US Dollar and the Chinese Renmimbi), the low bargaining power towards the international large distributors, the difficulties to develop strongly recognized brands, to pursue an effective internationalization process and to dedicate more resources to R&D. The change from a price-based to a more quality-oriented strategy and the development of customer services are prospected as possible solution (par. 3.3.2.1).

Early researches on the Italian business of the pasta machines indicate export as the most adopted entry mode. Export turnover benefits from the cultural value of the Mediterranean diet. Moreover the sector is characterized by the decentralization of the production process, the limitation of the labour force, the innovation shift towards electronics and the increasing service content in final products (par. 3.3.3).

Contractual agreements

Patents and trademarks have only national validity and there is no international authority conferring industrial property rights on a global basis (par. 2.4.2.1).

The Italian manufacturing SMEs show higher propensity for cooperative contractual agreements than for non cooperative solutions, due to the difficulty to afford large investments alone. Since the danger to be copied is high for Made in Italy products, cooperative agreements have to be handled carefully, particularly with Chinese partners (par. 3.3.2.2).

Early researches on the Italian business of the pasta machines confirm the national tendency to cooperate with local trading operators, in order to penetrate foreign markets (par. 3.3.3).

Production investments

Production investments permit to maximize control in the foreign country, to reduce price escalation, due to cheaper local input of labour, and to build local-company image. The rate of success of a first investment abroad is positively related to prior export experience in the target country. Production investment through acquisition consents to get the skills of the acquired

company, making the exploitation of the foreign market faster and the payback period shorter (par. 2.4.3).

Markets with high sales potential justify equity investments in local production (or in branch/subsidiary export) (par. 2.5).

The reasons for the low propensity towards productive investments abroad, by Italian manufacturing SMEs, consist in limited financial resources and managerial competences, lack of experience, information asymmetry and loss of the advantages from the concentration of firms within the industrial districts. However, the Italian manufacturing SMEs, mainly medium sized firms, are recently increasing their FDI, especially in fast growing economies in Eastern Europe and Asia, due to costs saving motives. In case of such a decision, managerial activities have to be maintained in the home country (par. 3.3.2.3).

Small size-related factors hinder FDI also in the Italian pasta machine business (par. 3.3.4).

The Made in Italy brand is internationally known and reproduced. It can be applied to goods whose last substantial transformation has taken place in Italy. However the consideration of consumers for goods produced abroad is not favourable, especially in case of Italian products whose charm is linked to the Made in Italy reputation. The “100% Italy” label is designed for products entirely produced in Italy (par. 3.2.2).

Strategic alliances

Joint ventures represent a sharing of skills beyond assets. Indeed they bring benefits to the foreign partner through the local partner’s contributions, increasing the knowledge of the host country and the business practices in it, the personal contacts with local actors and the local prestige. Since the raise of conflicts is high, the selection of local partners has to be carefully evaluated. Mutual trust and understanding are core factors of success (par. 2.4.4).

Joint ventures are preferred to FDI by the Italian manufacturing SMEs, due to the presence of local partners helping to minimize risks and costs. They better fit firms with a certain bargaining power, innovative technology and control of a market niche (par. 3.3.2.4).

The Italian pasta machine business shows a scarce propensity towards joint ventures, in reason of firms’ small size (par. 3.3.3).

So far the findings on entry modes from the literature review have been summarized. As next step, the choice of entry mode is influenced by external factors (target country market, productive and environmental factors and home country factors) and internal factors (product and resource/commitment factors) (par. 2.5). This choice has to be evaluated according to the specific characteristics of the business case under study. Since the range of factors provided by Root (1998) is extensive on one side, because it includes a large variety of variables, but it is very general on the other side, some factors are selected to assess the best entry mode for the case of Imperia, in reason of their suitability for it. The criterion of selection is the relevance of the factors for the Italian manufacturing SMEs (as they came out in Chapter 3) and for the specific situation of Imperia (as they came out in the weeks spent in the company in the beginning of the project). The next Table 4.1 lists the chosen factors in relation to their belonging to the categories given by Root (1998).

Table 4.1 Selected factors for the assessment of the best entry mode for Imperia

Categories given by Root (1998)		Selected factors
External factors	Target country market factors	Risk minimization
		Oligopolistic competition
		High sales potential country
	Target country productive factors	Cost minimization
	Target country environmental factors	Low trade barriers
		Cultural distance
	Home country factors	Exploitation of externalities from belonging to industrial districts
	Appreciation of home country currency	
Internal factors	Product factors	Highly differentiated products
		Made in Italy products
	Resource/commitment factors	Control maximization
		Development of skills and knowledge of foreign country
		Firm's small size

These selected factors are shown again in Table 4.2. The table is a schematic representation of the theoretical framework, for what it regards entry mode decisions. The factors influencing the choice of entry mode, whose selection is done on the base of the insights from Chapter 3, are listed in row. The spectrum of entry modes and respective modalities is shown in column. The cells indicate the suitability of each entry mode per related factor, according to the insights from Chapter 2. The purpose is to build a tool that is able to indicate the best choice of entry mode, when assessing the answers given by the interviewees.

Table 4.2 Theoretical framework on entry mode decisions

Entry mode		Export				Contractual agreements		Production investments		Strategic alliances	
Modality		Direct			Indirect	E-commerce	Licensing	Franchising	Greenfield investment	Acquisition	Joint venture
		Agent/distributor	Branch/subsidiary	Direct marketing							
Factor											
1	Control maximization ²²	+/-	+	+	--	-	-	+/-	++	+	+/-
2	Cost minimization ²³	+	-	-	+	++	+	+/-	--	--	+/-
3	Risk minimization ²⁴	+/-	-	+/-	+/-	+/-	+/-	+/-	-	--	-
4	Low trade barriers ²⁵	++	+/-	++	+	+	-	-	--	--	-
5	Highly differentiated products	++	-	++	++	++			--	--	+/-
6	Development of skills and knowledge of foreign country	+/-	+	++	--	-	+/-	+/-	+	++	+
7	Firm's small size	+/-	-	+/-	++	++	+/-	+/-	--	--	+/-
8	Made in Italy product	++	+/-	++	-	-	+/-	+/-	-	-	+/-
9	Exploitation of externalities from belonging to industrial districts	++	++	++	++	++	-	-	--	--	-
10	Appreciation of home country currency	--	+	--	--	--	+	+	++	++	+
11	Oligopolistic competition	-	+/-	-	-	-			+	+	+/-
12	Low cultural distance ²⁶	+/-	+	+/-	--	+/-	+/-	+/-	++	++	+
13	High sales potential country	+/-	+	+	--	-	-	-	++	+	+/-

²² Control refers to the control of international firms over products, customers' pricing policies and promotions in the target country.

²³ Cost includes depreciation, marketing, managerial and information costs, which are generally higher in case of equity investment compared to non-equity investment.

²⁴ Risk is intended as risk linked to the entity of the investment, political barriers, risk of choosing a partner, of creating a competitor and danger to be copied.

²⁵ Trade barriers are comprehensive of tariffs, quotas and transportation costs due to distance.

²⁶ Cultural distance indicates the distance perceived by managers towards the foreign country, in cultural and psychological terms.

Legenda:

Score	Meaning (in relation to the respective factor)
++	Optimal entry mode
+	Good entry mode
+/-	Entry mode with contrasting adv. and disadv.
-	Improper entry mode
--	Worse entry mode
	No score attributable

4.2.2 Marketing mix decisions

Product

The use of the Made in Italy label is connected to the use of own branding strategies, which enhance differentiation, identification, awareness, loyalty, quality, bargaining power and premium price, but also costs. The quality of private labelled products is getting closer to the one of brand named products (par. 2.6.1).

A non-brand strategy is less expensive than a branding strategy but can lead to severe price competition and lack of marketing identity (par. 2.6.1).

In multiple markets, on one side global brand suits high reputation and high quality products, creating global image and reducing advertising costs and brand confusion. However it assumes market homogeneity and the possibility to get a bad image is risky. On the other side, local brand allows local identification and flexibility across markets, but involves higher costs (par. 2.6.1).

Product newness increases the risk of failure for products (par. 2.6.1).

Increasing importance of environmental and quality issues leads to strategic awareness and standard performance certifications (par. 2.6.1).

Pricing

It is important to monitor the price at final consumption next to the price charged to importers. Price escalation is countered by integrating or reducing the number of links in the distribution channel, lowering the export price from the factory, inducing channel members to accept lower margins, or producing in the target country (par. 2.6.2).

A high quality building strategy fits products at high differentiation, high quality and strong image. Consumers see price as indicator of quality and they are willing to pay a premium price for it (par. 2.6.2).

Non-price marketing efforts, as product improvement, promotion and distribution, are suggested to compete in oligopolistic markets (par. 2.6.2).

In exporting through intermediaries, it is important to convince the customers in the supply chain to follow cooperative pricing strategies and to avoid wild discount policies for consolidated and high quality products (par. 2.6.2).

Across-product pricing can lead to product differentiation (par. 2.6.2).

On one side the buying power of international distributors and the sale of products through distribution channels which are not authorized by manufacturers (grey market phenomenon) push firms to standardize prices, which is a low risk strategy but without attempts to respond to local condition and to maximize profits. On the other side, price differentiation is associated to scarce control over prices, bad corporate image and grey markets (par. 2.6.2).

Placing

An exclusive coverage of the distribution channel suits products with the following characteristics: high speciality, uniqueness, newness, high price, high brand loyalty, infrequently purchase, personal selling, high technology content, extensive service (par. 2.6.3). The control over the channel is increased by the use of own sale force in international markets and by

forward integration. The latter is achieved through acquisition or cooperative relationships among the channel members. The grey market phenomenon is reduced by introducing differentiated products in different markets, by minimizing price differentials among markets, by cooperating with distributors and by limiting discount policies (par. 2.6.3)

Promotion

The knowledge of “Made in” images in consumers’ mind can be helpful in planning promotional strategies in foreign markets (par. 2.6.4).

Mass media are effective to target a large number of small-volume customers for consumer goods. Television is expensive but effective in reaching broad markets. Radio is cheaper and effective at local level. Daily newspapers are indicated to target urban and local consumers. Magazines address specific segments of customers for technical and industrial products. Outdoor advertising is frequent in urban areas (par. 2.6.4).

Sales promotion is used to supplement and to strengthen other forms of promotion (par. 2.6.4).

Direct marketing is a flexible, selective and cheap tool that can be exploited especially by SMEs (par. 2.6.4).

Personal selling is the most effective promotion channel but it is expensive. People operating in their home country for a foreign company are knowledgeable of market, culture, language and business, but they need product training and loyalty building. International trade fairs are excellent situations for selling and non-selling activities, as to exchange information, build long-term business relationships and assess channel partners. Also SMEs with limited sales force can introduce themselves to customers as large companies do. Due to high costs, fairs have to be wisely selected (par. 2.6.4).

4.3 Methodology

This paragraph explains how the findings in the theoretical framework are operationalized into questions for the interviews. The adopted methodology is described in two sub-paragraphs regarding research goals (par. 4.3.1), data sources and methods of data generations (par. 4.3.2).

4.3.1 Research goals

The research goals correspond to the questions related to the case study and formulated in Chapter 1. In this paragraph they are briefly discussed.

General research question 5

What recommendations can be provided for the internationalization strategy of Imperia in the European market?

This general question can be considered the main goal of the case study. It can be answered in two steps, which correspond to the sub-questions 5a and 5b.

Research sub-question 5 a

What is the best (possible combination of) entry mode(s) and marketing mix for Imperia?

Recommendations are provided on the choice of entry mode and marketing mix. Today the entry modes adopted by Imperia are direct export and e-commerce. The literature review has inspected the possibility to combine different entry modes and the factors influencing this choice. It will be considered if other opportunities fit the case of Imperia. Besides entry modes, marketing mix analysis represents the other main theme of the literature review. A clear strategy on product, price, place and promotion has to be set. The framework in par. 4.2 is the theoretical base to investigate both entry modes and marketing mix.

Research sub-question 5 b

What are the fields of activity at country-level where Imperia has margin of improvement?

Imperia is not active in all the European countries. Moreover there are countries at different market potential, countries where Imperia shows higher market penetration than others and countries where some products are more successful than others. Therefore it is important to investigate the country-specific situations, in order to understand the possibilities of further improvement for Imperia.

The information necessary to answer these questions is enclosed in data sources and becomes accessible through methods of data generation (Verschuren, 2005). The next par. 4.3.2 describes both data sources and methods of data generation.

4.3.2 Data sources and methods of data generation

Beside the findings which constitute the theoretical framework, data sources for the case study are also represented by documents and, mainly, people. Data generation takes place, respectively, through content analysis, interviewing and participatory observation (Punch, 2005; Verschuren, 2005). The two data sources, documents and people, are now presented.

Documents

Before starting the thesis, two weeks have been spent in Imperia to gather internal data and information. The purpose has been to get an overview of the whole firm, since organizational documents can provide researchers with valuable background information about companies (Bryman, 2003). Another reason is that documents contain exact and detailed information, which can cover a long span of time and can be repeatedly reviewed (Yin, 1994). During the writing of the research, data have been updated repeatedly. The useful material to investigate the internationalization of Imperia is composed by both qualitative and quantitative documents, as it is reported in Table 4.3. The assessment of such information contributes to answer both sub-questions 5a and 5b, together with the insights from Chapter 2 and 3.

Table 4.3 Documents

Qualitative information	<ul style="list-style-type: none">• Strategic reports• Technical data on products
Quantitative information	<ul style="list-style-type: none">• Data on export turnover per country (sold products, sold quantities and prices)• Data on export turnover per customers (sold products, sold quantities and prices)• Data on pasta consumption per country• Data on GDP per country

People

After the literature review, formal and face-to-face interviews are carried out. The interviews are individual and the questions open-ended, because of several reasons: first, the researcher is searching for rich and detailed answers. Second, he is interested in the interviewee's point of view. Third, he can ask new questions which suit the interviewee's replies (Yin, 1994; Bryman, 2003). Semi-structured questions are preferred above unstructured questions because there is a list of questions on fairly specific topics to be covered. Moreover, in contrast to structured questions, the order of questions can change, according to answers, and questions which are not included in the list may be asked, again as result of particular answers (Bryman, 2003; Punch, 2005). Participatory observation in face-to-face interviews is helpful to catch specific aspects in the communicative process (Punch, 2005), as the confidence and the reliability shown by the interviewee, which is relevant in assessing the given answers.

Three groups of interviewees are selected, depending on the research questions 5a and 5b. A sample of respondents is taken for each group, in order to maximize the validity of the results (Verschuren, 2005). Table 4.4 introduces the interviewees.

Table 4.4 Interviews

Interviewee	Short description	Firm/institute	Res. quest.
Mr. E. Ancona	Managing director	Imperia	5a
Dr. S. Rolfo	Researcher	Research Institute on Firms and Development	
Dr. G. Vitali	Researcher	Research Institute on Firms and Development	
Mr. M. Bioglio	Export manager	Imperia	5b
Mr. P. Bushell	English customer	Thomas Plant Limited	
Mr. K. Gloe	German customer	Gloe Export-Import GMBH	
Mr. W. Streicher	German customer	GSD Haushaltsgerate	
Mr. B. Golze	German customer	Kronen Kuechengerate GMBH	
Mr. B. Wittrant	French customer	Cristel SA	
Mr. Y. van Adrichem	Dutch customer	EMGA International BV	
Mr. F. Kamphuis	Dutch customer	OK Import BV	

The first group of interviewees is represented by the only two people in Imperia who carry on export activities. First, the managing director, being the decision maker, deals with strategic aspects, thus subjects of examination are entry mode and marketing mix decisions (res. quest. 5a). Second, the export manager is in direct contact with the international customers of Imperia, so he is asked about the country-specific situations (res. quest. 5b).

Since questioning only people who are internal to the company might generate the risk of developing a biased analysis, information sources who are external to the company are interviewed as well.

First, in addition to simple informants (Verschuren, 2005), the availability of experts on the internationalization of the Italian SMEs permits to tackle issues from a scholarly point of view. Dr. Rolfo and Dr. Vitali are the authors of the article on the pasta machine business in the journal *Small Business Economics* of 1992. The field of their research activity concerns clusters of firms and local development. Issues to be discussed are entry mode and marketing mix decisions (res. quest. 5a). Both the interviews to managers of Imperia and experts are carried out in January 2008.

Second, the situation at country-level (res. quest. 5b) is investigated by contacting people who are more directly involved, the international customers of Imperia. The occasion to meet most of them is *Ambiente*, the largest trade fair of consumer goods in Europe, which takes place in Frankfurt the 11th of February 2008. The Dutch customers are personally visited in the same period, because of their nearness. The questions are submitted by e-mail to the French customer, due to his unexpected absence at the fair in Frankfurt. Customers' nationality is decided on the base of the following criteria: UK, Germany, Netherlands and France are chosen in reason of the turnover they represent for Imperia. Then another country is inspected because of its strategic position: indeed, Poland is selected as representative nation of the East European area, where Imperia is not active. In this last case there is no opportunity to interview customers, so the analysis is based on firm's internal data.

The questions asked in the interviews and the transcription of the answers are reported in Appendices 1, 2, 3 and 4. Quantitative data are shown in Appendices 5, 6, 7 and 8.

Now that a theoretical framework has been built and the methodology to investigate the business case has been clarified, the following Chapter 5 deals with the results of the study of Imperia.

Chapter 5 Results of the case study

5.1 Introduction

The goal of this section is to answer the general question 4, which means presenting the results of the investigation of Imperia, after the interviews and the data search.

The structure of the chapter is organized in three paragraphs. First, par. 5.2 presents the results on entry mode decisions. Second, par. 5.3 introduces the outcomes on marketing mix decisions. Third, par. 5.4 details the findings of the study at country-level.

5.2 Results on entry mode decisions

This paragraph on entry mode decisions presents the outcomes from the interviews to Mr. Ancona, managing director of Imperia, and to Dr. Rolfo and Dr. Vitali, experts from the Research Institute on Firms and Development of Torino, Italy (see Appendices 1 and 3).

Within the context of the European market, the following 7 factors score positively for the entry mode called direct export through agent/distributor (cfr. filled cells in Table 5.1):

- Cost minimization (2)
- Low trade barriers (4)
- Highly differentiated products (5)
- Development of skills and knowledge of foreign country (6)
- Firm's small size (7)
- Made in Italy products (8)
- Exploitation of externalities from belonging to industrial districts (9)
- Appreciation of home country currency (10)

In the interviews it is remarked several times that the main motivation of this entry mode consists of size-related limitations “Imperia is not a multinational company but a small reality [...] the adopted entry mode strategy is certainly dependent from the mentioned limitations” (Mr. Ancona, Imperia) and of the suitability of direct export for Made in Italy goods “producing entirely in Italy is crucial for Imperia, in order to maintain the leadership on quality and image [...] direct export is a straightforward solution to market such a product” (Mr. Ancona, Imperia). Also the experts address export through agents/distributors as the best entry mode, again in reason of the size factor: “firm's size-related limitations might play a critical role in the choice of entry mode. In this situation direct export through agents or distributors might be the most likely entry mode” (Dr. Rolfo and Dr. Vitali).

E-commerce, side-activity to direct export, is considered “a useful strategy to overcome the mentioned size-related limitations [...] to build brand's image and to provide information on products” (Mr. Ancona, Imperia).

A greenfield investment would lead to a better:

- Control maximization (1)

Moreover it would suit conditions as:

- Low cultural distance (12)
- High sales potential countries (13)

However, “the entity of such an investment would be prohibitive for a small firm as Imperia, even in case of establishing a commercial branch abroad [...] the production of pasta machines entirely in Italy, that is condition to keep on succeeding for Imperia, would be lost” (Mr. Ancona, Imperia). Besides, “the consideration of consumers for Made in Italy goods produced abroad, especially in developing countries, is still not positive” (Dr. Rolfo and Dr. Vitali).

An acquisition of the Italian competitor is considered positive in relation to the factor development of skills and knowledge of foreign country (6). This option could be prospected for the future, because “Imperia would gain the international customers of him (the competitor), exploiting both his production competences and his market knowledge [...] this event would signify the monopoly of the Italian market for Imperia” (Mr. Ancona, Imperia).

The condition of oligopolistic competition (11) would fit a joint venture with the Chinese competitor (“monopolistic conditions would be achieved”), although “a cooperation with the Chinese competitor would be more difficult, due to geographical and cultural barriers. However, this possibility is not excluded in the future” (Mr. Ancona, Imperia).

The factors risk minimization (3) and appreciation of home country currency (10) do not show a clear influence on the decision of internationalization. They are discussed in par. 6.2 on analysis.

In conclusion, the results of the interviews with the managing director of Imperia and the experts match each others. It might be derived that from the Italian side there is an agreement on a clear propensity for direct export through agent/distributor. Indeed this entry mode suits most of the factors of the theoretical framework. Size-related limitations and Made in Italy reputation emerge as strong drivers for the mentioned entry mode. E-commerce, side-activity to direct export, is useful to overcome size limitations. A greenfield investment scores positive for the factors control maximization, cultural distance and high sales potential countries. However, it would require too much resources (even in case of a commercial branch abroad) and the potential loss of the reputation linked to the production in Italy. An acquisition of the Italian competitor and a joint venture with the Chinese competitor are prospected for the future, to achieve monopolistic conditions in the market.

Table 5.1 Results on entry mode decisions

Entry mode		Export					Contractual agreements		Production investments		Strategic alliances
Modality		Direct			Indirect	E-commerce	Licensing	Franchising	Greenfield investment	Acquisition	Joint venture
Factor		Agent/distributor	Branch/subsidiary	Direct marketing							
1	Control maximization	+/-	+	+	--	-	-	+/-	++	+	+/-
2	Cost minimization	+	-	-	+	++	+	+/-	--	--	+/-
3	Risk minimization	+/-	-	+/-	+/-	+/-	+/-	+/-	-	--	-
4	Low trade barriers	++	+/-	++	+	+	-	-	--	--	-
5	Highly differentiated products	++	-	++	++	++			--	--	+/-
6	Development of skills and knowledge of foreign country	+/-	+	++	--	-	+/-	+/-	+	++	+
7	Firm's small size	+/-	-	+/-	++	++	+/-	+/-	--	--	+/-
8	Made in Italy product	++	+/-	++	-	-	+/-	+/-	-	-	+/-
9	Exploitation of externalities from belonging to industrial districts	++	++	++	++	++	-	-	--	--	-
10	Appreciation of home country currency	--	+	--	--	--	+	+	++	++	+
11	Oligopolistic competition	-	+/-	-	-	-			+	+	+/-
12	Low cultural distance	+/-	+	+/-	--	+/-	+/-	+/-	++	++	+
13	High sales potential country	+/-	+	+	--	-	-	-	++	+	+/-

The filled cells indicate the best entry mode per each factor, according to the results of the interview to Mr. Ancona, managing director of Imperia.

Legenda:

Score	Meaning (in relation to the respective factor)
++	Optimal entry mode
+	Good entry mode
+/-	Entry mode with contrasting adv. and disadv.
-	Improper entry mode
--	Worse entry mode
	No score attributable

5.3 Results on marketing mix decisions

This section introduces the results on marketing mix decisions (product, pricing, placing and promotion). The information sources are firm's internal and external data mentioned in par. 4.3.2 (see Appendices 5, 6, 7 and 8) and the interviews to the managing director of Imperia and to the two experts (see Appendices 1 and 3). The main results of the quantitative investigation are first introduced and then integrated by the results of the qualitative search.

Product

This part on product decisions is the most extensive one because of the amount of available data on it. The situation in the European market (Italy excluded) is put side by side to the situation in the Italian market, because the comparison evidences some key facts: first, the European market is largely more oriented to purchase non-brand, manual and professional pasta machines, than the Italian market. Vice versa, branded and electric/nic machines are more strongly affirmed in the Italian market. Table 5.2 shows related data.

Table 5.2 Sales of Imperia in Europe and in Italy per product category

Market	% on the total machines					
	Brand	Non-brand	Manual	Electric/nic	For home use	For professional use
Europe ²⁷	81.0	19.0	98.3	1.7	97.6	2.4
Italy	88.2	11.8	63.8	36.2	98.2	1.8

Table 5.3 furnishes the most significant examples per single item, pointing out that standard and low quality (and low price) products are much more demanded in the European market than in the Italian market. Conversely, the top quality machine is hardly sold in Europe.

Table 5.3 Sales of Imperia in Europe and in Italy per single item

Market	% on total sales		
	Low quality machine	Standard quality machine	Top quality machine
Europe ²⁸	10.5	36.4	0.3
Italy	4.4	16.4	5.4

The reasons behind these scores are made clear by further data and by the answers of the interviewees. First, the lower propensity for branded products in Europe is due to strategic decisions: Imperia has been active in Italy since 1932, while the export has reached significant results only since 1988. Moreover, the Imperia brand is not pushed by promotional activity (TV and magazines) in Europe, as it is in Italy. Second, "the culture of making and eating pasta abroad is not so developed as in Italy" (Mr. Ancona, Imperia), which is confirmed by data on the consumption of pasta (an average of 5.4 kg per capita in Europe²⁹ against 28 kg per capita in Italy³⁰). This scarce cultural value of pasta abroad explains why non-brand, manual and lower quality items are preferred in Europe. Third, the higher percentage of products for professional use is higher in Europe than in Italy for this reason: "it is easier to penetrate foreign markets with products for professional use, because the awareness of their employment is already high" (Mr. Ancona, Imperia). This quote refers to the high demand of these items by restaurants in foreign countries.

²⁷ Data on the Italian market are excluded.

²⁸ Data on the Italian market are excluded.

²⁹ Italy excluded.

³⁰ Data from the official web-site of UNIPI, Union Italian Industrial Pasta Makers (<http://www.unipi-pasta.it/> cfr. Appendix 7).

Standing this situation, both the managing director and the experts agree on the relevance of:

- Product quality: “the qualitative superiority of Made in Italy goods towards Made in China products has to be enhanced by focusing on elements as functionality, design, packaging and product assistance. This is the only way to justify, in consumer’s perception, the payment of higher prices” (Dr. Rolfo and Dr. Vitali). In parallel, “differentiation [...] is a driver of the competitive advantage of Imperia [...] by renewing the design and by focusing on the mechanics and the safety content of products” (Mr. Ancona, Imperia).
- Branding strategies: “the activity of brand promotion becomes critical besides the maintenance of the qualitative level of products” (Dr. Rolfo and Dr. Vitali). The use of three different branding policies (Imperia brand, i-pasta brand and non-brand) is to target different segments of users and to distinguish the distribution strategies (long channel and short channel). Moreover “the goal in Europe is to increase the sales of Imperia branded products” (Mr. Ancona, Imperia).

In sum, the European market is more oriented to purchase non-brand, manual and lower quality machines than the Italian market. The reasons are both internal to the firm (more recent activity and lower promotion of the brand in Europe) and external to it (limited culture of making and eating pasta in Europe). The higher propensity for professional machines in Europe is due to an already developed awareness for the use of such products. Product quality and branding strategies emerge as critical to succeed in both the interviews to the managing director of Imperia and to the experts.

Pricing

The previous section on product evidences that the European customers show higher propensity for non-brand, manual and lower quality machines. An expected consequence is that “they are more oriented towards cheaper products” (Mr. Ancona, Imperia). Data confirm this quote: the 85% of the purchased machines in Europe is represented by the two cheaper machines in portfolio. This situation generates the following pricing strategies:

- The export prices are much lower than the prices on the Italian market (a ratio of 2:3 for the most successful item, the standard quality machine)³¹
- A goal in Europe is to develop the sales of the top quality and top price item in portfolio

Another important result of the interviews, which will be subject of further analysis, is that “it is difficult to control the behaviour of customers when the relationships with them are not so close” (Mr. Ancona, Imperia).

Placing

The interviews reveal that “large wholesalers are the most strategic customers of Imperia” (Mr. Ancona, Imperia), with the following advantages and disadvantages:

Table 5.4 Advantages and disadvantages of using large wholesalers

+	<ul style="list-style-type: none"> • Yearly large orders are guaranteed • The relationships with few wholesalers are internally easy to manage
-	<ul style="list-style-type: none"> • It is difficult to contact, to enter and to keep large wholesalers • Having few large wholesalers per country is risky

³¹ Data on prices are not shown for confidential reasons.

The low commitment by Imperia towards foreign markets (cfr. previous section on product) explains why the number of customers has not grown during the last 5 years. However, this number is considered sufficient in some countries (e.g. UK), due to the large size of wholesalers, while it is not in some others (e.g. Germany and France). A low commitment is also the reason why Imperia is out of most of the East European markets.

Promotion

The main result from the interviews is that “so far the approach towards foreign customers has been passive and limited to accept the orders customers have sent. Little has been done to target new customers or to exploit the potential of the existing ones. Few promotions have been launched on some products” (Mr. Ancona, Imperia).

Both the managing director and the researchers believe that cooperation can enhance the promotional activity, as it is shown in Table 5.5. In case of past cooperation with other Italian producers of complementary goods, the results have been negative, because “the intrinsic difficulty for the Italian SMEs to cooperate lies in the extreme cultural individualism and in the short term orientation of the entrepreneurs” (Mr. Ancona, Imperia). Experts warn that “when choosing a complementary product it is important to avoid goods which might become competitors” (Dr. Rolfo and Dr. Vitali).

Table 5.5 Promotion through cooperation

Interviewee	Cooperative form	Partner
Managing director	Product exhibition at trade fairs	International customers
	Joint participation at trade fairs	Italian producers of complementary goods
Experts	Joint export initiatives	Italian producers of complementary goods as pans, coffee makers, ice cream machines
	Public usage of the products	Cooking schools, popular chefs, TV cooking shows

5.4 Results of the country-level investigation

The country-specific situations are here inspected and the fields of activity where Imperia has margin of improvement are identified per each market.

The information sources are firm’s internal and external data mentioned in par. 4.3.2 and the interviews to the export manager of Imperia and to the international customers (see Appendices 2 and 4). The investigated issues (e.g. market environment, brand reputation, consumption of pasta) are common to different sources, which permits to combine the results from different sources.

As in par. 5.3, data are first presented and then integrated by the results of the interviews, because the respondents’ opinions can be driven by personal economic interests. The following Tables 5.6 and 5.7 offer an overview of the sold machines per country, which helps in the discussion. Second, the findings on the potential of Imperia are reported. Third, the possibilities of further improvement are presented.

Table 5.6 Sold quantities of Imperia pasta machines in the European market in 2007³²

Market	Standard quality manual		Low quality manual		Top quality		Total machines	
	Quantity	% on tot. sales	Quantity	% on tot. sales	Quantity	% on tot. sales	Quantity	% on tot. sales
Europe ³³	30,218	36.4	8,694	10.5	280	0.3	45,675	55.0
United Kingdom	17,688	51.3	150	0.4	104	0.3	21,035	61.0
Germany	3,012	18.6	2,778	17.1	19	0.1	6,915	42.7
Netherlands	2,568	53.0	672	13.9	20	0.4	3,841	79.3
France	2,802	25.5	402	3.7	32	0.3	3,435	31.2
Poland	60	20.7	60	20.7	0	0.0	164	56.6

Table 5.7 Sold quantities of Imperia pasta machines in the European market in 2007 per category

Market	% on total machines					
	Brand	Non-brand	Manual	Electric/nic	For home use	For professional use
Europe ³⁴	81.0	19.0	98.3	1.7	97.6	2.4
United Kingdom	99.3	0.7	99.1	0.9	98.6	1.4
Germany	59.8	40.2	98.5	1.5	97.1	2.9
Netherlands	82.5	17.5	98.4	1.6	97.1	2.9
France	88.3	11.7	98.7	1.3	96.1	3.9
Poland	63.4	36.6	73.2	26.8	100.0	0.0

³² These three items (standard quality manual, low quality manual and top quality) have been selected in reason of their quantitative and strategic importance for Imperia.

³³ Data on the Italian market are excluded.

³⁴ Data on the Italian market are excluded.

United Kingdom

With 46% of the purchased machines in Europe in 2007, UK represents the most important European market for Imperia. The firm is active with 6 customers, 3 large wholesalers and 3 retailers. One of the former is the interviewee and buys more than 50% of the total items purchased in UK.

A first look at the national data on purchased items points out three main issues:

- A huge difference in absolute values with the other countries, especially for the standard quality product and the top quality item (that is remarkable considering the willing, by the managing director, to develop the latter in Europe). The reasons are that UK has been one of the first markets to be targeted in Europe and some of the current customers have bought Imperia machines for more than 10 years. Moreover the interviewee believes that “the Chinese producer is the only alternative to Imperia in UK, but I think he has lower market penetration than Imperia” (Mr. Bushell, Thomas Plant), situation that makes the English market unique among the analyzed countries.
- The highest relevance of branded products in the whole Europe (99.3%): in percentage, Imperia brand results much more affirmed even than in Italy (88.2%, cfr. Appendix 6). The small amount of non-brand items is purchased just by one customer, who is interested only in those products. The reputation of Imperia is confirmed in both interviews to the export manager “Imperia brand is well-known in UK” (Mr. Bioglio, Imperia) and to the customer “the reputation of Imperia is higher than other brands” (Mr. Bushell, Thomas Plant). The explanations are again the long activity of Imperia in the country, the favourable competitive environment and the exposition of Imperia products at national trade fairs by customers.
- Among the analyzed countries, the English market shows the lowest interest for electric/ric and professional products (except Poland that represents a case apart). At this regard, data on national consumption of pasta are useful: the high consumption evidenced in the interviews is not in line with quantitative data, which place UK among the last positions in Europe (only 2.5 kg of pasta per capita in one year). Moreover the customer comments that “the habit of making pasta is not culturally spread” and “my main competitors [...] are the supermarkets which sell pasta” (Mr. Bushell, Thomas Plant). These observations can explain why English customers and end users are not so favourable towards the higher price of electric/ric and restaurant machines. Rather, data confirm that a standard, branded and manual machine for home use is a very good answer to the English customers’ needs (84% of the pasta machines, the highest amount among the considered countries). Another explanation from the interview to the customer is that Imperia machines are good but sometimes they are not so reliable, which can discourage customers from paying a higher price for electric/ric and professional items.

Although Imperia considers the English market saturated, there are facts which challenge this internal opinion:

- On one side “the market is saturated and it is mostly covered by three large customers” (Mr. Bioglio, Imperia). Moreover “the number of customers is adequate, due to their large size [...] searching for new customers can lead to actions of retaliation by the existing ones” (Mr. Ancona, Imperia). At least the first assertion is countered by quite strong arguments, listed at the following point.
- On the other side, first, the number of sold quantities in UK has increased of nearly 50% from 2006 to 2007, despite the unfavourable exchange rate and the same customers. Second, the English market can absorb all the 11.000 machines purchased by the

interviewee³⁵, since he does not export Imperia abroad. Third, a large amount of the top quality product has been requested by the interviewee in 2007 and this has risen the expectation, by Imperia, that also other customers could order it, as effect of the competition among customers. Fourth, the interviewee clearly states: “I think the business of Imperia in UK will last for long time. The English market is not saturated but presents still opportunities to grow” (Mr. Bushell, Thomas Plant).

These considerations allow to conclude that market saturation does not affect UK. However, the number of English customers might be sufficient.

The fields where Imperia can further improve are:

- Customer service: the customer affirms to be aware of product innovation and promotions, but his answer shows he is not informed about the new products.
- Cooperative agreements: “I would expect exclusive conditions on products and better promotions on the purchased quantities. For instance, if I buy a certain amount of items, I would like to receive a free of charge product. Or maybe I could ask for the exclusivity on Pastapresto” (Mr. Bushell, Thomas Plant).
- Product quality, as to reliability “the quality of Imperia machines is higher than competitors, but in my opinion it is not so good as it should be [...] there are still margins of improvement, especially on reliability” and as to design “design is what makes Imperia an icon for end users [...] my suggestion is to make the machines more sexy and attractive [...] design is an effective way to differentiate Imperia products from competitors and it makes more difficult for the Chinese producer to copy Imperia” (Mr. Bushell, Thomas Plant).

Germany

Imperia deals with 8 German customers, 5 wholesalers and 3 retailers. The interviews involve 3 large wholesalers.

The results of data analysis evidence one important point:

- The highest weight of the non-brand (and first price) product among the analyzed countries (40% of the total machines). There are three explanations: first, the low reputation of Imperia brand in Germany, which is supported by two interviewees: “Imperia brand is less popular than in UK” (Mr. Bioglio, Imperia), “In my opinion the Italian competitor is more famous [...] PastaAid³⁶ is recognized to be a strong brand in Germany” (Mr. Streicher, GSD). Second, the preference by the German customers for cheaper pasta machines: for instance, the most purchased items are the standard quality manual product and the low quality one. Besides, the low quality set is preferred to the high quality set (cfr. Appendix 5) and the top quality product shows a percentage (0.1% of the total sales) below the European average (0.3%). Third, the market of the pasta machines in the German market is characterized by a quite intense competition. Table 5.8 gives an overview of it, based on the results of the interviews. Imperia is the machine at the highest quality but also at the highest price.

³⁵ Internal data not shown in tables.

³⁶ PastaAid is the private label of Gloe, who is also distributor of Imperia.

Table 5.8 Producers and distributors of Imperia in the German market

Producer	Distributor
Imperia (Italian)	Mainly 4 large wholesalers
Marcato (Italian)	Mainly one large wholesaler
Shule (Chinese)	Gloe (with the brand PastaAid)
	GEFU (with the brand GEFU)
SELA (German)	Unknown

The assessment of the potential of the German market leads to contrasting results:

- On one side, some sources evidence a high market potential. First, the managers of Imperia say that “France and Germany [...] are neighbouring and large-sized markets at high consumption of pasta” (Mr. Ancona, Imperia), and that “there is potential of growth for the market. A large customer would be needed” (Mr. Bioglio, Imperia). Second, the opinion of one customer is that “this cultural habit (of making and eating pasta) is developing more and more and I see the potential for further growth [...] the German market presents a potential that still needs to be exploited. My vision of the future is positive on this issue” (Mr. Gloe, Gloe). Third, the consumption of pasta in Germany is one of the highest in Europe (6th position per capita and 3rd position per national potential).
- On the other side, other two interviewees express negative considerations on the market potential: “I think the sales on the German market will not increase because I do not see a high potential, especially for the electric machines” (Mr. Streicher, GSD) and “I think the German market is mostly saturated” (Mr. Golze, Kronen).

In conclusion, the propensity is to consider the market potential of Germany as high. First, the pessimistic opinion of Mr. Golze has to be referred only to the machines for professional use, because these are the only items he buys. Second, it is a fact that the machines sold in Germany are only 1/3 of the ones sold in UK, which is a valid reason to support firm’s internal opinion. The understanding of how to fill in this gap is matter of the next par. 6.3 on marketing mix. Data on pasta consumption contribute to assess positively the market potential of Germany.

The results indicate the existence of margins of improvement in:

- Customer service: a scarce orientation towards the customers by Imperia is a common point to the three interviews. Indeed “this lack is typical of the Italian companies. My other suppliers regularly update me on new products and promotions, but this attitude is totally absent in my relationship with Imperia [...] The customer service of Imperia can be developed [...] I would like to obtain in time the information on new products and promotions [...] My relationship with Imperia is very good, but there are still small details which are important for me as distributor and which can make the difference in relationships (Mr. Gloe, Gloe). “The customer service can get better. For instance, last week I asked for an information [...] but I did not receive a precise answer (Mr. Streicher, GSD). “I receive information (on product innovation and promotions) when I visit the stand of Imperia at the fair in Milan” (Mr. Golze, Kronen). The observations are not only on lack of information, but also on technical assistance: “it takes long time to get a spare part” (Mr. Gloe, Gloe) and “my customers are not happy with the decision of Imperia to sell spare parts just in sets” (Mr. Golze, Kronen).
- Cooperative agreements: cooperation, mainly in forms of better sales conditions, is confirmed by all the customers: “exclusivity is very important for me as distributor [...] my hope is to receive conditions of exclusivity on Imperia products” (Mr. Streicher,

GSD), “I receive exclusive conditions from other customers. I think it is important to benefit from them [...] the main goal to reach for me and Imperia is to cooperate together in order to increase the sales of Imperia pasta machines” (Mr. Gloe, Gloe), “I receive (from customers) better conditions, promotions in catalogues and rewards on turnover. They are important [...]” (Mr. Golze, Kronen).

- Product quality: two customers on three remark that “the quality of Imperia machines is considered good, but I receive several complaints [...] I think the quality of Imperia machines can be improved, starting with the check of the items before their shipment” (Mr. Streicher, GSD) and “I face several problems with Imperia products [...] although Imperia is the best brand of pasta machines in the whole market, my opinion is that product quality can be still improved” (Mr. Gloe, Gloe).

Netherlands

Imperia is active in the Dutch market with 3 wholesalers, 2 of whom purchase more than 90% of the products (and are the subjects of the interviews).

Two main results emerge from the joint observation of qualitative and quantitative information:

- A large preference for a standard quality manual product (more than 50% of the total sales), much higher than the European average (36%). This fact can be linked to the food culture of Dutch consumers: “in Netherlands food is perceived as something necessary and people eat because they have to eat” (Mr. Kamphuis, OK Import), “Dutch people are not willing to make pasta, but to buy it” (Mr. van Adrichem, EMGA). The consequence is a quite high price sensitivity for the purchase of pasta machines, that finds confirmation in the following statement: “the Italian competitor [...] has higher market penetration than Imperia, due to lower prices [...] the top quality product is not so successful, due to its high price” (Mr. Kamphuis, OK Import). In contrast to the Italian market, the standard quality manual product is often used for professional employment: “the end users of the Imperia machines I sell are professional users [...] I think I do not know anyone in Netherlands who uses a pasta machine at home” (Mr. van Adrichem, EMGA).
- Both the interviewees are satisfied with the quality of Imperia products: “the quality of Imperia is the best in the market. The percentage of defected machines is in line with the percentage of other products I buy” (Mr. Kamphuis, OK Import) and “I am very satisfied with the quality of Imperia products. I have very few problems with the machines. It is possible to see that from the few spare items I buy” (Mr. van Adrichem, EMGA).

As for the English market, the sources do not provide a clear-cut result on the Dutch market potential:

- On one hand, “the market is saturated because of its small size and it is covered by two large customers” (Mr. Bioglio, Imperia). This internal conviction is not confirmed by other sources.
- On the other hand, first the purchased quantities have been more than doubled from 2006 to 2007 and the customers have remained the same, which means they have grown a lot. Second, the two interviewees export Imperia machines to other countries so, in spite of the small size of the Dutch market itself, there would be potential to sell more products. Third, the optimistic opinion of the interviewees is that “the Dutch market for Imperia is not saturated. It is growing slowly, step by step, but I see a positive trend.” (Mr. Kamphuis, OK Import) and that “I can speak about me and I think there is a lot of potential. I work for a 45 years old company that is constantly growing [...] if from 2006 to 2007 the number of purchased pasta machines has increased of about 10.000 pieces, I

think that in 2008 I can increase again the turnover for Imperia of the same amount, if prices remain the same” (Mr. van Adrichem, EMGA).

Summarizing, the combination of such factors evidences that the Dutch market is not saturated. It might be that the three customers are numerically sufficient.

The results of the investigation reveal the possibility to improve in:

- Customer service: customers would appreciate a more active approach by Imperia: “I am never updated about any initiative Imperia takes [...] my main request is to keep me informed about the new products in catalogue (Mr. Kamphuis, OK Import). “I do not receive information on product innovations and promotions [...] please send me news about the new products in the catalogue. For instance, I would like to improve the kitchenware business, but how can I, if I do not know what products Imperia has?” (Mr. van Adrichem, EMGA).
- Cooperative agreements: “I do not receive cooperative conditions from Imperia. If they want to apply them, of course I would like to be informed [...] I would ask for the possibility to promote some machines” (Mr. van Adrichem, EMGA).

France

Imperia operates in France with 9 customers, 5 wholesalers, 3 retailers and one new, unknown customer. The interviewee is a wholesaler. Due to his unexpected absence at the fair in Frankfurt, he has answered the questions by e-mail.

Data investigation ends up to the following results:

- The amount of machines constitutes a small number on the total items purchased in France (31%). This is due to a large demand of accessories and other Imperia produces (as coffee makers), meaning that the French market asks for a much higher product differentiation than other country-markets.
- The standard quality item (Imperia branded) represents most of the pasta machines purchased in France (82%). This contributes to determine a high brand reputation (88%) which is very similar to the percentage for the Italian market. A good reputation of Imperia is confirmed by the customer “I know that Imperia brand is appreciated by our customers” (Mr. Wittrant, Cristel), but not by the export manager “maybe Imperia brand is less popular than the other Italian competitor” (Mr. Bioglio, Imperia), which leads to a difficult interpretation.

About the market potential of France, the information sources lead to the same positive conclusion:

- Both the managers in Imperia think that the French market presents a high sales potential, for the same reasons mentioned for Germany. In the current situation “it is difficult to exploit large customers as Cristel” (Mr. Bioglio, Imperia).
- The customer is optimistic when considering the potential of the French market for Imperia: “I think the kitchenware used to prepare natural and homemade food has a good future [...] the SP 150 and its accessories can be sold in good quantities at a stable price” (Mr. Wittrant, Cristel).
- French is ranked at high positions for what concerns the estimated consumption of pasta per capita (5th) and per country (4th). A high consumption is supported by a spread cultural attitude to prepare homemade pasta: “the tendency is to make yourself at your home” (Mr. Wittrant, Cristel).

The sectors of activity with room for additional progresses are:

- Customer service: a lack of active approach of Imperia is again denoted. Indeed the customer is aware of product innovation and promotions, “but not because the company informs me. In fact I become aware when I ask for information or when I order some items” (Mr. Wittrant, Cristel).
- Cooperative agreements: the customer explicitly says “I think they are very important, in order to develop a stable market with control of prices and brand image” and he asks for “special conditions, as discount 50% per Imperia and 50% per Cristel for punctual operation, in order to push the sales” (Mr. Wittrant, Cristel).

Poland

In absence of interviews, the results on Poland are based on quantitative data from Imperia.

The Polish market represents just the 0.3% of the products sold in Europe by Imperia in 2007.

The only customer is a wholesaler who is met at the trade fairs and is contacted through an agent.

Although it is hard to generalize market characteristics from data on one customer, data and internal interviews reveal that:

- The Polish market is strongly oriented towards the first price and non-brand item (a high 21% of the total sales, the same as for the standard quality product). This can be due to a high price sensitivity of distributors and end users (the GDP per capita of Poland ranks the country at the 28th position in Europe), increased by an adverse exchange rate. Moreover, pasta is not so popular in Poland (22nd position in Europe as to consumption per capita) but the whole market potential is quite large (8th position).
- The only employment is domestic. Again, price sensitivity probably makes professional items unaffordable for customers and end users. However, it might simply be that the customer does not operate in the business of the products for professional use.
- The percentage of electric/nic items, much higher than the European average, does not necessarily indicate a preference for this product category by Polish users, but it is simply determined by the low variety of purchased items.
- A low commitment of Imperia in Eastern Europe is also responsible for the marginal role of Poland: “The scarce commitment abroad explains why the Eastern markets have never been penetrated” (Mr. Ancona, Imperia), which might imply a unexploited potential in the whole area.

Chapter 6 Analysis of the results

6.1 Introduction

This chapter provides an answer to the research sub-questions 5a and 5b, developing a comprehensive analysis of the findings from all the information sources. Indeed the results described in Chapter 5 are discussed with the help of the insights of the theoretical framework, in order to provide final recommendations on the internationalization strategy of Imperia in the European market.

Similarly to Chapter 5, the structure of this chapter is organized in three paragraphs. First, par. 6.2 discusses the findings on entry mode decisions, answering the first part of the sub-question 5a. The same is done in par. 6.3 for marketing mix decisions, leading to a definite answer to the sub-question 5a. Last, par. 6.4 analyzes the results of the investigation at country-level, answering the sub-question 5b.

6.2 Analysis on entry mode decisions

The results lead to direct export through agent/distributor as ideal entry mode for Imperia. Now is the moment to discuss this outcome by considering the insights of the theoretical framework designed in Chapter 4. Indeed Table 5.1 (cfr. par. 5.2) shows that some factors, which are indicated suitable for direct export in the interviews, score better for other entry modes.

First, development of skills and knowledge of foreign country (6) would be ideally exploited by direct marketing or by an acquisition. However, as to direct marketing, it would not be possible for Imperia to internally manage direct relationships with the end users of its products. As to acquisition, the investment would be too expensive and the status of Imperia machines as Italian high quality products would be lost.

Second, firm's small size (7) would typically fit indirect export, but there is no confidence about the performance an external agency would provide and Imperia is already experienced in operating in most of the European countries.

Third, in case of oligopolistic competition (11), theoretically a production investment would be the best entry mode, but direct export is more appropriate for this reason: the European market is perceived as far from being saturated, therefore the actors in it have still margins of growth by exporting, with no need to delocalize the production abroad in order to avoid retaliation from competitors.

Fourth, two factors do not give specific indications for a preferred entry mode. About risk minimization (3), the only risk considered by Imperia is the danger to be copied, that would not be ideal for direct export. In this regard, a production investment would allow higher control, but the mentioned reasons to avoid it overcome this positive aspect. About appreciation of home country currency (10), again a production investment would be suggested, but the appreciation of the Euro does not influence negatively the turnover of Imperia in Europe, even in countries with national currency as UK.

Apart from export, the results do not leave space for contractual entry modes, as licensing, franchising and original equipment manufacturing. A reasonable explanation can be the importance attributed to the exclusive use of the brand Imperia, use that is not compatible with such entry modes.

Equity investments (direct export through branch/subsidiary, production investments and strategic alliances) would require high financial, managerial and technological resources and

they would not be appropriate for the business under analysis. The reason can be the limited market potential for a long-lasting product at high use specificity, as the pasta machine is. However, the interview with the managing director of Imperia leaves an open door for two potential equity-based solutions:

- An acquisition of the Italian competitor: the main advantage of it would be the acquisition of the competitor's brand, products and customers (cfr. par. 2.4.3), which no other company better than Imperia would be able to exploit, due to its experience in the business. The market position of Imperia would be empowered in the Italian market (a situation close to a monopoly would be achieved) as well as in the European market (large part of the competitor's turnover comes from the export activity, in contrast to Imperia). In case of acquisition Imperia would face several strategic choices. For instance, would it be wise to maintain the brand of the competitor, or to make its products non-brand, or to label its best items as Imperia? Whatever the decision, the solution prospected here is to employ strategically the acquired products, in order to better exploit the target markets. For example, the machines of the competitor, at lower quality and price, might be used to target the country-markets (or the customers, or the segments of end users within the same country-market) which have proved to be more sensitive to price (e.g. Germany and Poland), or the ones where the brand of the competitor is more affirmed (France according to Mr. Bioglio, Imperia, Germany according to Mr. Streicher, GSD). Introducing differentiated products (Imperia products at higher quality and price and the acquired products at lower quality and price) according to the demand expressed by each market might allow to minimize the price differences across countries and the risk of undesired distribution channels (cfr. par. 2.6.2 and 2.6.3). It might be possible to use certain machines as fighting products, by decreasing their price at a similar level of the Chinese items and by maintaining their quality at a higher level, in order to counter the competition of the Chinese producer (cfr. par. 2.6.2). This option might be useful in markets where the Chinese has a strong market position (e.g. Germany). Another possibility might be to introduce the products of the Italian competitor into the large organized distribution, without the danger to lose brand reputation due to hard discount policies. It is still questionable if an SME as Imperia would be able to afford the entirety of such an investment.
- A joint venture with the Chinese competitor: the managing director of Imperia figures out this option in case of a market competition at two players. In such a situation, a cooperative solution might be a way to secure the market position of Imperia from the aggressive price-based competition of the Chinese. Indeed the learning from par. 3.3 is that Asian competition hinders the Made in Italy export of SMEs. The Italian manufacturers react by focusing on the production of goods at higher quality, design and service content, in order to target niche segments where the competitors can more difficulty out-compete them (cfr. par. 3.3.2.1). However, the European market of the pasta machines is more oriented towards lower quality and lower price items than the Italian market (cfr. par. 5.3), therefore a cooperative solution (maybe non equity-based, as a cooperation on price or a division of the market) might be wiser than a war of quality versus price.

So far direct export through agent/distributor emerges as the best entry mode for Imperia. The choice between agents and/or distributors is more debatable, in relation to country-specific results. Indeed Imperia is not active in most of the East European countries, due to a past "scarce commitment" in this area. Other reasons are that "there are no contacts on the territory and the potential of the single countries is perceived as too small to justify the participations to trade fairs" (Mr. Ancona, Imperia). However, first of all an interviewed wholesaler successfully

exports to these countries: “the sales of the pasta machines in the East European markets, for instance Ukraine and Estonia, are going quite well, they do not meet particular difficulties” (Mr. Gloe, Gloe). Second, the learning from the literature review is that agents are cheaper and more easily controllable than distributors, because their functions are limited to search for new customers and to receive orders (cfr. par. 2.4.1.1). Moreover, agents create commercial relationships with new customers and this is helpful in absence of contacts in the market. The main reason why agents are not used by Imperia is that “it is difficult for agents to get high revenues abroad from a specific product as the pasta machine” (Mr. Ancona, Imperia). In order to solve this problem, two solutions are prospected:

- The joint use of agents by Imperia and by other local producers of complementary Made in Italy goods, who want to enter these markets as well. Indeed, when an agent has several Made in Italy complementary products in his catalogue, the products enhance each others and their impact on the buyer’s perception is stronger. As a result, it might be easier to reach a higher turnover for the agent. The cooperation with local producers of Made in Italy complementary goods is also suggested as effective in the interview with the experts (cfr. par. 5.3) and is a learning from the investigation on the industrial districts: indeed it belongs to the externalities a company can attain by cooperating together with other local firms (cfr. par. 3.4.2).
- It is important to build the relationship with the agent, by defining clear conditions from the beginning (e.g. assignment to a specific area and sales conditions), by the use of incentives on reached turnover and sold products, by monitoring the agent’s performance and by understanding the market specificities with his help (all tasks exerted by Imperia in the Italian market, but not in regard to the Polish agent, for instance). Native middlemen of the target country are more indicated, because they better know the market, the culture, the language and the local business traditions (cfr. par. 2.6.4).

Once the agents have targeted some customers and Imperia has gained experience about the characteristics of the market, the company might even decide to stop using the agents and to manage directly the relationship with the customers.

Another option to penetrate the East European markets might be to employ Gloe (the German customer who already exports its own products there, cfr. Appendix 4) as a distributor of Imperia in these countries. However, this option has to be carefully evaluated, in reason of two aspects. First, Gloe distributes also Chinese pasta machines with his own private label, situation that might create a conflict of interest. Second, Imperia would not play an active role in the market, which is a disadvantage (cfr. par. 2.4.1.1).

The use of agents, in addition to the existing distributors, might be assessed also for countries at high potential where new customers are explicitly searched (e.g. France and Germany), again in cooperation with other Italian exporters. A strong point in favour of agents is that their employment is relatively inexpensive (cfr. par. 2.4.1.1). However, Imperia is already active in these countries, which implies existing contacts, higher experience and brand reputation, so the opportunity to get new customers without using agents is higher than in countries where Imperia has a marginal role (e.g. Poland).

The answer to the first part of the sub-question 5a represents the conclusion of par. 6.2:

5a What is the best (possible combination of) entry mode(s) and marketing mix for Imperia?

The (best possible combination of) entry mode(s) is summarized in the following points:

- Direct export through distributors is confirmed as the best entry mode in Western Europe (e.g. UK, Germany, France and Netherlands).
- The use of agents is suggested as suitable for Poland and to enter for the first time the East European countries. Agents, relatively cheap and more easily controllable than distributors, might overcome the lack of business contacts in the area. The joint employment of agents by Imperia and by other producers of complementary Made in Italy goods, the definition of clear selling conditions and the use of incentives are proposed as solutions to permit agents to get high revenues from a specific product as the pasta machine. The employment of Gloe, a customer of Imperia who exports successfully in Eastern Europe, might be considered as well to enter this region.
- An acquisition of the Italian competitor might be useful to exploit the competitor's brand, products and customers. The acquired machines, at lower quality and price than Imperia's, might be used to target the most price-sensitive markets (Germany and Poland), or the markets where the competitor's brand results more affirmed (Germany and France). Introducing Imperia products and the acquired ones according to the demand expressed by each market might minimize the price differences across countries and the risk of undesired distribution channels. Certain machines might be used to counter the Chinese competitor, by decreasing their price at a similar level of the Chinese items and by maintaining their quality at a higher level. This option might be useful in markets where the Chinese has a strong market position (Germany). The acquired products might be also introduced into the large organized distribution, without the danger to lose Imperia's brand reputation due to hard discount policies.
- A non equity-based cooperation with the Chinese competitor (e.g. a cooperation on price or a division of the market) might help to secure the market position of Imperia from the aggressive price-based competition of the Chinese.

6.3 Analysis on marketing mix decisions

In a parallel way to Chapter 5, the strategies on the four marketing mix elements are discussed in order. A common structure for each section is adopted: considerations are first made at corporate level and then at product level. Indications at country level are provided when the results of interviews and data analysis point out evidences on a national base.

Product

The discussion about product decisions is developed in first instance around the two issues where the results converge to, which are product quality and brand.

Imperia, market leader in product quality, appears an example of Italian manufacturing SME which fights the competition of low cost products from the Far East in its internationalization process. The learning from the theoretical framework is that Italian manufacturers try to focus the marketing efforts on goods at higher quality, design and service content and to target niche segments of customers (cfr. par. 3.3.2.1). However Imperia faces a market context where customers are clearly more inclined to purchase standard and low quality products (cfr. par. 5.3). In spite of such a market demand, it is not possible for Imperia to lose the qualitative superiority of all its products, even for items which address market segments demanding low quality goods. This is because quality is an element that differentiates Imperia from its competitors and it is a strength recognized by all the interviewed customers. The enhancement of product quality, especially in terms of design and innovation, is a straightforward conclusion from the interviews to the managing director and the experts and it is confirmed in the literature study as well: a change from a price-based to a more quality-oriented strategy has to support the internationalization of the Italian manufacturing SMEs (cfr. par. 3.3.2.1). The risk to lower the

quality is to end up as the Italian competitor, who suffers the competition on two sides, being his quality level between the Imperia's and the Chinese's quality levels. The effect of his recent strategy to lower the quality of his products has been the loss of his customers' trust. The maintenance of the qualitative superiority of Imperia can start with understanding where it is even possible to improve. The qualitative aspects with margins of improvement, in customers' opinions, are shown in the following par. 6.4.

The theme of branding is closely linked to product quality. In fact, the pursuit of a strategy focused on brand permits to achieve the same goals of a quality-based strategy, as product differentiation from competitors, loyalty building, guarantee of a certain level of quality and satisfaction, compensation by a premium price (cfr. par. 2.6.1). Imperia benefits of a brand reputation that is recognized by most of its customers. This competitive advantage has to be maintained in the markets where the brand is already strong (UK) and it has to be consolidated in the markets where the brand has lower reputation (Germany and France, cfr. par. 5.4).

As the experts underline, the activity of brand promotion becomes critical besides the maintenance of the qualitative level of Imperia products, especially when considering that the qualitative gap between private labels and branded products is narrower than in the past (cfr. par. 2.6.1). This fact is also confirmed by the managing director of Imperia.

The adopted policy of using different branding policies is confirmed, in reason of different conditions in the market demand across countries. In this way Imperia can tailor the supply of products to the national demand (cfr. par. 2.6.1). In this regard, the simultaneous use of the non-brand item is strategic, in order to target the price-oriented customers and to counter the price-based competition (as it is suggested in the following section on pricing).

As last issue about branding strategies, the Made in Italy label: with the current incoherent policy of the Italian competitor, Imperia has the opportunity to become the only genuine Made in Italy producer of pasta machine, meaning an implicit guarantee of quality for customers and end users (cfr. par. 3.2.2). Moreover, if in the future the label "100% Italy" will prove to be effective in its purpose to protect the goods entirely produced in Italy, it might be wise to adopt it, as a further way to secure the market leadership of the Imperia brand.

Looking at the products in portfolio, a straightforward suggestion is to push the sales of the most successful items, the standard and the low quality products, standing the essential condition of maintaining the qualitative superiority. As to the standard quality product, still it is not completely clear for the researcher how a market as UK is able to absorb a huge number of items, in comparison to equally large markets as Germany and France. The reasons emerged from the interviews (the higher commitment of Imperia, the trust developed by customers for Imperia and the possible absence of the Italian competitor in the English market) are perceived as not fully satisfactory to motivate a difference of six times the sold quantities in the German and the French markets (cfr. Table 5.6, par. 5.4). If it is really a matter of market commitment and customer-oriented approach, it would be crucial to search for new large wholesalers and to improve the relationships with the existing customers also in these markets (the next sections on placing and promotion explain how to do that).

The learning for Imperia from the past attempts of diversification is that the introduction of products which are not related to the consumption of pasta are hardly successful, in reason of the recognition, by end users, of specific skills to Imperia in the business of the pasta machines (cfr. Appendix 1).

The considerations on the other machines in Imperia's portfolio pertain to the following sections.

Pricing

At corporate level, price differentiation across country-markets remains a necessary strategy for the future, because the market differences do not make possible to apply the same prices of the

English market in the German market or in the Polish market. However it is suggested to level off the entity of large price differences in a long-term perspective, to avoid unwilling distribution channels and the risk of losing customers' trust (cfr. par. 2.6.2).

The development of cooperative relationships with customers is recommended, in reason of the difficulties expressed by Imperia in controlling the pricing strategies of customers and in order to counter the high price escalation in the supply chain (cfr. par. 2.6.2). For instance, it might be regularly suggested to distributors to limit the price building-up they apply, in order to avoid the existence of unaffordable prices for end users, and to avoid extreme price discounts on the items at Imperia brand, in order to maintain a high brand reputation (cfr. par. 2.6.2).

The definition of high quality building strategy fits the case of Imperia, because the firm applies high prices for products at high quality, image and differentiation (cfr. par. 2.6.2). However data analysis and interviews indicate that the European customers are more oriented towards the products of Imperia at standard and low price, mainly due to a low consumption of pasta (cfr. par. 5.3). As a consequence, Imperia adopts lower prices on the export market than the ones on the Italian market. Even in such a circumstance, most of the interviewed customers evaluate the price of Imperia as the highest in the market and Imperia still faces a serious price-based competition, especially in the German market (cfr. Table 5.8, par. 5.4).

At product level, based on the learning from the literature review, the proposed strategy consists in an additional price reduction of the low quality item (not below the prime costs) and in a pushing policy in the markets at high demand of the product (all the analyzed markets but UK) and where the competition is more intense (Germany). This strategy would permit to face the price-based competition of the other two market players, in order to gain market penetration (cfr. par. 2.6.2). It would not be in contrast to what has been said earlier about quality-oriented strategies: in fact a crucial point would be the maintenance of the qualitative superiority of Imperia products, because in such a situation the competitors would find difficult to justify a lower product quality at a price which would not be perceived as significantly lower by customers anymore. At the same time, the good reputation of Imperia brand would not be harmed, because the promoted item is formally non-brand, and the company would keep on selling the higher quality products in portfolio at the same price of before.

Nevertheless, since Imperia is quality and brand leader in the market, the low quality machine should not represent the core product of Imperia to succeed in Europe in the future. The product might be used strategically to exploit the presence of Imperia in certain markets, as mentioned, until the sold quantities are high (which permits to make a good margin out of it). However, as the learning from the section on the Italian manufacturing SMEs suggests (cfr. par. 3.3.2.1), in the long term it will be essential to increase the sales of the items at higher quality and marginality, because the market positioning of Imperia naturally fits this strategy. Therefore a gradual shift from the sales of the low quality item to the sales of the higher quality products is prospected. On one side, the English market has already evolved in this direction. Markets as France and Netherlands are also more oriented to demand a standard quality, but they are in a transition phase where the low quality product represents a consistent part on the total (especially Netherlands). On the other side, the German market still shows a high propensity for the low quality product: here the goal is to search for an affirmation of the standard quality machine, by proposing it to customers. As to the East European markets, the low quality item might be very useful to penetrate them. Indeed, the experience in the Italian market during the years of economic crisis proves that families consider the pasta machine as a valuable long-term investment to eat inexpensively. Therefore a relatively cheap pasta machine might be successful in markets which are highly sensitive to price, as it is proved by the case of Germany.

Possibly, in case Imperia would succeed in developing higher market share and brand reputation at competitors' expenses, at that time it might be easier to improve the sales of the top quality product. For the moment, data and customers' opinions about it show that this item is considered

too expensive in the European market, despite its higher quality. Cutting the price to push the sales is not a recommended solution, because the reputation of the product and the Imperia brand might be harmed and the risk of re-importing might increase exponentially.

Placing

An indication for Imperia which is common to all its country-markets is to search for vertical integration, by establishing cooperative relationships with customers: in this way Imperia can increase the control over customers' behaviour, which is crucial for efficient and effective channel operations (cfr. 2.6.3). An example of the importance to develop cooperative relationships with customers comes from the interview with Mr. van Adrichem, who frankly reveals the re-importing of Imperia products in Italy (grey market phenomenon, cfr. par. 2.6.3). The main negative effect is in the loss of brand reputation, because Italian buyers have the opportunity to purchase Imperia products at a much lower price than the price in the Italian market. Since it is difficult for Imperia to minimize the price differences between Italy and the international markets, the best solution is again the search of cooperative relationships with customers, in order to discourage them from re-importing in Italy (cfr. par. 2.6.3).

The relationships Imperia has with the English customers might be taken as a benchmark, in reason of the trust developed by Imperia in their regard and of the sales performance achieved in that market: a deep reflection on them might be helpful, to understand how to exploit the potential of customers in other markets. For instance, the following issues might represent a learning source for Imperia: what kind of customers Imperia does have in UK, how the relationships with them were built, what combination of factors has brought the success Imperia has in that market.

The following section on promotion provides indications on how to develop cooperation with customers.

An exclusive strategy, with the use of few dealers of the same type per country, does suit the case of Imperia. In fact, Imperia products present specific characteristics (high speciality, uniqueness, newness, technology content, high price, high brand loyalty, infrequently purchase, personal selling and extensive service) which ideally match an exclusive coverage of the distribution channel (cfr. Table 2.1 in par. 2.6.3). Therefore, according to the literature review, the current policy of using few large wholesalers per country is a wise choice. Nevertheless, the interviews in Imperia and to the foreign customers suggest that different placing strategies can be tailored to country-specific situations:

- A first group of countries is formed by Germany and France, high potential markets where the number of customers can be increased (cfr. par. 5.4). In first instance, according to the pursue of an exclusive strategy, it might be opportune to exploit the potential of the existing customers, since two interviewees (Mr. Gloe and Mr. Wittrant) express positive opinions on market potential. In second instance, new customers might be searched. A first basic and inexpensive way might be to create a mailing list of potential partners (marketing database, cfr. par. 2.6.4). Internet is a valid tool in this regard. A second way might be the participation to trade fairs in these countries, because Imperia has never joined fairs in Germany and France with its own stand, although the machines are already exhibited by the customers. A joint participation with the existing customers might be useful to create higher visibility. Moreover, the search of new customers would not be against the interests of the existing customers, if the new ones purchased Imperia products from the existing ones. In such a case, the existing customers of Imperia would not see the new customers as competitors, but as direct customers!
- A second group of countries includes UK and Netherlands, where the customers are considered numerically sufficient but able to grow more. In this case a suggestion is to

develop cooperative and promotional strategies (cfr. next section on promotion), in order to improve the relationships with the customers and to exploit the potential of them.

- A third case is the one of Poland, where Imperia operates with only one wholesaler. In par. 6.2 direct export through agents is suggested as a suitable mode to enter Poland and other East European countries. Here it is argued if wholesalers or retailers would need to be addressed by agents. Indeed, the Polish market results strongly oriented to purchase first price and non-brand machines, in line with data on GDP and on pasta consumption per capita (cfr. par. 5.4). In such a market, it might be more indicated to address the searching action of agents to large retailers instead of wholesalers: this would permit to maintain a relatively low price at the end use, because the absence of a step in the supply chain (the wholesalers) would reduce the consequential price escalation (cfr. par. 2.6.2). The same strategy might fit the market conditions of other East European countries where Imperia is still not active, since they similarly show low GDP and pasta consumption per capita.

The suggestion given for the Polish market might be also applied to a specific product in Imperia's portfolio: indeed the sales of the top quality item meet difficulties out of Italy, due to the high price of it. A way to maintain a reasonable price for end users might be a placing strategy addressed to selected retailers (cfr. par. 2.6.2). This strategy permits to limit the price-escalation and to build up the image of the machine as top line item, which is recognized by end users from added services as personal selling and technical assistance. This option might be applied in markets at high brand reputation and low price-sensitivity, as UK and France. The search of new retailers might be done again with the simple use of a marketing database.

Promotion

The results of the investigation lead to several fields of discussion about promotion. Most of the initiatives mentioned here constitute the answer to the necessity of cooperation with customers expressed in the previous sections on the other marketing mix elements.

The first and most important issue is customer service. The managing director is aware that the activity abroad has been rather passive and limited to receive the orders customers have always sent. A lack of a customer-oriented approach comes out from the interviews to customers as well: all customers are scarcely informed about product innovation and promotion. The relevance of such a result is amplified by the consideration that some of the interviewees are customers of strategic importance for Imperia, due to the large amounts of items they regularly buy (Thomas Plant and GSD above all). Therefore the adoption of a more customer-oriented approach is strongly recommended, by regularly informing customers on the products in portfolio, by updating them on innovation and promotion and by providing punctual and accurate answers to their questions. The participatory observation in interviewing customers suggests that a personal visit to the most important customers once per year might help to maintain the relationship and to give a direct update. Indeed a face-to-face meeting proves to be much more informative than a simple contact by e-mail (although regular), to better understand customers' needs, to develop their trust and to build brand image. The researcher has the feeling that customers were surprised and pleased to be visited, especially the Dutch ones who were met at their own headquarters. Besides the business, human relationships play an important role as well.

Second, the exhibition of Imperia products at trade fairs by foreign customers is already well developed, for what concerns the interviewed customers. Indeed, all of them (except one, who attends the fairs only as visitor) show Imperia at the fairs in their own country. An issue of further investigation is to check if the same applies also to the other European customers of Imperia. Indeed the exhibition of the Imperia machines at trade fairs increases brand awareness

(cfr. par. 2.6.4), which is important especially in the countries where Imperia brand has lower reputation (Germany and France, cfr. par. 5.4). It might be useful to provide customers with paper displays for fair exhibition: in fact, Imperia owns these practical devices and the interviewees expressed their appreciation for them, although they were not aware of the existence of them before the interview.

Third, the promotional activities started by Mr. Kamphuis, a Dutch customer, show how wide the horizon of the possibilities of cooperation with customers is: this customer has created, by his own initiative, new occasions of promotion (publication of a book of fresh pasta-based recipes with photos of Imperia machines and introduction of Imperia in a cooking school), in order to increase the awareness of the consumption of pasta and of the existence of the pasta machine. It is matter of reflection if Imperia itself could be promoter of such ideas with other customers who believe in the product as Mr. Kamphuis. For instance, Mr. Gloe organizes demonstrations in the Far East to show how to use the machine and Mr. Bushell already cooperates with another supplier to present some kitchenware at a BBC TV show on food. Experts as well suggest this kind of initiatives, but with the warning to carefully evaluate partners whose products might become competitors: for instance, it would be wise to control the behaviour of a customer as Gloe, who distributes his own Made in China machines beside Imperia machines. It has been found that on his web-site the photos of both Chinese and Imperia machines are exhibited, but the brand Imperia has been carefully hidden...³⁷

Fourth, as to the participation to trade fairs together with other producers of Made in Italy complementary goods, Imperia has experienced an unsuccessful attempt in the past, attributed to general cultural individualism and short term orientation of Italian entrepreneurs. However, both the managing director of Imperia and the experts still believe in this opportunity. Besides, the learning from par. 3.4.2 on industrial districts is that export initiatives in cooperation with local producers are effective also for firms not belonging to industrial districts. Therefore this strategy is suggested again for the future, especially in consideration of the costs sharing and of the intensified promotional effects for Made in Italy products resulting from the initiative.

Fifth, the promotion on specific magazines about kitchenware and household products is effective in reaching specific segments of customers and end users for selected businesses (cfr. par. 2.6.4) and in fact Imperia adopts this strategy in Italy. If such an investment would be considered affordable, it might be useful to apply the same promotion in countries whose market potential results high (Germany and France above all, due to the necessity to increase brand awareness).

As to the top quality item, the expressed willing to develop the sales of it clashes with what comes out from data analysis and interviews: the sales percentage on the total sales in Europe is very low (cfr. Table 5.6, par. 5.4) and customers, when asked about the potential of the top quality product in Imperia's portfolio, express negative opinions about it, due to its high price. A suggestion might be to develop promotions on it, maybe in combination with cheaper products in portfolio, in order to increase its visibility and to make the price of the single product more affordable to customers and end users³⁸. Perhaps the development of the product might be more feasible in countries as UK, where Imperia faces a relatively low competitive pressure and the brand is strongly affirmed (paradoxically more than in Italy, cfr. par. 5.4), or France, culturally more similar to Italy. At this regard, Mr. Bushell, who is a large buyer of this item in UK, has hypothesized a future request for exclusivity. Conversely, the challenge for the affirmation of

³⁷ <http://www.pastaaid.com/>

³⁸ Imperia has already tried such a promotion, but maybe the moment of launching it (mid July) has not been a wise choice.

this product is more difficult in countries where the price is an important variable in purchasing decisions, as Germany and Poland, highly oriented towards the low quality item. Although the top quality product is not successful, its maintenance in portfolio contributes to differentiate the supply of Imperia from competitors, because no other market player has such a pasta machine (cfr. par. 2.6.2).

As to the machine for professional use, it is easier to penetrate foreign markets with it, because the awareness of its employment is already high. Therefore it might be useful to contact new distributors in this business or to attend trade fairs addressed to professional segments of customers, especially in countries perceived at high potential (France and Germany) where the sold quantities of the item are lower than the ones in the English market. An opportunity to dilute the costs might be again a joint participation with customers or other Italian producers of complementary goods.

The analysis in par. 6.3 permits to complete the answer to the sub-question 5a:

5a What is the best (possible combination of) entry mode(s) and marketing mix for Imperia?

The best marketing mix strategy is defined by considering the following elements (conclusions are first drawn at corporate level and then at product level):

- Product:
 - In spite of a high market demand for standard and low quality products, it is not possible for Imperia to lose the qualitative superiority of all its products, which is element of differentiation from competitors. The enhancement of product quality starts by improving design, innovation and the aspects directly highlighted in customer's answers.
 - Since the qualitative gap between private labels and branded products is narrower than in the past, the reputation of the Imperia brand has to be maintained in the markets where the brand is already strong (UK) and consolidated in the markets where the brand is less known (Germany and France). The simultaneous use of the non-brand item is strategic as well, to target the price-oriented customers and to counter the price-based competition. The need to enhance the Made in Italy label comes from the opportunity for Imperia to become the only genuine Made in Italy producer of pasta machine, in reason of the incoherent policy of the Italian competitor. If the label "100% Italy" will prove its effectiveness to protect the goods entirely produced in Italy, it might be wise to adopt it, as a further way to secure the market leadership of the Imperia brand.
 - If the success of the standard quality product in UK is really due to a higher market commitment and to a more customer-oriented approach of Imperia in the English market, it would be crucial to search for new large wholesalers and to improve the relationships with the existing customers also in other markets, especially in Germany and France.
 - The recognition, by end users, of specific skills to Imperia in the business of the pasta machines is a learning for the future to avoid the introduction of products which are not related to the consumption of pasta.
- Pricing:
 - Although market differences force the adoption of price differentiation across countries, it is suggested to level off the entity of large price differences in a long-

term perspective, to avoid unwilling distribution channels and the risk of losing customers' trust.

- The development of cooperative relationships with customers is recommended, by suggesting them to limit the price building-up and to avoid extreme price discounts. In this way affordable price for end users and high brand reputation are maintained.
- An additional price reduction of the low quality machine (not below the prime costs) and a pushing policy addressed to the markets at high demand of the item (all the analyzed markets but UK) and where the competition is more intense (Germany) are suggested, in order to face the price-based competition from the other two market players. The maintenance of the qualitative superiority of Imperia products is an indisputable element to succeed in this strategy, because competitors would find difficult to justify a lower product quality at a price which would not be perceived as significantly lower by customers anymore. At the same time, the good reputation of Imperia would not be harmed, because the item is non-brand and the price of the higher quality products in portfolio would be kept the same as before. However, the low quality machine should not represent the core product of Imperia to succeed in Europe in the future. Rather, in the long term it will be essential to increase the sales of items at higher marginality, because the market positioning of Imperia makes this strategy necessary. The English market is already mature to purchase higher quality products. France and Netherlands are in a transition phase, because the demand for the low quality product is still consistent. Germany still shows a high propensity for the low quality item: here the goal is to search for an affirmation of the standard quality machine. The low quality item might be very useful to penetrate the East European markets, highly sensitive to price.
- Cutting the price of the top quality product to push the sales of it is not suggested, due to the potential loss of brand reputation and the risk of re-importing.
- Placing:
 - The importance to increase the control over customers' behaviour by establishing cooperative relationships is increased by a case of re-importing of Imperia products from Netherlands to Italy (EMGA).
 - The relationships Imperia has with the English customers might be taken as a benchmark, in reason of the trust developed by Imperia in their regard and of the sales performance achieved in that market. A deep reflection might help to understand how to exploit the potential of customers in other markets.
 - An exclusive strategy, with the use of few large wholesalers per country, is ideally indicated. Nevertheless, different placing strategies can be tailored to country-specific situations:
 - In a first group, Germany and France result high potential markets where the number of customers can increase. In first instance it is suggested to exploit the potential of the existing customers, since two interviewees express positive opinions in regard. In second instance, new customers might be searched, with the help of a simple mailing list of potential partners or by a joint participation to national trade fairs with customers and with an own stand. The search of new customers would not be against the interests of the existing customers, if Imperia permitted the latter to manage direct business relationships with the former.
 - In a second group, UK and Netherlands are markets where customers result numerically sufficient but able to grow more. Improving the

relationships with the existing dealers is recommended to exploit their potential.

- In a third group, the Polish market is strongly oriented to purchase first price and non-brand machines. Targeting large retailers instead of wholesalers is suggested, to maintain a relatively low price at the end use. The same strategy might fit the market conditions of other East European countries where Imperia is still not active.
- A placing strategy addressed to selected retailers might be applied to the top quality item, to limit price escalation and to build up product image by furnishing personal selling and technical assistance. This option might suit markets at high brand reputation and low price-sensitivity (UK and France). A marketing database might help in searching for new retailers.
- Promotion:
 - The adoption of a proactive and customer-oriented approach is strongly recommended, by regularly informing customers on the products in portfolio, by updating them on innovation and promotion and by providing punctual and accurate answers to their questions. Personal and face-to-face visits to the most strategic customers once per year might help to maintain the relationships and to give a direct update, in order to better understand their needs, develop their trust and build brand image.
 - The exhibition of Imperia products at trade fairs by the interviewed customers results already well developed. An issue of further investigation is to check if the same applies also to the other European customers of Imperia. It might be useful to provide customers with paper displays for fair exhibition, since Imperia owns these devices and the interviewees expressed their appreciation for them, although they were not aware of the existence of them before the interview.
 - It is a matter of reflection if Imperia itself could be active promoter of cooperative initiatives with other customers who believe in the pasta machine as Kamphuis. It is suggested to carefully control the behaviour of partners whose products are or might become competitors (e.g. Gloe).
 - The participation to trade fairs together with other producers of Made in Italy complementary goods might be successful in the future, in reason of costs sharing and intensified promotional effects for Made in Italy products.
 - The promotion on selected magazines might be extended to the markets at high potential and low brand awareness (Germany and France), if such an investment would be considered affordable.
 - The development of promotions on the top quality item, maybe in combination with cheaper products in portfolio, might increase its visibility and make it more affordable to customers and end users. The success seems to be more feasible in countries as UK, where Imperia faces a relatively low competitive pressure and the brand is strongly affirmed, and France, culturally more similar to Italy. An eventual request of exclusivity by Thomas Plant has to be evaluated.
 - It is easier to penetrate foreign markets with products for professional use, because the awareness of their employment is already high. It might be useful to contact new distributors in this business or to attend trade fairs addressed to professional segments of customers, especially in high potential markets (France and Germany).

6.4 Analysis of the country-level investigation

This last section has the goal to answer the following research sub-question 5b.

5b What are the fields of activity at country-level where Imperia has margin of improvement?

The main information source in this case is represented by the considerations of the international customers of Imperia who have been interviewed. Therefore indications for the Polish market are left apart. The previous paragraphs 6.2 and 6.3 have already furnished specific recommendations on entry mode and marketing mix decisions for this market.

The findings described earlier in par. 5.4 evidence that the answer to question 5b can be summarized in three points:

- Customer service: the interviews reveal the necessity, by Imperia, to abandon a passive approach towards the market, especially for what concerns the information on innovation and promotion provided to the customers, as Table 6.1 indicates. Indeed the Dutch customers and one German customer state to be not aware of product innovation and promotions. The other four customers affirm to be informed. However, two of them have to ask in order to receive information, one is actually not informed about new products and one is not so certain about the answer. Remarks are also given on the punctuality and the accuracy of communication and on the policy on spare parts.

Table 6.1 Fields of improvement on customer service

Customer	Fields of improvement
Mr. Bushell	• Information on innovation and promotion
Mr. Streicher	• Information on innovation and promotion • Punctuality and accuracy in communication
Mr. Gloe	• Information on innovation and promotion • Accuracy in communication • Time optimization in getting a spare part
Mr. Golze	• Information on innovation and promotion • Policy on spare parts
Mr. Kamphuis	• Information on innovation and promotion
Mr. van Adrichem	• Information on innovation and promotion
Mr. Wittrant	• Information on innovation and promotion

- Cooperative agreements: the interviews highlight that most of the customers would like to receive discounts on the purchased quantities and exclusive conditions on products. Some proposals are interesting, as the one of Thomas Plant about the exclusivity on the top quality product, whose development in Europe is a declared goal by the managing director of Imperia (Plant has been the main English buyer of this item in 2007, with a large amount of pieces). Or the proposal of EMGA, who asks for the possibility to promote some machines in catalogues designed at that specific purpose.
- Product quality: the quality of Imperia products is considered very good by all the interviewed customers. French and Dutch customers are fully satisfied with product quality. Nevertheless, other customers have some suggestions and experiment minor problems with the machines. Keeping in mind that the real entity of these problems is not quantified³⁹, the fields where the product quality of Imperia can improve, in customers' opinions, are shown in Table 6.2.

³⁹ It would be important to test exactly how many items on the total sales really present defects.

Table 6.2 Fields of improvement on product quality

Customer	Fields of improvement
Mr. Bushell	Technical content, reliability, design
Mr. Gloe	Rust, gears, reliability
Mr. Streicher	Control before delivery

Chapter 7 Conclusions and recommendations

7.1 Introduction

The research has been completed. This final section is designed to present conclusions and recommendations.

The chapter is structured in three paragraphs.

Par. 7.2 summarizes the conclusions of the investigation as accomplishment of the research objective, by listing the original research questions and by describing the answers come out from the analysis.

Par. 7.3 describes the contribution of the research and provides recommendations, first at scientific level, then at company level.

Finally, par. 7.4 furnishes a personal assessment of the researcher on the whole research project.

7.2 Conclusions

The goal of this paragraph is to present the conclusions of the research. In the beginning of the project the research objective has been defined as follow:

To identify strategic possibilities for the internationalization of Imperia in the European market, by investigating the distinctive characteristics of the way the Italian manufacturing SMEs do internationalize.

This research objective is achieved by answering the research questions introduced in Chapter 1. The research questions are reported here again and the related answers are summarized.

General research question 1

What insights from the theoretical background on the topic internationalization strategy are critical for the analysis of the manufacturing SMEs?

Today worldwide competition in both domestic and foreign markets forces manufacturing firms to be internationally competitive. This context implies that no market is forever safe from foreign competition. Therefore, firms should think internationally even when they operate in domestic markets. Global communication and lower trade barriers make internationalization an affordable challenge for SMEs. The creation of the EU and the introduction of the Euro constitute a further incentive to do business across national borders (par. 2.2).

When a firm enters a foreign country, it can adopt four main entry modes of internationalization (the respective modalities are indicated in brackets):

- Export (direct export, indirect export and e-commerce, par. 2.4.1)
- Contractual agreements (licensing, franchising and original equipment manufacturing, par. 2.4.2)
- Production investments (greenfield investments and acquisitions, par. 2.4.3)
- Strategic alliances (joint ventures, par. 2.4.4)

The factors influencing the choice of entry mode can be divided in external factors (target country market, productive and environmental factors and home country factors) and internal factors (product and resource/commitment factors). The choice of entry mode has to be evaluated according to the specific characteristics of the business case under study.

When a firm enters a foreign market, it can adopt marketing strategies on four elements (the issues which are critical for the analysis of the manufacturing SMEs are indicated in brackets):

- Product (branding and non-branding strategies, par. 2.6.1)
- Pricing (high quality building strategy, price standardization, par. 2.6.2)
- Placing (exclusive coverage, control over the channel, cooperative relationships among channel members, par. 2.6.3)
- Promotion (advertising, public relations, sales promotions, direct marketing and personal selling, par. 2.6.4)

General research question 2

What are the distinctive characteristics of the internationalization of the Italian manufacturing SMEs?

- The decisions in international markets are affected by typical characteristics of management style, both positive (improvisation, individualism, affection to the working place, productive specializations, creativity, fast decision making, flexible structures and responsiveness to customers' needs) and negative (limited business education, focus on internal activities and current operations, poor linguistic skills, scarce dynamism and involvement in virtually all the firm's activities) (par. 3.3.1).
- Due to firm's size-related limitations (scarce financial, managerial and technological resources, risk aversion and lack of information and contacts with foreign markets), the internationalization process takes place mainly in form of export entry mode. In this way SMEs can exploit the advantages of niche strategy. In the period 2000-2005 the export of manufacturing micro and small firms shows lower growth rates than medium and large firms, due to adverse conditions in international markets (unfavourable exchange rates, low bargaining power towards large distributors, hard affirmation of strong brands). The main difficulties are registered in the traditional sectors of the Made in Italy. The change from a price-based to a more quality-oriented strategy and the development of customer services are prospected as possible solution (par. 3.3.2.1).
- SMEs show higher propensity for cooperative contractual agreements than for non cooperative solutions, due to the difficulty to afford large investments alone. Since the danger to be copied is high for Made in Italy products, cooperative agreements have to be handled carefully, particularly with Chinese partners (par. 3.3.2.2).
- Although production investments abroad have recently increased, especially in Central-Eastern Europe and Asia by medium firms, they are still limitedly adopted, due to scarce financial resources and managerial competences, lack of experience and information asymmetry, mistrust of consumers for Made in Italy goods produced abroad and loss of the advantages from being part of the industrial districts (par. 3.3.2.3).
- Joint ventures are preferred to FDI due to the presence of local partners helping to minimize costs and risks. They better fit firms with a certain bargaining power, innovative technology and control of a market niche (par. 3.3.2.4).

Sub-question 2 a

What externalities from being part of an industrial district positively affect the internationalization strategy?

- The production of exclusive goods, belonging to the traditional Made in Italy categories, for which there is an international demand by niche segments of users at medium-high income.

- The effects of the geographical agglomeration, which are scale economies from informal face-to-face exchange of information, high product quality improved by tight competition and cooperative relationships in form of export consortia.
- Phenomena of imitation within the district, which stimulate the export activity by reducing the perceived risk and the need of information (par. 3.4.2).

Apart from industrial districts, these advantages can also be achieved by firms involved in business groups with different configurations (par. 3.4.2).

General research question 3

What findings from the literature review are relevant to investigate the internationalization strategy of Imperia and how are they operationalized?

The combination of the selected insights from the literature review constitutes the theoretical framework of the research. A first part of the framework (par. 4.2.1) concerns the entry modes of internationalization, describing the related advantages and disadvantages. This general part is integrated by the findings of the empirical investigation of the Italian manufacturing SMEs, with a significant focus on export entry mode. A second part (par. 4.2.2) illustrates the aspects of the marketing mix strategies which are selected for the study of the manufacturing SMEs.

The contents of the theoretical framework constitute the learning source for the analysis of Imperia. They are operationalized by the formulation of questions for interviews. People are the first data source for the case study. Face-to-face interviews are addressed to three groups of respondents, respectively formed by two managers of Imperia, two experts on the internationalization of the Italian SMEs and seven foreign customers of Imperia (one from UK, three from Germany, two from Netherlands and one from France). The questions are open-ended and semi-structured. The second data source is represented by firm's internal information on export turnover and by external data on pasta consumption and on GDP per country (par. 4.3.2). The assessment of these documentary sources permits to develop an analysis also on the Polish market of Imperia, in absence of interviewees from this country.

General research question 4

What are the results of the investigation of Imperia?

- Results on entry mode decisions (par. 5.2): direct export through agents/distributors comes out as preferred entry mode, especially in reason of size-related limitations and Made in Italy reputation. E-commerce, side-activity to direct export, is useful to overcome size limitations. A greenfield investment scores positive for control maximization, cultural distance and high sales potential countries, but it would require too much resources (even in case of a commercial branch abroad) and the potential loss of the reputation linked to the production in Italy. An acquisition of the Italian competitor and a joint venture with the Chinese competitor are prospected for the future, to achieve monopolistic conditions in the market.
- Results on marketing mix decisions (par. 5.3):
 - Product: the European market is more oriented to the purchase of non-brand, manual and lower quality machines than the Italian market. The reasons are both internal to the firm (more recent activity and lower promotion of the brand in Europe) and external to it (limited culture of making and eating pasta in Europe). The higher percentage of professional machines purchased in Europe compared to Italy is due to an already developed awareness for the use of such product and to a high need of it. Product quality and branding strategies emerge as critical to

- succeed in both the interviews to the managing director of Imperia and to the experts.
- Pricing: internal data and interviews confirm that European customers prefer cheaper products. As result, the export prices of Imperia are much lower than the prices on the Italian market and a goal is to develop the sales of the top quality item in Europe. It is difficult to control the pricing policies of customers in absence of closer relationships with them.
 - Placing: large wholesalers are the most strategic customers of Imperia, showing both advantages and disadvantages. The number of customers has not grown recently due to a low commitment by Imperia. This number is considered sufficient in UK, not in Germany and France. The same reason explains why the Eastern European markets have not been penetrated.
 - Promotion: Imperia has adopted a passive approach to customers in the past. The cooperation with foreign customers and Italian producers of complementary goods, in terms of exhibition of products and of joint participation to trade fairs, is considered helpful to promote the machines.
- Results of the country-level investigation (par. 5.4):
 - UK: the sold quantities of standard quality and top quality items are much higher than the ones in other markets. The reasons are the firm's higher commitment, the trust developed by customers for Imperia and the possible absence of the Italian competitor in the English market. UK shows the highest relevance of branded products in the whole Europe, but the lowest interest for electric/ric and professional products: maybe the low consumption of pasta per capita and the low reliability of electric machine perceived by the customer make the standard manual machine for home use a good answer to customers' needs. Although Imperia considers the English market saturated, data analysis and customer's judgment challenge this internal opinion. However, the number of English customers might be sufficient. The fields where Imperia can improve, according to the interviewed customer, are customer service, cooperative agreements and product quality.
 - Germany: the highest weight of the non-brand and first price product among the analyzed countries is explained by the low reputation of Imperia brand, the high price-sensitivity of customers and the intense competition in the German market of pasta machines. The market potential is considered high by Imperia and by one customer. Internal data and high consumption of pasta confirm this, although the other two interviewees express negative considerations on the market potential. Customers see margin of improvement in customer service, cooperative agreements and product quality.
 - Netherlands: the large preference for the standard quality manual product can be linked to the food culture of Dutch people. High price sensitivity is revealed. The standard quality manual product is often used for professional employment. The interviewed customers are satisfied with the quality of Imperia products. Customers and internal data evidence that the Dutch market is not saturated, against Imperia's internal opinion. It might be that the number of customers is sufficient. According to customers, Imperia can improve in customer service and cooperative agreements.
 - France: the French market asks for a much higher product differentiation than other markets. The standard quality item represents most of the purchased pasta machines, leading to high brand reputation, as it is confirmed by the interviewed customer. The reputation of the Imperia brand is internally considered lower than

the Italian competitor's one. Interviewees and data lead to the same positive conclusion on the market potential. The sectors of activity with room for additional progresses are customer service and cooperative agreements.

- Poland: although it is hard to generalize market characteristics from data on one customer, the Polish market is strongly oriented to purchase the first price and non-brand item. High price-sensitivity, adverse exchange rate and scarce consumption of pasta substantiate this fact. However, the whole market potential might be large, in reason of the estimated data on pasta consumption at national level, the low commitment of Imperia in Eastern Europe and the opinion of a German customer who successfully exports in this area.

The answers to the research question 5 and the related sub-questions are presented in the following par. 7.3, because they constitute the recommendations for the internationalization of Imperia.

7.3 Contribution and recommendations

The goal of this paragraph is to describe the contribution of the research and to provide recommendations at two levels. In first instance, the contribution for the science is presented, with indication on the issues to be investigated by follow-up studies. In second instance, the same is done for the case study of Imperia.

The significant scientific contributions of the research are described in this section.

First, a comprehensive overview of the internationalization of the Italian manufacturing SMEs is depicted in Chapter 3. Indeed the phenomenon is investigated with a considerable amount of documentary sources, from both a qualitative and a quantitative perspective. Probably the main added value consists in the analysis of up-to-date information to challenge the findings of recent studies on the topic. For instance, the traditional propensity for export by the Italian manufacturing SMEs is confirmed, but it is also noticed that in 2006 these firms, especially medium-sized producers of Made in Italy goods, have been increasingly oriented to opt for FDI in fast growing markets in Eastern Europe (cfr. par. 3.3.2.3). Another example, the Made in Italy represents a substantial part of the Italian manufacturing economy, as to number of firms and employees, but data 2006 show that typical Made in Italy sectors, as textiles, clothing and food, express a minor weight for what concerns the export turnover on the total, due to external causes as the high competitiveness of Asian low cost products (cfr. par. 3.3.2.1). The same phenomenon also affects firms belonging to industrial districts (cfr. par. 3.4.2). Therefore Chapter 3 is the most interesting section of the research for what concerns its contribution in terms of new academic knowledge.

Second, a frame that can be used to assess the best choice of entry mode is built in Chapter 4 (cfr. Table 4.2, par. 4.2.1). The factors influencing the choice of entry mode, listed by Root (1998), are selected according to their appropriateness for the Italian manufacturing SMEs and the case study. A score is assigned to indicate the degree of suitability of each entry mode per related factor, on the base of the literature review in Chapter 2.

Third, a new categorization of the entry modes of internationalization is provided in par. 2.4. The reason is the need to conciliate the two different classifications of Root (1998) and Johansson (2000), the main sources of the paragraph. In order to avoid confusion, production investments instead of investments are introduced, so that the international entry through commercial foreign branch/subsidiary can be placed below export. Moreover, production investments (sole ventures) are separated from strategic alliances (joint ventures).

Fourth, the externalities for a firm from belonging to an industrial district, impacting its internationalization, are clearly summarized (cfr. par. 3.4.2), integrating the insights of several

studies on the topic. This contributes in part to fill in the lack of research on the topic, as it is observed by authors (Bonaccorsi, 1992; Becchetti, 2000). Besides, this section has an added value for the case study, because it proves that the same advantages can also be achieved by firms involved in business groups which differ from industrial districts. In the case of Imperia, this finding strengthens the validity of export cooperative initiatives with local producers of complementary goods, as the shared use of agents or the joint participation to trade fairs.

An issue to be further investigated by follow-up studies is probably the assessment of the future international performance of the Italian manufacturing SMEs. It would be interesting to verify if the impact of the size-related characteristics will be exploited into positive externalities by the SMEs or if these aspects will turn out to be strong constraints to a successful internationalization.

The second part of the research (Chapters 5 and 6) is a case study and provides the contribution to the internationalization strategy of Imperia in the European market. The final recommendations constitute the answers to the following research questions:

5 What recommendations can be provided for the internationalization strategy of Imperia in the European market?

5a What is the best (possible combination of) entry mode(s) and marketing mix for Imperia?

The (best possible combination of) entry mode(s) is summarized in the following points (par. 6.2):

- Direct export through distributors is confirmed as the best entry mode in Western Europe (e.g. UK, Germany, France and Netherlands).
- The use of agents is suggested as suitable for Poland and to enter for the first time the East European countries. Agents, relatively cheap and more easily controllable than distributors, might overcome the lack of business contacts in the area. The joint employment of agents by Imperia and by other producers of complementary Made in Italy goods, the definition of clear selling conditions and the use of incentives are proposed as solutions to permit agents to get high revenues from a specific product as the pasta machine. The employment of Gloe, a customer of Imperia who exports successfully in Eastern Europe, might be considered as well to enter this market.
- An acquisition of the Italian competitor might be useful to exploit the competitor's brand, products and customers. The acquired machines, at lower quality and price than Imperia's, might be used to target the most price-sensitive markets (Germany and Poland), or the markets where the competitor's brand results more affirmed (Germany and France). Introducing Imperia products and the acquired ones according to the demand expressed by each market might minimize the price differences across countries and the risk of undesired distribution channels. Certain machines might be used to counter the Chinese competitor, by decreasing their price at a similar level of the Chinese items and by maintaining their quality at a higher level. This option might be useful in markets where the Chinese has a strong market position (Germany). The acquired products might be also introduced into the large organized distribution, without the danger to lose Imperia's brand reputation due to hard discount policies.
- A non equity-based cooperation with the Chinese competitor (e.g. a cooperation on price or a division of the market) might help to secure the market position of Imperia from the aggressive price-based competition of the Chinese.

The best marketing mix strategy is defined by considering the following elements (conclusions are first drawn at corporate level and then at product level) (par. 6.3):

- Product:
 - In spite of a high market demand for standard and low quality products, it is not possible for Imperia to lose the qualitative superiority of all its products, which is element of differentiation from competitors. The enhancement of product quality starts by improving design, innovation and the aspects directly highlighted in customer's answers.
 - Since the qualitative gap between private labels and branded products is narrower than in the past, the reputation of the Imperia brand has to be maintained in the markets where the brand is already strong (UK) and consolidated in the markets where the brand has lower reputation (Germany and France). The simultaneous use of the non-brand item is strategic as well, to target the price-oriented customers and to counter the price-based competition. The need to enhance the Made in Italy label comes from the opportunity for Imperia to become the only genuine Made in Italy producer of pasta machine, in reason of the incoherent policy of the Italian competitor. If the label "100% Italy" will prove its effectiveness to protect the goods entirely produced in Italy, it might be wise to adopt it, as a further way to secure the market leadership of the Imperia brand.
 - If the success of the standard quality product in UK is really due to a higher market commitment and to a more customer-oriented approach of Imperia in the English market, it would be crucial to search for new large wholesalers and to improve the relationships with the existing customers also in other markets, especially in Germany and France.
 - The recognition, by end users, of specific skills to Imperia in the business of the pasta machines is a learning for the future to avoid the introduction of products which are not related to the consumption of pasta.

- Pricing:
 - Although market differences force the adoption of price differentiation across countries, it is suggested to level off the entity of large price differences in a long-term perspective, to avoid unwilling distribution channels and the risk of losing customers' trust.
 - The development of cooperative relationships with customers is recommended, by suggesting them to limit the price building-up and to avoid extreme price discounts. In this way affordable price for end users and high brand reputation are maintained.
 - An additional price reduction of the low quality machine (not below the prime costs) and a pushing policy addressed to the markets at high demand of the item (all the analyzed markets but UK) and where the competition is more intense (Germany) are suggested, in order to face the price-based competition from the other two market players. The maintenance of the qualitative superiority of Imperia products is an indisputable element to succeed in this strategy, because competitors would find difficult to justify a lower product quality at a price which would not be perceived as significantly lower by customers anymore. At the same time, the good reputation of Imperia would not be harmed, because the item is non-brand and the price of the higher quality products in portfolio would be kept the same as before. However, the low quality machine should not represent the core product of Imperia to succeed in Europe in the future. Rather, in the long term it will be essential to increase the sales of items at higher marginality, because the market positioning of Imperia makes this strategy necessary. The English market is already mature to purchase higher quality products. France and

Netherlands are in a transition phase, because the demand for the low quality product is still quite high. Germany still shows a high propensity for the low quality item: here the goal is to search for an affirmation of the standard quality machine. Conversely, the low quality item might be very useful to penetrate the East European markets, highly sensitive to price.

- Cutting the price of the top quality product to push the sales of it is not suggested, due to the potential loss of brand reputation and the risk of re-importing.
- Placing:
 - The importance to increase the control over customers' behaviour by establishing cooperative relationships is increased by a case of re-importing of Imperia products from Netherlands to Italy (EMGA).
 - The relationships Imperia has with the English customers might be taken as a benchmark, in reason of the trust developed by Imperia in their regard and of the sales performance achieved in that market. A deep reflection might help to understand how to exploit the potential of customers in other markets.
 - An exclusive strategy, with the use of few large wholesalers per country, is ideally indicated. Nevertheless, different placing strategies can be tailored to country-specific situations:
 - In a first group, Germany and France result high potential markets where the number of customers can still increase. In first instance it is suggested to exploit the potential of the existing customers, since two interviewees express positive opinions in regard. In second instance, new customers might be searched, with the help of a simple mailing list of potential partners or by a joint participation to national trade fairs with customers and with an own stand. The search of new customers would not be against the interests of the existing customers, if Imperia permitted the latter to manage direct business relationships with the former.
 - In a second group, UK and Netherlands are markets where customers result numerically sufficient but able to grow more. Improving the relationships with the existing dealers is recommended to exploit their potential.
 - In a third group, the Polish market is strongly oriented to purchase first price and non-brand machines. Targeting large retailers instead of wholesalers is suggested, to maintain a relatively low price at the end use. The same strategy might fit the market conditions of other East European countries where Imperia is still not active.
 - A placing strategy addressed to selected retailers might be applied to the top quality item, to limit price escalation and to build up product image by furnishing personal selling and technical assistance. This option might suit markets at high brand reputation and low price-sensitivity (UK and France). A marketing database might help in searching for new retailers.
- Promotion:
 - The adoption of a proactive and customer-oriented approach is strongly recommended, by regularly informing customers on the products in portfolio, by updating them on innovation and promotion and by providing punctual and accurate answers to their questions. Personal and face-to-face visits to the most strategic customers once per year might help to maintain the relationships and to give a direct update, in order to better understand their needs, to develop their trust and to build brand image.

- The exhibition of Imperia products at trade fairs by the interviewed customers results already well developed. An issue of further investigation is to check if the same applies also to the other European customers of Imperia. It might be useful to provide customers with paper displays for fair exhibition, since Imperia owns these devices and the interviewees expressed their appreciation for them, although they were not aware of the existence of them before the interview.
- It is a matter of reflection if Imperia itself could be active promoter of cooperative initiatives with other customers who believe in the machine as Kamphuis. It is suggested to carefully control the behaviour of partners whose products are or might become competitors (e.g. Gloe).
- The participation to trade fairs together with other producers of Made in Italy complementary goods might be successful in the future, in reason of costs sharing and intensified promotional effects for Made in Italy products.
- The promotion on selected magazines might be extended to the markets at high potential and low brand awareness (Germany and France), if such an investment would be considered affordable.
- The development of promotions on the top quality item, maybe in combination with cheaper products in portfolio, might increase its visibility and make it more affordable to customers and end users. The success seems to be more feasible in countries as UK, where Imperia faces a relatively low competitive pressure and the brand is strongly affirmed, and France, culturally more similar to Italy. An eventual request of exclusivity by Thomas Plant has to be evaluated.
- It is easier to penetrate foreign markets with products for professional use, because the awareness of their employment is already high. It might be useful to contact new distributors in this business or to attend trade fairs addressed to professional segments of customers, especially in high potential markets (France and Germany).

5b What are the fields of activity at country-level where Imperia has margin of improvement?

- Customer service: the interviews point out the necessity for Imperia to abandon a passive approach towards the market, especially for what concerns the information on innovation and promotion provided to the customers. Indeed the Dutch customers and one German customer state to be not aware of product innovation and promotions. The other four customers affirm to be informed. However, two of them have to ask in order to receive information, one is actually not informed about new products and one is not so certain about the answer. Remarks are also given on the punctuality and the accuracy of communication and on the policy on spare parts.
- Cooperative agreements: the interviews highlight that most of the customers would like to receive discounts on the purchased quantities and exclusive conditions on products. Some proposals are interesting, as the one of Thomas Plant about the exclusivity on the top quality product, whose development in Europe is a declared goal by the managing director of Imperia (Plant has been the main English buyer of this item in 2007, with a quite large amount). Or the proposal of EMGA, who asks for the possibility to promote some machines in catalogues designed at that specific purpose.
- Product quality: the quality of Imperia products is considered very good by all the interviewed customers. French and Dutch customers are fully satisfied with product quality. Nevertheless, other customers have some suggestions and experiment minor problems with the machines. In assessing this finding it is important to keep in mind that the real entity of problems is not quantified in customers' answers (par. 6.4).

As for the theoretical part, also the analysis of Imperia raises several issues which can be investigated by follow-up studies. The following points summarize the main themes:

- Extension of the analysis to other country-markets: the present research is a pioneer study on the internationalization of Imperia in Europe and it is focused on 5 country-markets, on the base of their strategic importance for Imperia. However, ideally all the European countries should be investigated to perform a complete analysis. For instance, the questionnaire used to interview the international customers of Imperia (cfr. Appendix 4) might be a useful guideline to assess other customers in the future.
- Implications of a future acquisition of the Italian competitor by Imperia: some suggestions in this regard have been provided, but this future scenario needs to be further investigated, in order to set more definite strategies.
- Exhibition of Imperia products at trade fairs by international customers: the interviews point out that this form of cooperation is well developed. It would be useful to check if the same applies also to the other European customers of Imperia
- Investigation of the relationships of Imperia with the English customers: in reason of the trust developed by Imperia in UK and of the sales performance achieved in that market, these relationships might be taken as a benchmark, to understand how to exploit the potential of customers in other markets.
- Proactive initiatives of promotion: the example provided by Kamphuis (publication of cooking books with Imperia's photos and introduction of the machine in cooking schools) shows how wide the horizon of the possibilities of cooperation with customers is. It might be a stimulus for Imperia to adopt the same enterprising approach with other customers who believe in the pasta machine as Kamphuis.
- Exploitation of the use of e-commerce: although Imperia still considers e-commerce as a side-activity, the empirical learning of the research is that SMEs can exploit the potential of it to develop niche strategies which target specific customers. New possibilities might be explored, looking also to what other fellow SMEs do in this regard (e.g. management of Internet orders by express carriers).

7.4 Evaluation of the research

In this last paragraph a personal assessment on the whole research project is presented, considering both positive aspects and limitations.

A first, positive consideration is that once interviews and data investigation have been completed, the analysis of them on the base of the insights from the literature review has been quite straightforward, which seems to indicate that the theoretical framework has been built well. On one side, most of the recommendations for the internationalization of Imperia confirms the learning from the literature review. For instance, the Italian manufacturing SMEs focus their marketing efforts on goods at higher quality, design and service content and target niche segments of consumers, which turns out to fit the strategy of Imperia in the future, in light of the results of the interviews. Besides, scarce resources, risk aversion and lack of information and contacts with foreign markets represent critical factors for SMEs to favour export against equity-based entry modes. Similarly, the analysis of Imperia points out that firm's size limitations are a strong driver to adopt direct export and to reject the opportunity of FDI abroad.

On the other side, in certain circumstances the specificities of the business case suggest to better walk different paths. A first example concerns entry modes: some factors influencing the choice of entry mode are appropriate for different modalities than direct export, but the results of the interviews provide valid argumentations to adopt direct export. Second, an exclusive coverage of the distribution channel exactly matches the characteristics of Imperia products, according to the

literature. Nevertheless, the particular conditions of the analyzed markets lead to consider several placing strategies, tailored to each country.

A second issue concerns the presence of normative recommendations, beside the suggestions to keep on implementing some current strategies. Examples are given by the use of agents to exploit the Polish market and to enter the East European markets, the adoption of a proactive, cooperative and customer-oriented approach, the targeting of retailers for selected countries and products, the decrease in price for the low quality item to fight the price-based competition.

Third, as to the interpretation of results, it is troublesome to assess contrasting outcomes, for instance when customers' opinions do not match Imperia's internal opinions and data. In such cases, data analysis is first selected as a starting point and then people's opinions are integrated to what results numerically evident. However, sometimes it is difficult to give clear-cut judgments and subjective evaluations are necessary. Indeed, the results of the case study leave large space for personal interpretation. The research objective itself (to provide suggestions for the internationalization of Imperia in Europe) can lead to a large variety of strategic alternatives. Being aware of this, the researcher has tried to minimize personal opinions in discussing the results. The suggestions are provided on the base of the learning from the literature review, which is proved by the regular use of reminders to Chapters 2 and 3 in brackets.

Fourth, the participatory observation of the researcher has been decisive to get important information. For instance, only a face-to-face discussion with the customers has permitted to know that the exhibition of Imperia machines at fairs by customers is well developed, that Gloe exports successfully in Eastern Europe, that Thomas Plant might ask for the exclusivity on the top quality item, that the Italian competitor is probably out of the English market. Moreover, the positive impact of the personal visits made to the Dutch customers strengthens the conclusion that customer care has to be further developed.

Fifth, the interviewed wholesalers are among the largest customers of Imperia in Europe, but their opinions might not be representative for other wholesalers in the same countries. Besides, interviewing retailers would have been interesting, to understand what logics drive this alternative channel, especially in reason of its nearness to the end users of the machines. Moreover, for reasons of time, the investigation has been limited to 5 country-markets, on the base of their strategic importance for Imperia. Ideally all the European countries should have been investigated to perform a complete analysis. A follow-up research has already been suggested at this purpose, with the awareness that a successful internationalization in the European market is the first step to achieve a worldwide leadership.

Sixth, the choice to manage the interview to the French customer by e-mail is determined by necessity. The completeness and the interpretability of results are of course lower than the ones achieved in face-to-face interviews. Furthermore, the results on Poland are based on Imperia's internal data, because it has not been possible to interview any customer. In this second case it is hard to generalize market characteristics from data on only one customer.

As final and optimistic consideration for the future, the personal opinion of the researcher is that Imperia has an enviable market position as Made in Italy SME in the business of the pasta machines, but still a lot can be done to improve the internationalization process in the European market. The feeling is that there is the internal willingness to turnaround the market approach. Successful results will be achieved only by working together with enthusiasm in order to realize the planned objectives.

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- <http://www.unipi-pasta.it/>, official web-site of the UNIPI, Union of Italian Industrial Pasta Makers.

Appendix 1 Interview to the managing director of Imperia

Interviewee: Mr. E. Ancona, managing director of Imperia

Date: 21.1.08

Place: Imperia, S. Ambrogio, Torino, Italy

The interview is divided in two sections, which follow the structure of the theoretical framework in par. 4.2. First, entry mode decisions are investigated and questions are formulated according to the factors listed in Table 4.2. Then the focus is on marketing mix decisions.

Entry mode decisions

1 Control maximization

Have you ever taken into consideration the possibility of entry modes which allow higher control (e.g. over products, customers' pricing policies and promotions)? Why?

The possibility of an equity investment would allow higher control, but there are two elements to be considered as well. First, Imperia is not a multinational company but a small reality, so the entity of such an investment would be prohibitive for a small firm as Imperia, even in case of establishing a commercial branch abroad. Second, the production of pasta machines entirely in Italy, that is condition to keep on succeeding for Imperia, would be lost. The importance of this second issue is that distributors and end users recognize Imperia as an Italian product. This is associated to high quality and brand reputation and makes the difference with other producers of pasta machine.

The main export modality of Imperia has always consisted in using distributors. What are the reasons of this choice, instead of using agents, who can increase control, as it happens in the Italian market?

The reason is that it is difficult for agents to get high revenues abroad from a specific product as the pasta machine. Conversely, in Italy the culture of making and eating pasta is much higher and there is the need to operate directly on the field to cover the whole territory.

What functions do distributors perform in comparison to agents?

On one hand distributors take entirely title of the products they buy. On the other hand agents are simple intermediaries between Imperia and customers abroad. Their function is limited to collect the orders and to send them to the firm.

2 Cost minimization

What international entry modes you believe to be effective in minimizing depreciation, marketing, managerial and information costs?

Direct export through agent/distributor and e-commerce are effective in minimizing these costs. Compared to the other entry modes, I consider it as the least expensive one.

Have you ever compared the production costs it is possible to save by producing in another country (e.g. in Eastern Europe) to the costs necessary to realize such an investment?

Outsourcing the production in a developing country would certainly save labour costs. However the aspects explained for point 1 hinder this choice.

Have you ever tried any form of cooperative agreement with one of your competitors, in order to reduce costs? (If yes) what have your main purposes been (e.g. sharing of assets, marketing costs, technology, customers, information)?

First, an equity joint venture and a cooperation on price with the Italian competitor have been concrete attempts to achieve all the mentioned goals, but the counterpart has always refused any collaborative project.

Second, managing a cooperation with the Chinese competitor would be more difficult, due to geographical and cultural barriers. However, this possibility is not excluded in the future.

3 Risk minimization

What risks in internationalization are perceived as particularly high, among the following: risk linked to the entity of the investment, political barriers, risk of choosing a partner, of creating a competitor, danger to be copied?

A risk in the internationalization of Imperia is represented by the danger to be copied, being the quality of Imperia machines the best in the market. I don't feel other mentioned risks can influence the strategy of Imperia.

Do Imperia products and brand have respectively a patent and trademark?

Imperia products are patented and the brand has a trademark in most of the countries where the firm exports.

Have Imperia products and brand ever been copied? (If yes) by whom? What have you done in such a situation?

The Chinese competitor, whose activity started later than Imperia, produces machines which are very similar to the Imperia ones. Looking at an Imperia machine close to a Chinese machine makes evident that the Chinese model is a lower quality copy of Imperia. However a legal battle would be long, uncertain and expensive.

4 Low trade barriers

How do trade barriers (tariffs, quotas and transportation costs) influence the export activity of Imperia in the European market?

Since the introduction of the Europe, tariffs and quotas have not substantially influenced the export activity. Besides, transportation costs are not so relevant to hinder export.

5 Highly differentiated products

What is the degree of differentiation of Imperia machine, compared to the competitors' ones?

Differentiation is higher and it is a driver of the competitive advantage of Imperia. The strategy consists in constantly differentiating Imperia machines from the competitors' ones, by introducing new products and innovative elements on the old ones, by renewing the design and by focusing on the mechanics and the safety content of products. Differentiation is also on the brand (see Part 2).

6 Development of skills and knowledge of foreign country

Do you think direct marketing can exploit the development of skills and knowledge of the foreign countries by Imperia?

It would not be possible for Imperia to manage directly the relationships with the end users of the pasta machine. The use of distributors to reach end users by exporting is a necessary strategy. Moreover Imperia is not new to most of the foreign markets, so the firm has acquired quite experience in these years of exporting activity.

The Italian competitor is much more active in international markets than Imperia and its financial situation is troublesome. What advantages would an eventual acquisition of it by Imperia bring, in regard to the discussed factor?

By acquiring the Italian competitor Imperia would gain the international customers of him, exploiting both his production competences and his market knowledge. Moreover, this event would signify the monopoly of the Italian market for Imperia, standing the actual scarce penetration of the Chinese competitor in Italy. These reasons make an eventual acquisition highly positive.

Have you ever experimented any form of non-equity cooperative agreement with foreign customers (e.g. information exchange, technology transfer, joint participation to trade fairs)? (If yes) what results have you achieved?

Few of these agreements with foreign customers have been developed so far. The main result is that some of our customers exhibit Imperia products at the trade fairs they attend.

7 Firm's small size

Is the adopted entry mode strategy dependent from firm's size-related limitations (e.g. scarce financial, managerial, technological resources, risk aversion, lack of information and contacts with foreign markets)?

The adopted entry mode strategy is certainly dependent from the mentioned limitations.

Do you think indirect export could fit the international strategy of Imperia? Why?

No, for two reasons. First, there is no confidence about the performance an agency of indirect export could provide. Second, Imperia is not new to direct export activity and it has gained experience in it, so there is no need of indirect export.

Do you think the possibilities offered by e-commerce, as entry mode capable to overcome firm's size-related limitations, have been completely exploited? Why?

E-commerce is a useful strategy to overcome the mentioned size-related limitations. The possibilities of it for a specific product as the pasta machine are limited to build brand's image and to provide information on products. For sure e-commerce will not substitute export activity.

8 Made in Italy products

Imperia pasta machine is Made in Italy branded. Are you aware that the Made in Italy brand does not indicate that a labelled manufacture has been completely produced in Italy? And that it can be applied to goods whose last substantial transformation has taken place in Italy? (If no) do you think this new insight might lead at least to consider the possibility to move part of the production process abroad? Why?

I am conscious about the legislation on Made in Italy and about the possibility to outsource the production abroad and to keep the label. However producing entirely in Italy is crucial for Imperia, in order to maintain the leadership on quality and image and thus to justify a higher price in consumer's mind. Therefore the current entry mode is a straightforward solution to market such a product. In fact this strategy is essential to counter the competition of the Chinese producer, because he will never benefit of our label of origin.

9 Exploitation of externalities from belonging to industrial districts

What are the advantages for Imperia from being located in this area (e.g. productive know-how, cooperative relationships with suppliers, customers or other producers)?

The main advantage for Imperia from its position is linked to the productive know-how in the metal-mechanical sector, that is traditional of the district of Torino. Specific productive skills are recognized especially to the automotive industry, that pushed the economic development of the area. This know-how is at the origin of the qualitative superiority of Imperia machines. However the conditions to define the productive area where Imperia is located as an industrial district are absent.

Imperia's suppliers of productive components are located close to the firm. What are the advantages for Imperia in this regard?

The importance to have the suppliers located close to the firm comes from the ease of managing the relationships with them and from the short distance components have to cover, with the related low risk of getting damaged and low transportation costs.

With purposes of internationalization, Imperia has joined an agreement of cooperation with other two SMEs, which are located in the same area and produce household goods. What are the goals of this agreement and what has been done so far? Why?

The cooperation with these two local producers has not been so effective as planned. In the beginning the purpose was to share the costs of internationalization (joint participation at trade fairs). A consortium of producers of complementary goods was formed: Imperia with pasta machines, the second one with oven moulds and the third one with pans and kitchenware. However the second firm has started the activity of original equipment manufacturer. The cooperation with the third firm is now limited to the joint visit at few trade fairs, to search for new customers.

The intrinsic difficulty for the Italian SMEs to cooperate lies in the extreme cultural individualism and in the short term orientation of the entrepreneurs. I provide some examples. At the trade fairs most of the names of the Italian companies are family names. Moreover, I have a long lasting relationship with a producer of pots and we tried to cooperate together but we are not able even to exchange the names of our customers. Last, many Italian managers are not capable to do the managers. If I am the owner of a company I cannot deal with every single aspect: for instance the daily control of how the products are stored in the warehouse is not my task and I need to delegate this function to others.

Are there other producers of complementary goods (e.g. cutlery, pans, food processing items, typical Mediterranean food) in the area?

The presence of other producers of complementary goods, especially household items, in the area is confirmed. However, I find the same mentioned difficulties in developing concrete cooperative relationships with them.

10 Appreciation of home country currency

What is the impact of the appreciation of the Euro currency on the turnover in the European market?

Paradoxically the appreciation of the Euro did not generate a decrease in the European turnover of Imperia. The case of UK, where the Euro is not used and where turnover still increased considerably in 2007, is emblematic.

Do you think the appreciation of the Euro and the parallel depreciation of the Chinese Renmimbi negatively affect the export of Italian machines with an advantage for Chinese products?

The advantages for the Chinese producer are not known. However, apparently these two factors did not hinder the export performance of Imperia in 2007.

11 Oligopolistic competition

Do you think the European market is far from being saturated?

Turnover data confirm that the European market is far from being saturated. Conversely, it shows an increasing and unexploited potential.

In a scenario of two competitors (Imperia and the Chinese producer) what strategic alternatives can be forecasted (e.g. a war of quality versus price, more space for cooperation, a division of markets)?

Such a scenario would optimistically lead to a cooperative solution (e.g. a joint venture), ideally to a merger. In this way monopolistic conditions would be achieved.

12 Low cultural distance

Are the commercial relationships with European customers favoured or hindered respectively by cultural similarities or differences?

Cultural distances do not influence negatively commercial relationships among European businessmen. In general it is more a matter of culture of the individual, in terms of education and sensitivity. I believe that a dealer is a good businessman if he believes correctly with me, no matter what his culture is different from mine.

13 High sales potential countries

(The answer at point 11 has already cleared that the European market presents high sales potential)

What are, in your opinion, the most relevant European country-markets in terms of sales potential?

They are France and Germany, because they are neighbouring and large-sized markets at high consumption of pasta. The goal is to achieve the same penetration Imperia has in UK.

What are the country markets which are more far from being exploited?

Definitely Russia, due its huge potential in terms of consumers.

What factors have hindered their exploitation until now?

The main hindering factor for the exploitation of the Russian market has been the scarce activity, determined by dimensional and structural reasons.

Marketing mix decisions

Product

Imperia products are entirely produced in Italy. Are you aware of the existence of the 100% Italy label, designed by Italian Government in 2005 to protect such products?

The 100% Italy label is known, but there are still political and legal discussions about it. The decision to adopt it or not will be made when there will be more clearness on the issue.

Imperia uses three different branding policies (Imperia brand, i-pasta brand, non-brand). What are the reasons of this strategy?

First, the non-brand items in Imperia's product portfolio are used to target low income-markets and to counter the competition of the Italian producer, whose products are lower priced than the ones of Imperia.

Second, Imperia branded products are addressed to high income markets, where it is important to develop awareness of consumers towards the name Imperia. The goal in Europe is to increase the sales of Imperia branded products, since non-brand machines are already more successful than in Italy.

Third, i-pasta will be introduced, in Italy in the beginning, to distinguish the distribution strategies of Imperia: the long channel (distributor-retailer-end user) and the short channel (department stores-end users). Imperia brand will be used in one channel and i-pasta in the other one. In this way the behaviour of customers will be more easily controlled. For instance, if I am

informed that a wholesaler sells Imperia top-quality products to large food departments (which apply wild discount policies, with negative effects on the image of Imperia), I will not supply him with Imperia branded products anymore. So the strategic Imperia brand will be protected.

The Chinese machines are mostly marketed with other private labels (original equipment manufacturing). Do you think this represents an advantage or a disadvantage for Imperia? Why?
This represents an advantage for Imperia, since end users do not realize the presence of a strong brand that is alternative to Imperia. With OEM the Chinese producer has fragmented the market in consumer's mind.

The products portfolio of Imperia has been diversified during the years. However, the core business is still the original one of the pasta machines and the attempts of diversification (coffee makers and dust busters) led to quite negative results. How is it possible to explain it and what is the learning of Imperia from these experiences?

The past attempts of diversification were not successful only when Imperia tried to enter a new business. Indeed the production of goods which are complementary to pasta (tomato squeezer, cheese scratcher, meat grinder) has been maintained, although it does not represent the core business. The reason is that consumers recognize to Imperia specific skills in the business of pasta machines. This is not the case of coffee makers and dust busters.

Is there any deal for product adaptation in the European market? Why?

Product adaptation has taken place in rare cases of large orders by international distributors. Despite this, the variety of uses of pasta machines around the world is quite large. Indeed there are cases of Imperia machines used to prepare exotic recipes, to work the wood, to cut the leaves of tobacco...

What actions have been taken in 2007 to increase the turnover in the European countries?

The main cause of the high turnover in 2007 is external to the firm. Indeed the other Italian producer decreased the price of his machines to counter the competition of the Chinese producer, but at the same time he started to sell Made in China machines as Made in Italy items, with the result to lower the quality and to loose the trust of customers. As consequence Imperia gained some customers of him and increased the sales from the old customers.

Pricing

What is the entity of the multiplicative effect of price along the supply chain for Imperia products? What actions are adopted to counter price escalation?

The multiplicative effect of price is between 3 and 5 times the prime costs of production. This price build-up is countered by establishing cooperative relationships with customers: Imperia suggests them to minimize the price recharge along the supply chain.

Imperia is the quality and brand leader of the market. Why is it still important to have in portfolio products which compete against the price leader in targeting low-income customers?

Because the European customers are more oriented towards cheaper products. On the other hand, a goal in Europe is to develop the sales of the top quality and top priced item in portfolio.

Historically the average turnover from the Italian market is about 70% on the total, while the export turnover is about 30%. The Italian competitor shows an opposite situation. What reasons can explain this fact?

The reason is that the lower price of products of the Italian competitor have met higher demand abroad so far. This is because the culture of making and eating pasta abroad is not so developed

as in Italy. As Imperia is also aware of this, the prices on the export markets are much lower than the prices on the Italian market.

What actions are taken to control the behaviour of distributors, for instance in case they adopt wild discount policies?

It is difficult to control the behaviour of customers when the relationships with them are not so close.

Placing

Who do you think is the most strategic typology of customer for Imperia?

Large wholesalers are the most strategic customers of Imperia, because they guarantee yearly large orders and it is easier to internally manage the relationships with them than with many small retailers. However, it is not easy to contact them, to enter them and to keep them, especially in countries where there is no previous exporting experience. For instance, it took me a lot of time and efforts to build a relationship with some huge wholesalers from US and Egypt, but now they make most of the export turnover. Once the relationship has been established, it is necessary to take care of them, offering exclusive conditions and promotions, and to avoid episodes of retaliation by selling to other customers, which could be competitors of them. It is also risky to have one or few large distributors in one country, in the eventuality they abandon the firm.

The number of European customers has been stable in the last 5 years. Is it a deliberate choice to have a certain number of customers or are there other reasons?

The only reason is the scarce commitment of Imperia towards foreign markets. However there are countries, as UK, where the number of customers is adequate, due to their large size. In such a case, searching for new customers can lead to actions of retaliation by the existing ones. For instance, I will never create troubles to a customer like Thomas Plant, because he is too important for us. Rather, if a new English customer asks to buy our products, I can send him to Thomas Plant: for Plant this is an advantage and he realizes that he can benefit from us, for us it does not make any difference. On the other side, the number of customers in France and Germany can still grow.

Imperia is not present in all the country markets in Europe, especially in the Eastern part. Some nations (Ukraine, Romania, Hungary, Bulgaria) show good sales potential in terms of inhabitants. What are the reasons why Imperia is not active in them?

The scarce commitment abroad also explains why the Eastern markets have never been penetrated. In this case there are no contacts on the territory and the potential of the single countries is perceived as too small to justify the participations to trade fairs.

The grey market phenomenon consists in the purchase of products at a low price in one market and in the re-sale of them at higher price in another market. Do you know if this happens also for Imperia products? (If yes) how do you tackle the problem?

The grey market phenomenon is countered by monitoring the activity of customers. When Imperia knows a customer re-sells products at higher price in another market, that customer is immediately asked for explanations.

Promotion

What actions are adopted to promote Imperia products in the European market?

Direct contact with customers and international trade fairs are the promotional activities in Europe. TV advertising, that is yearly used in Italy, is excluded because of the high entity of the investment.

As to the approach towards foreign customers, do you wait for orders or are you more oriented towards a push-logic through promotions and the active search of new customers?

So far the approach towards foreign customers has been passive and limited to accept the orders customers have sent. Little has been done to target new customers or to exploit the potential of the existing ones. Few promotions have been launched on some products.

What activities are developed to enhance the cultural value of pasta as traditional Italian food and part of the Mediterranean diet?

The cultural value of pasta abroad is enhanced through the packaging of products and an explanatory booklet with instructions and recipes, translated in different languages. The need to create awareness for the use of pasta machines abroad is higher for products for domestic use than for professional use: indeed I think it is easier to penetrate foreign markets with products for professional use, because the awareness of their employment is already high.

What is the use of the web-site (e.g. information on products, selling activity, added services, image building)?

The web-site has been created to build the brand image and to inform about products.

What is the strategic use of international trade fairs (e.g. direct selling, information exchange, relationships building, assessment of channel partner, information gathering on competitors)?

The goal of trade fairs has changed through the years: in the past fairs were mainly used to meet old and new customers and to collect orders. Today they are necessary to exchange information, build relationships, create awareness of the brand and gather information on competitors.

Appendix 2 Interview to the export manager of Imperia

Interviewee: Mr. M. Bioglio, export manager of Imperia

Date: 14.1.08

Place: Imperia, S. Ambrogio, Torino, Italy

Questions

Issue	Extra source	Question	Answering category
Typology of customer		What kind of customer is he?	Retailer/wholesaler
Relationship with Imperia	Interviews to customers	What kind of contact do you have with the customer? How often are you in contact with the customer? In which circumstances?	Face-to-face/by office devices. Weekly/monthly/yearly. Contacting the customer, at trade fairs, receiving orders, furnishing information
Participation to trade fairs		Does Imperia join trade fairs in the customer's country?	Yes/no
Market environment	Interviews to customers	Does the customer practice export activity to other international customers? (If yes) to which countries? What do you think the market potential of Imperia is in the customer's country?	Yes/no Saturated market/high potential market
Brand reputation	Interviews to customers, data on purchased products	What brand category is the customer interested in?	Brand/non-brand
Price perception	Interviews to customers, data on purchased products	What price category is the customer interested in?	High/low
Quality perception	Interviews to customers, data on purchased products	What quality category is the customer interested in?	High/low
Consumption of pasta	Interviews to customers, data on national consumption of pasta	Is the cultural habit of making and eating pasta deeply rooted among consumers at national level? What kind of products is the customer interested in?	Yes/no Home/professional use

Transcription of answers

	Customer's name	GSD	Kronen	Gloe
	Country	Germany	Germany	Germany
Issue	Question	Answer		
Typology of customer	What kind of customer is he?	Large wholesaler	Large wholesaler	Large wholesaler
Relationship with Imperia	What kind of contact do you have with the customer?	By office devices.	By office devices.	Face-to-face and by office devices.
	How often are you in contact with the customer? In which circumstances?	Monthly. Receiving orders, furnishing information	Monthly. Receiving orders, furnishing information	Monthly. At trade fairs, receiving orders, furnishing information
Participation to trade fairs	Does Imperia join trade fairs in the customer's country? Why?	No, because our customers already exhibit our machines at the trade fairs.	No, because our customers already exhibit our machines at the trade fairs.	No, because our customers already exhibit our machines at the trade fairs.
Market environment	Does the customer practice export activity to other international customers? (If yes) to which countries? What do you think the market potential of Imperia is in the customer's country?	Unknown There is potential of growth for the market. A large customer would be needed	Unknown There is potential of growth for the market. A large customer would be needed	Yes, to India and Indonesia There is potential of growth for the market. A large customer would be needed
Brand reputation	What brand category is the customer interested in?	Brand and non-brand. Imperia brand is less popular than in UK	Brand. Imperia brand is less popular than in UK	Brand and non-brand. Imperia brand is less popular than in UK
Price perception	What price category is the customer interested in?	High and low	High	High and low
Quality perception	What quality category is the customer interested in?	High and low	High	High and low
Consumption of pasta	Is the cultural habit of making and eating pasta deeply rooted among consumers at national level?	The consumption of pasta is high, the Italian cooking is popular and there are many Italian restaurants.	The consumption of pasta is high, the Italian cooking is popular and there are many Italian restaurants.	The consumption of pasta is high, the Italian cooking is popular and there are many Italian restaurants.
	What kind of products is the customer interested in?	Products for home use	Products for home and professional use	Products for home and professional use

	Customer's name	Thomas Plant	Cristel	EMGA	OK Import
	Country	UK	France	Netherlands	Netherlands
Issue	Question	Answer			
Typology of customer	What kind of customer is he?	Large wholesaler	Large wholesaler	Large wholesaler	Large wholesaler
Relationship with Imperia	What kind of contact do you have with the customer? How often are you in contact with the customer? In which circumstances?	Face-to-face and by office devices. Monthly. At trade fairs, receiving orders, furnishing information	By office devices. 3-4 orders per year. Receiving orders, furnishing information	Face-to-face and by office devices. Monthly. At trade fairs, receiving orders, furnishing information	Face-to-face and by office devices. 2-3 orders per year. At trade fairs, receiving orders, furnishing information
Participation to trade fairs	Does Imperia join trade fairs in the customer's country? Why?	No, because our customers already exhibit our machines at trade fairs.	No	No, because the market is considered too small	No, because the market is considered too small
Market environment	Does the customer practice export activity to other international customers? (If yes) to which countries? What do you think the market potential of Imperia is in the customer's country?	Yes, to Iceland and maybe somewhere else The market is saturated and it is mostly covered by three large customers	Yes, unknown countries The market could express more but it is difficult to exploit large customers as Cristel.	Yes, unknown countries The market is saturated because of its small size and it is covered by two large customers	Yes, unknown countries The market is saturated because of its small size and it is covered by two large customers
Brand reputation	What brand category is the customer interested in?	Brand. Imperia brand is well-known in UK	Brand and non-brand. Maybe Imperia is less popular than the brand of the Italian competitor	Brand	Brand and non-brand
Price perception	What price category is the customer interested in?	High	High and low	High	High and low
Quality perception	What quality category is the customer interested in?	High, although in the past he bought Chinese machines	High and low	High	High and low
Consumption of pasta	Is the cultural habit of making and eating pasta deeply rooted among consumers at national level? What kind of products is the customer interested in?	The consumption of pasta is high, the Italian cooking is popular and there are many Italian restaurants. Products for home use	The consumption of pasta is high and the Italian cooking is popular. Products for home use	Unknown. Products for home and professional use	Unknown. Products for home and professional use

Appendix 3 Interview to the experts

Interviewees: Dr. S. Rolfo and Dr. G. Vitali, researchers

Date: 8.1.08

Place: Research Institute on Firms and Development, Moncalieri, Torino, Italy

As the interview to Mr. Ancona, questions are divided in two sections, according to the structure of the theoretical framework in par. 4.2. The first part is on entry mode decisions, the second part is on marketing mix decisions.

Entry mode decisions

In the Italian pasta machine business export emerges as dominant strategy to penetrate international markets. Non-equity contractual agreements represent a less used entry mode. Production investments and strategic alliances do not represent successful entry modes. What are the reasons of these tendencies?

First of all, it is important to state in the beginning that the business where Imperia operates in is different from the business of most of the firms described in our article. On one side, Imperia produces small-sized pasta machines for home and professional use. Even in the latter case, end users are supposed to be small restaurants. On the other side, the majority of the companies of our sample are suppliers of plants and machineries for industrial use.

Made this clear, export is adopted in reason of two facts. First, the production of such large machines does not take place in sequence as for Imperia products. Second, the characteristics of these products are highly tailored to the specific requirements of the customers. Therefore an equity entry mode could not fit these kinds of products and commercial relationships between customers and suppliers.

The Smithian enterprise (Dosi, 1988), whose small size does not hinder its competitiveness, is widespread in the sector. However, do you think the adopted entry modes are dependent from firm's size-related limitations (e.g. scarce financial, managerial, technological resources, risk aversion, lack of information and contacts with foreign markets)?

The reasons of export as entry mode are the ones already mentioned. However, in case of firms producing standard goods mainly for domestic use, as Imperia, firm's size-related limitations might play a critical role in the choice of entry mode. In this situation direct export through agent/distributor might be the most likely entry mode.

Has any more specific insight on export entry modality resulted from the investigation (direct export through agent/distributor or branch/subsidiary, indirect export, direct marketing)?

The need to produce highly customized goods, for which the entity of the investment is considerable, makes direct marketing necessary to manage the relationship between firm and customer. So it is important that firm and customer can communicate directly, without any intermediary in between. This solution would not fit the case of Imperia, since it would not be possible to have direct relationships between the firm and the end users of the machine.

Belonging to an industrial district generates positive externalities for the export activity, in terms of scale economies, higher information exchanges, product quality, shared costs, cooperation in form of export consortia and lower perceived risk (Bonaccorsi, 1992; Becchetti, 2000). Do you think the same advantages for export can also be achieved through formal integration with other firms in different configurations (Sterlacchini, 2001)?

About the advantages mentioned in the question we would personally exclude export consortia as a typical externality of industrial districts. More often it happens that a leading firm starts to export with success and becomes a stimulating example for other companies to export.

Coming to the answer, of course the concentration of firms in industrial districts generates the most intense externalities, but also clusters of different kind enhance the export activity of the firms which belong to them. For instance, a case that is close to the pasta machine business is the cluster of firms, mainly SMEs, producing machines for the food industry in the region Emilia Romagna (North-Western Italy). There are different groups of firms and each group is specialized in the production of a machine for a different phase of the food chain, as production, processing, packaging. In this case, the concentration of companies operating in the same macro-business (food) has been determined by the importance traditionally attributed to the well-eating and cooking in the area.

In case the districtual dynamics are absent, what are the alternatives to achieve similar advantages (e. g. cooperative agreements with neighbouring suppliers, customers, producers of complementary goods)?

Cooperation with other stakeholders in the same business is an effective way to improve export activity, especially for firms which suffer from size-related limitations. In the case of pasta machines, examples of complementary products can be other small appliances for cooking or domestic use. It could be useful to select as partner other producers of Italian traditional goods, as pans, coffee makers or ice cream machines, better if Made in Italy labelled. When choosing a complementary product it is important to avoid goods which might become competitors in the market.

Do you think the purchasing decisions of end users would be negatively affected by the consciousness that Imperia products, although Made in Italy labelled, are partly produced abroad?

The consideration of consumers for Made in Italy goods produced abroad, especially in developing countries, is still not positive. However it is difficult for consumers to realize that a Made in Italy product has not been produced entirely in Italy.

Marketing mix decisions

The cultural value of pasta production, which is linked to the Italian food tradition, plays an important role in the export of pasta machines. Do you have any information on the way firms operatively enhance this aspect in their marketing mix plans?

At first stage promotion has to target the product pasta itself. It is significant to insist on the word in its original language and not to translate it, in order to enhance the national origin of it (in the case of pasta the word is already international). At second stage, when the awareness of the product is high, promotion has to be addressed to the brand of pasta machine, which is able to produce the “real” Italian pasta.

We are also thinking about cooperation with schools of cooking, not only in Italy but also in other countries, where the awareness of pasta machines and the culture of eating pasta are less rooted than in Italy. Asking a famous chef to use the Imperia machine might also be an occasion of promotion. Or it might be useful to promote the product and the brand in TV cooking shows, which are very popular today, or even within movies.

From the perspective of a Made in Italy producer, being quality and brand leader, how do you consider the decisions of a Made in China producer to market its products with other private labels (OEM)?

This situation seems to be favourable for the Italian producer, but the activity of brand promotion becomes critical besides the maintenance of the qualitative level of products.

What is your opinion on the competition between Made in Italy and Made in China producers, respectively in terms of quality and brand leaders versus price leaders?

The current rivalry between Made in Italy and Made in China producers reminds, for certain aspects, the competition between Made in Germany and Made in Italy producers during the Fifties. In that period Made in Germany products were famous for their high quality and high technology content. They were imitated as a benchmark in Europe by Italian producers, who were engaged in the challenge to reach that qualitative level at lower producing costs. The Italian companies who succeeded were the ones who were able to develop a strong brand power.

The learning for Italian firms today is double faced: on one side they have to strengthen the Made in Italy label and their individual brands, especially for those traditional product categories where Made in Italy is internationally known. On the other side they have to defend the intrinsic quality of their products. The qualitative superiority of Made in Italy goods towards Made in China products has to be enhanced by focusing on elements as functionality, design, packaging and product assistance. This is the only way to justify, in consumer's perception, the payment of higher prices.

Alessi, well-known brand of plastic household products, is a nice example of how an Italian company can be internationally successful in applying high selling prices to cheap products for home use. The ability to differentiate its offering has been determined by employing famous designers and by creating high awareness of the brand.

Appendix 4 Interviews to the international customers of Imperia

Interviewees: selected international customers of Imperia

Dates: 11.2.08 (for the English and the German customers)

15.2.08 and 19.2.08 (for the Dutch customers)

Places: Ambiente, international trade fair on consumer goods, Frankfurt, Germany (for the English and the German customers)

Zwolle and Mijdrecht, the Netherlands (for the Dutch customers)

The interview to the French customer is administered by e-mail questionnaire, due to the unexpected absence of Mr. Wittrant at Ambiente.

Questions

Issue	Extra source	Question	Answering category
Relationship with Imperia	Interview to Mr. Bioglio of Imperia	What kind of contacts do you have with Imperia? How often are you in contact with the company? In which circumstances (e.g. sending orders, asking for information, trade fairs, being contacted)? Are you aware of product innovation and promotions offered by Imperia?	Face-to-face/by office devices Weekly/monthly/yearly Yes/no
Participation to trade fairs		What trade fairs do you usually attend? Have you ever exhibited Imperia machines among your products at a trade fair? Why? Have you ever had a joint participation to any fair with one of your customers? (If yes) has the end result been satisfactory? Why? Have you ever had any other form of cooperative agreement with your customers (e.g. exclusive conditions, joint promotions on magazine, rewards on turnover)? Do you think it is important?	Yes/no Yes/no Yes/no
Market environment	Interview to Mr. Bioglio of Imperia	Who are the other producers and distributors operating in the pasta machine business of your country market? What category of customers do you sell Imperia products to? Do you practice export activity to other international customers? (If yes) to which countries? What do you think the market potential of Imperia is in your country?	Distributors/retailers/end users Yes/no Saturated market/high potential market
Brand reputation	Interview to Mr. Bioglio of Imperia, data on purchased products	What is the reputation distributors and end users have of the brand Imperia, compared to other brands of pasta machines? Why?	Higher/similar/lower
Price perception	Interview to Mr. Bioglio of Imperia, data on purchased products	What is the perception distributors and end users have of the price of Imperia products, compared to the price of other pasta machines? Why?	Higher/similar/lower

Quality perception	Interview to Mr. Bioglio of Imperia, data on purchased products	What is the perception distributors and end users have of the quality of Imperia products, compared to the quality of other pasta machines? Why?	Higher/similar/lower
Consumption of pasta	Interview to Mr. Bioglio of Imperia, data on national consumption of pasta	Is the cultural habit of making and eating pasta deeply rooted among consumers at national level? What is the main employment end users make of Imperia products?	Yes/no Home/professional and manual/electric/nic employment
Pro-active propositions		Do you have any feedback or suggestion for Imperia? What further possibilities of cooperation with Imperia do you see for the future?	

Transcription of answers

Interview to the English customer of Imperia

Interviewee: Mr. P. Bushell, Thomas Plant Limited

Relationship with Imperia

What kind of contacts do you have with Imperia?

My contacts with Imperia are both face-to-face and by office devices (e-mail and phone).

How often are you in contact with the company? In which circumstances (e.g. sending orders, asking for information, trade fairs, being contacted)?

I personally visit Imperia once every 2 or 3 years at Macef fair in Milan, Italy. Moreover, I usually send 5 orders per year and I ask for information 2 or 3 times per year.

Are you aware of product innovation and promotions offered by Imperia?

I am aware of product innovation, indeed I think I remember something about the coffee makers. The promotions I receive consist of discounts on the number of purchased items.

Participation to trade fairs

What trade fairs do you usually attend?

I usually attend trade fairs in UK (London and Birmingham in autumn and spring) and in Germany (Ambiente).

Have you ever exhibited Imperia machines among your products at a trade fair? (If no) why?

I usually exhibit Imperia at trade fairs in UK, not at Ambiente, because there are German distributors who already do that.

Have you ever had a joint participation to any fair with one of your customers? (If yes) has the end result been satisfactory? Why?

I collaborates with another producer to present his goods at a BBC TV show on food. The result are positive because media are wide reaching, but the costs of this activity are very high.

Have you ever had any other form of cooperative agreement with your customers (e.g. exclusive conditions, joint promotions on magazine, rewards on turnover)? Do you think it is important?

I receive exclusive conditions on products and discounts on purchased quantities. Of course I think cooperative agreements are important. For instance, I would like to obtain the exclusivity for Imperia machines, but I think Fairfax (another English customer of Imperia) has already this kind of condition.

Market environment

Who are the other producers and distributors operating in the pasta machine business of your country market?

The Chinese producer is the only alternative to Imperia in UK, but I think he has lower market penetration than Imperia. Besides, I do not see machines of the other Italian competitor in the English market anymore. Maybe he has been pushed out of the market by distributors.

What category of customers do you sell Imperia products to?

I sell Imperia to retailers who are in direct contact with end users.

Do you practice export activity to other international customers? (If yes) to which countries?

I practice export to about 50 countries, but Imperia machines are sold only in UK, because there is enough demand for them.

What do you think the market potential of Imperia is in your country?

The success of pasta machines in UK is extremely changeable because it depends on the opinion of people about pasta-based diet: sometimes a famous dietician says “Pasta is good for health” and the sales of pasta machines raise up, then this fashion changes and the sales of pasta machines react consequently.

Despite this instability, I think the business of Imperia in UK will last for long time. The English market is not saturated but presents still opportunities to grow (this assertion seemed to be also self-referred).

As to products for professional use, I have a salesman who deals with them, but I am not interested in the machines for restaurants (answer to a question on the possibility to enter the business of machines for professional use).

Brand reputation

What is the reputation distributors and end users have of the brand Imperia, compared to other brands of pasta machines? Why?

The reputation of Imperia is higher than other brands. As to my experience, I have sold Imperia machines for 10 to 15 years, so now I can say this brand is well-known among my customers. However the reputation of Imperia could be better if the quality of products would be higher.

Price perception

What is the perception distributors and end users have of the price of Imperia products, compared to the price of other pasta machines? Why?

The price of Imperia machines is higher than competitors. However, I gain small margins when I sell Imperia, because I try to keep the price at an affordable level for end users.

Quality perception

What is the perception distributors and end users have of the quality of Imperia products, compared to the quality of other pasta machines? Why?

Without any doubt the quality of Imperia machines is higher than competitors, but in my opinion it is not so good as it should be. I receive some complaints from customers about technical problems with the machines.

Consumption of pasta

Is the cultural habit of making and eating pasta deeply rooted among consumers at national level?

The consumption of pasta is quite good in UK. It is indicative that there are many TV cooking shows where pasta is very popular. However, the habit of making pasta is not culturally spread and the situation is not comparable with the one of Italy. You can think that my main competitors for the selling of pasta machines are not other distributors, but the supermarkets which sell pasta.

What is the main employment end users make of Imperia products?

The main employment of Imperia machine is for home and manual use.

Pro-active propositions

Do you have any feedback or suggestion for Imperia?

People sometimes get crazy to clean the machines after use, so a product that could be put into the washing machine would be really great!

More seriously, although the quality of products is good, there are still margins of improvement, especially on reliability. Moreover, I think design is a key element for Imperia machines to keep on succeeding. The design is what makes Imperia an icon for end users. My suggestion is to make the machines more sexy and attractive. At the same time, design is an effective way to differentiate Imperia products from the competitors and it makes more difficult for the Chinese producer to copy Imperia.

What further possibilities of cooperation with Imperia do you see for the future?

...(hesitation in answering) actually it does not depend only on me, but on Imperia...I would expect exclusive conditions on products and better promotions on the purchased quantities. For instance, if I buy a certain amount of items, I would like to receive a free of charge product. Or maybe I could ask for the exclusivity on Pastapresto (the top-line item in Imperia portfolio) but I do not think I sold many pieces of it in 2007.

Interviews to the German customers of Imperia

First interviewee: Mr. W. Streicher, GSD Haushaltsgerate

Relationship with Imperia

What kind of contacts do you have with Imperia?

I have both face-to-face communication and contacts by office devices (phone, e-mail and fax) with Imperia.

How often are you in contact with the company? In which circumstances (e.g. sending orders, asking for information, trade fairs, being contacted)?

I see Imperia at trade fairs not so often, while I send several orders per year, asking also for information.

Are you aware of product innovation and promotions offered by Imperia?

...(indecision in answering)...probably I receive this information once per year.

Participation to trade fairs

What trade fairs do you usually attend?

I only participate to regional fairs in Germany, apart from Ambiente.

Have you ever exhibited Imperia machines among your products at a trade fair? (If no) why?

I exhibit Imperia machine at Ambiente (apart from the own brand of GSD, Imperia was the only other brand to be present in the stand and it had a dedicated space).

Have you ever had a joint participation to any fair with one of your customers? (If yes) has the end result been satisfactory? Why?

The only joint participation to trade fair was together with Imperia, because of the long term relationship I have with this company.

Have you ever had any other form of cooperative agreement with your customers (e.g. exclusive conditions, joint promotions on magazine, rewards on turnover)? Do you think it is important?

I benefit of exclusive conditions with German customers. Exclusivity is very important for me as distributor.

Market environment

Who are the other producers and distributors operating in the pasta machine business of your country market?

The other producers are the Italian and the Chinese competitors.

Distributors are Gloe, who is one of my main competitors, and GEFU Kuechenboss. Both order the production of pasta machines in China and market them with their own brands, respectively PastaAid and GEFU.

What category of customers do you sell Imperia products to?

I sell Imperia machines to other wholesalers and to retailers.

Do you practice export activity to other international customers? (If yes) to which countries?

I do not practice export.

What do you think the market potential of Imperia is in your country?

I can speak about me, I think the sales on the German market will not increase because I do not see a high potential, especially for the electric machines. As to Pastapresto (the top line item in Imperia portfolio) I think end users are not willing to pay such a high price. In selling Imperia I have to face the competition of PastaAid (the brand used by Gloe, his competitor, to market Chinese machines), that is recognized to be a strong brand in Germany.

Brand reputation

What is the reputation distributors and end users have of the brand Imperia, compared to other brands of pasta machines? Why?

The brand Imperia is quite well-known, but in my opinion the Italian competitor is more famous and he has higher market penetration, probably because he started the business in Germany before Imperia.

Price perception

What is the perception distributors and end users have of the price of Imperia products, compared to the price of other pasta machines? Why?

The final price of Imperia products is certainly higher than the price of the Chinese competitor, but lower than the price of the Italian competitor. It is possible that the distributors of the Italian competitor increase the selling price to gain more margins.

Quality perception

What is the perception distributors and end users have of the quality of Imperia products, compared to the quality of other pasta machines? Why?

The quality of Imperia machines is considered good, but I receive several complaints.

Consumption of pasta

Is the cultural habit of making and eating pasta deeply rooted among consumers at national level?

Pasta is definitely a popular food in Germany and people like it. Of course the eating is not so developed as the making.

What is the main employment end users make of Imperia products?

The main employment is for home and manual use.

Pro-active propositions

Do you have any feedback or suggestion for Imperia?

I think the quality of Imperia machines can be improved, starting with the check of the items before their shipment.

Also the customer service can get better. For instance, last week I asked for an information on the material of the rollers of a machines, I needed a proof as a safety certification that steel is better than aluminium, but I did not receive a precise answer.

What further possibilities of cooperation with Imperia do you see for the future?

My hope is to receive conditions of exclusivity on Imperia products.

Second interviewee: Mr. K. Gloe, Gloe Export-Import GMBH

Relationship with Imperia

What kind of contacts do you have with Imperia?

My contacts with Imperia are face-to-face, by e-mail and by fax.

How often are you in contact with the company? In which circumstances (e.g. sending orders, asking for information, trade fairs, being contacted)?

I am in contact with the company in all of these circumstances. I meet Imperia at the trade fairs almost yearly and I send several orders and ask for information more often.

Are you aware of product innovation and promotions offered by Imperia?

Never...(moment of silence) this lack is typical of the Italian companies. My other suppliers regularly update me on new products and promotions, but this attitude is totally absent in my relationship with Imperia.

Participation to trade fairs

What trade fairs do you usually attend?

Except Ambiente, I participate to expositions on foodstuff and kitchenware for professional use in Singapore and Indonesia.

Have you ever exhibited Imperia machines among your products at a trade fair? (If no) why?

I usually exhibit Imperia products together with mine (PastaAid, a brand for Made in China pasta machines) at Ambiente (as for GSD, Imperia was the only other brand to be present in the stand and it had a dedicated space). I bring only Imperia to the fairs in Singapore and Indonesia.

Have you ever had a joint participation to any fair with one of your customers? (If yes) has the end result been satisfactory? Why?

I organized some demonstration on how to use Imperia machines in Indonesia. The results are good during the fair, because it is possible to collect new orders, but the results in the long term are not so satisfactory. It would be important to create more awareness of the brand and the use of the machine.

Have you ever had any other form of cooperative agreement with your customers (e.g. exclusive conditions, joint promotions on magazine, rewards on turnover)? Do you think it is important?

I receive exclusive conditions from other customers. I think it is important to benefit from them.

Market environment

Who are the other producers and distributors operating in the pasta machine business of your country market?

The other producers are the Chinese one, that I distribute with my own brand PastaAid, and the other Italian, whose machines are marketed for about the 80% by a large distributor.

What category of customers do you sell Imperia products to?

I sell Imperia to other wholesalers, to retailers and to end users.

Do you practice export activity to other international customers? (If yes) to which countries?

I export products worldwide: in the whole Far East (except Japan), in West and East Europe and in South America. The sales of the pasta machines in the East European markets, for instance Ukraine and Estonia, are going quite well, they do not meet particular difficulties (answer to a further question on the sales performance in East Europe).

What do you think the market potential of Imperia is in your country?

I think the German market presents a potential that still needs to be exploited. My vision of the future is positive in this sense.

I just do not know the reason of less purchased pieces of Pastapresto (the top line item in Imperia portfolio), maybe end users bought less pieces (answer to a further question on the lower purchase of Pastapresto in 2007 compared to 2006).

Brand reputation

What is the reputation distributors and end users have of the brand Imperia, compared to other brands of pasta machines? Why?

The reputation of the brand Imperia is higher than the one of other brands.

Price perception

What is the perception distributors and end users have of the price of Imperia products, compared to the price of other pasta machines? Why?

Due to their higher quality, Imperia products are the top-priced pasta machines in the German market, but I think this price is perceived as reasonably accessible also by end users. I personally sell an Imperia machine at a price that is € 2 higher than the price of a correspondent version of my brand PastaAid.

Quality perception

What is the perception distributors and end users have of the quality of Imperia products, compared to the quality of other pasta machines? Why?

Both distributors and end users consider the quality of Imperia superior to the quality of other brands.

Consumption of pasta

Is the cultural habit of making and eating pasta deeply rooted among consumers at national level?

In my opinion this cultural habit is developing more and more and I see the potential for further growth.

What is the main employment end users make of Imperia products?

I would say home employment for 70% and professional employment for 30%.

Manual and electric machines are both used, but I think the electric version is preferred.

Pro-active propositions

Do you have any feedback or suggestion for Imperia?

I face several problems with Imperia products: in order of importance, rust, reliability of the cheese grater, problems on the gears of the machine for professional use. Although Imperia is the best brand of pasta machines in the whole market, my opinion is that product quality can be still improved.

The customer service of Imperia can be developed as well. For instance, I would like to obtain in time the information on new products and promotions. Moreover, the invoices I receive are sometimes in Italian and I do not know what products correspond to the ones I bought. Last, it takes long time to get a spare part. My relationship with Imperia is very good, but there are still small details which are important for me as distributor and which can make the difference in relationships.

What further possibilities of cooperation with Imperia do you see for the future?

The main goal to reach for me and Imperia is to cooperate together in order to increase the sales of Imperia pasta machines.

Third interviewee: Mr. B. Golze, Kronen Kuechengeraeete GMBH

Relationship with Imperia

What kind of contacts do you have with Imperia (e.g. face-to-face, phone, e-mail, fax)?

We are usually in contact by phone, e-mail and fax, while we see each other more seldom.

How often are you in contact with the company? In which circumstances (e.g. sending orders, asking for information, trade fairs, being contacted)?

I send orders and ask for information about 3 or 4 times per month. I meet Imperia at trade fairs.

Are you aware of product innovation and promotions offered by Imperia?

I receive information when I visit the stand of Imperia in fair in Milan.

Participation to trade fairs

What trade fairs do you usually attend?

As exhibitor I attend the following fairs in Germany: Intergastra in Stuttgart, Internorga in Hamburg and Hoga in Nürnberg. As visitor I usually go to Host in Milan.

Have you ever exhibited Imperia machines among your products at a trade fair?(If no) why?

I always exhibit Imperia machines, because they are part of my product assortment.

Have you ever had a joint participation to any fair with one of your customers? (If yes) has the end result been satisfactory? Why?

I do not do that, because my dealers can get angry if I share a fair stand with one of their competitors. So I prefer to have my own stands.

Have you ever had any other form of cooperative agreement with your customers (e.g. exclusive conditions, joint promotions on magazine, rewards on turnover)? Do you think it is important?

I receive better conditions, promotions in catalogues and rewards on turnover. They are important because I want that my customers prefer to sell machines from me instead of others.

Market environment

Who are the other producers and distributors operating in the pasta machine business of your country market?

A producer I know is SELA GmbH, who produces German machines.

What category of customers do you sell Imperia products to (e.g. distributors, direct sellers, end users)?

I sell Imperia to distributors and to end users.

Do you practice export activity to other international customers? (If yes) to which countries?

No, I just sell Imperia machines in Germany.

What do you think the market potential of Imperia is in your country?

I think the German market is mostly saturated.

Brand reputation

What is the reputation distributors and end users have of the brand Imperia, compared to other brands of pasta machines? Why?

The reputation of Imperia is high. Its products are considered traditional Italian pasta machines. It is relevant that Imperia is from the country with the best pasta.

Price perception

What is the perception distributors and end users have of the price of Imperia products, compared to the price of other pasta machines? Why?

The price of Imperia is competitive compared to the price of other pasta machines.

Quality perception

What is the perception distributors and end users have of the quality of Imperia products, compared to the quality of other pasta machines? Why?

My customers are satisfied with the quality. I do not have many problems with damaged machines. There are normal episodes of abrasion and from time to time the plastic gears in the machines are damaged.

Consumption of fresh pasta

Is the cultural habit of making and eating pasta deeply rooted among consumers at national level?

Not really. For instance, only Italian restaurants and first class restaurants offer fresh pasta. Normal German restaurants use dried pasta because it is time saving.

What is the main employment end users make of Imperia products (domestic or professional employment)?

For me it is professional employment. 99% of my customers are restaurants and dealers who sell to restaurants.

Pro-active propositions

Do you have any feedback or suggestion for Imperia?

My customers are not happy with the decision of Imperia to sell spare parts just in sets. For example, when the gear box from a machine is damaged, the customer has to buy also the motor.

What further possibilities of cooperation with Imperia do you see for the future?

I can say I will do my best to sell Imperia machines.

Interviews to the Dutch customers of Imperia

First interviewee: Mr. F. Kamphuis, OK Import BV

Relationship with Imperia

What kind of contacts do you have with Imperia?

I have face-to-face contacts and also by phone.

How often are you in contact with the company? In which circumstances (e.g. sending orders, asking for information, trade fairs, being contacted)?

I am in contact with Imperia to make orders about 4 times per year. I also meet Imperia at the trade fairs almost yearly.

Are you aware of product innovation and promotions offered by Imperia?

I am never updated about any initiative Imperia takes. I get informed of new products when I visit the stand of Imperia at the fairs. This happened for several new items (SP Anniversario, Pastapresto, Raviolamp).

Participation to trade fairs

What trade fairs do you usually attend?

As exhibitor I attend a monthly fair in Utrecht and the larger ones in spring and autumn. As visitor I participate to many fairs abroad (Milan, Frankfurt, Paris, Chicago and Hong Kong).

Have you ever exhibited Imperia machines among your products at a trade fair? (If no) why?

I exhibit Imperia machines at the fair in Utrecht.

Have you ever had a joint participation to any fair with one of your customers? (If yes) has the end result been satisfactory? Why?

The fair in Utrecht is the only one where I show the products of my suppliers, with success.

Have you ever had any other form of cooperative agreement with your customers (e.g. exclusive conditions, joint promotions on magazine, rewards on turnover)? Do you think it is important?

I do not usually have these cooperative agreements.

Market environment

Who are the other producers and distributors operating in the pasta machine business of your country market?

The other producers are the Italian competitor and the Chinese one. I think the former has higher market penetration than Imperia, due to lower prices. The latter is also distributed with the German brand PastaAid. For instance, Hema buys Chinese machines at 3.5 dollars in Hong Kong (about 2.4 Euro) and sells it at 15 Euro, making a high margin out of it.

What category of customers do you sell Imperia products to?

I sell Imperia products to other wholesalers and to retailers. I am also the owner of the chain of shops Holdenhof of household products (about 10 sales points in the Netherlands plus one in Antwerpen, Belgium).

Do you practice export activity to other international customers? (If yes) to which countries?

Most of my products are sold in the Dutch market. A very small part goes to Belgium and I seldom export to other countries. For instance, I sold some machines to a Dutch businessman in South Africa two years ago.

What do you think the market potential of Imperia is in your country?

In my opinion the Dutch market for Imperia is not saturated. It is growing slowly, step by step, but I see a positive trend. As to my situation, in 2007 I purchased a number of Imperia products much higher than 2006, because in 2006 I still had some machines in inventory from 2005. Usually my orders are placed in the final months of the year.

About products, I can say that Pastapresto is not so successful, due to its high price. Also the cheese grater and the tomatoes squeezer are not interesting for Dutch end users, who are more oriented towards standard machines for domestic use.

Brand reputation

What is the reputation distributors and end users have of the brand Imperia, compared to other brands of pasta machines? Why?

The brand Imperia has higher reputation than its competitors. I use to say Imperia is for cooking lovers, while the other Italian brand is for housewives. Besides, people buy Imperia in shops where they receive assistance, while they buy the other Italian brand in self-service stores.

Price perception

What is the perception distributors and end users have of the price of Imperia products, compared to the price of other pasta machines? Why?

The price of Imperia is higher than the price applied by competitors (about 50% higher than the price of the other Italian machines). Moreover, the pasta machines is not an ideal gift for Christmas as in Italy, because the price for such a single item is too high and Dutch people prefer to make several cheaper gifts.

Quality perception

What is the perception distributors and end users have of the quality of Imperia products, compared to the quality of other pasta machines? Why?

The quality of Imperia is the best in the market. When I sell Imperia I always say that it is the highest quality Made in Italy pasta machine. The percentage of defected machines is in line with the percentage of other products I buy.

Consumption of pasta

Is the cultural habit of making and eating pasta deeply rooted among consumers at national level?

Not in comparison to Italy. In Italy food is culture and people enjoy the food experience. In Netherlands food is perceived as something necessary and people eat because they have to eat. That is why it is necessary to create awareness about fresh homemade pasta. I always invite my customers to taste the difference between the fresh homemade pasta and the dried pasta they find in supermarket (however now also Albert Heijn has started to sell fresh pasta, but you can still feel the difference). I started some personal initiatives to develop the awareness of pasta and the use of pasta machines. For instance I published a book of fresh pasta-based recipes using photos of Imperia. I also introduced Imperia machines in a cooking school (cooking school are very popular in the Netherlands and they are open to everyone).

What is the main employment end users make of Imperia products?

The main employment is home and manual, probably because Dutch people are not available to pay a higher price for professional and electric products.

Pro-active propositions

Do you have any feedback or suggestion for Imperia?

My main request is to keep me informed about the new products in catalogue.

What further possibilities of cooperation with Imperia do you see for the future?

I ask again for more information from the company and I ensure I will keep on selling Imperia. In 2008 I expect to buy the same or a bit lower amount of machines than in 2007, because I bought a large quantity last year.

Second interviewee: Mr. Y. van Adrichem, EMGA International BV

Relationship with Imperia

What kind of contacts do you have with Imperia?

My contacts with Imperia are face-to-face and by office device.

How often are you in contact with the company? In which circumstances (e.g. sending orders, asking for information, trade fairs, being contacted)?

I send regular orders during the year and I sometimes meet Imperia at the trade fairs.

Are you aware of product innovation and promotions offered by Imperia?

No, I do not receive information on these issues. Moreover I am designing the new catalogue of EMGA, a huge book with all the items I trade, so it would be very useful to have information at this moment.

Participation to trade fairs

What trade fairs do you usually attend?

I participate to about 4-5 fairs per year, only as visitor (e.g. Host in Milan, Ambiente in Frankfurt, Barcelona, Hong Kong).

Have you ever exhibited Imperia machines among your products at a trade fair? (If no) why?

I attend fairs only as visitor. However Imperia machines are exhibited in the showroom of EMGA in the headquarter in Netherlands, that is open to the buyers.

Have you ever had a joint participation to any fair with one of your customers? (If yes) has the end result been satisfactory? Why?

No, I have not.

Have you ever had any other form of cooperative agreement with your customers (e.g. exclusive conditions, joint promotions on magazine, rewards on turnover)? Do you think it is important?

I apply these conditions to my customers, but I do not receive them from Imperia. If they want to apply them, of course I would like to be informed.

Market environment

Who are the other producers and distributors operating in the pasta machine business of your country market?

We know there are other producers, but we are satisfied with the products of Imperia. Distributors of pasta machines in Netherlands are not many, because the business is small.

What category of customers do you sell Imperia products to?

I sell Imperia only to other wholesalers. The end users of the Imperia machines we sell are mostly hotel, restaurants and catering companies.

Do you practice export activity to other international customers? (If yes) to which countries?

I sell abroad about a 10% of the Imperia products I buy. My markets are Belgium, Germany, Spain, Italy as well, UK, Hong Kong.

What do you think the market potential of Imperia is in your country?

I can speak about me and I think there is a lot of potential. I work for a 45 years old company that is constantly growing. For instance, the number of items in the catalogue of EMGA is about 100.000 today and it will become 120.000 in one year. But of course the price of Imperia products is a key element that can give me the opportunity to buy more. If from 2006 to 2007 the number of purchased pasta machines has increased of about 10.000 pieces, I think that in 2008 I can increase again the turnover for Imperia of the same amount, if prices remain the same.

Brand reputation

What is the reputation distributors and end users have of the brand Imperia, compared to other brands of pasta machines? Why?

The reputation of the brand Imperia is higher than its competitors, because of higher quality.

Price perception

What is the perception distributors and end users have of the price of Imperia products, compared to the price of other pasta machines? Why?

The prices of Imperia machines are higher than the prices of the competitors. They are fine for me, they are not low but not too high.

Quality perception

What is the perception distributors and end users have of the quality of Imperia products, compared to the quality of other pasta machines? Why?

I am very satisfied with the quality of Imperia products. I have very few problems with the machines. It is possible to see that from the few spare items I buy.

Consumption of pasta

Is the cultural habit of making and eating pasta deeply rooted among consumers at national level?

No, it is not. Netherlands is not a "pasta country" as Italy. Dutch people are not willing to make pasta, but to buy it. I even do not think they are aware that it is possible to use a machine to prepare fresh home made pasta, and that this is better than the dried pasta they buy in supermarkets.

What is the main employment end users make of Imperia products?

I would say the main employment is professional and manual. As mentioned before, the end users of the Imperia machines I sell are professional users. The fact that I buy mainly machines (SP-150) whose use in Italy is domestic does not mean that the people in Netherlands make the same use. I think I do not know anyone in Netherlands who uses a pasta machine at home.

Pro-active propositions

Do you have any feedback or suggestion for Imperia?

Please send me news about the new products in the catalogue. For instance, I would like to improve the kitchenware business, but how can I, if I do not know what products Imperia has? Moreover, when EMGA makes a new catalogue, this will last at for 2-3 years. Therefore, now that a new catalogue is being prepared, it is important to receive the best prices Imperia can make, in order to be competitive in our customer's eyes not only today, but also in the future. For instance, in the past catalogue I indicated an unaffordable price of Pastapresto for my customers, because Imperia sold me at a too high price. Then Imperia decreased the price of Pastapresto, but the price for my customers remained the same in the catalogue in 2005, 2006 and 2007, so I had to lower it

by discounting the item. For me it is convenient to keep the prices at low level, so that I can sell more.

What further possibilities of cooperation with Imperia do you see for the future?

I would ask for the possibility to promote some machines. Indeed, next to the large catalogue, I prepare some small catalogues for the items in promotions.

Interview to the French customer of Imperia⁴⁰

Interviewee: Mr. B. Wittrant, Cristel SA

Relationship with Imperia

What kind of contacts do you have with Imperia?

I am in contact with Imperia mainly by office device.

How often are you in contact with the company? In which circumstances (e.g. sending orders, asking for information, trade fairs, being contacted)?

I send orders and I ask for information 5 or 6 times per year.

Are you aware of product innovation and promotions offered by Imperia?

Yes, but not because the company informs me. In fact I become aware when I ask for information or when I order some items.

Participation to trade fairs

What trade fairs do you usually attend?

I usually attend the following fairs: Maison & Objets in Paris, Macef in Milano and Ambiente in Frankfurt (all of them in January and September), plus the fairs of Birmingham and Chicago.

Have you ever exhibited Imperia machines among your products at a trade fair? (If no) why?

Yes we have, because Imperia machines are in the products range of Cristel. We are sure of the quality of Imperia and it is important for us to show our customers that they can find all the products in Cristel's range.

Have you ever had a joint participation to any fair with one of your customers? (If yes) has the end result been satisfactory? Why?

No, we have not.

Have you ever had any other form of cooperative agreement with your customers (e.g. exclusive conditions, joint promotions on magazine, rewards on turnover)? Do you think it is important?

Yes, I have them and I think they are very important, in order to develop a stable market with control of prices and brand image.

Market environment

Who are the other producers and distributors operating in the pasta machine business of your country market?

The other producers are the Italian and the Chinese competitors. The latter is marketed by Vibell.

What category of customers do you sell Imperia products to?

I sell only to distributors for the moment.

Do you practice export activity to other international customers? (If yes) to which countries?

I export to Japan, Korea, Russia, Poland, Germany, UK, Italy, Spain, Portugal, Belgium and other countries.

What do you think the market potential of Imperia is in your country?

⁴⁰ The interview is administered by e-mail questionnaire, due to the unexpected absence of Mr. Wittrant at the fair *Ambiente* in Frankfurt.

I don't know exactly...I think the SP 150 (the standard quality manual item) and its accessories can be sold in good quantities at a stable price. The sales of moulds for ravioli are also going well.

Brand reputation

What is the reputation distributors and end users have of the brand Imperia, compared to other brands of pasta machines? Why?

I have no idea of the reputation of Imperia in comparison to other brands, but I know that Imperia brand is appreciated by our customers

Price perception

What is the perception distributors and end users have of the price of Imperia products, compared to the price of other pasta machines? Why?

I do not have any feedback from my distributors on this issue.

Quality perception

What is the perception distributors and end users have of the quality of Imperia products, compared to the quality of other pasta machines? Why?

Again I have no idea in comparison to other brands, but I know that the quality of Imperia products has a good reputation. We have never had technical problem with Imperia products.

Consumption of pasta

Is the cultural habit of making and eating pasta deeply rooted among consumers at national level?

Not really, but the tendency is "to make yourself at your home". Consequently I think the kitchenware used to prepare natural and homemade food has a good future.

What is the main employment end users make of Imperia products?

The main employment of Imperia products is domestic.

Pro-active propositions

Do you have any feedback or suggestions for Imperia?

I would ask to maintain the same product quality and the same prices, in order to be competitive in this business.

What further possibilities of cooperation with Imperia do you see for the future?

Perhaps some special conditions, as discount 50% per Imperia and 50% per Cristel for punctual operation, in order to push the sales.

Appendix 5 Sold quantities of Imperia pasta machines in the European market in 2007

Europe⁴¹		
Machine	Quantity	% on total sales
Standard quality manual	30,218	36.4
Low quality manual	8,694	10.5
Low quality set	3,664	4.4
High quality set	1,569	1.9
Professional manual	713	0.9
Professional electric/nic	389	0.5
Top quality	280	0.3
Standard quality electric	148	0.2
Total machines	45,675	55.0
Total sales ⁴²	82,993	100.0

Italy		
Machine	Quantity	% on total sales
Standard quality manual	43,807	16.4
Standard quality electric	21,506	8.0
Top quality	14,488	5.4
Low quality manual	11,787	4.4
High quality set	3,745	1.4
Low quality set	2,716	1.0
Professional electric/nic	956	0.4
Professional manual	857	0.3
Total machines	99,862	37.4
Total sales	267,195	100.0

United Kingdom		
Machine	Quantity	% on total sales
Standard quality manual	17,688	51.3
Low quality set	2,424	7.0
High quality set	351	1.0
Professional manual	230	0.7
Low quality manual	150	0.4
Top quality	104	0.3
Professional electric/nic	60	0.2
Standard quality electric	28	0.1
Total machines	21,035	61.0
Total sales	34,491	100.0

Germany		
Machine	Quantity	% on total sales
Standard quality manual	3,012	18.6
Low quality manual	2,778	17.1
Low quality set	876	5.4
Professional manual	114	0.7
Professional electric/nic	86	0.5
High quality set	30	0.2
Top quality	19	0.1
Standard quality electric	0	0.0
Total machines	6,915	42.7
Total sales	16,204	100.0

⁴¹ Data on the Italian market are excluded.

⁴² Total sales include other items in Imperia's portfolio, whose quantities are comparable to data on the pasta machines.

France		
Machine	Quantity	% on total sales
Standard quality manual	2,802	25.5
Low quality manual	402	3.7
Professional manual	126	1.1
Low quality set	60	0.5
Top quality	32	0.3
Professional electric/nic	9	0.1
Standard quality electric	4	0.0
High quality set	0	0.0
Total machines	3,435	31.2
Total sales	10,995	100.0

Netherlands		
Machine	Quantity	% on total sales
Standard quality manual	2,568	53.0
Low quality manual	672	13.9
High quality set	471	9.7
Professional manual	64	1.3
Professional electric/nic	46	1.0
Top quality	20	0.4
Low quality set	0	0.0
Standard quality electric	0	0.0
Total machines	3,841	79.3
Total sales	4,841	100.0

Poland		
Machine	Quantity	% on total sales
Standard quality manual	60	20.7
Low quality manual	60	20.7
Standard quality electric	44	15.2
Professional electric/nic	0	0.0
Professional manual	0	0.0
Low quality set	0	0.0
High quality set	0	0.0
Top quality	0	0.0
Total machines	164	56.6
Total sales	290	100.0

Appendix 6 Sold quantities of Imperia pasta machines in the European market in 2007 per category

Europe⁴³	
Machine category	% on total machines
Brand	81.0
Non-brand	19.0
Manual	98.3
Electric/nic	1.7
For home use	97.6
For professional use	2.4

Italy	
Machine category	% on total machines
Brand	88.2
Non-brand	11.8
Manual	63.8
Electric/nic	36.2
For home use	98.2
For professional use	1.8

United Kingdom	
Machine category	% on total machines
Brand	99.3
Non-brand	0.7
Manual	99.1
Electric/nic	0.9
For home use	98.6
For professional use	1.4

Germany	
Machine category	% on total machines
Brand	59.8
Non-brand	40.2
Manual	98.5
Electric/nic	1.5
For home use	97.1
For professional use	2.9

⁴³ Data on the Italian market are excluded.

France	
Machine category	% on total machines
Brand	88.3
Non-brand	11.7
Manual	98.7
Electric/nic	1.3
For home use	96.1
For professional use	3.9

Netherlands	
Machine category	% on total machines
Brand	82.5
Non-brand	17.5
Manual	98.4
Electric/nic	1.6
For home use	97.1
For professional use	2.9

Poland	
Machine category	% on total machines
Brand	63.4
Non-brand	36.6
Manual	73.2
Electric/nic	26.8
For home use	100.0
For professional use	0.0

Appendix 7 Consumption of pasta in the European market

Country ⁴⁴	Estimated yearly consumption of pasta per capita (kg)
Italy	28.0
Greece	10.0
Switzerland	9.4
Sweden	9.0
France	7.5
Germany	7.1
Hungary	7.0
Portugal	6.7
Czech Republic	6.5
Russia	6.0
Turkey	5.8
Austria	5.6
Belgium⁴⁶	5.4
Luxembourg	5.4
Estonia	5.3
Slovakia	5.0
Spain	4.9
Lithuania	4.4
Netherlands	4.4
Latvia	4.1
Finland	3.2
Poland	3.0
Romania	2.7
United Kingdom	2.5
Denmark	2.0
Ireland	1.0

Country	Estimated yearly market potential (million of kg) ⁴⁵
Italy	1,646.4
Russia	852.6
Germany	585.9
France	456.8
Turkey	420.5
Spain	214.6
United Kingdom	151.0
Poland	114.3
Greece	110.6
Sweden	80.9
Netherlands	71.6
Portugal	71.0
Hungary	70.7
Switzerland	68.6
Czech Republic	67.0
Romania	58.3
Austria	46.5
Belgium²	28.4
Slovakia	26.9
Finland	17.0
Lithuania	15.1
Denmark	10.8
Latvia	9.5
Estonia	7.1
Ireland	4.2
Luxembourg²	1.4

Source of data on population: <http://www.europa.eu/>, official web-site of the EU.

Source of data on consumption of pasta: <http://www.unipi-pasta.it/>, official web-site of the UNIPI, Union of Italian Industrial Pasta Makers.

⁴⁴ Countries where Imperia exports to are in bold.

⁴⁵ The market potential is calculated as the estimated consumption per capita times the total population.

⁴⁶ The consumption of pasta per capita of Belgium is calculated together with Luxembourg.

Appendix 8 GDP per capita in Europe

Country ⁴⁷	GDP 2007 per capita ⁴⁸	Rank
Luxembourg	102,284	1
Norway	79,154	2
Iceland	62,976	3
Ireland	58,883	4
Denmark	57,035	5
Switzerland	56,711	6
Sweden	47,069	7
Netherlands	45,429	8
United Kingdom	45,301	9
Finland	44,912	10
Austria	44,308	11
Belgium	41,605	12
France	40,782	13
Germany	39,650	14
Italy	35,386	15
Greece	32,010	16
Spain	31,471	17
Cyprus	26,386	18
Slovenia	22,079	19
Portugal	20,665	20
Czech Rep.	16,372	21
Malta	16,049	22
Estonia	15,310	23
Hungary	13,560	24
Slovakia	13,227	25
Latvia	11,826	26
Croatia	11,271	27
Poland	10,858	28
Lithuania	10,472	29
Russia	8,612	30
Romania	7,352	31
Turkey	6,548	32
Serbia	5,397	33
Bulgaria	5,116	34
Belarus	4,013	35
Macedonia Rep.	3,574	36
Bosnia Herz.	3,400	37
Albania	3,256	38
Ukraine	2,830	39
Moldova	1,187	40

Source: World Economic Outlook Database-October 2007, <http://www.imf.org/external/index.htm>
institutional web-site of the International Monetary Fund

⁴⁷ Countries where Imperia exports to are in bold.

⁴⁸ The GDP per capita is an indicator of the income per capita.

